Press release

Vevey, July 26, 2019

Good Food, Good Life

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Nestlé reports half-year results for 2019

- Organic growth of 3.6%, with continued strong real internal growth (RIG) of 2.6% and pricing of 1.0%. Increased growth was led by the United States and Brazil.
- Total reported sales increased by 3.5% to CHF 45.5 billion (6M-2018: CHF 43.9 billion). Net acquisitions had a positive impact of 1.1% and foreign exchange reduced sales by 1.2%.
- The underlying trading operating profit (UTOP) margin reached 17.1%, up 100 basis points. The trading operating profit (TOP) margin increased by 90 basis points to 15.5%.
- Underlying earnings per share increased by 15.7% in constant currency and by 14.6% on a reported basis to CHF 2.13. Earnings per share decreased by 12.3% to CHF 1.68 on a reported basis, as the prior year benefited from the disposal of the U.S. confectionery business.
- Free cash flow increased by 40.4% to CHF 4.1 billion.
- Portfolio management fully on track. Sale of Nestlé Skin Health expected to be completed in the second half of 2019 at an agreed price of CHF 10.2 billion. The strategic review of the *Herta* charcuterie business is ongoing and expected to be completed in late 2019.
- Full-year guidance for 2019 confirmed. We expect organic sales growth around 3.5% and the full-year underlying trading operating profit margin at or above 17.5%. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

Mark Schneider, Nestlé CEO:

"We are encouraged by our first half results and have made further progress toward our 2020 financial goals. Disciplined execution and fast innovation contributed to improved organic growth and profitability. Our growth was broad-based with our largest market, the United States, performing particularly well. Across our categories increased investment behind our brands and in innovation is clearly paying off, as reflected in our strong momentum in PetCare and the return to mid single-digit growth in coffee. Our Starbucks launch has been a great success so far and we plan on further geographic expansion and product innovation to make the most of this unique opportunity. Active portfolio management will continue to sharpen our strategic focus and position the company in attractive high-growth businesses. Our value creation model is clearly delivering the expected results and will support sustained profitable growth."

Group Results

	Total Group	Zone AMS	Zone EMENA	Zone AOA	Nestlé Waters	Other Businesses
Sales 6M-2019 (CHF m)	45 456	15 666	9 231	10 725	4 003	5 831
Sales 6M-2018 (CHF m)	43 920	14 153	9 303	10 634	3 967	5 863
Real internal growth (RIG)	2.6%	2.0%	3.7%	2.5%	-3.3%	6.7%
Pricing	1.0%	1.9%	-1.3%	0.8%	4.7%	0.7%
Organic growth	3.6%	3.9%	2.4%	3.3%	1.4%	7.4%
Net M&A	1.1%	6.4%	-0.1%	-0.1%	-0.2%	-6.5%
Foreign exchange	-1.2%	0.5%	-3.1%	-2.3%	-0.3%	-1.4%
Reported sales growth	3.5%	10.8%	-0.8%	0.9%	0.9%	-0.5%
6M-2019 Underlying TOP Margin	17.1%	19.2%	18.8%	23.1%	11.8%	19.6%
6M-2018 Underlying TOP Margin*	16.1%	18.8%	18.7%	22.7%	10.0%	16.4%

** 2018 figures have been adjusted to reflect re-allocation of some marketing and administration expenses from Unallocated items into the Operating segments. This was done to better reflect the use of central overheads by each Zone and Globally Managed Business.*

Group Sales

Organic growth reached 3.6%. RIG of 2.6% remained at the high end of the food and beverage industry. Pricing contributed 1.0% with some deceleration in the second quarter owing to the deflationary environment in Europe and lower pricing in Brazil. Organic growth was 3.4% excluding businesses under strategic review. The year-on-year growth acceleration was led by the United States and Brazil. AOA saw solid growth despite negative sales development in Pakistan and softness in some categories in China. Organic growth was 2.4% in developed markets, with a significant RIG acceleration in the second quarter. Growth in emerging markets was 5.3%.

