Nestlé reports full-year results for 2017

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BY NESTLÉ

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Mark Schneider, Nestlé CEO, said: "Our 2017 organic sales growth was within the guided range but below our expectations, in particular due to weak sales development towards the end of the year. Sales growth in Europe and Asia was encouraging while North America and Brazil continued to see a challenging environment.

Our cost reduction initiatives delivered margin improvement ahead of 2017 expectations, in spite of considerable commodity price increases.

During the past months, we have completed initial portfolio adjustments with very favorable results. We will continue this active portfolio management approach in a disciplined manner and fully in line with our strategy. Regarding our core portfolio, accelerating our growth through product innovation and renovation is high on the agenda.

Organic sales growth is expected to improve in 2018 and we are firmly on track for our 2020 margin improvement target."

Total Group Zone AMS Zone EMENA Zone AOA Nestlé Waters Nestlé Nutrition Other Businesses 2017 Sales (CHF m) 89'791 28'479 16'535 16'224 7’955 10’361 10’237 2016 Sales (CHF m) 89’469 28’130 17’428 15’904 7’926 10’326 9’755 Real internal growth (RIG) 1.6% 0.2% 1.7% 2.9% 1.8% 0.9% 4.5% Pricing 0.8% 0.7% 0.6% 1.8% 0.3% 0.2% 0.3% Organic growth 2.4% 0.9% 2.3% 4.7% 2.1% 1.1% 4.8% Net M&A -1.9% -0.5% -8.0% -0.4% -0.5% -0.4% -0.8% Foreign exchange -0.1% 0.8% 0.6% -2.3% -1.4% -0.2% 1.0% Reported sales growth 0.4% 1.2% -5.1% 2.0% 0.2% 0.5% 5.0% 2017 Underlying TOP

Margin 16.4% 20.3% 18.1% 20.1% 12.7% 23.0% 15.9% 2016 Underlying TOP Margin 16.0% 19.7% 17.3% 19.9% 12.5% 23.1% 15.4%

Organic growth of 2.4% was at the low end of our expectations following slow growth of 1.9% in the fourth quarter. RIG was 1.6% for the full-year and remained at the high end of the food and beverage industry. Pricing of 0.8% was consistent with the prior year. Organic growth was 0.7% in developed markets and 4.8% in emerging markets. Net divestments reduced sales by 1.9%, largely related to the creation of the Froneri joint venture. Foreign exchange had a minimal negative impact of 0.1%. Total reported sales were CHF 89.8 billion, a 0.4% increase for the year.

Organic growth in Zone AMS was subdued and decelerated in the back half of the year. Excluding the confectionery business, growth in the United States was flat, reflecting soft consumer demand and challenging category dynamics. Brazil maintained solid RIG in a difficult trading environment, but pricing was negative due to deflationary pressures. Mexico was resilient and other parts of Latin America sustained good momentum.

Growth in Zone EMENA increased following a significant improvement in the second half of the year, with two consecutive quarters in excess of 3%. This was largely driven by strong results in petcare and coffee.

Zone AOA saw its highest growth in four years, with positive RIG and pricing. This was based on a return to positive growth in China, which was achieved despite difficult comparables in the fourth quarter due to the timing of Chinese New Year. There was continued good growth across the other sub-regions.

Nestlé Waters posted high single-digit growth in the international premium brands. The regional brands in North America faced weak demand and pricing pressure. Growth remained soft in Nestlé Nutrition as sales were subdued in North America and declined in Brazil. There was modest improvement in China, driven by new organic offerings. Nespresso reported consistent mid single-digit growth, with positive momentum in all regions and sustained mid-teen growth in North America. Nestlé Health Science maintained solid growth and Nestlé Skin Health improved slightly.

All categories reported positive growth, led by coffee, petcare and

Nestlé Health Science.

