Press release

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Full-Year 2015: 4.2% organic growth, trading operating profit margin up 10 basis points in constant currencies

- 4.2% organic growth and 2.2% real internal growth
- Sales of CHF 88.8 billion, foreign exchange impact of -7.4%
- Trading operating profit margin of 15.1%, up 10 basis points in constant currencies
- Underlying earnings per share up 6.5% in constant currencies
- Strong operating cash flow at CHF 14.3 billion
- Proposed dividend increase to CHF 2.25 per share
- 2016 outlook: 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: "In 2015 we delivered profitable growth at the higher end of the industry in what is still a challenging environment. This profitable growth was on the back of consistent performances in previous years. Our organic growth of 4.2% was supported by increased momentum in real internal growth combined with continued margin improvement. Additionally, we grew or maintained market share in the majority of our categories and markets.

At the same time we continued to invest for the future with increased support behind our brands and further development of our new platforms in nutrition and health as well as E-commerce. We kept up the focus on portfolio management, turning around our frozen food business in the United States, disposing of non-core businesses and forging a new partnership to create a leading player in ice cream.

Our free cash flow generation was again at the top end of the food industry at 11.2% of sales, as a result of our focus on margins with discipline in capital expenditure and working capital. Consequently we propose to increase the dividend as we have for the last twenty years.

We anticipate that our trading environment in 2016 will be similar to previous years with even softer pricing. As such we expect to deliver organic growth in line with 2015, with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency."

Group results

Sales

- In 2015 Nestlé's organic growth was 4.2%, composed of 2.2% real internal growth and 2.0% pricing.
- **Total sales** of CHF 88.8 billion, with a **foreign exchange** impact of -7.4%. Acquisitions, net of divestitures, added 0.1% to sales.
- **Organic growth** was broad-based across geographies and categories.
  - 5.8% in the Americas (AMS)
  - 3.5% in Europe, Middle East and North Africa (EMENA)
  - 1.9% in Asia, Oceania and sub-Saharan Africa (AOA)
- **Real internal growth** was also broad-based.
  - 2.4% in AMS
  - 2.8% in EMENA
  - 1.2% in AOA
- Continued strength in **developed markets** with organic growth of 1.9% and in **emerging markets** with 7.0%.
- Increased or maintained market share in the majority of our categories and markets.

Trading Operating Profit

- Trading operating profit was CHF 13.4 billion, with a margin of 15.1%, down 20 basis points on a reported basis affected by the strong Swiss Franc, up 10 basis points in constant currencies.
- We delivered this margin improvement while:
  - Increasing substantially our investment in brand support, digital, research and development, and in our new nutrition and health platforms.
  - Absorbing the cost of exceptional events like *Maggi* noodles in India.

Net Profit

- **Net profit** was CHF 9.1 billion. The reduction of CHF 5.4 billion versus last year was mostly due to the one-off impact from the disposal in 2014 of part of the L'Oréal stake combined with the revaluation of the Galderma stake. There was also some effect from foreign exchange.
- **Reported earnings per share** at CHF 2.90 were down by 36.1%, for the same reasons.
- **Underlying earnings per share in constant currencies** were up 6.5%.

Cash Flow / Working Capital

- The Group's **operating cash flow** remained strong at CHF 14.3 billion and **free cash flow** was CHF 9.9 billion or 11.2% of sales. This was the result of our focus on margins and our discipline in capital expenditure and working capital, and shows Nestlé's capability to deliver very strong cash flow despite the challenging foreign exchange environment.
- **Average total working capital** has improved by 60 basis points from 5.3% of sales to 4.7%.

Zone AMS

Sales of CHF 25.8 billion, 5.5% organic growth, 1.6% real internal growth; 19.4% trading operating profit margin, +80 basis points

- Growth in the Zone picked up momentum through the year and market shares grew broadly in both North and Latin America.

