

# 2012 First Half Results



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# Disclaimer

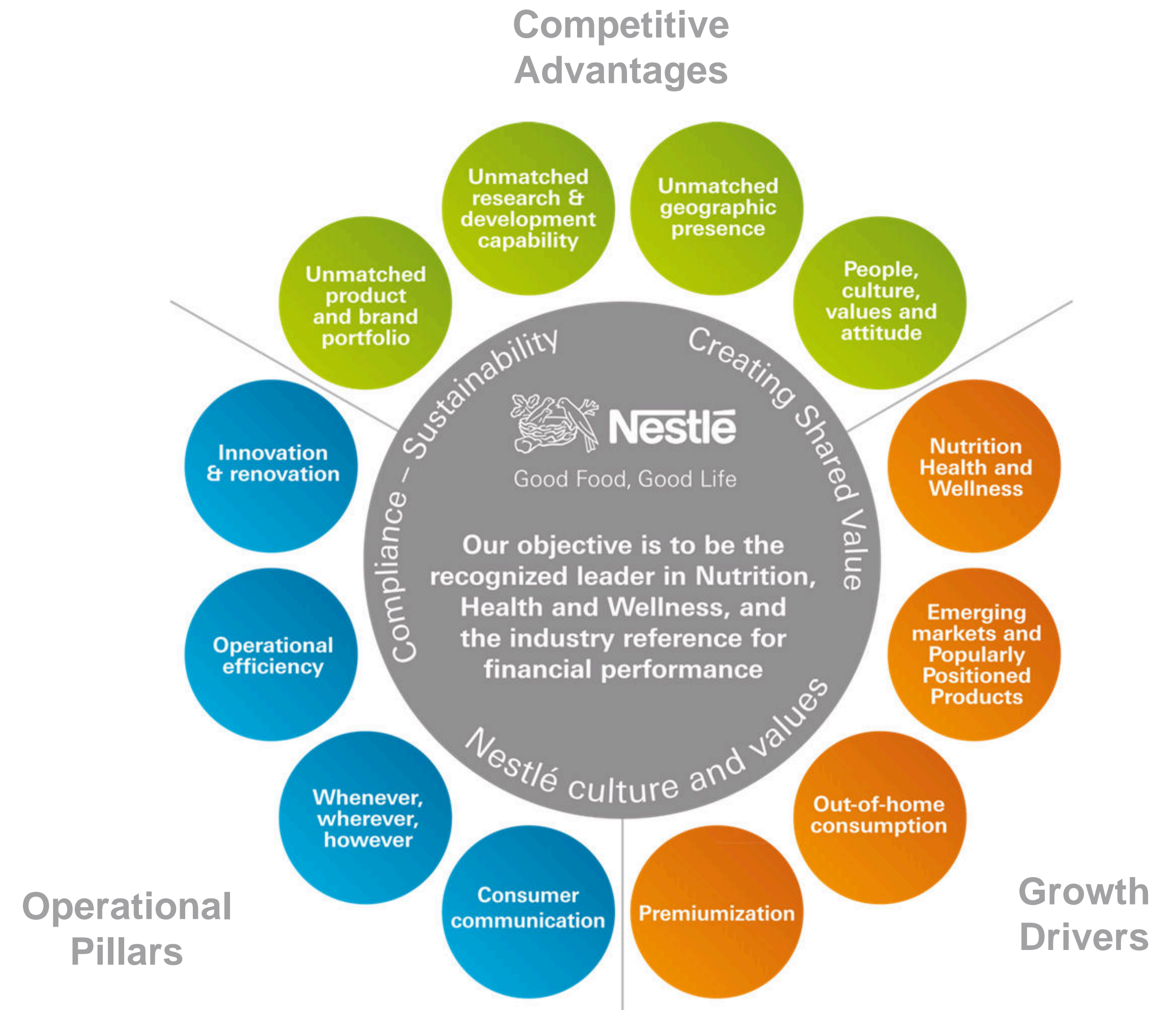
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# Agenda

- **First Half 2012 Group Highlights**
- **First Half 2012 Business Performance**
- **Cash Flow**
- **Concluding Remarks**

# First Half 2012 Group Highlights

- Consistent performance with steady momentum
- Making the right choices
- Embracing the opportunities for growth
- First Half performance aligned with Nestlé Roadmap
- Guidance reconfirmed:  
To deliver the Nestlé Model



