First Half 2013: improving RIG momentum drives profitable growth

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- Sales up 5.3% to CHF 45.2 billion, 4.1% organic growth

- Real internal growth up to 2.7% for the first half: all three geographies contributed

- Trading operating profit +6.8% to CHF 6.8 billion, margin +20 basis points to 15.1%

- Marketing spend +60 basis points; consumer facing spend +15% in constant currencies

- Earnings per share +3.4%; +7.2% underlying in constant currencies

- Operating cash flow of CHF 5 billion

- 2013 outlook: around 5% organic growth with an improvement in margins and underlying earnings per share in constant currencies.

Paul Bulcke, Nestlé CEO:

> In the first half we delivered a balanced performance, both top and bottom line, in an environment of lower growth and lower input costs. Organic growth was somewhat muted, reflecting lower pricing by our markets, as we leveraged softer input costs to meet the expectations of today's more value conscious consumers. This, combined with substantially increased investment behind our brands, delivered stronger volume growth momentum, whilst at the same time we were able to improve the operating margin. We expect this growth momentum to continue in the second half, allowing us for the full year to deliver, in line with our commitments, around 5% organic growth with an improvement in margins and underlying earnings per share in constant currencies.

First Half 2013 Group Results

Vevey, 8 August 2013 - Sales increased by 5.3% to CHF 45.2 billion. Organic growth was 4.1%, composed of 2.7% real internal growth and 1.4% pricing. Acquisitions, net of divestitures, added 2.1% to sales, whilst foreign exchange had an impact of -0.9%.

- The Group’s trading operating profit was CHF 6.8 billion, up 6.8%. The trading operating profit margin was 15.1%, up 20 basis points.

- The cost of goods sold fell by 110 basis points, reflecting generally lower input costs, as well as our ongoing efforts to streamline our structures and operations.

- We substantially increased our brand support, with total marketing spend up by 60 basis points. Consumer facing spend rose 15% in constant currencies.

- Net profit was up 3.7% to CHF 5.1 billion and earnings per share were up 3.4% reported to CHF 1.60. Underlying earnings per share in constant currencies were up 7.2%.

- Our operating cash flow was strong at CHF 5 billion.

- The trading environment continued to be subdued with low consumer confidence in developed countries and lower growth in emerging markets.

- Organic growth for the Group was 5.0% in the Americas, 0.6% in Europe, and 6.3% in Asia, Oceania and Africa. Globally, our businesses in developed markets grew 1.0%, whilst emerging markets grew 8.2%. Our pricing reflected our desire to meet the expectations of today’s more value conscious consumers. As such, all three geographies accelerated their real internal growth in the second quarter.

- Real internal growth was 2.1% in the Americas, 1.5% in Europe and 5.0% in Asia, Oceania and Africa.

- We continue to invest for the future, with a new petcare factory in Poland, coffee factories in China, Vietnam, Spain and Germany, dairy factories in China and the Dominican Republic, a ready-to-drink beverages facility in Malaysia and a water factory in the UK.

- We further enhanced our global capabilities for innovation, in line with our Nutrition, Health and Wellness strategy. In Europe we opened a new beverage systems technology centre, in the US a new R&D centre focused on chilled and frozen food, and in Asia new R&D facilities for powdered and liquid beverages. We continued to build Nestlé Health Science's capabilities to research, develop, manufacture and market personalised healthcare through nutrition with partnerships and acquisitions. We opened new laboratories in Switzerland which will further enhance our research into food safety.

Sales of CHF 13.6 billion, 5.0% organic growth, 1.5% real internal growth; 17.8% trading operating profit margin, +30 basis points.

Both North America and Latin America contributed to the Zone's growth. Growth in the North was driven more by real internal growth, whilst growth in Latin America was more weighted to price, reflecting continued inflation in the region.

In North America, the category trends remained broadly unchanged from the first quarter. Frozen food saw growth in Stouffer's frozen entrees and share gains for DiGiorno pizza, but continued to experience contraction in the nutritional segment where Lean Cuisine is positioned. Nescafé and Coffee-Mate, confectionery and in petcare Purina, especially cat food and snacks, continued to perform well. Growth in ice cream was driven by super-premium. Recent innovations have been well received, including Häagen Dazs Gelato and DiGiorno Pizzeria.

In Latin America, Brazil continued to deliver a high level of organic growth, with Nescau and biscuits the highlights. The Kit Kat launch there continued to build strong momentum. Mexico's dairy business performed well. There was also strong growth in Chile and Ecuador, and petcare delivered double-digit growth across the region.

The Zone's trading operating profit margin was 17.8%. Pricing in Latin America compensated for costs there, whilst lower input costs contributed in North America. For the Zone as a whole, the savings initiatives helped reduce costs, and enabled increased brand investment.

Sales of CHF 7.5 billion, 0.5% organic growth, 1.8% real internal growth; 14.9% trading operating profit margin, -10 basis points.

In Europe consumers are extremely sensitive to price and we have been responsive. We also increased the investment behind our brands, supporting innovation which enabled us to gain market share.

In Western Europe Nescafé Dolce Gusto also continued to grow rapidly. The growth in soluble coffee was led by share gains by Nescafé Gold Blend as well as Nescafé smart packs. Confectionery had a good first half. Ice cream and frozen food sales were weak, but there was acceleration in Buitoni and in Wagner pizzas, whilst Maggi picked up in Germany. In petcare Purina continued to grow, especially in the premium segment, with brands such as Proplan, ONE Dry and Gourmet. Amongst markets, Germany and Great Britain were the highlights, with good levels of organic growth.

