Press release

Nestlé
Good Food, Good Life

First half 2011: solid performance in a volatile environment

- Sales of CHF 41.0 billion, 7.5% organic growth, 4.8% real internal growth
- Trading operating profit of CHF 6.2 billion, margin of 15.1%; +20 basis points, +40 basis points in constant currencies
- Consumer facing marketing spend up 6.2% in constant currencies
- Underlying earnings per share up 5.2% in constant currencies
- Strong Swiss franc: major impact on consolidation, little effect on operational performance
- Full-year outlook: organic growth at top end of 5% to 6% range, combined with a margin increase in constant currencies

Paul Bulcke, Nestlé CEO: "Nestlé continued to make good progress in a period characterised by political and economic instability, natural disasters, rising raw material prices and, yes, a strong Swiss franc. This has made for an extremely tough, volatile and competitive environment. But by leveraging our competitive advantages, investing behind our growth drivers and excelling in operational efficiency and effectiveness, we managed to drive growth not only in emerging markets but also in developed countries, especially in Europe. Furthermore we improved our trading operating margin while increasing investment in our brands. For the full year, we expect organic growth at the top end of the 5% to 6% range, combined with a margin increase in constant currencies."

Vevey, 10 August 2011 – The Group reported organic growth of 7.5% and a trading operating profit margin of 15.1%, up 20 basis points reported, up 40 basis points in constant currencies, from that achieved by the continuing operations in the first half of 2010.

We continued to deliver growth both in emerging and developed markets, with organic growth of 5.7% in the Americas, 5.8% in Europe and 13.3% in Asia, Oceania and Africa. This performance reflects strong alignment and investment in our strategic growth priorities and brands to support our fast-flowing innovation pipeline. We also continued to step up our investment in R&D, factories and capabilities to support our growth in both emerging and developed markets.

First-half results

As announced in February 2011, Nestlé has made certain changes in presentation for Revenue and Operating Profit, as from January 2011, which have no impact on net profit and earnings per share. The 2010 figures have been restated for all the changes as a comparable basis. Following the disposal of Alcon in August 2010, the 2010 comparatives are reported on a continuing basis, which excludes Alcon, except for net profit and earnings per share figures, which include the contribution from Alcon. This is reflected in the analysis below.

- In the first half of 2011, the Nestlé Group's organic growth was 7.5%, including real internal growth of 4.8%. Pricing increased in the second quarter to 3.8% compared to 1.5% in the first quarter, resulting in 2.7% pricing for the half year. There was a decrease in Group sales of 12.9% to CHF 41 billion, due to an impact of 13.8% from foreign exchange and of 6.6% from divestitures, net of acquisitions.
- The Group's **trading operating profit margin** increased by 20 basis points and by 40 basis points in constant currencies.
- The **cost of goods sold** was higher by 180 basis points. The increase in input costs was partially offset by Nestlé Continuous Excellence savings, innovation, growth, sales mix and pricing.
- **Distribution costs** increased by 10 basis points, as sales mix and savings compensated much of the higher oil-related costs compared to the first half of 2010.
- **Total marketing costs,** including the cost of the sales and marketing organisations, were down by 20 basis points. More specifically, the consumer facing marketing spend increased by 6.2% in constant currencies. This was on top of a 14% increase in the first half of 2010.
- **Administrative costs** were down by 150 basis points. This demonstrates a rigorous approach to efficiency and shows the benefit of rolling out Nestlé Continuous Excellence, enabled by GLOBE, to areas beyond operations, and continues the trend we experienced last year.
- **Nestlé Continuous Excellence savings** are in line with our target of at least CHF 1.5 billion for the full year.
- The **net other trading income and expenses** improved by 40 basis points, resulting mainly from lower restructuring costs in the half year.
- The **underlying earnings per share (EPS)** rose 5.2% in constant currencies. The reported EPS were CHF 1.46 compared with CHF 1.60 last year. **Net profit** was CHF 4.7 billion.
- The Group's **operating cash flow** was CHF 1.7 billion. This number is impacted by the sale of Alcon, foreign exchange and higher commodity costs.