# First Half 2012 Group Highlights

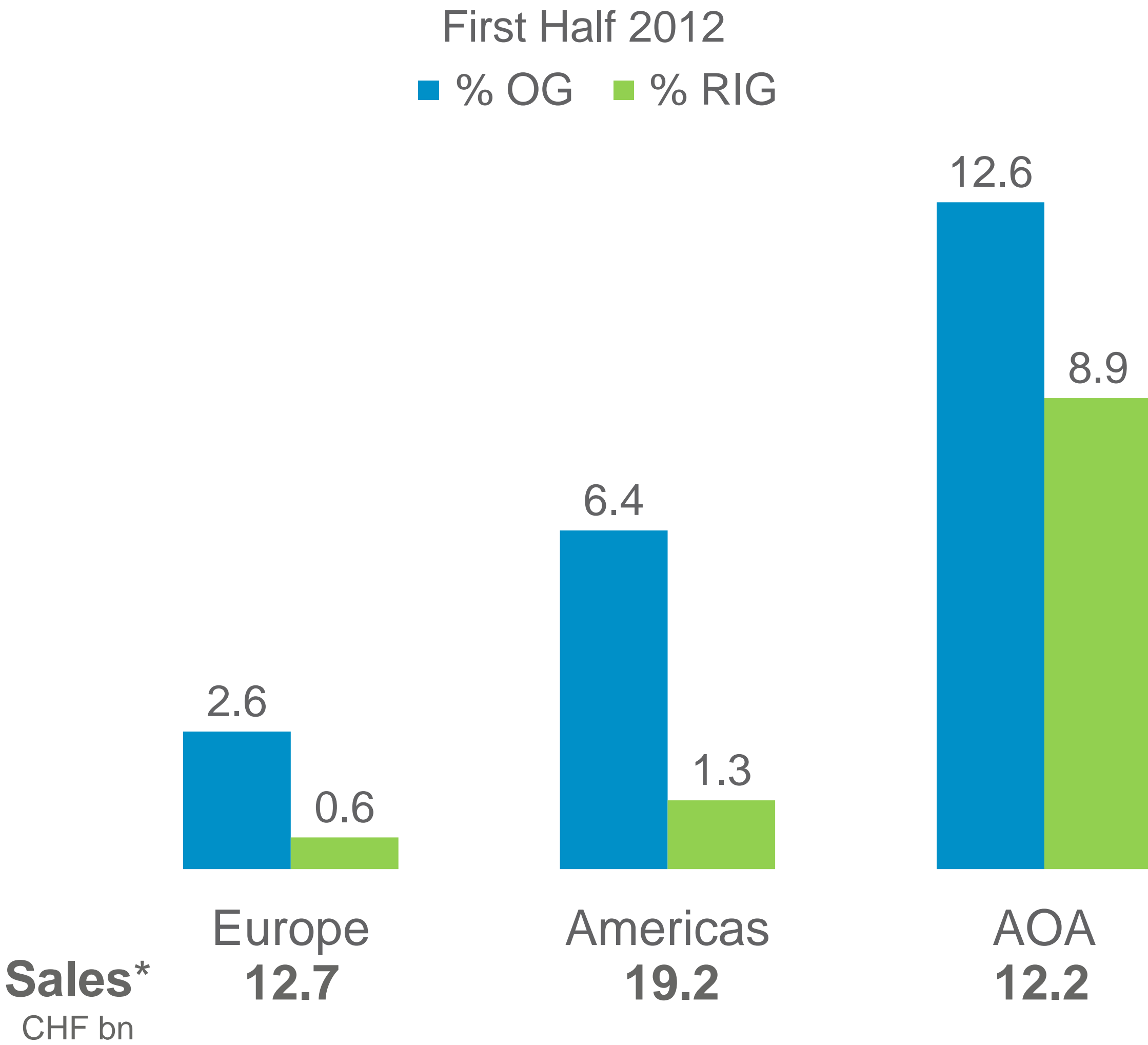
	As reported		At constant exchange rates
Sales	44.1 bn		
Real Internal Growth	+2.9%		
Organic Growth	+6.6%		
Trading Operating Profit	6.6 bn	+6.3%	
Trading Operating Profit Margin	15.0%	-10bps	-10bps
Net Profit	5.1 bn		
Net Profit Margin	11.6%	+10bps	
Operating Cash Flow	5.1 bn		
Underlying EPS	1.63		+12.4%

Momentum maintained in Q2

All figures in CHF

# Growth Across All Regions

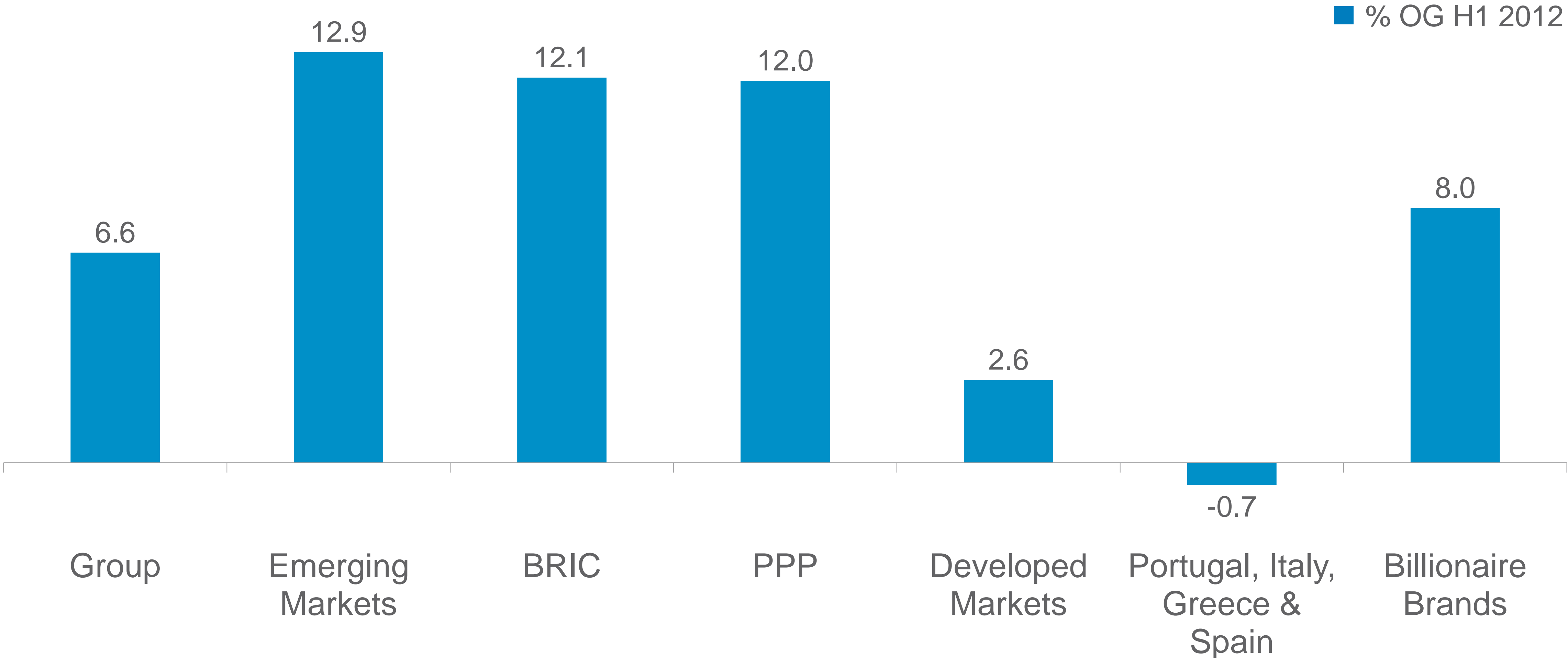
- Continued growth in all three regions
- Europe: tough comparators and trading environment that deteriorated
- Americas: the region maintained its momentum, consumer confidence remained low in the North, US second quarter accelerated
- AOA: continued double-digit performance



