Press release

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Nestlé
Good Food, Good Life

Full-Year 2013: 4.6% Organic Growth, Trading Operating Profit Margin up 20 basis points, up 40 basis points in constant currencies

- Sales of CHF 92.2 billion, +2.7%
- 4.6% organic growth, 3.1% real internal growth
- Trading operating profit margin up 20 basis points to 15.2%, up 40 basis points in constant currencies
- Underlying earnings per share up 11.0% in constant currencies
- Strong operating cash flow at CHF 15.0 billion
- Proposed dividend increased to CHF 2.15 per share

Paul Bulcke, Nestlé CEO: "The macro-environment in 2013 was one of soft growth, minimal in the developed world and below recent levels in the emerging markets. Our response was to increase brand support, accelerate innovation, and to ensure our pricing was sensitive to consumer needs. This gave impetus to our real internal growth and, together with efficiencies and structural cost savings, contributed to our margin improvement and strong cash flow. We also intensified our portfolio management which resulted in some charges in 2013 but ensures we are putting our people and resources behind the best opportunities.

"Our long-term strategic direction is to be the leader in nutrition, health and wellness. We reinforced this strategy with the creation of Nestlé Health Science, and we are extending it now to the field of specialised medical skin treatments by setting up Nestlé Skin Health S.A.

"Last year was challenging and 2014 will likely be the same. We will continue to be disciplined in driving our performance in line with the Nestlé Model of profitable growth and resource efficiency. I therefore expect our 2014 performance to be similar to last year and again weighted to the second half, outperforming the market, with growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency."

Group results

In 2013 Nestlé's sales increased by 2.7% to CHF 92.2 billion, impacted by negative foreign exchange of 3.7%. Organic growth was 4.6%, composed of 3.1% real internal growth and 1.5% pricing. Acquisitions, net of divestitures, added 1.8% to sales.

- The Group's **trading operating profit** was CHF 14.0 billion, representing a margin of 15.2%, up 20 basis points versus last year, and up 40 basis points in constant currencies.

- **Nestlé Continuous Excellence** again delivered more than CHF 1.5 billion in efficiencies in all areas of the business. This, together with reduced structural costs, enabled us to increase our brand support and absorb higher restructuring costs.

- The **cost of goods sold** fell by 70 basis points as a percentage of sales, also supported by a favourable input cost environment.

- **Distribution costs** were down by 10 basis points.

- **Administrative costs** decreased by 40 basis points, reflecting structural efficiencies including in our pension plans.

- **Total marketing costs** increased by 60 basis points with **consumer facing spend** up 16.3% in constant currencies.

- **Net profit** was CHF 10.0 billion down slightly due to the costs of portfolio restructuring and the currency impact. As a consequence, **reported earnings per share** were CHF 3.14, down 2.2%. **Underlying earnings per share in constant currencies** were up 11.0%.

- The Group's **operating cash flow** continued to be strong at CHF 15.0 billion.

Business review

- The Nestlé Group's **organic growth** was broad-based, 5.1% in the Americas, 0.8% in Europe and 7.4% in Asia, Oceania and Africa. Our business in developed markets grew 1.0%, achieving sales of CHF 51.4 billion. Our emerging markets business grew 9.3%, delivering sales of CHF 40.8 billion.

- **Real internal growth** was 2.1% in the Americas, 1.9% in Europe and 5.9% in Asia, Oceania and Africa. This growth reflected a focus on the priorities that enabled us to outperform the market: stay competitive by ensuring we offered consumers best value, invest behind our brands and build the capabilities to win in today's challenging environment.

Zone Americas

Sales of CHF 28.4 billion, 5.3% organic growth, 1.7% real internal growth; 18.2% trading operating profit margin, -50 basis points.

- The Zone delivered positive growth in both North America and Latin America.

- In **North America** the frozen food category contracted, particularly impacting *Lean Cuisine*, but *Stouffers* achieved positive growth, and in frozen pizza *DiGiorno* gained market share. In ice cream the super premium business grew, thanks in part to the success of *Gelato*, but snacks and premium had a more challenging year. Chocolate delivered a good performance. Early results from the launch of our *Butterfinger Cups* were promising and *Skinny Cow* maintained its strong growth momentum. *Coffee-mate* performed well in both powder and liquid. *Nescafé Clásico* stood out in a good year for soluble coffee.

- Growth in **Latin America** was double-digit for the year. In Brazil, key growth drivers were *KitKat*, *Nescau, Ninho* and cereals. In Mexico, we took steps to improve the performance of soluble coffee, including the roll-out of *Nescafé 3 in 1*. *Nescafé Dolce Gusto* produced double-digit growth across the region. Culinary solutions in dairy, particularly *Carnation*, also did well.

