Press release

Good Food, Good Life

First Half 2012: steady momentum, full-year outlook confirmed

- Sales of CHF 44.1 billion, 6.6% organic growth, 2.9% real internal growth
- Trading operating profit of CHF 6.6 billion (+6.3%), margin 15.0% (-10 bps)
- 12.9% organic growth in emerging markets and 2.6% in developed markets
- Underlying earnings per share CHF 1.63 up 12.4% in constant currencies
- The Group's operating cash flow CHF 5.1 billion, up from CHF 2.1 billion in the first half of 2011
- Full-year outlook reconfirmed: organic growth of 5% to 6%, improved margin and underlying earnings per share in constant currencies

Paul Bulcke, Nestlé CEO: "Our first-half performance shows the relevance of our strategic roadmap in today's new reality and demonstrates our swift and disciplined execution behind it, making the right choices at the right time. We continue to drive innovation globally, ranging from popularly positioned products to super premium offerings. We are continually opening new routes-to-market to reach emerging consumers, and using new media to increase both our direct engagement with consumers and our return on brand investment. This approach has delivered profitable growth in both emerging and developed markets. Our first-half top line growth and our trading operating profit margin, together with our focus on capital efficiency, allow us to reconfirm our full-year outlook."

Vevey, 9 August 2012

- In the first half of 2012, the Nestlé Group's organic growth was 6.6%, composed of real internal growth of 2.9% and pricing of 3.7%. The impact of foreign exchange eased to -1.8%. Acquisitions, net of divestitures, contributed 2.7%. Total Group sales increased 7.5% to CHF 44.1 billion.
- As expected, input cost pressure resulted in an increase in the cost of goods sold, of 50 bps. This was mitigated by savings from Nestlé Continuous Excellence implemented throughout all our structures and activities, as well as timely pricing.
- Distribution costs decreased by 30 bps, mainly due to the cumulative effects in mix and efficiencies.
- Marketing and administration costs were down 20 bps. Consumer facing marketing spend is up in constant currencies and is being used more efficiently and effectively, increasing the return on investment in our brands and support for launch activities globally.
- We continued to invest in R&D (unchanged at 1.6% of sales), driving our innovation.

- The Group's trading operating profit (TOP) was CHF 6.6 billion, up 6.3% from CHF 6.2 billion in the first half of 2011. The margin was 15.0%, in line with our expectation that our margin performance would be second-half weighted.
- Net profit was CHF 5.1 billion, up 8.9% from CHF 4.7 billion.
- The underlying earnings per share (EPS) rose 12.4% in constant currencies. The reported EPS was CHF 1.61 up 10.3% from CHF 1.46 in the first half 2011.
- The Group's operating cash flow was CHF 5.1 billion, up from CHF 2.1 billion in 2011, due to improvements in operations and working capital.

Business Review

The Nestlé Group continued to grow in all regions of the world: the Americas achieved organic growth of 6.4%, Europe 2.6% and Asia, Oceania and Africa 12.6%. Our business grew 12.9% in emerging markets and 2.6% in developed markets.

Zone Americas

Sales CHF 13.4 billion, 5.7% organic growth, -0.1% real internal growth; 17.4% TOP margin, +10 bps.

- Almost all categories contributed to the Zone's growth, while the trading environment, particularly in North America, remained challenging.
- In **North America**, where consumer confidence continued to be low, several food categories were under pressure including frozen food. In pizza, however, we were able to further improve our leading position driven by *DiGiorno* with new ranges such as *Pizza Dipping Strips* and *Italian Style Favorites*. The innovations and related communications in *Lean Cuisine* resulted in a return to growth. In ice cream, we saw growth in super-premium and snacks, but not in the premium category. *Coffee-mate* delivered high single-digit growth, continuing to build on the 2011 launch of *Coffee-mate Natural Bliss* its range of natural liquid creamers. Soluble coffee and confectionery contributed positively thanks to core brands, popularly positioned products and innovations such as *Nescafé Memento* and *Skinny Cow*. Petcare continued to outperform the market, driven by expansion into new channels and new product innovation such as *Beneful Baked Delights*, and *Friskies Plus*, as well as a push into the specialty channel.
- In **Latin America**, the two largest markets Brazil and Mexico had a good start to the year as did the southern countries of South America. Among categories, the key growth drivers were soluble coffee, with *Nescafé Dolca* and *Nescafé Dolce Gusto*, and chocolate, with the *KitKat* launch and *Garoto* brand in Brazil. Launches included *Acticol* milk in Chile and Mexico and peelable ice cream, already a success in Zone AOA. Petcare achieved double-digit growth in the region, with highlights being *Purina Proplan, Dog Chow, Cat Chow* and *Friskies*.
- The Zone's **trading operating profit** margin of 17.4% improved 10 bps.