\* Each region includes Zones, Nestlé Waters, Nestlé Nutrition, Nestlé Professional, Nespresso, NHSc, and JVs



# Growth Continues to be Broad Based

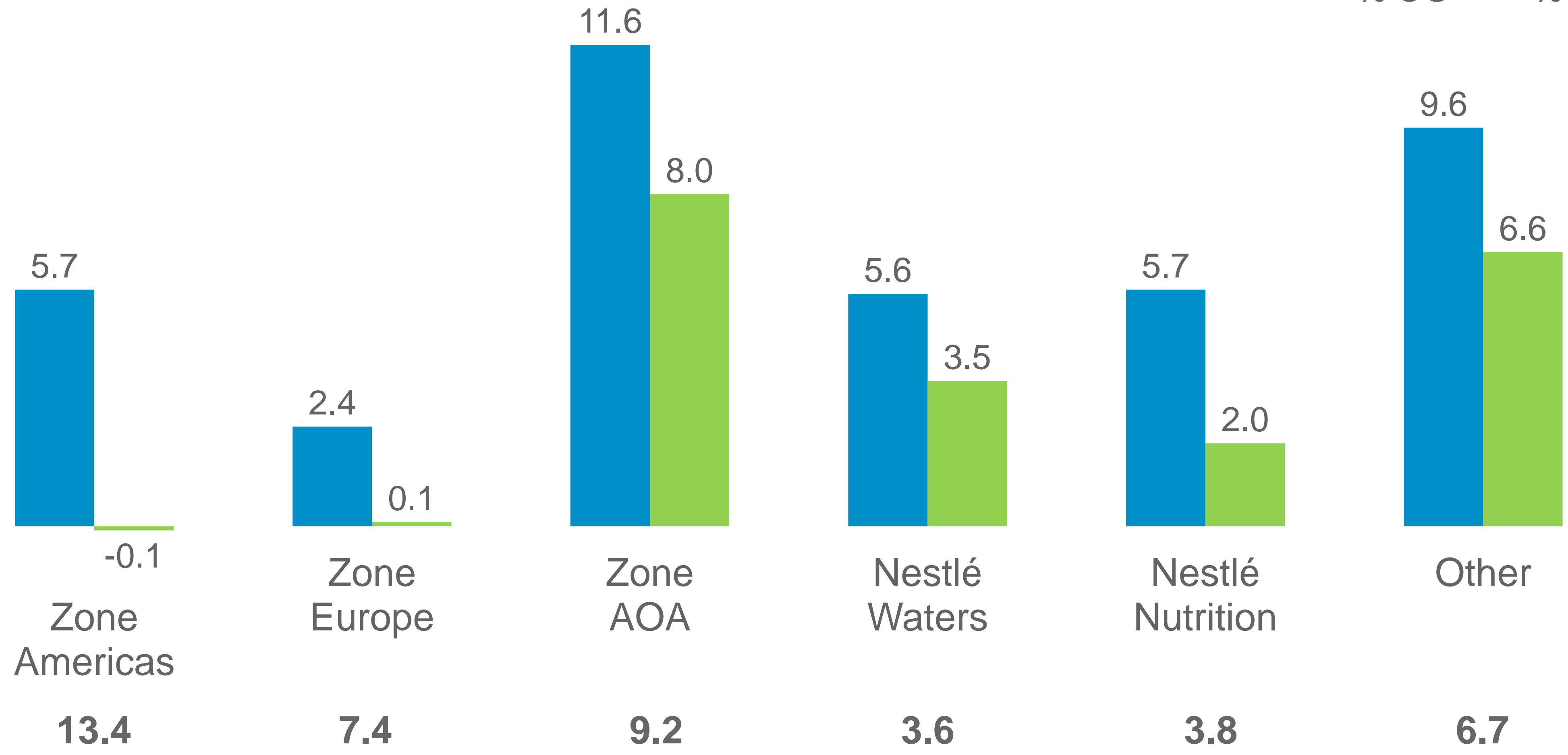


\* Includes Zones, Nestlé Waters, Nestlé Nutrition, Nestlé Professional, Nespresso, NHSc, and JVs