- The petcare business had a strong year, growing across the Zone, despite the one-off impact of *Waggin' Train* in North America. In the fast-evolving market in Latin America our strong momentum drove double-digit growth and market share gains. This year's launches of *Dog Chow Light & Healthy*, *Beneful Smile*, and *Purina ONE True Instinct* went well. *Dog Chow* and *Proplan* were among the main drivers of double-digit growth in Mexico and Brazil.

- The Zone's **trading operating profit margin** was 18.2%, down 50 basis points, reflecting restructuring and increased investment in brands.

Zone Europe

Sales of CHF 15.6 billion, 0.8% organic growth, 2.2% real internal growth; 15.0% trading operating profit margin, -40 basis points.

- The Zone outperformed the market with positive growth in a no-growth environment. Material negative pricing reflected our commitment to pass the savings from lower raw material prices to the consumer and maintain our competitiveness in the face of prevailing deflationary pressures.

- The innovation and premiumisation strategic platforms underpinned our growth with *Nescafé Dolce Gusto* and confectionery being key contributors. Growth for ice cream in Russia and France, as well as the *Mövenpick* brand, compensated for softer growth in that category elsewhere. In frozen pizza, *Wagner* and *Buitoni* accelerated through the year. *Nescafé Gold* delivered double-digit growth in Russia and other Eastern European markets. *KitKat* was another highlight, again in Russia and in the Great Britain region. *Nesquik* had a strong year across most markets. Petcare had an extremely good year with momentum across the Zone producing high single-digit growth. *Felix*, *Proplan*, *Purina ONE* and *Gourmet* were among the key drivers.

- In **Western Europe**, highlights were the Great Britain region, Switzerland, the Netherlands, Belgium and Austria. **Southern Europe** continued to experience weak consumer confidence.

- Among **Central and Eastern European** markets Russia was a highlight. The region produced robust real internal growth despite difficult economic conditions and intense price competition.

- The Zone's **trading operating profit margin** was down by 40 basis points to 15.0%. This reflects the costs of restructuring and increased investments behind the strategic growth platforms.

Zone Asia, Oceania and Africa

Sales of CHF 18.9 billion, 5.6% organic growth, 4.8% real internal growth; 18.9% trading operating profit margin, -10 basis points.

- The Zone's real internal growth outpaced the market with strong performances particularly in Africa, the Middle East, Indonesia and Malaysia. Also noteworthy was Japan where a focus on innovative products and business models delivered good growth in the long-standing subdued trading environment. Pricing in the Zone reflected our commitment to remain competitive in the face of relatively low inflation.

- Most categories in the Zone contributed, notably ambient dairy and cocoa and malt beverages which grew double-digit with *Milo* a highlight. Ambient culinary and chocolate enjoyed high single-digit growth. Again there was a high level of innovation across the Zone. We successfully launched new *Hungroo Maggi* noodles and *Alpino* in India, and in the Middle East *Nescafé Traditional Arabic Coffee*. In Central and West Africa we continued the roll-out of the new *Nido Nutripack* and fortified *Maggi* products and in Egypt *Dolceca* ice cream. In China, Yinlu had a particularly strong year, helped by its new premium congees. Another strong performer in China was the adult and senior nutrition milk powder range *Yiyang.* A slowdown in its category had an impact on Hsu Fu Chi.

- The Zone's **trading operating profit margin** was 18.9%, down 10 basis points. External events in different parts of the Zone were challenging. Nonetheless our effective portfolio management and increased efficiencies helped mitigate the effects and allowed us to increase brand support driving strong real internal growth and market share gains.

Nestlé Waters

Sales of CHF 7.2 billion, 2.0% organic growth, 2.0% real internal growth; 9.4% trading operating profit margin, +50 basis points.

- Nestlé Waters delivered growth in all three geographies, despite intense pricing pressure in the United States and Europe. Creative ideas behind our premium brands *Perrier* and *S.Pellegrino*, combined with good execution, allowed us to outperform markets across the globe. Our portfolio of strong local brands performed well, notably *Buxton* in the United Kingdom, *Erikli* in Turkey, and *La Vie* in Vietnam. *Nestlé Pure Life* remains our growth engine particularly in the emerging markets, consistently leading the category growth.

- The Nestlé Waters **trading operating profit margin** increased by 50 basis points to 9.4% due to the division's growth and a high level of efficiencies in manufacturing and procurement.

Nestlé Nutrition

Sales of CHF 9.8 billion, 8.2% organic growth, 4.5% real internal growth; 20.0% trading operating profit margin, +80 basis points.

- The **infant nutrition** business, enhanced by the Wyeth Nutrition acquisition, had a very positive year, particularly in infant formula and infant cereals. All three zones grew with zone Asia, Oceania and

Africa double-digit and particularly encouraging performances in parts of Asia and the Middle East. The business also delivered double-digit growth in Brazil and Russia. The US benefitted from the continued roll-out of innovations to help prevent colic and allergies, strengthening the *Gerber* brand franchise. Many of the largest brands such as *Cerelac*, *Nestlé NAN, S-26 and Illuma* grew double-digit.