All product categories posted positive growth. The largest contributions came from *Purina* PetCare, coffee and infant nutrition. Coffee returned to mid single-digit growth in the second quarter with improved *Nespresso* and *Nescafé* momentum across all Zones. The launch of Starbucks products in 14 markets saw strong demand and further markets will follow in the second half of the year.

Net acquisitions increased sales by 1.1%. Acquisitions of the Starbucks license and Atrium Innovations more than offset divestments, mainly Gerber Life Insurance. Foreign exchange had a negative impact of 1.2%. Total reported sales increased by 3.5% to CHF 45.5 billion.

Underlying Trading Operating Profit

Underlying trading operating profit increased by 10.1% to CHF 7.8 billion. The underlying trading operating profit margin reached 17.1%, an increase of 100 basis points in constant currency and on a reported basis. The classification of Nestlé Skin Health as an asset held for sale contributed 20 basis points to the Group's underlying trading operating profit margin.

Margin expansion was supported by pricing, structural cost reductions, operational efficiencies and improved mix. Pricing more than offset input cost inflation in the first half. Consumer-facing marketing expenses increased by 5.1% in constant currency.

Restructuring expenses and net other trading items were CHF 0.7 billion. Trading operating profit increased by 10.4% to CHF 7.1 billion. The trading operating profit margin increased by 90 basis points on a reported basis to 15.5%.

Net Financial Expenses and Income Tax

Net financial expenses grew by 45.7% to CHF 504 million, largely reflecting an increase in net debt.

The Group reported tax rate increased by 110 basis points to 27.5%. The underlying tax rate declined by 280 basis points to 21.4%. The decrease resulted mainly from the development of our geographic and business mix.

Net Profit and Earnings Per Share

Net profit declined by 14.6% to CHF 5.0 billion, and earnings per share decreased by 12.3% to CHF 1.68. In the first half of 2018, net profit benefited from the sale of the U.S. confectionery business.

Underlying earnings per share increased by 15.7% in constant currency and by 14.6% on a reported basis to CHF 2.13. The increase was mainly the result of improved operating performance and lower taxes. Nestlé's share buyback program contributed 1.9% to the underlying earnings per share increase, net of finance costs.

Cash Flow

Free cash flow grew by 40.4% and reached CHF 4.1 billion. The increase resulted from stronger operating performance and several one-off items.

Share Buyback Program

During the first half of 2019, the Group repurchased CHF 4.2 billion of Nestlé shares. As of June 30, 2019, the Group had implemented 73% (CHF 14.5 billion) of the CHF 20 billion share buyback program announced in 2017. Nestlé intends to complete the current program by the end of December 2019.

Net Debt

Net debt increased to CHF 38.3 billion as at June 30, 2019, compared to CHF 30.3 billion at December 31, 2018. The increase reflected the dividend payment of CHF 7.2 billion and share buybacks of CHF 4.2 billion, partially offset by strong free cash flow generation of CHF 4.1 billion.

Strategic Development

In May, Nestlé announced the transition of the U.S. pizza and ice cream businesses from a Direct-Store-Delivery network to a warehouse distribution model. The transition will begin in the second half of 2019 and is expected to be completed in the second quarter of 2020.

Zone Americas (AMS)

- 3.9% organic growth: 2.0% RIG; 1.9% pricing.
- North America saw positive organic growth, with balanced RIG and pricing.
- Latin America reported mid single-digit organic growth, with positive RIG and pricing.
- The underlying trading operating profit margin increased by 40 basis points to 19.2%.

	Sales 6M-2019	Sales 6M-2018	RIG	Pricing	Organic growth	UTOP 6M-2019	UTOP 6M-2018	Margin 6M-2019	Margin 6M-2018
Zone AMS	CHF 15.7 bn	CHF 14.2 bn	2.0%	1.9%	3.9%	CHF 3.0 bn	CHF 2.7 bn	19.2%	18.8%

Organic growth increased to 3.9%, supported by higher RIG of 2.0%. This was based on an acceleration in both North and Latin America. Pricing was positive at 1.9%, with the largest contribution from the United States. Net acquisitions increased sales by 6.4%, largely related to the acquisition of the Starbucks license. Foreign exchange had a positive impact of 0.5%. Reported sales in Zone AMS increased by 10.8% to CHF 15.7 billion.

