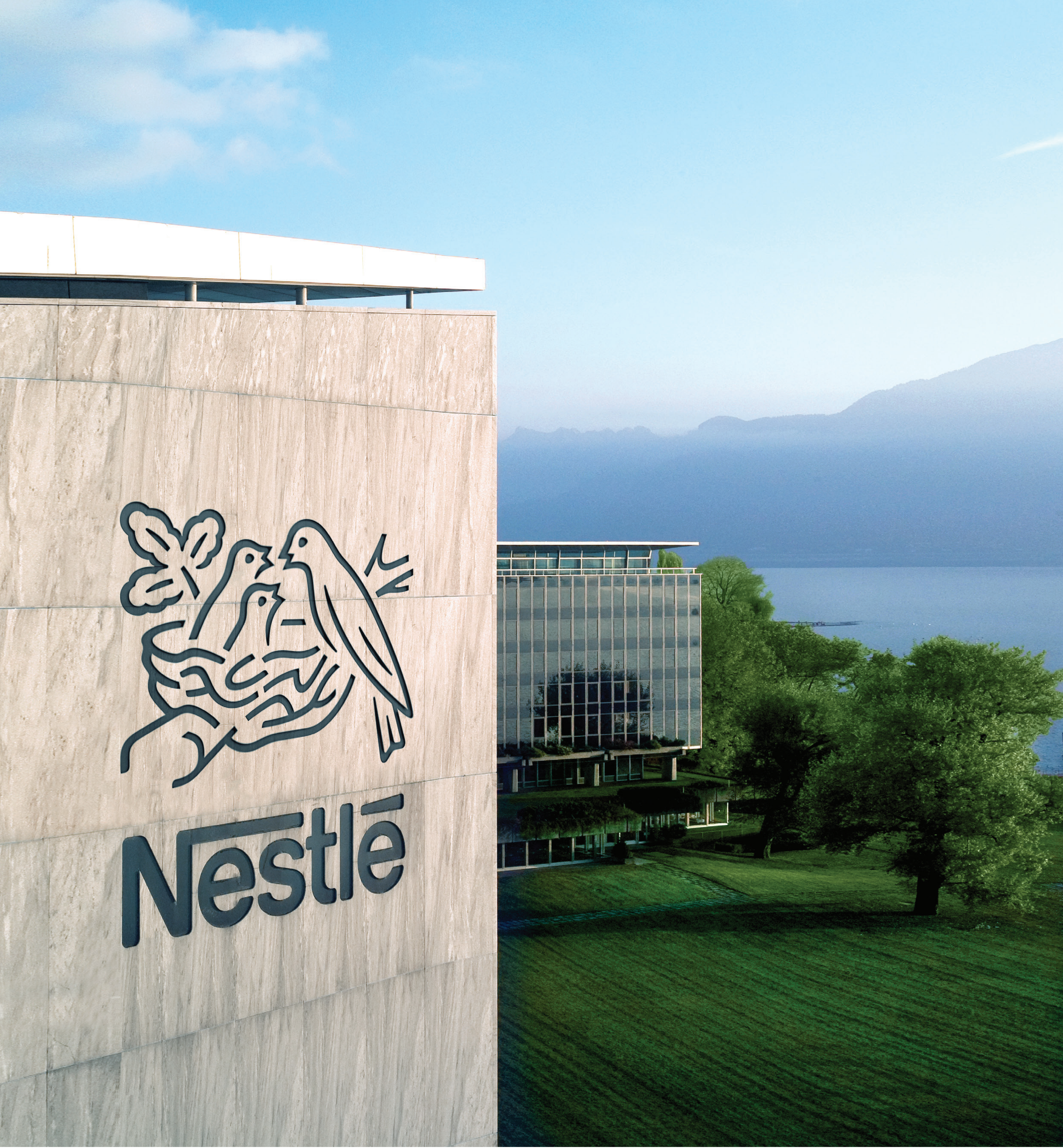
Alternative Performance Measures
June 2017 Edition

Nestlé
Good Food, Good Life



Definitions of Alternative Performance Measures

The Annual Review and other communication to investors contain certain financial performance measures, that are not defined by IFRS, that are used by management to assess the financial and operational performance of the Group, including Organic growth, Real internal growth, Pricing and Trading operating profit margin. Management believes that these non-IFRS financial performance measures provide useful information regarding the Group's financial and operating performance. Such measures may not be comparable to similar measures presented by other companies. The main alternative performance measures used by the Group are explained and reconciled below.

