
Press release

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Half-Year 2016: good growth based on volume, with margin improvement

- Sales of CHF 43.2 billion with 3.5% organic growth and 2.8% real internal growth
- Trading operating profit margin of 15.3%, up 30 basis points
- Underlying earnings per share up 5.7% in constant currencies
- Free cash flow at CHF 3.3 billion, up 41%
- Full-year outlook confirmed: organic growth in line with 2015, with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency

Paul Bulcke, Nestlé CEO: “The first half of 2016 was in line with our expectation with growth almost entirely driven by volume and product mix, yielding further market share gains.

While we continued to address challenges in China, we enjoyed good performances across the US, Europe, South East Asia and Latin America and expect this to continue in the second half. We also expect pricing, which reached historically low levels in the first half, to recover somewhat in the coming months.

We grew our gross margin and trading operating profit through further premiumisation, continuous cost discipline and input cost tailwinds. This allowed us to significantly enhance our free cash flow.

In these times of rapid change, we keep our focus on profitable growth by further investing in innovation, R&D, brand support and digital to engage with our consumers, meeting their changing needs.

Overall our first half performance allows us to reconfirm our outlook for the full year.”

Group results

Sales

- In the first half of 2016 Nestlé's organic growth was 3.5%, composed of 2.8% real internal growth and 0.7% pricing. Pricing has reached a historically low level owing to deflationary environments across a number of developed markets and low commodity prices.
- **Total sales** of CHF 43.2 billion, with a **foreign exchange** impact of -2.0%. The net result of acquisitions and divestitures reduced sales growth by -0.8%.
- **Organic growth** was broad-based across geographies and categories.
 - 4.7% in the Americas (AMS)
 - 2.5% in Europe, Middle East and North Africa (EMENA)
 - 2.3% in Asia, Oceania and sub-Saharan Africa (AOA)
- **Real internal growth** was solid and balanced.
 - 2.8% in AMS
 - 2.8% in EMENA
 - 2.9% in AOA
- Continued strength in **developed markets** with organic growth of 1.9%, in spite of deflationary pressures, and in **emerging markets** with 5.4%.

Trading Operating Profit

- Trading operating profit was CHF 6.6 billion, with a margin of 15.3%, up 30 basis points on both a reported basis and in constant currencies.
- This was driven by a gross margin expansion of 130 basis points through continuous cost discipline, active portfolio management, premiumisation and an input cost tailwind.
- We delivered this margin improvement whilst continuing to significantly increase our investment in brand support, digital, research and development, and in our new nutrition and health platforms. Consumer facing marketing spend increased by 8.5% in constant currencies.
- We are rolling out several key initiatives that are focused on structural efficiencies. One-off costs in 2016 will be off-set by savings.

Net Profit

- **Net profit** was CHF 4.1 billion. The reduction of CHF 0.4 billion versus last year was due to a one-off, non-cash adjustment to deferred taxes.
- **Reported earnings per share** at CHF 1.33 was down by -7.2% for the same reason.
- **Underlying earnings per share** in constant currencies increased by 5.7%.

Cash Flow

- The Group's **operating cash flow** was strong at CHF 4.9 billion and **free cash flow** increased year on year by 41% to CHF 3.3 billion. These improvements were primarily the result of our focus on margins, discipline in capital expenditure and working capital.

Zone AMS

Sales of CHF 12.1 billion, 5.1% organic growth, 2.5% real internal growth; 17.8% trading operating profit margin, -20 basis points

- The Zone maintained good growth momentum, with broad-based market share gains.
- Good growth in **North America** was underpinned by strong real internal growth, whilst deflationary pressures weighed on pricing.
 - The successful growth of the frozen meals business continued, supported by innovations and marketing investment, particularly for *Lean Cuisine* and *Stouffer's*.
 - *Coffee-mate* maintained its good growth trajectory, driven by new packaging and flavour extensions.
 - Petcare delivered solid growth, with very strong contributions from *ONE*, *Pro Plan* and *Beyond* in dry dog. First results of the *Beneful* re-launch were promising, with the product now back in positive territory.
- In **Latin America** we saw good performances in many markets despite the volatile environment, with positive real internal growth and pricing.
 - In Brazil our business grew mid single digit, outperforming the market in a recessionary context. The key drivers were ambient dairy and *Nescafé Dolce Gusto*. We began to implement selective price increases towards the end of the period.
 - Mexico's strong performance continued across the entire portfolio. *Nescafé Dolce Gusto*, *Nescafé* soluble coffee and ambient dairy remained the growth drivers.
 - Petcare's positive momentum continued, with double-digit growth in most markets.
- The Zone's **trading operating profit margin** contracted slightly as the impact of currency depreciation in Latin America was not yet fully off-set by price increases. Ongoing operational efficiency savings were largely re-invested behind an increase in consumer facing marketing spend across the Zone.

