Press release

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Full-Year 2014: 4.5% Organic Growth, Trading Operating Profit Margin up 10 basis points, up 30 basis points in constant currencies

- Sales of CHF 91.6 billion
- 4.5% organic growth and 2.3% real internal growth
- Trading operating profit margin up 10 basis points to 15.3%, up 30 basis points in constant currencies
- Underlying earnings per share up 4.4% in constant currencies
- Strong operating cash flow at CHF 14.7 billion
- Proposed dividend increased to CHF 2.20 per share
- 2015 outlook: we aim to achieve organic growth of around 5% with improvements in margins, underlying earnings per share in constant currencies and capital efficiency

Paul Bulcke, Nestlé CEO: "These are strong results, building on the good growth of past years and delivered in a soft trading environment. They demonstrate the intrinsic strengths of Nestlé: the commitment of our people, our global footprint, the strength of our portfolio and the quality of our innovation. While delivering in the short term, we remain focused on our business long term, strengthening the foundations of future growth. We expect 2015 to be similar to 2014 and we aim to achieve organic growth of around 5% with improvements in margins, underlying earnings per share in constant currencies and capital efficiency."

Group results

In 2014 Nestlé's organic growth was 4.5%, composed of 2.3% real internal growth and 2.2% pricing. Sales were CHF 91.6 billion, down 0.6%, impacted by negative foreign exchange of -5.5%. Acquisitions, net of divestitures, added 0.4% to sales.

- The Group's **trading operating profit** was CHF 14.0 billion, representing a margin of 15.3%, up 10 basis points, and up 30 basis points in constant currencies.
- The **cost of goods sold** fell by 30 basis points as a percentage of sales, driven by product mix and pricing actions and savings created by Nestlé Continuous Excellence which more than offset increases in raw material costs.
- **Distribution costs** were up by 10 basis points.
- Total **marketing and administration expenses** rose by 10 basis points as we increased **consumer facing marketing** support for our brands.
- **Net profit** rose CHF 4.4 billion to CHF 14.5 billion. The increase also reflects the profit realised on the disposal of part of the stake in L'Oréal and the revaluation gain on the 50% of Galderma already held when the Group brought its ownership from 50% to 100%. **Reported earnings per share** were CHF 4.54, up 44.6%.

- **Underlying earnings per share in constant currencies** were up 4.4%.
- The Group's **operating cash flow** remained strong at CHF 14.7 billion.

Business review

- The Nestlé Group's **organic growth** was broad-based, 5.4% in the Americas, 1.9% in Europe and 5.7% in Asia, Oceania and Africa. Our business in developed markets grew 1.1%, achieving sales of CHF 51.4 billion. Our emerging markets business grew 8.9%, delivering sales of CHF 40.2 billion.

- **Real internal growth** was 2.3% in the Americas, 2.4% in Europe and 2.4% in Asia, Oceania and Africa.

- In 2014 we created Nestlé Skin Health, complementing Nestlé Health Science, further expanding our existing food and beverage business in line with our strategic ambition to be the world's recognised leading Nutrition, Health and Wellness company.

- We also established Nestlé Business Excellence at Executive Board level, aggregating business support services. This allows us to better leverage our scale, decrease structural costs, increase the quality of support services and free up resources to deliver growth and to allow our markets to focus on generating demand.

Zone Americas

Sales of CHF 27.3 billion, 5.0% organic growth, 1.1% real internal growth; 18.8% trading operating profit margin, +60 basis points

- The Zone's organic growth was supported by double-digit growth for *Nescafé Dolce Gusto* and strong performances in ambient dairy and petcare. In North America growth improved towards the end of the year while in Latin America good growth was helped by pricing, reflecting inflationary pressures.

- Our performance in **North America** was affected by the frozen category. Projects are underway to reposition *Lean Cuisine, Hot Pockets* and *Stouffers.* They address all elements of the marketing mix, reflecting trends such as organic and ethnic, enhancing the brands' relevance to consumers. We are taking the same approach in frozen pizza where our *California Pizza Kitchen* did well. In ice cream the super premium segment performed well with *Gelato*, and snacks returned to growth, although the premium segment was subdued. In confectionery the successful roll-out of *Butterfinger* Peanut Butter Cups continued. Innovations like *Natural Bliss* and seasonal renovations of flavours helped *Coffee-mate* deliver good growth. Innovation also ensured the petcare business in North America continued to grow with *Dog Chow, Pro Plan* and *Tidy Cats* Lightweight cat litter as highlights. The launch of *Beyond* natural pet food gained momentum.

- **Latin America** delivered good organic growth despite a worsening of the macroeconomic situation towards the end of the year. Although consumer sentiment varied across the region, most markets did well. All Brazil's categories grew, with *Ninho* in growing-up milks, *KitKat* in confectionery, *Nesfit* in biscuits and *Nescau* in cocoa and malt beverages making strong contributions. In Mexico the changes in fiscal legislation, pricing and subdued consumer demand affected the market. *Nescafé Dolce Gusto* delivered double-digit growth across the region, while *Dog Chow* and *Pro Plan* drove sales in the petcare business.

