Nestlé reports half-year results for 2017

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- Organic growth at 2.3%, with 1.4% real internal growth (RIG) and 0.9% pricing

- Sales impacted by net divestments of -2.3% (mainly due to the creation of the Froneri JV) and foreign exchange (-0.3%), total reported sales of CHF 43.0 billion (-0.3%)

- Underlying trading operating profit* margin increased by 10 basis points in constant currency, stable at 15.8% on a reported basis

- Due to increased restructuring activity the trading operating profit margin decreased by 20 basis points in constant currency and by 30 basis points to 15.0% on a reported basis

- Underlying earnings per share increased by 3.4% in constant currency and by 2.1% to CHF 1.68 on a reported basis

- 2017 full-year guidance confirmed with organic growth likely to be in the lower half of the 2-4% range; stable trading operating profit margin in constant currency as a result of considerable increase in restructuring costs; underlying earnings per share in constant currency and capital efficiency expected to increase

Mark Schneider, Nestlé CEO: "We are pleased with our value creation progress in the first half of 2017. This includes solid operational improvements as well as portfolio management choices and our decision to increase balance sheet efficiency.

Organic growth in the first half did not fully meet our expectations. While volume growth remains at the high end of our industry, pricing continues to be soft. Asia and Africa confirmed their positive growth momentum. Western Europe experienced a volume decline, which we consider largely transitory. North America and Latin America saw a

slight improvement in organic growth, mainly driven by volume. Our coffee, water and petcare businesses confirmed their growth potential with solid first-half results.

Profitability is in line with our expectations, as restructuring savings and efficiencies have offset higher commodity costs. We are accelerating our margin improvement initiatives.

We confirm our 2017 guidance with organic growth likely to be in the lower half of the 2-4% range. Our 2020 mid-range expectations for organic growth remain unchanged."

* Underlying trading operating profit is defined as trading operating profit before net other trading income/expenses. Net other trading income/expenses includes mainly restructuring, impairment and results on disposals of PP&E, litigations and onerous contracts.

Total Group Zone AMS Zone EMENA Zone AOA Nestlé Waters Nestlé Nutrition Other Businesses Sales 6M-2017 (CHF m) 43'023 13'314 7'800 7'902 4'025 5'184 4'798 Sales 6M-2016 (CHF m) 43'155 12'938 8'694 7'799 3'937 5'171 4'616 Real internal growth (RIG) 1.4% -0.1% 0.6% 3.0% 3.5% -0.2% 4.5% Pricing 0.9% 1.4% 0.4% 1.8% 0.5% 1.1% -0.8% Organic growth 2.3% 1.3% 1.0% 4.8% 4.0% 0.9% 3.7% Net M&A -2.3% -0.9% -9.3% -0.5% -0.3% 0.2% Foreign exchange -0.3% 2.5% -2.0% -2.9% -1.7% -0.2% 0.0% Reported sales growth -0.3% 2.9% -10.3% 1.4% 2.0% 0.4% 3.9% 6M-2017 TOP Margin 15.0% 17.2% 16.9% 19.6% 12.0% 24.3% 13.1% 6M-2016 TOP Margin 15.3% 17.7% 16.8% 20.1% 12.4% 23.2% 15.6%

Total reported sales were CHF 43.0 billion (-0.3%), reflecting the impact of net divestments (-2.3%, largely related to the creation of the Froneri joint venture) and foreign exchange (-0.3%). Organic growth was below our expectations at 2.3%. RIG was resilient at 1.4% but pricing remained soft at 0.9%.

Zone AMS was broadly in line with our expectations as petcare in the US recovered after a slow start to the year. Zone EMENA delivered softer growth than anticipated in the second quarter. Selective price increases in Western Europe and unfavourable weather in June resulted in a short-term negative impact on RIG. Zone AOA accelerated for a fifth consecutive quarter, re-establishing its position as a growth engine for the Group. Nestlé Waters demonstrated a consistent level of growth. Nestlé Nutrition saw weak growth as the

Chinese market remained difficult and developed markets overall were slightly negative. Nestlé Skin Health diluted Group sales growth due to difficult comparables and pressure from generics in the prescription business. Nespresso continued to be a key growth driver for the Group.

Overall, developed markets delivered soft organic growth of 0.8%, with solid RIG of 1.1% offset by negative pricing of 0.3%. In emerging markets, organic growth decelerated by 100 basis points to 4.4%, with RIG of 1.9% and pricing of 2.5%.

Growth by category was broad-based, led by water, coffee and petcare. Confectionery was the only category with negative growth although it stabilised in the second quarter.

Underlying trading operating profit was flat at CHF 6.8 billion. The margin held stable at 15.8% but increased by 10 basis points in constant currency.