Zone Europe

Sales CHF 7.4 billion, 2.4% organic growth, 0.1% real internal growth; 15.4% TOP margin, -100 bps.

- The key contributors to the Zone's growth, in an environment which deteriorated during the year particularly in Southern Europe, were innovation and roll-outs in premium and popularly positioned products. Overall the Zone was able to hold market share gains made in 2011.
- In **Western Europe**, France, the Great Britain and the Benelux regions were highlights, while there was also growth in the Iberian region, Italy, and Greece.
- In **Central and Eastern Europe**, the Ukraine, Adriatic, and Romanian markets continued to deliver strong performances. In Russia, where trading conditions have been tough for a while, our business experienced a pick-up in growth.
- Billionaire brands such as *Nescafé, KitKat* and *Herta* and innovation platforms such as *Nescafé Dolce Gusto* continued to drive growth in their categories. Ice cream saw good growth in Greece, Russia and Italy, but the season had a poor start in Northern Europe. Our popularly positioned products continued to grow well above the Zone average, examples being *Nescafé 3-in-1* soluble coffee and *Pirulo Jungly,* our peelable ice cream. Petcare had a strong first half continuing its growth momentum, with key brands such as *Gourmet*, *ONE*, *Pro Plan* and *Felix* performing strongly.
- The Zone's **trading operating profit** margin declined by 100 bps versus half year 2011. This performance comes after a 200 bps improvement in the first half of last year, which was due to lower restructuring and pension costs. The Zone continued to increase its operational performance and efficiencies in 2012, with increased savings from Nestlé Continuous Excellence, and it benefited from bringing increased value to its categories through innovation and renovation.

Zone Asia, Oceania and Africa

Sales CHF 9.2 billion, 11.6% organic growth, 8.0% real internal growth, TOP margin of 18.9%, - 60 bps.

- The Zone continued to post double-digit growth, building on a strong 2011, as we embraced the many opportunities in the region while at the same time consolidating our positions. The main drivers of this performance were brand investment and product innovation, deeper and wider distribution with a multi-tier strategy from popularly positioned products to premiumisation, while investing in capacity and capabilities for future growth. Yinlu and Hsu Fu Chi, our two new Chinese partnerships, continued to integrate well and make good progress.
- The **emerging markets** delivered double-digit growth in almost all geographies and categories, most notably in Greater China, Africa, and the Middle East. In China there was a strong performance in ready-to-drink with *Nescafé Smoovlatté*, in ambient culinary with *Totole*, and in confectionery with *Shark* wafer. Our new partnerships are enhancing significantly our footprint in China. Africa's growth was driven by popularly positioned products, many of which are fortified with micronutrients to help counter the region's micronutrient deficiencies. In Egypt we built on the success of innovations in ice cream and in South Africa we launched sachets for the extremely popular *Nescafé Ricoffy*. The Middle East had an outstanding performance with *KitKat*, *Nido* fortified milks and growing up milks, and *Nescafé*. India continued to do well thanks to *KitKat*, *Munch* and *Maggi* noodles.
- Amongst the Zone's **developed markets** Japan's growth accelerated during the year with innovations such as *Nescafé Barista* and *Nescafé Dolce Gusto. KitKat* also had a strong first half. The renewed

growth in Japan was also driven by strong digital communication in the areas of consumer relationship marketing and e-commerce.

- The Zone's like-for-like **trading operating profit** margin improved, whereas the reported figure of 18.9% shows the expected dilution from the partnerships in China, which remain accretive in both cash flow and earnings per share.

Nestlé Waters

Sales CHF 3.6 billion, 5.6% organic growth, 3.5% real internal growth; TOP margin of 10.0%, +140 bps.

- Nestlé Waters' growth was driven by North America and emerging markets. The water category continued to evolve positively overall. *Nestlé Pure Life* drove our geographic expansion in emerging markets, as did our international brands *Perrier* and *S.Pellegrino* globally.
- **North America** maintained its momentum from 2011 both in the retail and home and office channels. All tiers of our business, from *Nestlé Pure Life* at the value end, to the regional waters such as *Poland Spring* and *Ice Mountain,* to the premium international sparkling waters such as *Perrier* and *S.Pellegrino* contributed to this performance.
- Growth in **Europe** was impacted by a slow start generally to the season in contrast to 2011. However there was double-digit growth in the UK thanks to the strong performance of *Nestlé Pure Life* and *Buxton*. *Perrier* also had a strong start, helped by its new advertisement "The Drop" which generated 3.6 million YouTube views in less than a month.
- The **emerging markets** delivered double-digit growth with *Nestlé Pure Life* and the local brands, such as *Al Manhal* in Saudi Arabia, *Minéré* in Thailand and *Baraka* in Egypt contributing.
- The **trading operating profit** margin for Nestlé Waters increased by 140 bps thanks to continued growth, product mix, effective pricing and cost management initiatives.