North America maintained good sales growth throughout the first half, with a significant acceleration in the second quarter to record its strongest quarter of organic growth in eight years. The largest contributor to growth was *Purina* PetCare, which continued to see strong momentum in e-commerce and in premium brands, such as *Purina Pro Plan*, *Purina ONE* and *Tidy Cats* litter. Veterinary products grew at a double-digit pace, helped by new product launches such as *Purina Calming Care* probiotic supplements for dogs. The beverages category, comprising Starbucks, *Coffee mate* creamers, and *Nescafé*, posted high single-digit growth. Frozen food saw positive growth led by *Hot Pockets* and *Stouffer*'s brands. U.S. pizza and ice cream had strong momentum in the second quarter.

Latin America posted mid single-digit growth, with positive contributions in most markets and categories. Brazil had high single-digit growth, supported by strong performances in ambient dairy, infant nutrition, professional and *KitKat*. Second-quarter growth was helped by favorable comparables due to the May 2018 truck drivers' strike. Mexico saw mid single-digit growth, with strong demand for *Nescafé* and confectionery. Latin America recorded double-digit growth in *Purina* PetCare.

The Zone's underlying trading operating profit margin improved by 40 basis points. The improvement was supported by pricing, portfolio management and structural cost reductions. These more than offset cost increases from commodity inflation.

Zone Europe, Middle East and North Africa (EMENA)

- 2.4% organic growth: 3.7% RIG; -1.3% pricing.
- Western Europe posted strong RIG, partially offset by negative pricing.
- Central and Eastern Europe maintained mid single-digit organic growth, mainly driven by RIG. Pricing was also positive.
- Middle East and North Africa saw continued mid single-digit organic growth. RIG and pricing were positive.
- The underlying trading operating profit margin grew by 10 basis points to 18.8%.

	Sales 6M-2019	Sales 6M-2018	RIG	Pricing	Organic growth	UTOP 6M-2019	UTOP 6M-2018	Margin 6M-2019	Margin 6M-2018
Zone EMENA	CHF 9.2 bn	CHF 9.3 bn	3.7%	-1.3%	2.4%	CHF 1.7 bn	CHF 1.7 bn	18.8%	18.7%

Organic growth was 2.4%, supported by strong RIG of 3.7%. Pricing declined by 1.3% as deflationary trends continued to affect the food and retail sectors across most markets in Western Europe. Net acquisitions decreased sales by 0.1% and foreign exchange negatively impacted sales by 3.1%. Reported sales in Zone EMENA decreased by 0.8% to CHF 9.2 billion.

Zone EMENA posted strong RIG based on good results in Western Europe and Eastern Europe, particularly in the second quarter. Pricing remained negative, mainly due to the continued deflationary environment in Western Europe. The *Purina* PetCare and infant nutrition categories were the main contributors to growth across the Zone. In PetCare, *Felix*, *Purina ONE* and *Tails.com* were the key growth platforms. Coffee was slightly negative in the first half, but returned to positive growth in the second quarter. Confectionery had improved momentum, with double-digit growth for *KitKat*. Vegetarian-based food products posted strong double-digit growth in Western Europe. The plant-based *Garden Gourmet Incredible Burger* was launched in nine markets in the second quarter.

The Zone's underlying trading operating profit margin increased by 10 basis points, based on structural cost reductions and favorable mix. Marketing and commercial investments increased to support innovation and brand building.