Eastern and Central Europe saw very strong growth in Russia and good progress in the Czech / Slovak region. In other markets we saw intensified competition as consumer spend contracted. In general Kit Kat grew double-digit and Nescafé Gold and ice cream were key contributors, as was petcare.

The Zone’s trading operating profit margin was 14.9%. Input costs contributed to an improved cost structure, but marketing investment was stepped up during the period.

Zone Asia, Oceania and Africa

Sales of CHF 9.4 billion, 5.0% organic growth, 4.0% real internal growth; 19.1% trading operating profit margin, +20 basis points.

Some emerging markets experienced lower growth but the Zone was able to deliver improved broad-based real internal growth. China, Indonesia, Malaysia and much of Africa continued to grow well, and there was a pick-up in recent months in the South Asia and the Central West Africa regions and in the Middle East.

Kit Kat and Nescafé Dolce Gusto led the growth in developed markets, with good performances also from Nescafé Barista in Japan and Milo in Australia.

Momentum picked up in the large ambient dairy and culinary categories, in Milo and petcare. Confectionery grew strongly with some seasonality. Ice cream performed well.

The Zone's trading operating profit margin was 19.1%. Lower input cost pressures were beneficial, and the Zone increased its brand support.

Sales of CHF 3.7 billion, 2.2% organic growth, 1.8% real internal growth; 10.0% trading operating profit margin, unchanged.

Nestlé Waters' growth improved over the period. The North American and European businesses' promotional actions delivered an up-lift in real internal growth.

Emerging markets continued to deliver robust growth with many double-digit. Nestlé Pure Life and the premium brands, S.Pellegrino and Perrier, continued to perform well together with local brands.

The Nestlé Waters trading operating profit margin was flat compared to the first half of 2012 despite lower real internal growth and pricing than the previous year. This was due to the beneficial mix in the sales, both by geography and by brand, and the focus on cost management.

Sales of CHF 5.0 billion, 6.5% organic growth, 4.3% real internal growth; 20.0% trading operating profit margin, -60 basis points.

Infant Nutrition had a good first half, growing in all three zones. It achieved double-digit growth in Asia, Oceania and Africa, and near double-digit in the Americas. Formula and cereals were the key growth drivers, due to their presence in emerging markets where they grew double-digit. The US was also a highlight for formula with innovation in both the premium and value segments driving double-digit growth. Meals and drinks also contributed positively due to its good performance in the US pouch segment. Wyeth Nutrition had a strong first half, in line with expectations both on sales growth and profitability, with Asia the highlight.

Weight Management continued to under-perform and the measures taken, including restructuring and a renewed focus on the online business, have yet to show results.

The Nestlé Nutrition trading operating profit margin was 20.0%. It was impacted by integration costs of Wyeth Nutrition, as expected, and by Weight Management.

Sales of CHF 6.0 billion, 5.0% organic growth, 3.9% real internal growth; 19.2% trading operating profit margin, +60 basis points.

Nestlé Professional had a slow but positive first half, impacted by reduced consumption in Europe and a slowdown in China, one of its larger markets. It continued to grow in North America and to see double-digit growth in Latin America. The beverage solutions business delivered good growth, compensating for price competition in the traditional ingredients business.

The Nespresso 2013 coffee launch programme led to a sharp acceleration in growth for the business during the second quarter. The range of Grand Cru coffees was expanded to 19 varieties. The launch of the Trieste and Napoli limited editions in March added impetus to growth. Innovations like these, together with geographic expansion and boutique openings, are enabling Nespresso to drive category growth in an intense competitive environment.

Nestlé Health Science enjoyed good growth in the period, with all three zones contributing. With the recent acquisition of Pamlab among others, and a promising start for the Nutrition Science Partners joint venture, we continued to build the foundations for future growth. A range of innovations has been launched, including Boost Nutrition Bars in the USA, Nutren Senior in Brazil, Resource 2.5 Compact in various European markets, Isocal semisolid support in Japan, and Prometheus Anser ADA diagnostics tests in the USA.

We expect the improving real internal growth momentum of the first half to continue, allowing us for the full year to deliver around 5% organic growth with an improvement in margins and underlying earnings per share in constant currencies, as well as an improvement in our capital efficiency.

Half-year sales and Trading operating profit margins overview

By operating segment - Zone Americas 13'615 +5.0 17.8 +30 bps - Zone Europe 7'504 +0.5 14.9 -10 bps - Zone Asia, Oceania, Africa 9'394 +5.0 19.1 +20 bps Nestlé Waters 3'668 +2.2 10.0 0 bps Nestlé Nutrition 5'005 +6.5 20.0 -60 bps Other 5'982 +5.0 19.2 +60 bps Total Group 45'168 +4.1 15.1 +20 bps By Product Powdered and liquid beverages 10'134 +4.7 24.0 +100 bps Water 3'438 +2.0 10.7 +10 bps Milk products and ice cream 8'609 +4.5 15.9 +80 bps Nutrition & HealthCare 5'983 +6.0 18.6 -60 bps Prepared dishes and cooking aids 6'853 -0.2 13.5 +30 bps Confectionery 4'611 +4.7 12.7 -110 bps

PetCare 5'540 +7.1 19.0 -120 bps Total Group 45'168 +4.1 15.1 +20 bps

(*) 2012 restated for IAS 19 Revised (Employee Benefits) and IFRS 11 (Joint Ventures). Moreover, beverages other than water sold by Nestlé Waters (mainly RTD teas and juices) have been reclassified as powdered and liquid beverages.

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