- Despite higher input costs the Zone's **trading operating profit margin** improved by 60 basis points to 18.8%, reflecting operational and structural efficiencies and lower other trading expenses.

Zone Europe

Sales of CHF 15.2 billion, 1.5% organic growth, 2.2% real internal growth; 15.3% trading operating profit margin, +30 basis points

- Relative to the market this was good growth, driven by innovation and premiumisation. The European trading environment continued to be volatile and intense, with deflationary pressure increasing during the year and consumer confidence very fragile, reducing the flexibility to price.

- Good performances in France, Switzerland, Austria and the Netherlands, and a recovery in Spain and Portugal supported the growth in **Western Europe**. The Great Britain region, Germany, Italy and Greece were more challenged. There were strong performances from petcare and *Nescafé Dolce Gusto* across Western Europe and we saw good growth from innovations in several categories. Highlights included *Nescafé Gold* and *Azzera* premium soluble coffee, *Fresh Up* and *Buitoni Fiesta* in frozen pizza, *Maggi* snacking noodles in ambient culinary and the launch of premium chocolate tablets *Les Recettes de l'Atelier* in France.

- In **Central and Eastern Europe**, Russia and Ukraine drove the growth in a deteriorating economic environment. Petcare, *Nescafé Dolce Gusto*, soluble coffee, particularly *Gold Blend,* and confectionery with *KitKat* were the highlights. The ongoing roll-out of *Papyrus* cooking papers in ambient culinary also continued to do well.

- Petcare delivered broad-based growth across the Zone, further strengthening its positions, in particular through the premium category with *Felix*, *Purina ONE* and *Gourmet,* and our snacks range.

- The Zone's **trading operating profit margin** was 15.3%, up 30 basis points, reflecting our achievements in leveraging our real internal growth and continuous improvement in efficiencies.

Zone Asia, Oceania and Africa

Sales of CHF 18.3 billion, 2.6% organic growth, -0.3% real internal growth; 18.7% trading operating profit margin, -20 basis points

- The slower growth in the Zone was due to our largest market China and to Oceania. In China we needed to adapt our portfolio to reconnect with the fast-changing expectations of the Chinese consumer. Therefore, in addition to correcting trade stocks throughout the year, we focused on innovation, on reformulation and on re-launches, particularly in coffee, ready-to-drink and confectionery. We continued to see good performances in ambient culinary, ice cream and ready-to-drink coffee. In Oceania we are focused on developing new trade channels.

- Strong growth continued in most other **emerging markets**, in particular the Philippines, South Asia, the Indochina region, Turkey and many markets in Africa. We introduced new premium noodles in Singapore and Malaysia. In the Philippines the new fortified *Bear Brand* milk powders were well received. Maggi created a new breakfast option for the Indian market, *Maggi Oats Noodles,* and *Nestlé Milo Activ-Go* was launched in parts of South East Asia. It was also rolled out in Africa, helping to deliver good growth across the continent.

- Strong innovation in products and business models drove performance in Japan with the coffee systems *Nescafé Dolce Gusto* and *Nescafé Gold Blend Barista* doing well and *KitKat* maintaining its growth momentum.

- The Zone's **trading operating profit margin** was 18.7%, down 20 basis points, mainly due to slower growth, input cost increases and some exceptional items.

Nestlé Waters

Sales of CHF 7.4 billion, 5.4% organic growth, 6.3% real internal growth; 9.7% trading operating profit margin, +50 basis points

- Nestlé Waters delivered solid broad-based organic and real internal growth in all three geographies. *Nestlé Pure Life* continued to be a growth engine, particularly in the emerging markets but also in North America and the United Kingdom. *Perrier* and *S.Pellegrino,* our premium international brands, continued to demonstrate our ability to create value in the category. Complementing these performances, strong local brands also delivered good growth, especially *Buxton* in the United Kingdom, *Erikli* in Turkey, *La Vie* in Vietnam and *Yunnan Shan Quan* in China.

- The **trading operating profit margin** was 9.7%, up 50 basis points, mainly driven by solid growth on the back of contained structural costs. Lower input costs were partly offset by higher distribution costs.

Nestlé Nutrition

Sales of CHF 9.6 billion, 7.7% organic growth, 3.6% real internal growth; 20.8% trading operating profit margin, +80 basis points

- Our **infant nutrition** business saw a very strong performance in many Asian markets including China. Growth was double-digit across Asia, despite political unrest in parts of the Middle East that hindered the distribution of products there. Growth in Latin America was solid, while in Europe and North America, the environment was more challenging. Infant formula's growth was driven by strong sales of *NAN* and our premium brands *S-26* and *Illuma* which benefited from the roll-out of successful innovation. In baby food, infant cereals saw a steady recovery in the United States and *Gerber Organic* fruit purée pouches for infants, combining good nutrition with convenience, were a highlight for meals and drinks.

- We divested our **performance nutrition** business *PowerBar* during the year.