# Growth Across All Operating Segments

First Half 2012  
 ■ % OG   ■ % RIG



**Sales**  
 CHF bn rounded





# Zone Americas

**Sales** CHF 13.4 bn

**OG** 5.7%

**RIG** -0.1%

**TOP Margin** 17.4%

+10 bps

- Frozen category remained under pressure; innovations and related communications in Pizza and *Lean Cuisine*
- Ice Cream with positive growth in super-premium and snacks, relaunch of *Dreyer's Slow Churn* in premium
- Confectionery performed well thanks to new launches and innovations
- *Coffeemate* and soluble coffee growing strongly
- PetCare grew share across all channels driven by innovation



- Nearly all categories double-digit across Latin America
- Brazil, Mexico and the southern markets drove performance
- Highlights include the *KitKat* launch in Brazil, *Acticol* in Chile and Mexico, *Nescafé Dolca* also in Mexico and peelable ice cream across the Zone
- PetCare again achieved double-digit growth in the region with several brands contributing

# Zone Europe

Sales CHF 7.4 bn      OG 2.4%      RIG 0.1%      TOP Margin 15.4%      -100 bps

- Innovation, Premium and PPPs helped drive growth in an environment that deteriorated
- Western Europe key highlights were France, GB region and Benelux
- Central and Eastern Europe had continued strong performance by Ukraine, Adriatic and Romania; Russia recovering
- PIGS remained positive
- Brand highlights included *Nescafé*, *Herta*, *Kitkat*, and many PetCare brands



# Zone Asia, Oceania & Africa

**Sales** CHF 9.2 bn

**OG** 11.6%

**RIG** 8.0%

**TOP Margin** 18.9%

-60 bps

- Continued double-digit growth building on a strong 2011
- Emerging markets double-digit in almost all categories and geographies
- China, India, Africa and the Middle East were highlights of the Zone
- Japan accelerated through the period driven by coffee and chocolate
- The PPP model continued to drive value and volume growth across the Zone



# Nestlé Nutrition

Sales CHF 3.8 bn

OG 5.7%

RIG 2.0%

TOP Margin 20.6%

-50 bps

## Infant nutrition

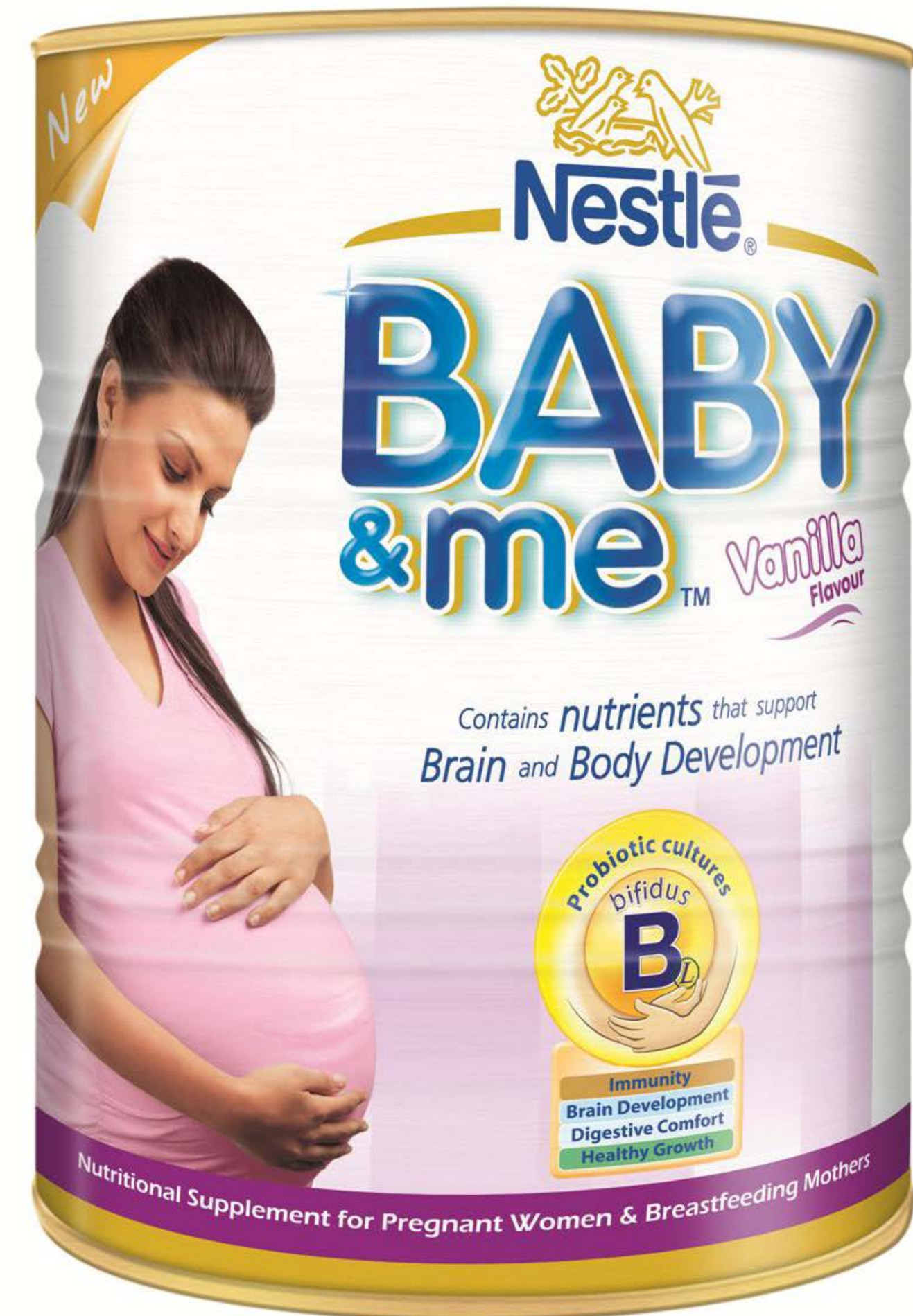
- Double-digit growth in emerging markets
- Good momentum across existing product range and acceleration from new launches such as *Nestlé NAN AR*, *Lactogen Gut Comfort* and *Baby&me*