Efficiency projects, pricing and portfolio management generated 100 basis points of additional value. However, these benefits were absorbed by a broadly equal increase in input costs as our basket of commodities saw inflation for the first time in 2 years. Consumer-facing marketing spend decreased only slightly.

As expected, both restructuring expenditure and net other trading items increased overall by 77% to CHF 166 million and CHF 349 million, respectively, as we implemented our structural savings initiatives. As a consequence, trading operating profit (TOP) decreased by 2.5% to CHF 6.4 billion. The TOP margin decreased by 30 basis points on a reported basis (-20 basis points in constant currency) to 15.0%.

Net profit increased by 19% to CHF 4.9 billion as the prior year was impacted by a one-off, non-cash adjustment to deferred taxes. Reported earnings per share also increased by 19% to CHF 1.58 for the same reason. Underlying earnings per share increased by 2.1% to CHF 1.68, and by 3.4% in constant currency.

Free cash flow declined by CHF 2.0 billion year-on-year from CHF 3.3 billion to CHF 1.3 billion. The largest contributor to this decrease was working capital with a cash outflow of CHF 1.3 billion. In the first half of 2017 the increase of working capital was higher than in the same

period last year due to commodity price inflation and the phasing of payables for marketing and capital expenditure.

On our balance sheet, continued progress was made to structurally reduce net working capital, resulting in a further reduction of CHF 0.5 billion as of June 2017 compared to June 2016.

- 1.3% organic growth: -0.1% RIG; 1.4% pricing

- Organic growth in North America was flat following an improvement in the second quarter, driven by RIG

- Latin America had mid single-digit organic growth driven by pricing, RIG turned slightly positive

- Zone AMS's underlying trading operating profit margin increased by 30 basis points but the trading operating profit margin decreased by 50 basis points to 17.2% as a result of increased restructuring costs

Sales 6M-2017 Sales 6M-2016 RIG Pricing Organic growth TOP 6M-2017 TOP 6M-2016 Margin 6M-2017 Margin 6M-2016 Zone AMS CHF 13.3 bn CHF 12.9 bn -0.1% 1.4% 1.3% CHF 2.3 bn 17.2% 17.7%

Reported sales in zone AMS increased by 2.9% to CHF 13.3 billion. Organic growth was modest at 1.3%, but this represented a solid improvement in the second quarter based on stronger RIG. Pricing of 1.4% mainly came from Latin America, with pricing in North America slightly positive. Net divestments reduced reported sales by 0.9% but foreign exchange added 2.5%

The trading environment was challenging in North America, characterised by weak consumer demand. In this context we had broadly flat growth in the US, driven by sustained positive momentum in coffee creamers and a return to solid growth in petcare. Confectionery remained weak and ice cream declined due to poor weather. Frozen food was slightly negative against difficult comparables. Brazil remained negative but improved markedly compared to the subdued trading in the first quarter as RIG turned positive. Mexico had good growth and petcare maintained its dynamic growth across Latin America.

The zone's underlying trading operating profit margin improved by 30 basis points, as efficiency savings and the initial benefits from

restructuring projects exceeded the inflation in commodity costs. The trading operating profit margin decreased by 50 basis points to 17.2% as restructuring costs increased significantly, largely related to projects in the US, Brazil and Mexico.

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

- 1.0% organic growth: 0.6% RIG; 0.4% pricing

- Western Europe declined slightly on an organic basis with negative RIG and flat pricing

- Central and Eastern Europe achieved mid single-digit organic growth, with solid RIG and positive pricing

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

- Zone EMENA's underlying trading operating profit margin grew by 50 basis points, while the trading operating profit margin also improved by 10 basis points to 16.9% even as restructuring spend increased

Sales 6M-2017 Sales 6M-2016 RIG Pricing Organic growth TOP 6M-2017 TOP 6M-2016 Margin 6M-2017 Margin 6M-2016 Zone EMENA CHF 7.8 bn CHF 8.7 bn 0.6% 0.4% 1.0% CHF 1.3 bn CHF 1.5 bn 16.9% 16.8%

Reported sales in zone EMENA declined by 10.3% to CHF 7.8 billion. Organic growth of 1.0% was lower than in the first quarter, as higher pricing was offset by lower RIG. Net divestments reduced reported sales by 9.3%, mainly reflecting the transfer of ice cream to the Froneri joint venture. Foreign exchange headwinds reduced reported sales by a further 2.0%.

We applied price increases across the zone, especially in Nescafé. This had a short-term impact on RIG in the second quarter. The hot weather in June was also unfavourable for key categories in Western Europe. Petcare continued to generate strong growth across the zone, especially in Russia. North Africa performed well, driven by price increases, but the Middle East continued to be affected by political instability and sustained deflation.

Despite higher commodity costs, the zone's underlying trading

operating profit margin increased by 50 basis points, reflecting price increases, portfolio management and cost savings. The trading operating profit margin also increased by 10 basis points to 16.9% as efficiency improvements more than offset restructuring costs.