Underlying Trading Operating Profit

Underlying trading operating profit increased by 2.9% to CHF 14.7 billion. The underlying trading operating margin was up 50 basis points in constant currency, and up 40 basis points on a reported basis to 16.4%. This improvement puts us on track to meet our 2020 target.

Margin expansion was supported by operating efficiencies and successful execution of ongoing restructuring initiatives. These cost savings largely offset the increase in commodity costs of around CHF 900 million.

Restructuring expenditure and net other trading items increased by CHF 900 million to CHF 1.5 billion due to the acceleration of restructuring projects. As a consequence, trading operating profit decreased by 3.4% to CHF 13.2 billion. The trading operating profit margin decreased by 60 basis points on a reported basis to 14.7%, in line with our guidance.

Net Profit and Earnings Per Share

Net profit decreased by 15.8% to CHF 7.2 billion and earnings per share decreased by 15.8% to CHF 2.32. This was mainly due to an impairment of goodwill related to Nestlé Skin Health, which was taken to reflect the current prospects of the business.

Underlying earnings per share increased by 4.7% in constant currency and by 4.6% on a reported basis to CHF 3.55.

Free cash flow declined from CHF 10.1 billion to CHF 8.5 billion. This was driven by working capital development, which saw a slower rate of improvement following the exceptionally large reduction in the prior year.

Impact of the United States Corporate Tax Reform

As a result of the United States Tax Reform, we expect a reduction in our United States corporate tax expenses of around CHF 300 million per year, as from January 2018. This equates to a reduction of the Group underlying tax rate of around 200 basis points from 2018 onwards, assuming no other changes. In addition, the tax rate reduction triggered a one-time deferred tax gain in 2017 of around CHF 850 million.

Nestlé Nutrition re-organization of management and reporting

As announced on November 15, 2017, the Nestlé Board of Directors decided to change the organization of the infant nutrition business to enhance the company's ability to win in this high-growth category. Effective January 1, 2018, infant nutrition moved from the globally-managed Nestlé Nutrition business unit to a regionally-managed business reported within Zones AMS, EMENA and AOA.

The new organization creates a more agile and efficient structure. This will enable the business to respond faster to rapidly-changing local consumer preferences, evolving regulation, and customer and channel demand for tailor-made solutions.

We have made good progress in the execution of our portfolio management strategy. We are actively evolving our portfolio towards high-growth, high-margin categories which offer differentiation and value creation opportunities.

As announced on December 5, 2017, we agreed to acquire privately-held Atrium Innovations, a global leader in nutritional health products for USD 2.3 billion in cash. The move supports our strategy to prudently pursue opportunities in consumer healthcare to complement our focus on high-growth food and beverage categories. The transaction is expected to close in the first quarter of 2018, following the completion of customary approvals and closing conditions.

As announced on January 16, 2018, we agreed to sell our U.S. confectionery business to Ferrero for USD 2.8 billion in cash. The transaction is expected to close around the end of the first quarter of 2018, following the completion of customary approvals and closing conditions.

2018 Strategic Developments

Nestlé's Board of Directors has decided to explore strategic options, including a potential sale, for its Gerber Life Insurance business. This business was part of the Gerber acquisition from Novartis in 2007. Its 2017 sales were CHF 840 million. Nestlé remains fully committed to retain and develop the Gerber baby food business, which is an integral part of our infant nutrition growth platform.

Our shareholding in L'Oréal continues to be an important investment for us and we remain committed to the company that has given us very good returns over the years. We have full confidence in L'Oréal's management and strategic direction. The shareholders agreement between Nestlé and the Bettencourt family is due to expire on March 21, 2018. In order to maintain all available options for the benefit of Nestlé's shareholders, the Board of Directors has decided not to renew this agreement. We do not intend to increase our stake in L'Oréal and are committed to maintaining our constructive relationship with the Bettencourt family.