Organic Growth (OG)

OG combines Real internal growth and Pricing and represents the growth of the business after removing the impact of acquisitions and divestitures and other changes in Group scope of activity, and exchange rate movements. This provides a "like-for-like" comparison with the previous year in constant scope and constant currency, enabling deeper understanding of the business dynamics which contributed to the Evolution of sales from one year to another.

For purposes of calculating OG (a) the sales of an acquired business are generally excluded for the 12 months following the business combination, but sales generated by post-acquisition geographic expansion of the business are included; and (b) sales of a divested business are removed from comparatives for the 12 months prior to the divestiture. Supply agreements related to the divested business are included in acquisitions and divestitures during a transitory period. The pricing impact of changes in the way that a business is transacted in an entire country (e.g. establishing a local operating company instead of exporting to a distributor, or vice versa) are included in acquisitions and divestitures, respectively.

The effects of changes in foreign exchange rates are calculated as the current year sales' values converted at the current year's exchange rates, less the current year's sales converted at the prior year's rates.

OG is included among the quantitative operational targets for the Group.

Real Internal Growth (RIG)

RIG represents the impact on sales of volume increases or decreases, weighted by the relative value per unit sold. It is calculated at the level of the individual product reference (stock keeping unit) per distribution channel, by comparing the weighted sales (this year's volumes valued at the prior year's prices in local currency) to the prior year's sales. At the product level, it is therefore primarily driven by changes in volume, while when aggregated at operating segments or Group level, it embeds the impact of the evolution of the product mix.

Real Internal Growth (RIG) (continued)

Sales of newly launched products are included from the moment of launch which tends to increase RIG, while products which are discontinued have a negative impact on RIG since the historical sales continue to be included in the prior year comparatives. This reflects in a balanced way the impacts of renovation and innovation and the impact on sales coming from ongoing product rationalisation efforts.

As RIG is a component of OG, it excludes the impact of acquisitions and divestitures, and exchange rates.

RIG is included among the quantitative operational targets for the Group.

Pricing

Pricing is part of OG and represents the portion of sales growth caused by changes in prices over the period. It excludes the impact of RIG, as well as the impact of acquisitions and divestitures, and exchange rates.

Analysing pricing allows management to assess the degree to which inflationary or deflationary factors have contributed to sales evolution, and the degree to which cost changes have been passed to customers.

Evolution of Sales

The Group uses OG (including RIG and Pricing), exchange rate impacts, and the effects of acquisitions and divestitures in order to understand the Evolution of sales from one year to the prior year (either the increase or the decrease in the current year's sales compared with the prior year's sales, expressed as a percentage).

Total Group

	2016	2015	2014
Sales (in millions of CHF)	89 469	88 785	91 612
Evolution vs prior year (in %)	+0.8%	(3.1%)	

The reconciliation of OG to the total Evolution of sales is as follows:

Total Group

In %

	2016 vs 2015	2015 vs 2014
Real Internal Growth	+2.4%	+2.2%
Pricing	+0.8%	+2.0%
Organic Growth	**+3.2%**	**+4.2%**
Effect of exchange rates	(1.6%)	(7.4%)
Effect of acquisitions, divestitures and other changes in Group scope activity	(0.8%)	+0.1%
Evolution of sales	**+0.8%**	**(3.1%)**

Trading Operating Profit Margin

Trading operating profit margin is when Trading operating profit is calculated as a percentage of sales. Trading operating profit is a subtotal in the Consolidated income statement, appearing above Operating profit. It excludes Other operating income and Other operating expenses. The items excluded from Trading operating profit represent the results of transactions and decisions taken at Group level and are largely out of control of management of the operating segments (such as acquisitions, disposals or strategic alliances), or the impacts of events which are irregular in nature and difficult to predict (such as wars or natural disasters).