Zone Asia, Oceania and sub-Saharan Africa (AOA)

- 3.3% organic growth: 2.5% RIG; 0.8% pricing.
- China reported low single-digit organic growth, with positive RIG and pricing.
- South-East Asia saw mid single-digit organic growth, supported by strong RIG and positive pricing.
- South Asia had low single-digit organic growth. Both RIG and pricing were positive.
- Sub-Saharan Africa reported mid single-digit organic growth, with balanced RIG and pricing.
- Japan and Oceania posted positive organic growth, with strong RIG but negative pricing.
- The underlying trading operating profit margin increased by 40 basis points to 23.1%.

	Sales 6M-2019	Sales 6M-2018	RIG	Pricing	Organic growth	UTOP 6M-2019	UTOP 6M-2018	Margin 6M-2019	Margin 6M-2018
Zone AOA	CHF 10.7 bn	CHF 10.6 bn	2.5%	0.8%	3.3%	CHF 2.5 bn	CHF 2.4 bn	23.1%	22.7%

Organic growth was 3.3%, with RIG of 2.5% and pricing of 0.8%. Net acquisitions negatively impacted sales by 0.1%. Foreign exchange reduced sales by 2.3%. Reported sales in Zone AOA increased by 0.9% to CHF 10.7 billion.

Zone AOA saw solid growth in the first half despite negative sales development in Pakistan due to challenging trading conditions. China saw softer growth in some categories but reported good growth in culinary and ice cream. South-East Asia saw strong growth, with double-digit contributions from Indonesia and Vietnam led by *Bear Brand*, ready-to-drink *Nescafé* and ready-to-drink *Milo*. South Asia excluding Pakistan grew at a high single-digit pace and saw strong growth in *NAN*, *Maggi* and *KitKat*. Sub-Saharan Africa maintained mid single-digit growth. Japan and Oceania returned to positive growth, based on improved RIG momentum in the second quarter.

Purina PetCare grew at a double-digit pace and infant nutrition delivered broad-based mid single-digit growth. In coffee there was strong demand for Starbucks products in the launch markets (Japan, South Korea, Hong Kong and Taiwan).

The Zone's underlying trading operating profit margin improved by 40 basis points, supported by pricing, structural cost reductions and favorable mix. Marketing investments increased to support innovation and brand building.

Nestlé Waters

- 1.4% organic growth: -3.3% RIG; 4.7% pricing.
- North America reported positive organic growth. Strong pricing was partially offset by negative RIG.
- Europe saw negative organic growth. Slightly positive pricing was fully offset by negative RIG.
- Emerging markets posted high single-digit organic growth, with strong pricing and positive RIG.
- The underlying trading operating profit margin increased by 180 basis points to 11.8%.

	Sales 6M-2019	Sales 6M-2018	RIG	Pricing	Organic growth	UTOP 6M-2019	UTOP 6M-2018	Margin 6M-2019	Margin 6M-2018
Nestlé Waters	CHF 4.0 bn	CHF 4.0 bn	-3.3%	4.7%	1.4%	CHF 0.5 bn	CHF 0.4 bn	11.8%	10.0%

Organic growth for the first half was 1.4%. RIG declined by 3.3%, impacted by price increases in the United States and slower growth in Europe. Pricing increased by 4.7%. Net acquisitions reduced sales by 0.2%. Foreign exchange decreased sales by 0.3%. Reported sales in Nestlé Waters increased by 0.9% to CHF 4.0 billion.

In North America growth was supported by 2018 price increases following significant cost inflation in packaging and distribution. Premium brands *S.Pellegrino*, *Perrier*, and *Acqua Panna* saw high single-digit growth, helped by successful innovations such as *S.Pellegrino Essenza* and *Perrier & Juice*. The *ReadyRefresh* direct-to-consumer business grew at a mid single-digit pace, benefiting from a new online platform and improved execution. *Poland Spring* also contributed with positive growth. New products included *Poland Spring ORIGIN*, a premium bottled spring water using 100% recycled packaging. *Nestlé Pure Life* posted negative growth in the context of price competition in the affordable segment.