- In **North America** growth accelerated, led by the turnaround in the frozen meals business.
  - Sales of the new ranges of *Lean Cuisine* and *Stouffer's* were strong, supported by positive consumption trends. Pizza's positive momentum also accelerated, driven by innovation.
  - In ice cream, *Häagen-Dazs* and snacks continued to drive growth with new product launches.
  - *Coffee-mate* maintained its good momentum through constant innovation and renovation of flavours and packaging as well as new distribution.
  - Petcare in North America continued to grow with strong performances from *Fancy Feast, Purina One* and cat litter. Increased brand support is helping the recovery of *Beneful*.

- In **Latin America** we saw good performances in many countries in spite of the volatile environment.
  - In Brazil, our business achieved positive organic and real internal growth despite the challenging, recessionary environment. *Nescafé* soluble coffee and *Nescafé Dolce Gusto*, *KitKat* and *Nesfit* were the growth drivers.
  - Mexico delivered good growth across the entire portfolio, helped by strong performances in creamers, *Nescafé Dolce Gusto*, *Nescafé* soluble coffee and ambient culinary.
  - Other highlights were Chile, driven by ice cream and biscuits, Colombia with ambient culinary, Peru with *Nescafé*, and the Plata Region and Ecuador with growth across their portfolios.
  - Petcare continued its very good growth momentum across Latin America, benefiting from expanded capacity in Argentina and Mexico.

- We increased investment in consumer facing marketing support while improving the **trading operating profit margin** thanks to a favourable product mix, operational efficiencies, lower input costs and low restructuring and litigation costs.

Zone EMENA

Sales of CHF 16.4 billion, 3.7% organic growth, 2.5% real internal growth; 15.7% trading operating profit margin, +50 basis points

- The Zone continued to outperform the markets in its main categories with positive contributions from all geographies with good evolution of market shares despite the economic and political volatility.

- The exceptional performance relative to the environment in **Western Europe** was driven by successful innovation and renovation.
  - Petcare continued to deliver growth across the region with *Felix* and *Purina One* dry cat food.
  - *Nescafé Dolce Gusto* and frozen pizza with the *Wagner* and *Buitoni* brands were the other growth drivers.

  - Culinary was impacted by the competitive retail environment and softness in the category.
  - France, Germany and Benelux were the highlights and Spain accelerated.

- Solid growth in **Central and Eastern Europe** was driven by Russia, Ukraine and Poland.
  - Petcare, *Nescafé Dolce Gusto*, *Nescafé* soluble coffee and confectionery all delivered very good growth across the region, leveraging strong market positions.
  - Despite the difficult business context, Russia had a good year with positive growth and market share gains, especially in premium coffee.

- In the **Middle East and North Africa** there was a solid performance despite the unstable environment.
  - There was good growth in *Nescafé* soluble coffee, confectionery and petcare that was partially offset by softer trading in ambient dairy.
  - Saudi Arabia, Kuwait, Qatar and Iran contributed to an overall solid performance.
  - *Nescafé* soluble coffee and chocolate drove the strong growth in Turkey.
  - The difficult conditions in Yemen, Libya and Syria had an impact.

- The **trading operating profit margin** improvement was the result of careful pricing and significant cost reductions which were partly reinvested in promotional and marketing activities to generate future growth.

Zone AOA

Sales of CHF 14.3 billion, 0.5% organic growth, -0.1% real internal growth; 18.4% trading operating profit margin, -80 basis points

- The Zone's performance was seriously impacted by the *Maggi* noodles issue in India.

- The **emerging markets** improved gradually, with China showing increased momentum towards the end of the year.
  - In China our reinvestment in *Nescafé* soluble coffee and *Nescafé* ready-to-drink products led the growth together with *Totole* in culinary and *Shark* wafers in confectionery.
  - *Hsu Fu Chi* delivered a solid performance in a very difficult economic environment. *Yinlu* improved but needs more time.
  - In India we halted production and sales of *Maggi* noodles for five months while we dealt with allegations made against the product. We began the return to the market in November.
  - Vietnam and Indonesia were the highlights among the other Asian markets.
  - Sub-Saharan Africa delivered solid growth despite the pressure from lower oil prices in several countries. South Africa performed well.