Sales 2017 Sales 2016 RIG Pricing Organic growth UTOP 2017 UTOP 2016 Margin 2017 Margin 2016 Zone AMS CHF 28.5 bn CHF 28.1 bn 0.2% 0.7% 0.9% CHF 5.8 bn CHF 5.5 bn 20.3% 19.7%

Organic growth was subdued at 0.9%, with RIG of 0.2%, following a slowdown in North America. Softer pricing of 0.7% reflected a lower contribution from Latin America, mainly Brazil. Net divestments reduced reported sales by 0.5% but foreign exchange increased reported sales by 0.8%. Reported sales in Zone AMS increased by 1.2% to CHF 28.5 billion.

Organic growth in the United States was slightly negative, as weak consumer demand persisted throughout the year, resulting in stagnant food and beverage category growth. The coffee creamer and petcare categories generated growth in North America, offset by declines in confectionery and ice cream. Excluding confectionery, growth in the United States was flat.

In Brazil, RIG was solid but organic growth was negative as deflationary pressures led to lower pricing, particularly in dairy. Mexico maintained resilient mid single-digit growth, mainly coming from pricing. This was achieved in a volatile economic environment and despite some impact from natural disasters. Petcare had another strong year in Latin America, with double-digit growth across the region. The professional business also achieved high single-digit growth driven by successful product launches.

The Zone's underlying trading operating profit margin improved by 60 basis points, as ongoing restructuring projects reduced structural costs. Operational efficiency savings helped to offset cost increases from commodity inflation and foreign exchange.

Zone Europe, Middle-East and North Africa (EMENA)

Sales 2017 Sales 2016 RIG Pricing Organic growth UTOP 2017 UTOP 2016 Margin 2017 Margin 2016 Zone EMENA CHF 16.5 bn CHF 17.4 bn 1.7% 0.6% 2.3% CHF 3.0 bn 18.1% 17.3%

Organic growth increased to 2.3% as the Zone finished the year with good momentum, reporting two consecutive quarters in excess of 3%. RIG remained solid at 1.7% and pricing improved to 0.6%, driven by a return to positive pricing in Western Europe. Net divestments reduced reported sales by 8.0%, mainly reflecting the transfer of the ice cream business to the Froneri joint venture. However, foreign exchange effects increased reported sales by 0.6%. Reported sales in Zone EMENA decreased by 5.1% to CHF 16.5 billion.

Zone EMENA saw positive growth across all sub-regions and categories, with petcare and coffee the main contributors. Petcare's performance was supported by very strong growth in Russia and other emerging markets. Nescafé had good growth in Western Europe, the Middle East and North Africa, following price increases taken during the year. Confectionery, culinary and dairy all delivered improved growth, helped by successful product launches. The United Kingdom returned to solid growth after a challenging start to the year, with positive RIG and pricing.

The Zone's underlying trading operating profit margin increased by 80 basis points, despite higher commodity costs. This improvement was driven by price increases, portfolio management, operational efficiencies and structural cost savings.

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

Sales 2017 Sales 2016 RIG Pricing Organic growth UTOP 2017 UTOP 2016 Margin 2017 Margin 2016 Zone AOA CHF 16.2 bn CHF 15.9 bn 2.9% 1.8% 4.7% CHF 3.3 bn CHF 3.2 bn 20.1% 19.9%

Organic growth was strong at 4.7%. RIG was consistent at 2.9% while pricing improved to 1.8%. Net divestments and foreign exchange reduced reported sales by 0.4% and 2.3%, respectively. Reported sales in Zone AOA increased by 2.0% to CHF 16.2 billion.

Organic growth in Zone AOA had a good balance of RIG and pricing. The Zone achieved its highest growth in four years despite difficult comparables in the fourth quarter due to the timing of Chinese New Year. There was a return to slightly positive growth in China, helped by the stabilization of Yinlu and solid contributions across coffee, ice cream and culinary products. Growth was broad-based across the Zone, with a notable acceleration in Nestlé Professional and petcare. There was good growth in sub-Saharan Africa, South-East Asia and South Asia, despite some impact on organic growth from the implementation of GST in India. Developed markets saw strong RIG, especially Japan. This was partially offset by negative pricing.