Europe saw negative sales development. Growth decelerated in the second quarter following unfavorable weather conditions, particularly in Northern Europe. Emerging markets saw high single-digit growth, supported by strong momentum in Asia, Turkey and Egypt. *Nestlé Pure Life* made a strong contribution to growth in emerging markets, with the launch of sparkling and flavored varieties.

The underlying trading operating profit margin increased by 180 basis points. The improvement was based on increased pricing and structural cost reductions. These more than offset a further increase in PET packaging costs, as well as higher marketing investments.

Other Businesses

- 7.4% organic growth: 6.7% RIG; 0.7% pricing.
- Nespresso reported mid single-digit organic growth, with very strong momentum in the Americas.
- Nestlé Health Science maintained mid single-digit organic growth mainly based on RIG.
- Nestlé Skin Health posted double-digit organic growth, with strong RIG.
- The underlying trading operating profit margin increased by 320 basis points to 19.6%.

	Sales 6M-2019	Sales 6M-2018	RIG	Pricing	Organic growth	UTOP 6M-2019	UTOP 6M-2018	Margin 6M-2019	Margin 6M-2018
Other Businesses	CHF 5.8 bn	CHF 5.9 bn	6.7%	0.7%	7.4%	CHF 1.1 bn	CHF 1.0 bn	19.6%	16.4%

Organic growth of 7.4% was driven by strong RIG of 6.7% and pricing of 0.7%. Net acquisitions reduced sales by 6.5%, mainly due to the disposal of Gerber Life Insurance, which offset the contribution of Atrium Innovations.

Foreign exchange negatively impacted sales by 1.4%. Reported sales in Other Businesses decreased by 0.5% to CHF 5.8 billion.

Nespresso maintained mid single-digit organic growth. North America and emerging markets saw double-digit growth. Europe posted positive growth, supported by strong demand for the *Vertuo* system and Nespresso's *Limited Editions*.

Nestlé Health Science saw mid single-digit growth, based on strong sales development in medical nutrition and geographic expansion in emerging markets. Innovation provided additional growth momentum, with strong demand for the recently launched *Dr. Formulated* CBD products, which are THC (tetrahydrocannabinol)-free and non-GMO certified. Nestlé Skin Health posted double-digit growth in both the first and second quarters.

The underlying trading operating profit margin of Other Businesses increased by 320 basis points. This was the result of broad-based improvements in all businesses, in particular Nestlé Skin Health.

Our business as a force for good

Creating Shared Value is fundamental to how we do business at Nestlé. We believe that our company will be successful in the long term by creating value for both our shareholders and for society. This company-wide mindset is well illustrated by Nestlé Health Science.

<u>Leading in nutritional science</u>. Nestlé Health Science offers an extensive portfolio of science-based medical nutrition, consumer health and supplement brands. Every year, it produces over a billion nutritional health solutions for consumers, patients and their healthcare providers. Nestlé Health Science is committed to redefining the management of health in areas such as healthy aging, metabolic health, allergy and pediatric health.

<u>Providing nutrition and wellness support for cancer patients</u>. Cancer is one particular area where Nestlé Health Science can make a meaningful difference. Cancer survival rates are increasing due to advances in science. However, up to 80% of cancer patients experience weight loss and/or malnutrition during their illness. This slows their recovery and leaves them less responsive to treatment. To address this challenge, Nestlé Health Science provides nutritional support to 400 000 cancer patients globally. Based on the advice of healthcare professionals and in collaboration with partners, Nestlé Health Science has developed the COPES™ (Cancer Oriented Personalized Eating & Emotional Support) digital platform to provide nutrition and wellness support. COPES™ was launched in April in the United States with the enrollment of its first cancer patients and the ambition to scale up significantly. The physician-supervised platform is unique as it addresses an unmet need in providing cancer patients with a holistic approach to nutritional and wellness guidance, well beyond the sale of our products. It offers the following advantages:

- **Patients** take an active and informed role in meeting their specific nutritional and wellness needs. This is supported by one-on-one counseling from oncology-certified nutrition specialists, as well as recipes and meal plans that can be tailored by symptom.
- **Healthcare professionals** extend their continuity of care beyond the clinic through real-time access to patients. This allows them to tailor treatment based on patients' symptoms and side-effects.
- **Health insurers and payers** benefit from expected improved health outcomes related to increased adherence to treatment, reduced hospital stay and enhanced quality of life for the patients.