- The **developed markets** had another good year with growth across most categories.
  - In Japan the main growth drivers in beverages were *Nescafé Dolce Gusto* and the barista machine for *Nescafé* soluble coffee. *KitKat* remained the highlight in confectionery, driven by innovation in novel flavours and formats.
  - Growth in Oceania was driven by confectionery, mainly *KitKat*, and by *Nescafé* soluble coffee and *Nescafé Dolce Gusto*. Also, there were benefits from improved management of trade terms.

- The Zone's **trading operating profit margin** remained strong and accretive to the Group, despite the withdrawal and destruction costs of noodles in India. The evolution in favourable input costs enabled increased investment in consumer facing marketing support.

Nestlé Waters

Sales of CHF 7.6 billion, 6.7% organic growth, 6.7% real internal growth; 10.8% trading operating profit margin, +110 basis points

- Nestlé Waters delivered good broad-based organic and real internal growth in all geographies, driven by category dynamics and innovation.
    - There was a strong performance for our flagship brand for healthy hydration, *Nestlé Pure Life.*
    - The premium international brands *Perrier* and *S.Pellegrino* continued their good growth momentum, creating additional value in the category.
    - Complementing these performances, our strong local brands also contributed good growth, especially *Poland Spring* in the United States, *Buxton* in the United Kingdom, *Erikli* in Turkey, and *Sta.María* in Mexico.

- The improvement in the **trading operating profit margin** was due to a combination of volume growth, continuous cost improvement and lower input costs that also allowed for increased investment behind our brands.

Nestlé Nutrition

Sales of CHF 10.5 billion, 3.1% organic growth, 1.4% real internal growth; 22.6% trading operating profit margin, +110 basis points

- Nestlé Nutrition's solid organic growth was supported by an increased real internal growth momentum during the year.
    - Infant formula including growing-up milks, delivered good growth. Wyeth Infant Nutrition remained the key driver with its premium brand *illuma*. There was a positive contribution from the emerging markets, in particular China and Mexico. In the developed markets Spain and Germany were the highlights, helped by successful innovation in *NAN*.
    - Baby food delivered broad-based growth. Infant cereals performed well, with share gains in particular in Latin America and the United States.
    - Tough comparisons and softer pricing due to lower input costs and moderating category growth across Asia had an impact.

- The increase in **trading operating profit margin** was driven by strict control of fixed costs, lower input costs, the results of portfolio management and lower impairment charges. At the same time there was increased investment behind our brands.

Other businesses

Sales of CHF 14.1 billion, 5.3% organic growth, 3.7% real internal growth; 15.7% trading operating profit margin, -330 basis points

- The growth for **Nestlé Professional** was driven by emerging markets, particularly Turkey, the Middle East Region, Russia, Mexico, the South Asia Region and China. Western Europe continued to face challenges in the out-of-home environment. The strategic growth drivers, beverage solutions and savoury flavours, continued to perform well. The divestment of *Davigel* was completed in November.

- **Nespresso** delivered solid growth in all regions in 2015, affirming its strong position in European markets and continued to build momentum in Asia and the Americas. In the USA, sales of the recently launched *VertuoLine* system accelerated on the back of the new varieties of machine and Grands Crus and the new communication campaign. Global growth was supported by innovations and significant investments in the coffee, machine and service pipeline, as well as in sustainability activities, brand awareness and geographic expansion in new and existing markets.