Business review

Zone Americas

Sales of CHF 12.8 billion; 5.6% organic growth; 1.1% real internal growth; trading operating profit margin 17.3%, - 10 basis points

- In **North America**, where consumer confidence is subdued, we continued to grow our business. The frozen business saw gains in pizza, in the US for *DiGiorno* and in Canada for *Delissio*. *Stouffer's* also gained market share, and *Lean Cuisine* picked up momentum in recent months through launches such as *Market Creations* and by increasing its presence in snacking. Necessary pricing in ice cream impacted volumes for *Dreyer's,* although *Häagen Dazs* proved more resilient and *Nestlé Drumstick* continued to grow well. *Skinny Cow* was launched into the chocolate category. Both *Nescafé* in soluble coffee and *Coffee-Mate* in non-dairy creamers performed well. The launch of *Coffee-Mate Natural Bliss* was very well received. The pet care business gained market share in a weak category.
- **Latin America** had a strong first half. Brazil achieved high single-digit growth while the rest of the markets or regions were double-digit. Highlights included *Nescafé,* powdered beverages such as

Nescau and *Nesquik*, pet care with products such as *Dog Chow* and *Cat Chow*, culinary, chocolate, dairy and biscuits as well as Popularly Positioned Products (PPPs) in many categories.

- The **Zone's trading operating profit** performance reflects the impact of severe cost pressure, compensated by necessary pricing action and efficiencies. The level of marketing spend was higher than in the first half of last year.

Zone Europe
Sales of CHF 7.5 billion; 4.1% organic growth; 2.7% real internal growth; trading operating profit margin 16.4%, + 200 basis points

- In **Western Europe** there were strong performances in France, Italy, Benelux, the Nordic region and Switzerland, while Greece and the Iberian region managed to achieve positive growth despite severe economic conditions. Key innovations such as *Maggi Juicy Roasting*, *Nescafé Dolce Gusto* and *Felix* were strong contributors to the performance of their categories.
- In **Eastern Europe** there was double-digit growth in Ukraine and the Adriatic region. Russia's growth continued to be subdued, particularly in the confectionery category, our largest in the country.
- In general, there was a strong, broad-based performance across the Zone's markets and categories in what remains a challenging environment, resulting in market share gains in the great majority of them. Ice cream was strong, with some good innovation in impulse-driven products; *Maggi* culinary products, the *Herta* chilled range and *Buitoni* and *Wagner* frozen pizzas all contributed well, while *Nescafé* and pet care were accretive to the Zone's growth. Popularly Positioned Products (PPPs) grew high single-digit, with good growth in both Eastern and Western Europe.
- The **Zone's trading operating profit** benefited from the robust underlying performance, encompassing volume growth, pricing and savings, as well as lower restructuring and pension costs.

Zone Asia, Oceania and Africa
Sales of CHF 7.5 billion; 11.7% organic growth; 8.8% real internal growth; trading operating profit margin 19.5%, +50 basis points

- The start of the trading period was one of extreme challenges, with natural disasters and civil unrest in a number of countries, the consequences of which continue to affect the region. In this context, the Zone produced an extremely strong performance with double-digit growth, gaining market share in the majority of categories.
- Growth was high across the emerging markets, being double-digit in **Asia, Africa and the Middle East**, with particular highlights in China, South Asia, Pakistan, North-East and South Africa, Indonesia and the Indochina region. A key driver is the continued roll-out of our Popularly Positioned Product (PPP) business model, including deeper distribution into more rural areas as we target an additional one million retail outlets by the end of 2012. Popularly Positioned Products (PPPs) were accretive to the Zone's growth.
- Growth continued to be positive in our **Oceania and Japan** region. There were good performances in soluble coffee, confectionery and ready-to-drink beverages in particular.
- The big categories in the Zone - ambient dairy, ambient culinary and soluble coffee - were all double-digit. *Maggi* saw strong growth across its range, including noodles in India and seasonings in Africa. *Nescafé* grew in all segments, from Popularly Positioned Products (PPPs) and 3-in-1s to its premium

range and single-serve systems. The *Munch* and *Shark* brands performed well in chocolate, while the ice cream category benefited from good innovations in South East Asia and China.