Trading operating profit margin is included among the quantitative operational targets for the Group.

Trading Operating Profit Margin in Constant Currency

Trading operating profit margin in constant currency is calculated as the ratio between Trading operating profit (see above) and Sales, adjusted to eliminate the impact of changes in exchange rates.

When comparing the year-on-year change in Trading operating profit margin, it is useful to eliminate the impact of changes in exchange rates in order to isolate the results generated by business operations from the effect of translation of these results into Swiss francs. This is done by converting both Sales and Trading operating profit of the current year at the exchange rate of the prior year. The resulting Trading operating profit margin can therefore be compared with the Trading operating profit margin of the prior year to understand fundamental business trends.

The reconciliation of Trading operating profit to Trading operating profit margin in constant currency is as follows:

Total Group

In millions of CHF except for Trading operating profit margin

	2016	2015 as reported	2015	2014 as reported
Trading operating profit	**13 693**	**13 382**	**13 382**	**14 019**
Retranslation at prior year rates	198		1 400	
Trading operating profit in constant currency	**13 891**	**13 382**	**14 782**	**14 019**
Sales	**89 469**	**88 785**	**88 785**	**91 612**
Retranslation at prior year rates	893		7 222	
Sales in constant currency	**90 362**	**88 785**	**96 007**	**91 612**
Trading operating profit margin	**15.3%**	**15.1%**	**15.1%**	**15.3%**
Reported evolution (in basis points)	+20 bps		-20 bps	
Trading operating profit margin in constant currency	**15.4%**	**n/a**	**15.4%**	**n/a**
Evolution at constant currencies (in basis points)	+30 bps		+10 bps	

Underlying Earnings Per Share (EPS)

Underlying EPS is calculated by adjusting Net profit attributable to shareholders of the parent to remove the effects of Other trading income and Other trading expenses, Other operating income and Other operating expenses, and related tax effects. An adjustment is also made to eliminate Other trading income and other trading expenses and Other operating income and other operating expenses included in the Income from associates and joint ventures.

Underlying EPS reflects the underlying earnings from trading operations for each share of Nestlé S.A.

Underlying Earnings Per Share (EPS) in Constant Currency

Underlying EPS in constant currency is used when comparing the year-on-year change in Underlying earnings per share to eliminate the impact of changes in exchange rates in order to isolate the results generated by business operations from the effect of translation of these results into Swiss francs. This is done by converting the Underlying EPS of the current year at the exchange rate of the prior year. The resulting figure can therefore be compared with the Underlying EPS of the prior year to understand fundamental business trends.

Underlying EPS in constant currency is one of two performance measures used in the Performance Share Unit long-term incentive Plan.

The reconciliation of Net profit to Underlying EPS in constant currency is as follows:

Total Group

In millions of CHF except for data per share or number of shares

	2016	2015
Net profit attributable to shareholders of the parent	**8 531**	**9 066**
Restructuring costs	300	165
Impairment of property, plant and equipment, goodwill and intangible assets	640	576
Net result of disposal of businesses	—	422
Other adjustments in net other income/(expenses)	204	461
Adjustment for income from associates and joint ventures	241	62
Tax effect on above items and adjustment of one-off tax items	610	(399)
Adjustment in non-controlling interests	(27)	—
Underlying net profit	**10 499**	**10 353**
Retranslation at prior year rates	74	1 108
Underlying net profit in constant currency	**10 573**	**11 461**
Weighted average number of shares outstanding (in millions of shares)	3 091	3 129
Underlying EPS (as reported)	**3.40**	**3.31**
Underlying EPS in constant currency	**3.42**	**3.66**
Evolution in % compared to prior year as reported Underlying EPS (unrounded)	+3.4%	

Net Financial Debt

Net financial debt represents the net level of financial debt contracted by the Group with external parties (e.g. bonds, commercial papers) after considering cash and investments readily convertible into cash. It is composed of the current and non-current financial debt less cash and cash equivalent and short-term investments as per the below table.