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

- 4.8% organic growth: 3.0% RIG; 1.8% pricing

- China's organic growth turned positive in the second quarter

- South-East Asia maintained good organic growth, driven by mid single-digit RIG

- Sub-Saharan Africa maintained strong growth with positive RIG and pricing

- Developed markets were solid, with sustained good RIG partially offset by negative pricing

- Zone AOA's underlying trading operating profit margin decreased by 20 basis points, while the trading operating profit margin decreased by 50 basis points to 19.6% due to higher restructuring-related costs

Sales 6M-2017 Sales 6M-2016 RIG Pricing Organic growth TOP 6M-2017 TOP 6M-2016 Margin 6M-2017 Margin 6M-2016 Zone AOA CHF 7.9 bn CHF 7.8 bn 3.0% 1.8% 4.8% CHF 1.6 bn 19.6% 20.1%

Reported sales in zone AOA increased by 1.4% to CHF 7.9 billion. Organic growth accelerated for a fifth consecutive quarter to 4.8%. RIG was steady at 3.0% and pricing improved to 1.8%. Net divestments lowered reported sales by 0.5% and foreign exchange also had a negative impact, reducing sales by 2.9%.

Growth in China turned positive in the second quarter as Yinlu, confectionery and culinary gained momentum. South-East Asia and sub-Saharan Africa were core drivers of growth for the zone. India delivered good growth despite some uncertainty around the introduction of a Goods and Services Tax (GST). Japan's good performance was maintained. Oceania was negative due to pricing pressure.

Zone AOA's underlying trading operating profit margin decreased by 20 basis points due to an increase in commodity costs and

commercial investments made to stabilise Yinlu. The trading operating profit margin decreased by 50 basis points to 19.6% due to higher restructuring-related costs.

- 4.0% organic growth: 3.5% RIG; 0.5% pricing

- The US reported low to mid single-digit organic growth despite slightly negative pricing

- Europe accelerated to mid single-digit organic growth with negative pricing

- Emerging markets overall delivered mid single-digit growth

- The underlying trading operating profit margin held stable but the trading operating profit margin declined by 40 basis points to 12.0% as restructuring costs increased

Sales 6M-2017 Sales 6M-2016 RIG Pricing Organic growth TOP 6M-2017 TOP 6M-2016 Margin 6M-2017 Margin 6M-2016 Nestlé Waters CHF 4.0 bn CHF 3.9 bn 3.5% 0.5% 4.0% CHF 0.5 bn 12.0% 12.4%

Sales in Nestlé Waters increased on a reported basis by 2.0% to CHF 4.0 billion. Organic growth of 4.0% reflects an acceleration in the second quarter. RIG improved to 3.5% and pricing remained limited at 0.5%. Net divestments and foreign exchange reduced reported sales by 0.3% and 1.7%, respectively.

Nestlé Waters continued to grow in all regions with some acceleration in Europe, helped by favourable weather conditions. The US also had solid organic growth with a modest improvement in the second quarter. In emerging markets South-East Asia saw solid growth, China performed well after a slow start to the year, and Latin America saw double-digit growth. In the Middle East and Turkey, growth was soft.

Nestlé Waters underlying trading operating profit margin held stable as efficiencies and increased structural savings compensated for commodity headwinds, particularly PET. However, the trading operating profit margin decreased by 40 basis points to 12.0% as restructuring spend increased.

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

- In China, organic growth was slightly positive

- Growth was slightly positive in the US as the Gerber brand stabilised in the second quarter

- Price increases in Brazil and Mexico weighed on RIG, but the Philippines and India were strong

- The underlying trading operating profit margin increased significantly by 130 basis points and the trading operating profit margin also increased by 110 basis points to 24.3%

Sales 6M-2017 Sales 6M-2016 RIG Pricing Organic growth TOP 6M-2017 TOP 6M-2016 Margin 6M-2017 Margin 6M-2016 Nestlé Nutrition CHF 5.2 bn -0.2% 1.1% 0.9% CHF 1.3 bn CHF 1.2 bn 24.3% 23.2%

Reported sales in Nestlé Nutrition increased by 0.4% to CHF 5.2 billion. Organic growth was subdued at 0.9%, with -0.2% RIG and 1.1% pricing. Net divestments and foreign exchange reduced reported sales by 0.3% and 0.2%, respectively.

Growth in China was mixed. Illuma and NAN showed positive results, while S-26 Gold declined as competition from parallel imports intensified. In developed markets growth was slightly negative with weak category dynamics. Although the nutrition business in the US remained soft, it was helped by the stabilisation of Gerber in the second quarter. Price increases weighed on RIG in Brazil and Mexico, but growth was strong in the Philippines and India.