## Weight management

- Remained challenged in the US affected by economic and competitive environment

## Performance nutrition

- Growth driven by new product launches in Europe and refocusing on high performance athletes



# Nestlé Waters

Sales CHF 3.6 bn

OG 5.6%

RIG 3.5%

TOP Margin 10.0%

+140 bps

- Good growth driven by North America and emerging markets
- Growth in Europe impacted by slow start to the season versus 2011

- *Nestlé Pure Life* and international premium sparkling waters continued to do well
- Local brand highlights include *Poland Spring* in the US, *Al Manhal* in Saudi Arabia, *Minéré* in Thailand and *Baraka* in Egypt



# Other

**Sales** CHF 6.7 bn

**OG** 9.6%

**RIG** 6.6%

**TOP Margin** 17.6%

+10 bps

## Professional

- Good growth driven by beverage and culinary solutions
- *Nescafé Milano* continues to build on a successful launch

## Nespresso

- Double-digit growth
- Environment remains competitive

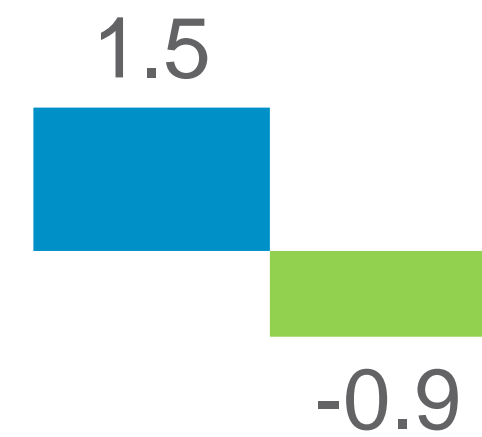
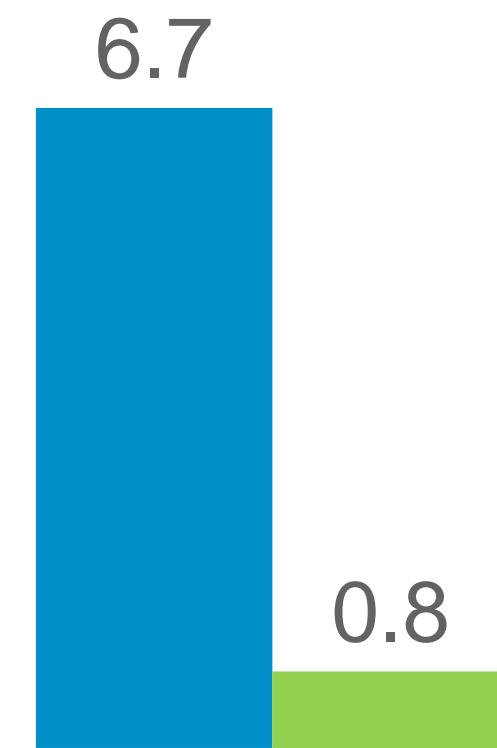
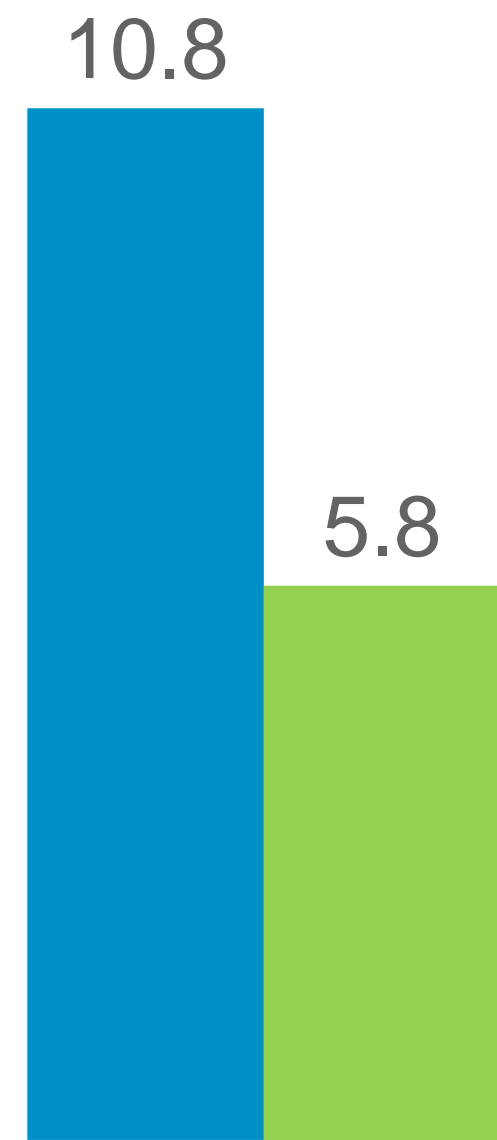
## Nestlé Health Science