<u>Pioneering next-generation nutritional products and services</u>. For Nestlé Health Science, effective cancer care goes beyond offering products and means providing effective and collaborative solutions to patients at a time of

need. COPES™ deepens this collaboration. This is vital to advancing next-generation nutritional products and services that are even more beneficial and cost-effective.

Nestlé Audit Tender

Following a comprehensive tender process under the supervision of the Audit Committee, the Board decided to propose to the next Annual General Meeting the appointment of EY as the principal audit provider for the 2020 financial year.

Outlook

Full-year guidance for 2019 confirmed. We expect organic sales growth around 3.5% and the full-year underlying trading operating profit margin at or above 17.5%. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

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Annex

Half-year sales and underlying trading operating profit (UTOP) overview by operating segment

	Total Group	Zone AMS	Zone EMENA	Zone AOA	Nestlé Waters	Other Businesses
Sales 6M-2019 (CHF m)	45 456	15 666	9 231	10 725	4 003	5 831
Sales 6M-2018 (CHF m)	43 920	14 153	9 303	10 634	3 967	5 863
Real internal growth (RIG)	2.6%	2.0%	3.7%	2.5%	-3.3%	6.7%
Pricing	1.0%	1.9%	-1.3%	0.8%	4.7%	0.7%
Organic growth	3.6%	3.9%	2.4%	3.3%	1.4%	7.4%
Net M&A	1.1%	6.4%	-0.1%	-0.1%	-0.2%	-6.5%
Foreign exchange	-1.2%	0.5%	-3.1%	-2.3%	-0.3%	-1.4%
Reported sales growth	3.5%	10.8%	-0.8%	0.9%	0.9%	-0.5%
6M-2019 Underlying TOP (CHF m)	7 773	3 009	1 733	2 482	472	1 144
6M-2018 Underlying TOP (CHF m)*	7 063	2 667	1 738	2 419	398	960
6M-2019 Underlying TOP Margin	17.1%	19.2%	18.8%	23.1%	11.8%	19.6%
6M-2018 Underlying TOP Margin*	16.1%	18.8%	18.7%	22.7%	10.0%	16.4%

Half-year sales and underlying trading operating profit (UTOP) overview by product

	Total Group	Powdered & liquid beverages	Water	Milk products & ice cream	Nutrition & Health Science	Prepared dishes & cooking aids	Confection-ery	PetCare
Sales 6M-2019 (CHF m)	45 456	11 367	3 786	6 539	7 822	5 938	3 450	6 554
Sales 6M-2018 (CHF m)	43 920	10 265	3 729	6 385	7 912	5 819	3 634	6 176
Real internal growth (RIG)	2.6%	2.2%	-3.0%	1.4%	5.2%	2.6%	3.3%	4.2%
Pricing	1.0%	0.5%	5.0%	1.6%	0.7%	-0.2%	-0.8%	1.9%
Organic growth	3.6%	2.7%	2.0%	3.0%	5.9%	2.4%	2.5%	6.1%
6M-2019 Underlying TOP (CHF m)	7 773	2 619	433	1 236	1 800	1 025	408	1 319
6M-2018 Underlying TOP (CHF m)*	7 063	2 385	352	1 121	1 589	1 002	443	1 290
6M-2019 Underlying TOP Margin	17.1%	23.0%	11.4%	18.9%	23.0%	17.3%	11.8%	20.1%
6M-2018 Underlying TOP Margin*	16.1%	23.2%	9.4%	17.6%	20.1%	17.2%	12.2%	20.9%

** 2018 figures have been adjusted to reflect re-allocation of some marketing and administration expenses from Unallocated items into the Operating segments. This was done to better reflect the use of central overheads by each Zone and Globally Managed Business.*

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