Zone EMENA

Sales of CHF 8.1 billion, 2.6% organic growth, 3.0% real internal growth; 16.9% trading operating profit margin, +70 basis points

- Good real internal growth drove market share gains across the Zone. Pricing had a negative impact of -0.4% due to the deflationary environment in many parts of the Zone.
- The strong performance in **Western Europe**, driven by product innovations, continued despite the difficult low-growth environment.
 - Petcare accelerated, supported by the wet cat single serve segment as well as dry cat and dog snacks.
 - *Nescafé Dolce Gusto* continued to be a growth driver while ambient culinary was impacted by the competitive retail environment and softness in the category.
 - France, Spain, Portugal and Benelux were the highlights.

- Solid growth in **Central and Eastern Europe** was driven by Russia and the Czech / Slovak region.
 - Double-digit growth in petcare resulted from innovation, premiumisation and category expansion.
 - Russia's performance was solid in most categories, particularly in *Nescafé* soluble coffee.
- The **Middle East and North Africa** was resilient in an unstable environment.
 - *Nescafé* and ambient culinary enjoyed good growth while dairy remained challenged.
 - Turkey continued to grow well, driven by *Nescafé* soluble coffee and chocolate.
- The Zone's **trading operating profit margin** improved nicely, whilst we also increased consumer facing marketing investments. This was achieved through portfolio management, better product mix and lower input costs.

Zone AOA

Sales of CHF 7.1 billion, 2.3% organic growth, 2.4% real internal growth; 19.6% trading operating profit margin, +140 basis points

- Most of the Zone's businesses saw their growth accelerating, with South East Asia, sub-Saharan Africa and Japan the highlights. India kept gaining momentum one year after the start of the *Maggi* noodle withdrawal.
- In **China**, growth in the food and beverage market slowed down significantly. In this context our core food and beverage business outperformed the market with *Nescafé* and *Shark* wafers, driven by product renovation and improved retail execution. However, Yinlu still weighed on the overall performance while we continued to execute our turnaround plan based on a portfolio upgrade and new product developments.
- Growth in **India** turned positive in June due to good progress with the *Maggi* noodle relaunch and favourable comparables. We regained a leading market share position.
- The strong growth momentum in **South East Asia** continued across all markets, with double-digit growth in Vietnam and Indonesia and high single-digit growth in the Philippines. *Milo* drove growth across the region and the newly launched *Nescafé Blend and Brew* had an encouraging start.
- **Sub-Saharan Africa** continued to grow strongly across all categories, especially in ambient culinary with *Maggi*. Nigeria, Ghana and the Ivory Coast were the highlights.
- Japan did well in **developed markets**, building on product, business model innovation, premiumisation and digital engagement both for *Nescafé* and *KitKat*. We had more challenging results in Oceania where competitive intensity amongst retailers combined with low commodity prices has driven deflation in a number of categories.
- The Zone's **trading operating profit margin** improved alongside a significant step up in consumer marketing spend to support new product launches. The improved profitability was driven by efficiency

gains and lower input costs – particularly in dairy commodities. The Zone also incurred fewer one-off expenses as the withdrawal costs related to *Maggi* noodles in India impacted the first half of last year.

Nestlé Waters

Sales of CHF 3.9 billion, 4.2% organic growth, 4.7% real internal growth; 12.4% trading operating profit margin, +90 basis points

- Nestlé Waters' performance was driven by double-digit growth in emerging markets and high single-digit growth in our premium sparkling brands *S.Pellegrino* and *Perrier*. Developed markets continued to grow despite the deflationary environment.
 - Growth was solid in the US, driven by our international premium brands and *Poland Spring*. However, the regional brands were negatively impacted by the tornado which severely damaged a plant in Texas at the end of April.
 - The growth momentum in Europe was impacted by poor weather conditions in comparison with a very hot summer last year, particularly in France and Italy. Spain, the UK and Poland performed well.
 - Zone AOA showed a good performance, with double-digit growth in Thailand, Egypt and Vietnam. Competitive intensity in China remained high.
 - Latin America delivered good growth, with Mexico the highlight.
- The increase in **trading operating profit margin** was driven by improved product mix through premiumisation. We achieved cost efficiencies across manufacturing, procurement and distribution, as well as some benefit from lower input costs.