The Zone’s underlying trading operating profit margin improved by 20 basis points as pricing, operational efficiencies and structural cost savings more than offset an increase in commodity costs.

Sales 2017 Sales 2016 RIG Pricing Organic growth UTOP 2017 UTOP 2016 Margin 2017 Margin 2016 Nestlé Waters CHF 8.0 bn CHF 7.9 bn 1.8% 0.3% 2.1% CHF 1.0 bn 12.7% 12.5%

Organic growth slowed to 2.1% following a challenging second half of the year. RIG decelerated to 1.8%, reflecting softer growth across both North America and Europe. Pricing remained limited at 0.3% in a deflationary environment. Net divestments and foreign exchange reduced reported sales by 0.5% and 1.4%, respectively. Reported sales in Nestlé Waters increased by 0.2% to CHF 8.0 billion.

Nestlé Waters saw high single-digit growth in the international premium brands. The regional brands in North America faced weak demand and pricing pressure. RIG was solid in the developed markets but pricing remained negative. Growth remained strong across Latin America and solid in AOA.

Nestlé Waters faced higher commodity costs in 2017. The underlying trading operating profit margin improved by 20 basis points, driven by efficiencies and increased structural cost savings. The strong growth of the international brands also drove improved profitability through premiumization.

Sales 2017 Sales 2016 RIG Pricing Organic growth UTOP 2017 UTOP 2016 Margin 2017 Margin 2016 Nestlé Nutrition CHF 10.4 bn CHF 10.3 bn 0.9% 0.2% 1.1% CHF 2.4 bn 23.0% 23.1%

Organic growth was soft at 1.1%, comprised of 0.9% RIG and 0.2% pricing. Net divestments and foreign exchange reduced reported sales by 0.4% and 0.2%, respectively. Reported sales in Nestlé Nutrition increased by 0.5% to CHF 10.4 billion.

Growth in China remained soft but did improve compared to the prior year, driven by new organic offerings for NAN and illuma. The United States was subdued with slightly positive growth in the context of ongoing weak category dynamics. The comprehensive re-launch of Gerber's baby food range is in progress, including new organic and natural lines. Growth of Nestlé Nutrition was impacted by negative results in Brazil, especially in the back half of the year. Significant deflation in Brazil's dairy market resulted in negative pricing and demand remained weak. South Asia and the Middle East made strong contributions with mid single-digit growth.

Nestlé Nutrition's underlying trading operating profit margin decreased by 10 basis points, mainly due to lower profitability in Brazil, where pricing was significantly impacted by deflationary pressures.

Sales 2017 Sales 2016 RIG Pricing Organic growth UTOP 2017 UTOP 2016 Margin 2017 Margin 2016 Other Businesses CHF 10.2 bn CHF 9.8 bn 4.5% 0.3% 4.8% CHF 1.6 bn CHF 1.5 bn 15.9% 15.4%

Organic growth of 4.8% was driven by strong RIG of 4.5% and pricing of 0.3%. Net acquisitions decreased reported sales by 0.8% and foreign exchange had a positive 1.0% impact. Reported sales in Other Businesses increased by 5.0% to CHF 10.2 billion.

Nespresso reported consistent mid single-digit growth, with positive growth in all regions and sustained mid-teen momentum in North America. Nespresso continued to expand its global footprint throughout the year, opening 80 new boutiques. The business also introduced its Vertuo system in the UK and in Australia, building on previous successful launches in the USA, Canada and France. Nestlé Health Science maintained solid growth driven by Medical Nutrition. Nestlé Skin Health had slightly improved growth, however this was still materially below the initial business plans.

The underlying trading operating profit margin of Other Businesses increased by 50 basis points. This was mainly driven by an improvement in Nestlé Skin Health, however the profitability of this business remained substantially below its historical level.