- The **trading operating profit margin** rose 80 basis points to 20.8%, despite the impact of higher input costs. The improvement was driven by the effects of portfolio management, the good performance in Wyeth Nutrition and efficiencies.

Other businesses

Sales of CHF 13.9 billion, 7.1% organic growth, 5.6% real internal growth; 19.1% trading operating profit margin, +140 basis points

- The growth for **Nestlé Professional** was driven by the emerging markets, particularly China, the Philippines, the Indochina region, Middle East and Russia whilst Western Europe and North America continued to face challenges in the out-of-home environment. The strategic growth drivers; beverage solutions and desserts solutions, continued to perform well.

- **Nespresso** grew in all regions, further expanding its presence around the world. The focus on quality and investments in products, machines and services were the base for its strong results. Nespresso continued to drive the expansion of the global single-serve coffee market with the successful launch of the *VertuoLine* system in North America creating a new premium coffee segment. The roll-out of the innovative automated retail boutique, the *Nespresso Cube*, is pioneering a new way of shopping and a personalised service for consumers.

- **Nestlé Health Science** continued to develop nutritional therapies that have proven clinical benefit and health economic value. Growth was primarily driven by strong performances in Europe and by its increasing presence in China. New innovations for *Vitaflo* in the United Kingdom, the new *Boost* bottle in Canada, and the *Meritene* range in Europe all helped deliver good growth.

- **Nestlé Skin Health** delivered double-digit growth in line with expectations with strong performances in all geographies but particularly in the Americas and Asia. All business lines contributed to the growth. Nestlé Skin Health was further strengthened by the acquisition of the full rights to commercialise several key aesthetic dermatology products in the United States and Canada.

- The **trading operating profit margin** of the Other businesses increased by 140 basis points to 19.1%, driven mainly by the good performance of all businesses and helped by the exceptional contribution during the first six months of Galderma's integration into Nestlé Skin Health.

Board proposals to the Annual General Meeting

At the Annual General Meeting on 16 April 2015, the Board of Directors will propose an increase in the dividend to CHF 2.20 per share. The last trading day with entitlement to receive the dividend is 17 April 2015. The net dividend will be payable as from 22 April 2015. Shareholders who are on record in the share register with voting rights on 9 April 2015 at 12:00 noon (CEST) will be entitled to exercise their voting rights.

The Board will propose the individual election of the members of the Board of Directors for a term of office until the end of the next Annual General Meeting. The Board will propose the election of Ruth Khasaya Oniang'o, Patrick Aebischer and Renato Fassbind as new members of the Board of Directors. Rolf Hänggi and Titia de

Lange will not stand for re-election. The Board wishes to thank them for their services which were highly appreciated.

Furthermore, the Board will propose the election of Peter Brabeck-Letmathe as Chairman of the Board of Directors, the individual elections of the members of the Compensation Committee and the election of KPMG as statutory auditors until the end of the next Annual General Meeting. The Board will also submit the compensation of the Board of Directors and the Executive Board for approval by shareholders. In addition, the Board will propose a capital reduction to cancel shares repurchased under the current share buy-back programme.

Outlook

While delivering in the short term, we remain focused on our business long term, strengthening the foundations of future growth. We expect 2015 to be similar to 2014 and we aim to achieve organic growth of around 5% with improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

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Annex

Full-year sales and trading operating profit margins overview

	Jan.-Dec. 2014 Sales in CHF millions	Jan.-Dec. 2014 Organic Growth (%)	Trading operating profit margins	
			Jan.-Dec. 2014 (%)	Change vs Jan.-Dec. 2013 *(*)*
By operating segment				
• Zone Americas	27'277	+5.0	18.8	+60 bps
• Zone Europe	15'175	+1.5	15.3	+30 bps
• Zone Asia, Oceania, Africa	18'272	+2.6	18.7	-20 bps
Nestlé Waters	7'390	+5.4	9.7	+50 bps
Nestlé Nutrition	9'614	+7.7	20.8	+80 bps
Other businesses *(1)*	13'884	+7.1	19.1	+140 bps
Total Group	91'612	+4.5	15.3	+10 bps
By product				
Powdered and liquid beverages	20'302	+5.4	23.1	+40 bps
Water	6'875	+5.3	10.3	+30 bps
Milk products and ice cream	16'743	+3.4	16.1	+90 bps
Nutrition and Health Science *(1)*	13'046	+8.7	20.9	+210 bps
Prepared dishes and cooking aids	13'538	-0.1	13.4	+20 bps
Confectionery	9'769	+4.2	13.8	-210 bps
Petcare	11'339	+5.6	19.8	+60 bps
Total Group	91'612	+4.5	15.3	+10 bps

(*) 2013 comparatives have been restated following the transfer of responsibility for Nestea RTD businesses in the geographic Zones to Nestlé Waters effective as from 1 January 2014.
(1) Renamed following the integration of Galderma as from July 2014.

Please note the changes in the makeup of Zone AOA and Zone Europe announced in September 2014 have come effective as from 1 January 2015.