Nestlé Nutrition

Sales of CHF 5.2 billion, 1.3% organic growth, 1.1% real internal growth; 23.2% trading operating profit margin, +20 basis points

- Nestlé Nutrition was challenged in both the US and China, offsetting strong momentum in other geographies, particularly Latin America and South East Asia.
 - Pricing remains very limited in the category as a result of low dairy commodity prices and competitive intensity, notably in China.
 - In China, category growth overall slowed, mainly affecting the premium and mainstream brands *NAN* and *S-26 GOLD*. At the same time we continued to outperform in the faster growing super premium segment, primarily through our leading brand *illumina*. The recently launched *S-26 Ultima* also saw positive progress.
 - In the United States, the exit from some regional WIC contracts, the transition to new packaging formats and some temporary supply constraints in pouches impacted growth.
 - Latin America saw very good growth in both Brazil and Mexico, with both cereals and infant formula doing well. Innovations drove strong performances in South East Asia – particularly in the Philippines and Indonesia.

- **Trading operating profit margin** increased whilst we simultaneously stepped-up consumer marketing investments. Both infant formula and infant cereals businesses improved their profitability. Positive mix and lower input costs were the primary drivers of the margin growth.

Other businesses

Sales of CHF 6.8 billion, 4.2% organic growth, 4.2% real internal growth; 16.4% trading operating profit margin, +60 basis points

- **Nestlé Professional** delivered positive growth driven by good performances in emerging markets, particularly Mexico and Russia. There were solid results in the USA, whilst Western Europe continued to be challenged by the difficult trading environment. The strategic platforms of beverage solutions and savoury flavour solutions were key growth drivers.
- **Nespresso** continued its good growth, with a solid performance in Europe and good momentum in AMS and AOA. The success of the *VertuoLine* system and increased marketing investment in North America drove positive results. Global growth was supported by the ongoing geographic expansion, including 16 new boutique openings, and limited edition Grands Crus coffees.
- Good results in **Nestlé Health Science** continued to be driven by strong double-digit growth in Consumer Care, especially in the United States where *Boost* and *Carnation Breakfast Essentials* had strong momentum. Medical Nutrition maintained its good performance, led by the allergy portfolio and its geographic expansion.
- **Nestlé Skin Health** maintained good real internal growth, with solid performances in emerging markets, particularly Latin America, Middle East and North Africa. The prescription business delivered solid growth, driven by *Epiduo Forte* in the US, as well as *Soolantra* in EMENA. The consumer business performed well with *Cetaphil* cleansers and moisturisers and *Daylong* sun protection.
- The **trading operating profit margin** increased whilst there was also higher marketing spend across all businesses. Portfolio management, cost discipline and lower input costs also drove improved profitability in both Nestlé Health Science and Nestlé Professional.

Outlook

We confirm our full-year outlook: organic growth in line with 2015, with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency.

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Annex

Half-year sales and Trading operating profit margins overview

	Jan.-June 2016 Sales in CHF millions	Jan.-June 2016 Organic Growth (%)	Trading operating profit margins	
			Jan.-June 2016 (%)	Change vs Jan.- June 2015
By operating segment				
• Zone AMS	12'106	+5.1	17.8	-20 bps
• Zone EMENA	8'091	+2.6	16.9	+70 bps
• Zone AOA	7'099	+2.3	19.6	+140 bps
Nestlé Waters	3'937	+4.2	12.4	+90 bps
Nestlé Nutrition	5'171	+1.3	23.2	+20 bps
Other businesses	6'751	+4.2	16.4	+60 bps
Total Group	43'155	+3.5	15.3	+30 bps
By product				
Powdered and liquid beverages	9'653	+5.2	22.7	+20 bps
Water	3'680	+4.7	12.5	+60 bps
Milk products and ice cream	6'991	+0.7	17.4	+70 bps
Nutrition & Health Science	7'364	+2.5	18.5	-50 bps
Prepared dishes and cooking aids	5'903	+2.7	15.1	+300 bps
Confectionery	3'735	+3.1	10.3	-80 bps
Petcare	5'829	+5.6	20.6	-40 bps
Total Group	43'155	+3.5	15.3	+30 bps