- Continues to build on core platforms for future growth



# Product Segments

First Half 2012  
 ■ % OG    ■ % RIG



Powdered & Liquid Beverages

Milk Products & Ice Cream

Prepared Dishes & Cooking Aids

Confectionery

PetCare

**Sales** 9.6

CHF bn rounded

9.1

6.9

4.6

5.2

**TOP Margin** 23.7%

14.4%

13.3%

14.0%

20.7%

-60 bps

+30 bps

-10 bps

-210 bps

+70 bps

# Product Segment Review





# Product Segment Review



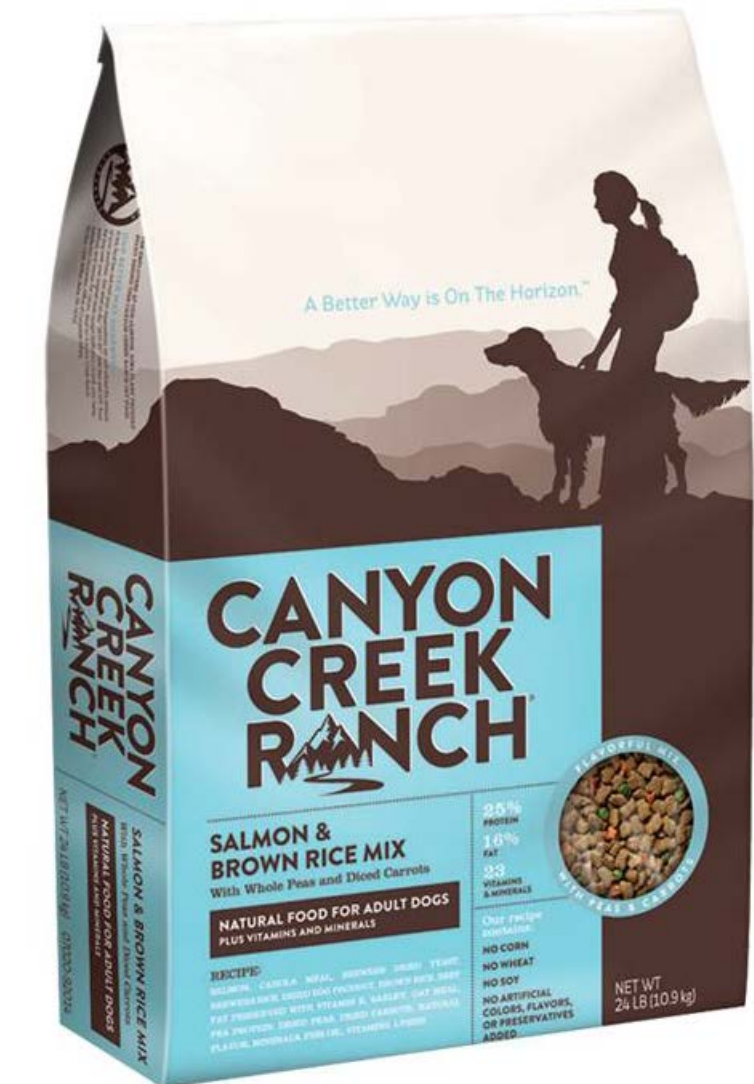
# Product Segment Review



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# Trading Operating Profit Margin at 15.0%