- The **Zone's trading operating profit** benefited from the strong volume growth, savings in manufacturing and administration, efficiencies in brand communication, as well as pricing.

Nestlé Waters

Sales of CHF 3.4 billion; 5.8% organic growth; 4.8% real internal growth; trading operating profit margin 8.6%, - 140 basis points

- Nestlé Waters achieved growth in all three Zones. Market shares were generally positive, with Europe being a highlight. The international brands, *S. Pellegrino, Vittel, Acqua Panna, Contrex* and *Perrier,* performed particularly well.
- In **North America** the competitive environment is tough, and increased pricing is impacting volume for the regional brands such as *Poland Spring* and *Arrowhead*, as well as for *Nestlé Pure Life*. However, the US was a key contributor to the good performance of the international brands.
- Growth continued to be dynamic in **Europe**. France enjoyed double-digit growth, Germany and Eastern Europe achieved good growth, while Italy and the UK were also positive. Market shares were held in Italy and up in the UK, France and Germany.
- Nestlé Waters continued to roll out in **emerging markets**, with double-digit growth in Brazil and Mexico, as well as Turkey, Pakistan and Vietnam, amongst others.
- The **Nestlé Waters' trading operating profit** margin fell due to the sharp increase in oil-related costs, both distribution and packaging, despite a high level of savings, leverage from growth, increased prices, further light-weighting of bottles and continuous increases in distribution efficiencies.

Nestlé Nutrition

Sales of CHF 3.7 billion; 8.8% organic growth; 6.5% real internal growth; trading operating profit margin 21.1%, - 90 basis points

- **Infant nutrition**, which represents about 90% of the division's sales, achieved double-digit organic growth in the first half. There were strong performances from all areas, both by category and geography, resulting in market share gains in key markets and on a global basis. All three Zones grew, with highlights including France and Russia, the Greater China and South Asia regions, the US and Mexico. Amongst the brands, *Cerelac*, *Good Start* and *Lactogen* achieved double-digit growth. Switzerland saw the launch of Nestlé's newest innovation, *BabyNes*, the first comprehensive nutrition system for babies.
- **Performance nutrition** enjoyed a high level of growth in Oceania and Europe, with successful innovations such as *PowerBar* fruit gels. A high level of promotions in North America also drove strong volume growth.
- **Jenny Craig** had a tough first half in North America, due to the weak economic environment and a high level of competitive pressure. Its launch in France and the UK continues to make good progress, while the Oceania business is performing well.
- **Nestlé Nutrition's trading operating profit** margin was impacted by high raw material costs, reduced sales in weight management and the phasing of investment behind new product launches. The benefit of pricing taken in the first half will be more evident in the second half.

Other

Sales of CHF 6.2 billion; 11.5% organic growth; 9.7% real internal growth; trading operating profit margin 17.5%, - 140 basis points