Total Group

In millions of CHF

	2016	2015
Current financial debt	12 118	9 629
Non-current financial debt	11 091	11 601
Cash and cash equivalents	(7 990)	(4 884)
Short-term investments	(1 306)	(921)
Net financial debt	**13 913**	**15 425**

See note 12.2e, page 117 of the Consolidated Financial Statements of the Nestlé Group 2016, for more details on the monitoring of the Net financial debt. See note 16.6, page 126 of the Consolidated Financial Statements of the Nestlé Group 2016 for a reconciliation of the year-on-year Net financial debt evolution.
(http://www.nestle.com/asset-library/documents/library/documents/financial_statements/2016-financial-statements-en.pdf)

Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA)

Adjusted EBITDA is used as a measure of the ability of the Group to generate enough cash from earnings to repay its net financial debt. It is computed as follows:

Total Group

In millions of CHF

	2016	2015
Trading operating profit	**13 693**	**13 382**
Add:		
Net other trading income/(expenses)	614	650
Depreciation and amortisation	3 132	3 178
Adjusted EBITDA	**17 439**	**17 210**

When Net financial debt is divided by Adjusted EBITDA, this yields a ratio which is used to monitor the Group's financing capacity.

Free Cash Flow

Free cash flow equals Operating cash flow less capital expenditure, expenditure on intangible assets, investments (net of divestments) in associates and joint ventures, and other investing activities. It represents the cash generating capability of the Group to pay dividends, repay providers of capital, or carry out acquisitions, if any.

See note 16.6, page 126 of the Consolidated Financial Statements of the Nestlé Group 2016 for a reconciliation of Operating cash flow to Free cash flow.
(http://www.nestle.com/asset-library/documents/library/documents/financial_statements/2016-financial-statements-en.pdf)

Return on Invested Capital (ROIC)

Return on invested capital is a measure of performance which integrates both measures of profitability and measures of capital efficiency.

The numerator is Trading operating income before Litigations and onerous contracts, Other trading expenses and other trading income. This figure is divided by average Invested capital during the year. Invested capital is a measure of the operational assets used to generate the results of the business, excluding financing, tax and cash-management activities. Further details of the definition of Invested capital can be found on Note 3, page 74 of the Consolidated Financial Statements of the Nestlé Group 2016.
(http://www.nestle.com/asset-library/documents/library/documents/financial_statements/2016-financial-statements-en.pdf)

Return on Invested Capital before Goodwill and Intangible Assets

Return on invested capital before Goodwill (GW) and Intangible assets (IA) is used to eliminate the distortions caused by the different treatments of goodwill in the past and internally and externally generated intangible assets. This removes from the analysis the impact of different levels of acquisition over time.

This measure is calculated by removing the average goodwill and intangible assets value from the average invested capital (see above).

The calculation of Return on invested capital is shown below:

Total Group

In millions of CHF

	2016	2016	2015	2015
	Before GW & IA	After GW & IA	Before GW & IA	After GW & IA
Trading operating profit	**13 693**	**13 693**	**13 382**	**13 382**
Add:				
Net other trading income/(expenses)	614	614	650	650
Trading operating profit before other trading income/(expenses)	**14 307**	**14 307**	**14 032**	**14 032**
Less:				
Impairment of property, plant and equipment	(157)	(157)	(100)	(100)
Restructuring costs	(300)	(300)	(165)	(165)
Impairment of intangible assets (excluding goodwill)		(44)		(138)
Impairment of goodwill		(439)		(338)
Trading operating profit before litigation and miscellaneous trading income/(expenses)	**13 850**	**13 367**	**13 767**	**13 291**
Theoretical tax 30%	(4 155)	(4 010)	(4 130)	(3 987)
Net Trading operating profit before litigation and miscellaneous trading income/(expenses)	**9 695**	**9 357**	**9 637**	**9 304**
Average Invested capital (Note 3.2)	30 596	30 596	32 284	32 284
Average goodwill and intangible assets (Note 3.2)		52 592		52 773
Average Invested capital, goodwill and intangible assets		83 188		85 057
ROIC	**31.7%**	**11.2%**	**29.9%**	**10.9%**