Nestlé Nutrition

Sales CHF 3.8 billion, 5.7% organic growth, 2.0% real internal growth; TOP margin of 20.6%, -50 bps.

- **Infant Nutrition** achieved double-digit growth across the emerging markets, a performance which resulted in share gains in many markets. In spite of slower category growth in developed markets, our infant formula business was nonetheless able to deliver double-digit growth globally. In Latin America we continued to build on the momentum across our existing product range, helped by the newly launched anti-reflux infant formula *Nestlé NAN AR* and a new *Gerber* shelf-stable infant dairy product. South Asia had successful launches with *Lactogen Gut Comfort* and *Baby&Me*, a maternal nutritional supplement. In South East Asia we continued the roll out of our anti-colic formula. In general, infant cereals continued to do well with the probiotics expansion started in late 2011 with the Middle East a highlight.
- In **Performance Nutrition** a major revamp of our portfolio to refocus on high-performance athletes, combined with successful product launches, drove strong momentum and good growth. Our **Weight Management** business, Jenny Craig, remained challenged in North America, affected by the economic and competitive environment. We are taking corrective actions.

- Nestlé Nutrition's **trading operating profit** margin was 20.6%, down 50 bps, reflecting the challenges at Jenny Craig.

Other

Sales CHF 6.7 billion, 9.6% organic growth, 6.6% real internal growth; TOP margin of 17.6%, +10 bps.

- **Nestlé Professional** showed good growth for the first half of 2012, both in beverages and food, in the face of ongoing challenges in the out of home industry in some parts of the world. Emerging markets, which represent around a third of Nestlé Professional's sales, delivered double-digit organic growth. In beverages, our investment behind our proprietary systems *Nescafé Alegria* and *Nescafé Milano* delivered accelerated growth, whilst *Viaggi by Nescafé,* building on its success in France, was rolled out to customers in the UK, Italy and Switzerland.
- **Nespresso** continued to deliver high double-digit growth in a tough economic and competitive environment. It launched a limited edition, *Naora,* relaunched *Kazaar* due to popular demand, and continued to expand with new boutiques around the world. As announced, Nespresso is building a third factory in Switzerland in order to meet growing demand.
- **Nestlé Health Science** (NHSc) delivered a solid performance with double-digit growth in North America and the emerging markets. The work of the Nestlé Institute of Health Sciences is enhancing our capabilities to address specific medical conditions through personalised nutritional solutions, as do the acquisitions, Prometheus and Vitaflo, in both gastro-intestinal diagnostics and the treatment of metabolic disorders. Following the period close, NHSc acquired a stake in Accera. Its key brand *Axona*, a medical food on the market in the USA, is for the clinical dietary management of mild to moderate Alzheimer's disease.
- **Cereal Partners Worldwide** continued to deliver strong growth in emerging markets, in contrast to softness across Europe. The realignment of **Beverage Partners Worldwide** is on track. The pharmaceutical joint ventures, **Galderma** and **Laboratoires innéov**, posted double-digit growth driven by dermatology.

Outlook

We expect the tough trading environment, especially in developed markets, to continue in the second half. However, we have started the year in line with our expectations. The actions and initiatives we have in place combined with some expected easing in input cost pressures in the second half allow us to confirm our guidance for the full year: we are well positioned to deliver the Nestlé Model of organic growth of 5% to 6%, improved margin and underlying earnings per share in constant currencies.

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Annex

Half-year sales and Trading operating profit margins overview

	Jan.-June 2012 Sales in CHF millions	Jan.-June 2012 Organic Growth (%)	Trading operating profit margins	
			Jan.-June 2012 (%)	Change vs Jan.-June 2011
By operating segment				
• Zone Americas	13'419	+5.7	17.4	+10 bps
• Zone Europe	7'379	+2.4	15.4	-100 bps
• Zone Asia, Oceania, Africa	9'192	+11.6	18.9	-60 bps
Nestlé Waters	3'555	+5.6	10.0	+140 bps
Nestlé Nutrition	3'831	+5.7	20.6	-50 bps
Other	6'721	+9.6	17.6	+10 bps
Total Group	44'097	+6.6	15.0	-10 bps
By product				
Powdered and liquid beverages	9'620	+10.8	23.7	-60 bps
Water	3'558	+5.7	9.9	+130 bps
Milk products and ice cream	9'078	+6.7	14.4	+30 bps
Nutrition & HealthCare	5'207	+6.4	18.6	-40 bps
Prepared dishes and cooking aids	6'888	+1.5	13.3	-10 bps
Confectionery	4'560	+6.4	14.0	-210 bps
PetCare	5'186	+8.2	20.7	+70 bps
Total Group	44'097	+6.6	15.0	-10 bps