- **Nestlé Professional** gained momentum in both beverages and food. It delivered high single-digit organic growth, with double-digit growth in Latin America and Zone Asia, Oceania and Africa. Emerging markets represent about a third of sales, and highlights include the Greater China region and India, both growing around 20%. The **beverages business** as a whole grew double-digit and performed well in North America despite the tough environment. The new premium and super-premium *Nescafé* machines are making good inroads following their launch in 2010, and the geographic roll-out continues. The **food business** reported mid single-digit growth, with *Maggi* culinary and *Nestlé* milk products, *Davigel* and *Erlenbacher* as drivers. The trading operating profit margin was held at last year's level despite increased cost pressures.
- **Nespresso** achieved double-digit organic growth, having continued to perform at a high level around the world, including in its biggest European markets and the US, despite intensified competition. The global roll-out of boutiques continued with new openings in St. Petersburg, Stockholm and Barcelona, and the number of boutiques is expected to exceed 250 by the end of the year. Nespresso's marketing spend was first half weighted due to the successful global launch of the *Pixie* machine as well as an intense programme of boutique openings.
- **Nestlé Health Science's** healthcare nutrition business achieved high single-digit growth. Nestlé Health Science acquired the US-based Prometheus Laboratories Inc., specialised in gastrointestinal diagnostics, and an interest in the New Zealand-based Vital Foods. It continued to invest in its new structures, including the Nestlé Institute of Health Sciences.
- The Food and Beverages joint ventures, **Cereal Partners Worldwide** (CPW) and **Beverage Partners Worldwide** (BPW), and the Pharmaceutical joint ventures, **Galderma** and **Laboratoires innéov**, all achieved a good level of growth.
- The **"Other" trading operating profit** margin was mainly impacted by the first half weighting of Nespresso's marketing investments, and increased costs at Nestlé Health Science.

Financial flexibility

We recognise significant opportunities to advance our strategic growth agenda both organically and through bolt-on acquisitions. In 2011, we have already committed to significant levels of capital expenditure weighted to the high-growth emerging markets and we have announced several strategic bolt-on acquisitions in different parts of the world. In view of these significant financial commitments, and taking into consideration the difficult economic environment which has prevailed for some time now, we will continue to maintain an appropriate level of financial flexibility to pursue with confidence our strategic growth agenda. Consequently, after completing CHF 35 billion in share buybacks since 2007, the Board of Directors has made a decision not to launch a new programme at this time.

Outlook

As we look forward to the second half of 2011, we expect continued challenging conditions including political and economic instability, volatile raw material prices and subdued consumer confidence in the developed world. But our momentum is strong, our efficiency drive continues and we expect our pricing to have a fuller impact in the second half of the year. We are therefore confident of achieving organic growth at the top end of the 5% to 6% range, combined with a margin increase in constant currencies.

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Annex

Half-year sales and trading operating profit margins overview

	Jan.-June 2011 Sales in CHF millions	Jan.-June 2011 Organic Growth (%)	Trading operating profit margins	
			Jan.-June 2011 (%)	Change vs Jan.-June 2010
By operating segment				
• Zone Americas	12,769	+5.6	17.3	-10 bps
• Zone Europe	7,521	+4.1	16.4	+200 bps
• Zone Asia, Oceania, Africa	7,466	+11.7	19.5	+50 bps
Nestlé Waters	3,372	+5.8	8.6	-140 bps
Nestlé Nutrition	3,725	+8.8	21.1	-90 bps
Other	6,151	+11.5	17.5	-140 bps
Total Group/continuing operations	41,004	+7.5	15.1	+20 bps
By Product				
Powdered and liquid beverages	8,894	+12.5	24.3	-20 bps
Water	3,375	+5.8	8.6	-140 bps
Milk products and ice cream	8,137	+9.5	14.1	+100 bps
Nutrition & healthcare	4,884	+8.7	19.0	-120 bps
Prepared dishes and cooking aids	6,848	+4.9	13.4	+30 bps
Confectionery	4,078	+4.2	16.1	+230 bps
Pet care	4,788	+2.4	20.0	-120 bps
Total Group/continuing operations	41,004	+7.5	15.1	+20 bps

2010 and 2011 are not directly comparable due to the changes of presentation made to the Income Statement as of 1/1/2011 and the disposal of Alcon in August 2010. The 2010 figures have been restated for all the changes as a comparable basis and reported for continuing operations only. Other changes include the reclassification of Healthcare Nutrition, now part of Nestlé Health Science, from Nestlé Nutrition to "Other", which also includes Nestlé Professional, Nespresso and joint ventures managed on a worldwide basis. In the product groups, "Nutrition and healthcare" includes nutrition, healthcare and pharmaceutical products.