Nestlé Nutrition’s underlying trading operating profit margin increased by 130 basis points. The trading operating profit margin also increased by 110 basis points to 24.3%, despite commodity headwinds. This was achieved through price increases, premiumisation and significant structural savings in non-consumer-facing activities, mostly in the US and China.

- 3.7% organic growth: 4.5% RIG; -0.8% pricing

- Nespresso delivered good organic growth, with double-digit growth in North America

- Nestlé Health Science maintained mid single-digit organic growth

- Nestlé Skin Health saw lower RIG and pricing in the second quarter

- Overall the underlying trading operating profit margin fell by 270 basis points. The trading operating profit margin also fell by 250 basis points to 13.1% as we are investing for growth

Sales 6M-2017 Sales 6M-2016 RIG Pricing Organic growth TOP 6M-2017 TOP 6M-2016 Margin 6M-2017 Margin 6M-2016 Other Businesses CHF 4.8 bn CHF 4.6 bn 4.5% -0.8% 3.7% CHF 0.6 bn CHF 0.7 bn 13.1% 15.6%

Reported sales in Other Businesses increased by 3.9% to CHF 4.8 billion. Organic growth of 3.7% was comprised of 4.5% RIG, partially offset by 0.8% of deflationary pricing. Net acquisitions increased reported sales by 0.2% and foreign exchange had no impact.

Nespresso delivered mid single-digit growth, accelerating in the second quarter, as all geographies gained momentum. Growth in North America continued at a double-digit pace. Nestlé Health Science maintained mid single-digit growth, with good growth in medical nutrition but a subdued performance in consumer care in the US. Nestlé Skin Health remained positive but saw a significant deceleration in the second quarter as difficult comparables and pressure from generics in the prescription business weighed on growth.

Overall the underlying trading operating profit margin fell by 270 basis points as we are investing in marketing and distribution for these three businesses. Consequently, the trading operating profit margin fell by 250 basis points to 13.1%.

Full-year guidance confirmed with organic growth likely to be in the lower half of the 2-4% range. In order to drive future profitability, we are increasing restructuring costs considerably. As a result, the trading operating profit margin in constant currency is expected to be stable. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

Effective as of 1 January 2017, Nestlé Professional is reported as a Regionally Managed Business included in the zones. Effective the same date, Venezuela is excluded from RIG, pricing and organic growth to better reflect the underlying business performance.

Six-month sales and trading operating profit (TOP) overview by operating segment

Total Group Zone AMS Zone EMENA Zone AOA Nestlé Waters Nestlé Nutrition Other Businesses Sales 6M-2017 (CHF m) 43'023 13'314 7'800 7'902 4'025 5'184 4'798 Sales 6M-2016 (CHF m) 43'155 12'938 8'694 7'799 3'937 5'171 4'616 RIG 1.4% -0.1% 0.6% 3.0% 3.5% -0.2% 4.5% Pricing 0.9% 1.4% 0.4% 1.8% 0.5% 1.1% -0.8% Organic growth 2.3% 1.3% 1.0% 4.8% 4.0% 0.9% 3.7% Net M&A -2.3% -0.9% -9.3% -0.5% -0.3% 0.2% Foreign exchange -0.3% 2.5% -2.0% -2.9% -1.7% -0.2% 0.0% Reported sales growth -0.3% 2.9% -10.3% 1.4% 2.0% 0.4% 3.9% 6M-2017 TOP (CHF m) 6'449 2'284 1'315 1'550 481 1'260 628 6M-2016 TOP (CHF m) 6'611 2'290 1'461 1'570 487 1'199 718 6M-2017 TOP Margin 15.0% 17.2% 16.9% 19.6% 12.0% 24.3% 13.1% 6M-2016 TOP Margin 15.3% 17.7% 16.8% 20.1% 12.4% 23.2% 15.6%

Six-month sales and 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 Sales 6M-2017 (CHF m) 43'023 9'814 3'772 6'499 7'476 5'732 3'703 6'027 Sales 6M-2016 (CHF m) 43'155 9'653 3'680 6'991 7'364 5'903 3'735 5'829 RIG 1.4% 1.7% 3.7% 0.1% 1.2% -0.6% 2.6% Pricing 0.9% 1.5% 0.5% 2.1% 0.2% 1.5% -1.0% 0.6% Organic growth 2.3% 3.2% 4.2% 2.2% 1.4% 2.7% -1.6% 3.2% 6M-2017 TOP (CHF m) 6'449 2'192 460 1'065 1'376 857 322 1'246 6M-2016 TOP (CHF m) 6'611 2'204 461 1'220 1'359 897 384 1'200 6M-2017 TOP Margin 15.0% 22.3% 12.2% 16.4% 18.4% 15.0% 8.7% 20.7% 6M-2016 TOP Margin 15.3% 22.8% 12.5% 17.5% 18.5% 15.2% 10.3% 20.6%

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