- **Nestlé Health Science** reported good growth, driven by strong performances in Europe, AOA, and in the USA. Consumer Care was the growth engine, driven by *Boost* and *Carnation Breakfast Essentials* and the continuing roll-out of the *Meritene* range in Europe. Medical Nutrition saw good growth, notably from the allergy portfolio (*Alfaré, Althéra, Alfamino*) across all geographies and particularly in China. Growth was also supported by *Vitaflo*'s geographic expansion and the continuing roll-out of the product range. Novel Therapeutic Nutrition made strategic investments in Seres Therapeutics, a leading microbiome therapeutics company while generic competition impacted *Lotronex*.

- **Nestlé Skin Health** delivered good growth. There were very good results in Aesthetic & Corrective, driven by *Restylane* and *Azzalure,* and in Self-medication, driven by *Cetaphil* cleansers and moisturisers, the acne treatment *Benzac* and by continued roll-out of line extensions. The Prescription business successfully launched the rosacea treatment *Soolantra* and the higher strength acne drug *Epiduo Forte,* but faced pressure from some generic entrants in the US and in Europe. There was an impact from the business' decision to take a more conservative approach to its prescription rebate policy in the US which required a one-off charge in the third quarter.

- The **trading operating profit margin** of the Other businesses was impacted by the rebate adjustments in Nestlé Skin Health, the effect of the strong Swiss Franc on Nespresso and the generic competition on *Lotronex*. These impacts overshadow good underlying profit improvement across the businesses.

Board proposals to the Annual General Meeting

At the Annual General Meeting on 7 April 2016, the Board of Directors will propose a dividend of CHF 2.25 per share. The last trading day with entitlement to receive the dividend is 8 April 2016. The net dividend will be payable as from 13 April 2016. Shareholders who are on record in the share register with voting rights on 31 March 2016 at 12:00 noon (CEST) will be entitled to exercise their voting rights.

The Board will propose the individual election of the current members of the Board of Directors for a term of office until the end of the next Annual General Meeting. Daniel Borel will retire from the Board having reached the 12 year term-limit. We thank him for the valuable contribution he has made to the success of our company.

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 share buy-back programme completed in December 2015.

Outlook

We anticipate that our trading environment in 2016 will be similar to previous years with even softer pricing. As such we expect to deliver 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

Full-year sales and Trading operating profit margins overview

	Jan.-Dec. 2015 Sales in CHF millions	Jan.-Dec. 2015 Organic Growth (%)	Trading operating profit margins	
			Jan.-Dec. 2015 (%)	Change vs Jan.-Dec. 2014 (*)
By operating segment				
• Zone AMS	25'844	+5.5	19.4	+80 bps
• Zone EMENA [(a)]	16'403	+3.7	15.7	+50 bps
• Zone AOA [(a)]	14'338	+0.5	18.4	-80 bps
Nestlé Waters	7'625	+6.7	10.8	+110 bps
Nestlé Nutrition	10'461	+3.1	22.6	+110 bps
Other businesses	14'114	+5.3	15.7	-330 bps
Total Group	88'785	+4.2	15.1	-20 bps
By product				
Powdered and Liquid Beverages	19'245	+5.4	21.3	-180 bps
Water	7'112	+7.0	11.2	+90 bps
Milk products and Ice cream	14'637	+1.7	16.9	+180 bps
Nutrition and Health Science	14'854	+4.4	19.6	-190 bps
Prepared dishes and cooking aids	12'579	+0.1	13.7	+40 bps
Confectionery	8'870	+6.2	14.0	+20 bps
Petcare	11'488	+5.9	20.8	+100 bps
Total Group	88'785	+4.2	15.1	-20 bps

(*) 2014 figures have been restated on the following main transfers, effective as from 1st January 2015:

- *the Maghreb, the Middle East, the North East Africa region, Turkey and Israel in Zone Asia, Oceania and Africa to Zone Europe;*
- *Growing-Up Milks business in the geographic Zones to Nestlé Nutrition;*
- *Bübchen business in Nestlé Nutrition to Other businesses.*

a) Renamed following the above mentioned reorganisation.

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