- We announced the divestment of Jenny Craig in 2013 and our performance nutrition business in 2014.

- Nestlé Nutrition's **trading operating profit margin** was 20.0%, up 80 basis points as a result of strong growth in the accretive infant formula and cereals categories, the good performance of Wyeth Nutrition and a continued contribution from efficiencies.

Other activities

Sales of CHF 12.3 billion, 5.4% organic growth, 4.4% real internal growth; 17.7% trading operating profit margin, +20 basis points.

- **Nestlé Professional** was affected by the difficult out-of-home environment, especially in Europe. Nonetheless the emerging markets delivered strong growth while the strategic branded beverage and customised food solutions continued to perform well.

- **Nespresso** continued to perform strongly globally. It grew in its core European markets and accelerated in the Americas, supported by new Grands Crus coffee and continuous innovation in machines and services, as well as increasing brand awareness and continued geographic expansion with 48 boutique openings in 2013.

- **Nestlé Health Science** continued in its ambition to offer nutritional solutions that address disease and health conditions. The acquisition of Pamlab in the United States will strengthen its capabilities in the areas of metabolic and brain health. Growth accelerated in the second half primarily driven by North America, Europe and Latin America, despite ongoing pressure on countries' healthcare budgets which affected reimbursement arrangements. Innovations such as *Boost Nutrition Bars* in the US, *Nutren Senior* in Brazil and *Alfamino* in key markets, helped to deliver good growth.

Outlook

Last year was challenging and 2014 will likely be the same. We will continue to be disciplined in driving our performance in line with the Nestlé Model of profitable growth and resource efficiency. We therefore expect our 2014 performance to be similar to last year and again weighted to the second half, outperforming the market, with growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

2014 Event

Responding to increasing consumer needs, Nestlé announced on 11 February that it will extend its activities to include the field of specialised medical skin treatments through the creation of **Nestlé Skin Health S.A.** This company will be managed as a wholly-owned subsidiary. Galderma will form the foundation of Nestlé Skin Health S.A. We will also merge Bübchen, our existing infant skincare business, into this newly-formed entity which will provide a sizeable platform for profitable growth. The transaction is subject to approvals.

Board proposals to the Annual General Meeting

At the Annual General Meeting on 10 April 2014, the Board of Directors will propose an increase in the dividend to CHF 2.15 per share. The last trading day with entitlement to receive the dividend is 11 April 2014. The net dividend will be payable as from 17 April 2014. Shareholders who are on record in the share register with voting rights on 3 April 2014 at 12:00 noon (CEST) will be entitled to exercise their voting rights.

In line with new legal requirements for listed Swiss companies, the Board will propose the individual election of each member of the Board of Directors for a term of office until the end of the next Annual General Meeting. Jean-Pierre Meyers is not standing for re-election. The Board wishes to thank him for his service over the past 23 years which was highly appreciated.

Furthermore, the Board will propose the election of Peter Brabeck-Letmathe as Chairman of the Board of Directors and the individual elections of the members of the Compensation Committee. The Board will also propose the election of KPMG as statutory auditors and the law firm Hartmann Dreyer Attorneys-at-law as Independent Representative for a term of office until the end of the next Annual General Meeting. Finally the Board will submit for shareholders' approval the amended Articles of Association revised in line with new legal requirements for listed Swiss companies.

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Annex

Full-year sales and Trading operating profit margins overview

	Jan.-Dec. 2013 Sales in CHF millions	Jan.-Dec. 2013 Organic Growth (%)	Trading operating profit margins	
			Jan.-Dec. 2013 (%)	Change vs Jan.-Dec. 2012 *(*)*
By operating segment				
• Zone Americas	28’375	+5.3	18.2	-50 bps
• Zone Europe	15’568	+0.8	15.0	-40 bps
• Zone Asia, Oceania, Africa	18’859	+5.6	18.9	-10 bps
Nestlé Waters	7’231	+2.0	9.4	+50 bps
Nestlé Nutrition	9’826	+8.2	20.0	+80 bps
Other	12’299	+5.4	17.7	+20 bps
Total Group	92’158	+4.6	15.2	+20 bps
By product				
Powdered and liquid beverages	20’495	+4.6	22.7	+70 bps
Water	6’773	+1.8	10.0	+60 bps
Milk products and ice cream	17’357	+5.8	15.2	-40 bps
Nutrition & HealthCare	11’840	+7.6	18.8	+50 bps
Prepared dishes and cooking aids	14’171	+0.3	13.2	-90 bps
Confectionery	10’283	+5.0	15.9	-100 bps
PetCare	11’239	+6.8	19.2	-60 bps
Total Group	92’158	+4.6	15.2	+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.