Board proposals to the Annual General Meeting

At the Annual General Meeting on April 12, 2018, the Board of Directors will propose a dividend of CHF 2.35 per share, an increase of 5 centimes. The last trading day with entitlement to receive the dividend will be April 13, 2018. The net dividend will be payable as from April 18, 2018. Shareholders entered in the share register with voting rights on April 5, 2018 at 12:00 noon (CEST) will be entitled to exercise their voting rights.

Nestlé announced on January 18, 2018 that its Board of Directors proposes Pablo Isla, Chief Executive Officer and Chairman of Inditex; Kasper Rorsted, Chief Executive Officer of adidas; and Kimberly A. Ross, former Chief Financial Officer of Baker Hughes, for election as new independent members of the Board of Directors.

Three current directors, Andreas Koopmann, Steven G. Hoch and Naïna Lal Kidwai will not stand for re-election as they have reached the term limit. The Board warmly thanks the three board members for their highly appreciated services and important contributions as directors.

As announced on January 18, 2018, the Board also proposes the re-election of Paul Bulcke as Chairman, the individual re-election of the other current members of the Board, as well as the individual election of the members of the Compensation Committee and the election of KPMG as statutory auditors until the end of the next Annual General Meeting. Furthermore, the Board submits the compensation of the Board of Directors and the Executive Board for approval by shareholders and will propose a capital reduction to cancel shares repurchased under the current Share Buy Back Program.

In 2018, we expect organic sales growth between 2% and 4%, and underlying trading operating margin improvement in line with our 2020 target. Restructuring costs2 are expected at around CHF 700 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

2016 information has been restated following the change of business structure, effective as from 1st January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

Full-year sales and underlying trading operating profit (TOP) overview by operating segment

Total Group Zone AMS Zone EMENA Zone AOA Nestlé Waters Nestlé Nutrition Other Businesses 2017 Sales (CHF m) 89’791 28’479 16’535 16’224 7’955 10’361 10’237 2016 Sales (CHF m) 89’469 28’130 17’428 15’904 7’926 10’326 9’755 Real internal growth (RIG) 1.6% 0.2% 1.7% 2.9% 1.8% 0.9% 4.5% Pricing 0.8% 0.7% 0.6% 1.8% 0.3% 0.2% 0.3% Organic growth 2.4% 0.9% 2.3% 4.7% 2.1% 1.1% 4.8% Net M&A -1.9% -0.5% -8.0% -0.4% -0.5% -0.4% -0.8% Foreign exchange -0.1% 0.8% 0.6% -2.3% -1.4% -0.2% 1.0% Reported sales growth 0.4% 1.2% -5.1% 2.0% 0.2% 0.5% 5.0% 2017 Underlying TOP (CHF m) 14’729 5’791 2’990 3’265 1’012 2’384 1’625 2016 Underlying TOP (CHF m) 14’307 5’537 3’020 3’171 990 2’389 1’503 2017 Underlying TOP Margin 16.4% 20.3% 18.1% 20.1% 12.7% 23.0% 15.9% 2016 Underlying TOP Margin 16.0% 19.7% 17.3% 19.9% 12.5% 23.1% 15.4%

Full-year sales and underlying trading operating profit (TOP) overview by product

Total Group Powdered & liquid beverages Water Milk products & ice cream Nutrition & Health Science Prepared dishes & cooking aids Confectionery Petcare 2017 Sales (CHF m) 89’791 20’408 7’455 13’447 15’257 11’957 8’805 12’462 2016 Sales (CHF m) 89’469 19’792 7’414 14’331 15’038 12’148 8’679 12’067 Real internal growth (RIG) 1.6% 2.1% 0.4% 1.9% 1.0% 1.4% 2.5% Pricing 0.8% 1.5% 0.3% 1.6% 0.2% 1.2% -1.1% 0.5% Organic growth 2.4% 3.6% 2.4% 2.0% 2.1% 2.2% 0.3% 3.0% 2017 Underlying TOP (CHF m) 14’729 4’461 968 2’509 2’961 2’103 1’387 2’678 2016 Underlying TOP (CHF m) 14’307 4’270 950 2’759 2’900 1’940 1’237 2’554 2017 Underlying TOP Margin 16.4% 21.9% 13.0% 18.7% 19.4% 17.6% 15.8% 21.5% 2016 Underlying TOP Margin 16.0% 21.6% 12.8% 19.3% 16.0% 14.3% 21.2%

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- Organic growth of 2.4%, with 1.6% of real internal growth (RIG) and pricing of 0.8%.