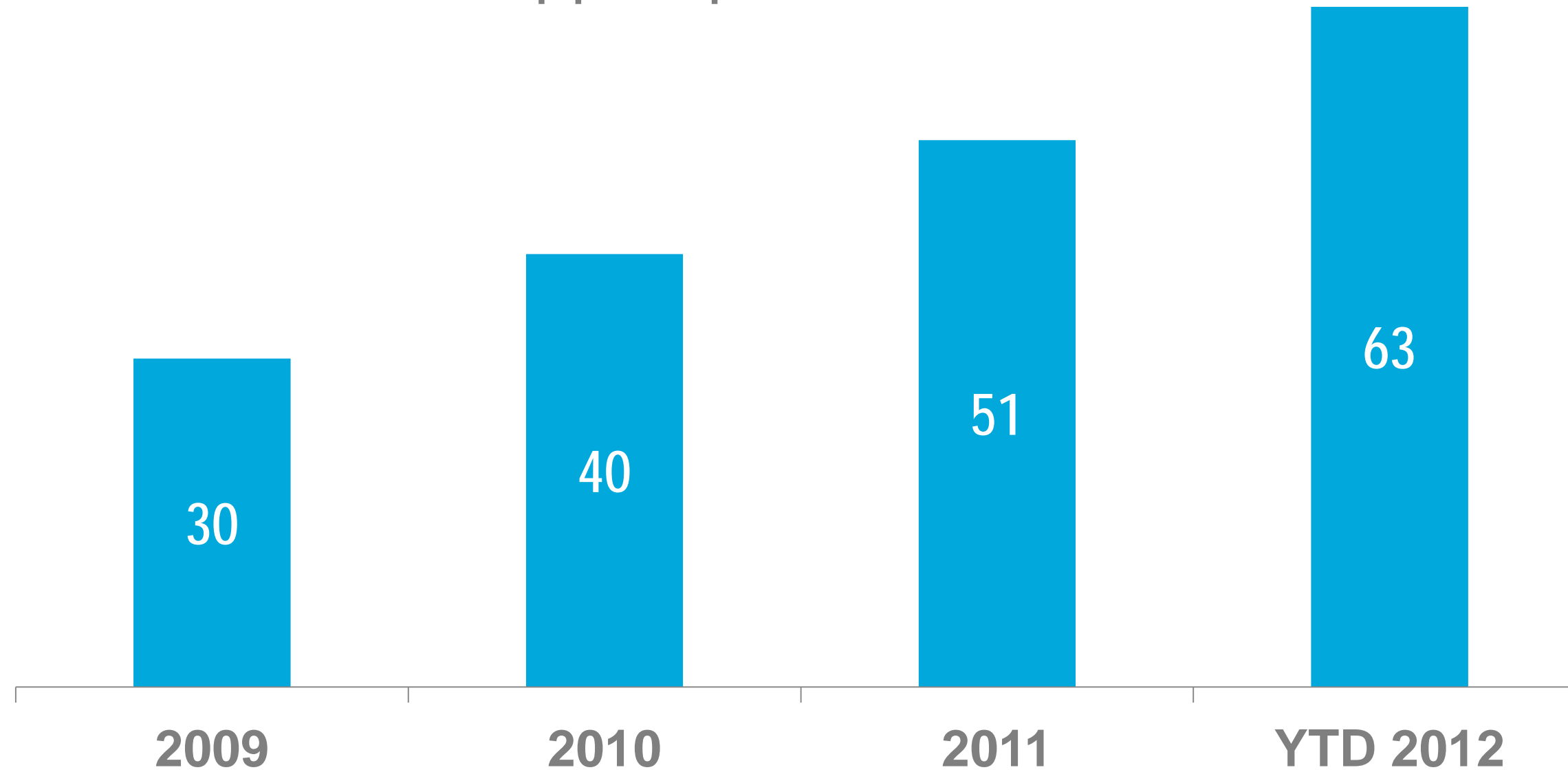
- Input cost pressure on COGS, mitigated by savings from NCE and timely pricing
- Distribution costs down due to efficiencies and mix
- Marketing down, but consumer facing marketing up in constant currencies
- Administration costs: comps 2011
- Continued investment in R&D

TOP = Trading Operating Profit;  
Other\* includes Other Revenue, R&D and Net Other Trading Income and Expenses