- Total reported sales increased by 0.4% to CHF 89.8 billion (2016: CHF 89.5 billion). Net divestments had a negative impact of 1.9%

(mainly due to the creation of the Froneri joint venture).

- Underlying trading operating profit margin ahead of expectations, up 50 basis points in constant currency and up 40 basis points on a reported basis to 16.4%.

- Trading operating profit margin decreased by 60 basis points on a reported basis to 14.7%, in line with our October 2017 expectations. This included a CHF 900 million increase mainly in restructuring and related costs to CHF 1.5 billion.

- Underlying earnings per share increased by 4.7% in constant currency and by 4.6% to CHF 3.55 on a reported basis.

- Proposed dividend increase of 5 centimes (2.2%) to CHF 2.35 per share.

- Nestlé announces Board decisions regarding the Gerber Life Insurance business and the L'Oréal investment.

- 2018 Outlook: organic sales growth between 2% and 4%; underlying trading operating margin improvement in line with our 2020 target. Restructuring costs1 are expected at around CHF 700 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

- 0.9% organic growth: 0.2% RIG; 0.7% pricing.

- North America saw slightly negative organic growth with positive pricing.

- Latin America had positive RIG and pricing but organic growth for the region decelerated due to lower pricing in Brazil.

- The underlying trading operating profit margin increased by 60 basis points to 20.3%.

- 2.3% organic growth: 1.7% RIG, 0.6% pricing.

- Western Europe maintained positive organic growth with balanced contributions of RIG and pricing.

- Central and Eastern Europe achieved mid single-digit organic growth, driven entirely by RIG.

- Middle East and North Africa saw mid single-digit organic growth, both RIG and pricing were positive.

- The underlying trading operating profit margin grew by 80 basis points to 18.1%.

- 4.7% organic growth: 2.9% RIG; 1.8% pricing.

- China returned to positive growth despite difficult comparables due to the timing of Chinese New Year.

- South-East Asia and South Asia maintained good organic growth, with strong RIG and positive pricing.

- Sub-Saharan Africa saw strong double-digit growth with positive RIG and pricing.

- Developed markets remained solid, with good RIG partially offset by negative pricing.

- The underlying trading operating profit margin increased by 20 basis points to 20.1%.

- 2.1% organic growth: 1.8% RIG; 0.3% pricing.

- North America had slightly positive organic growth driven entirely by RIG, with negative pricing.

- Europe maintained low single-digit organic growth on a full-year basis.

- Emerging markets overall delivered high single-digit growth.

- The underlying trading operating profit margin increased by 20 basis points to 12.7%.

- 1.1% organic growth: 0.9% RIG; 0.2% pricing.

- In China, organic growth remained soft but saw some improvement in the back half of the year.

- The United States had slightly positive organic growth driven by price increases.

- Brazil had negative growth, reflecting price decreases and soft demand.

- The Nestlé Nutrition underlying trading operating profit margin decreased by 10 basis points to 23.0%.

- 4.8% organic growth: 4.5% RIG; 0.3% pricing.

- Nespresso posted good organic growth, with sustained mid-teen momentum in North America.

- Nestlé Health Science maintained mid single-digit growth with positive RIG and pricing.

- Nestlé Skin Health saw slightly improved growth.

- The underlying trading operating profit margin of Other Businesses increased by 50 basis points to 15.9%.

1 & 2Not including impairment of fixed assets, litigation and onerous contracts

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