# Advertising Effectiveness

Consumer Facing Marketing spend up 1.3%  
in constant currencies

Upper quartile scores

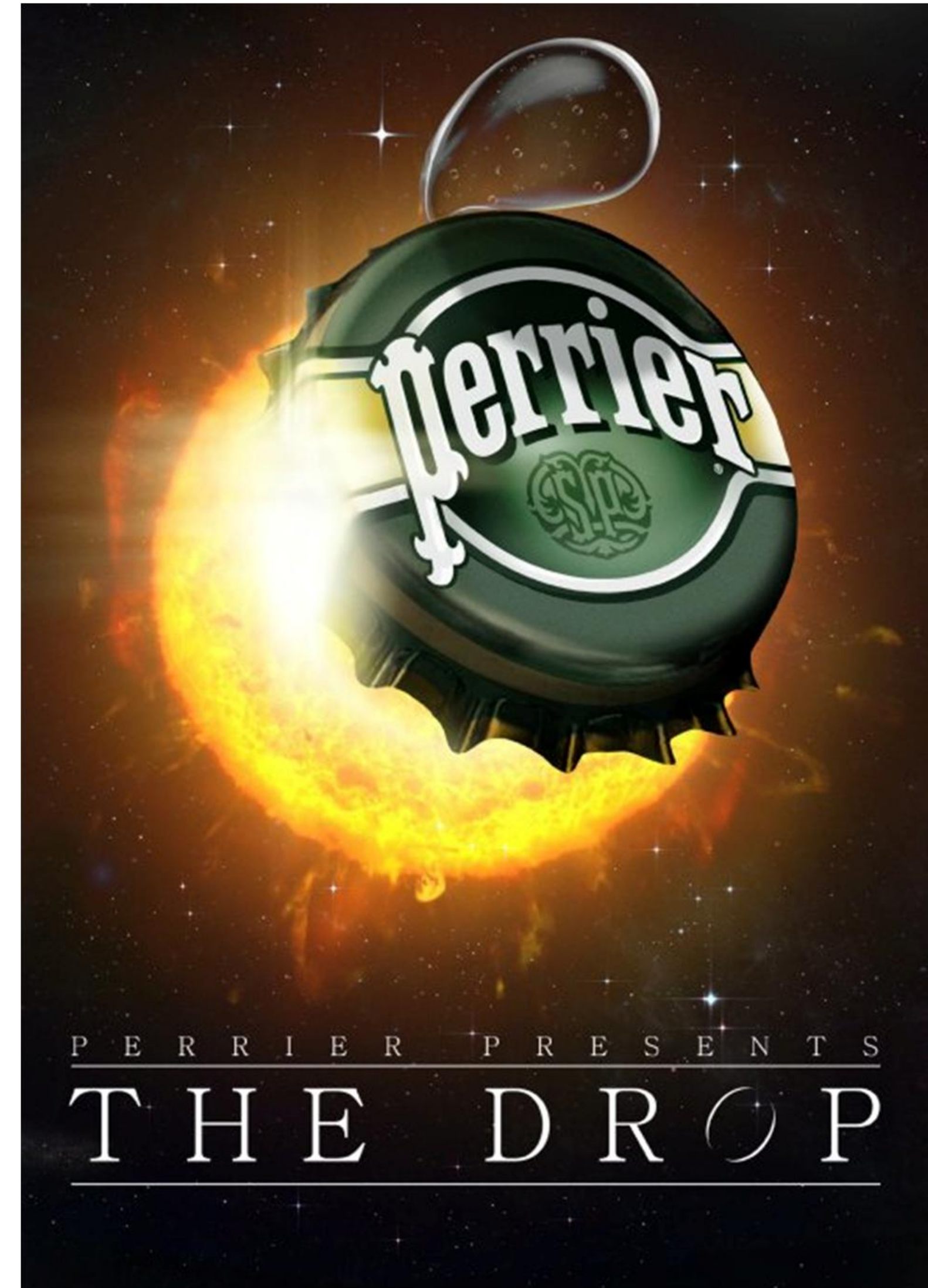


Ipsos ASI

Base: All Nestlé Aired ads.

Numbers shown are percentages of ads that fall into each category,

Note: Quartiles are based on all ads on database.



# Income Statement

As % of sales	June 30 2011	June 30 2012	Difference in basis points/% (rounded)
<b>Trading operating profit</b>	<b>15.1</b>	<b>15.0</b>	<b>-10</b>
Net other operating income/expense	(0.1)	(0.1)	
<b>Operating profit</b>	<b>15.0</b>	<b>14.9</b>	<b>-10</b>
Net financial income/expense	(0.8)	(0.5)	+30
<b>Profit before taxes and associates</b>	<b>14.2</b>	<b>14.4</b>	<b>+20</b>
Taxes	(3.6)	(3.7)	-10
Share of results of associates	1.3	1.4	+10
<b>Profit for the period</b>	<b>11.9</b>	<b>12.1</b>	<b>+20</b>
Attributable to non-controlling interests	(0.4)	(0.5)	-10
Attributable to shareholders of the parent	11.5	11.6	+10
<b>Basic EPS (CHF) as reported</b>	<b>1.46</b>	<b>1.61</b>	<b>+10.3%</b>
<b>Underlying EPS (CHF) constant currencies</b>			<b>+12.4%</b>

# Cash Flow – a Key Priority

- **Driving performance**

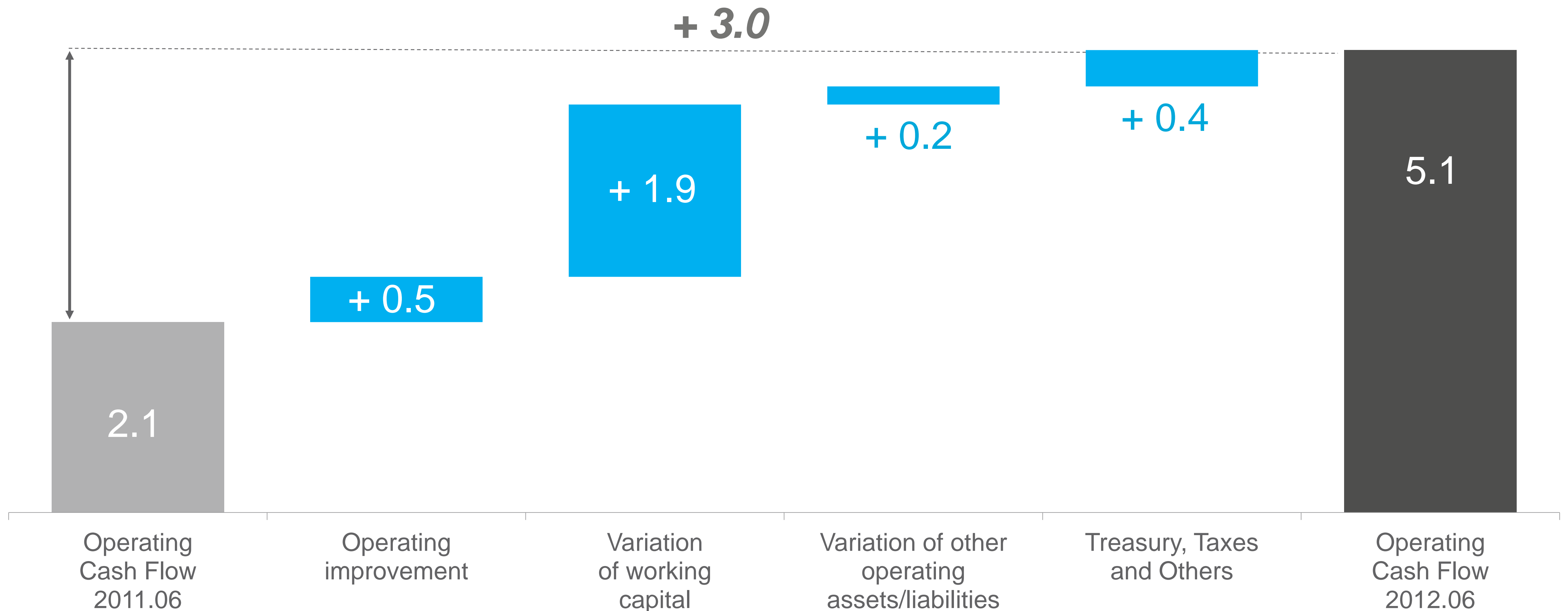
- Targeting key drivers of operating cash flow:
  - Operating margin & working capital management
  - Treasury & tax

- **Improving external visibility of our performance**

- Transparency
- Comparability

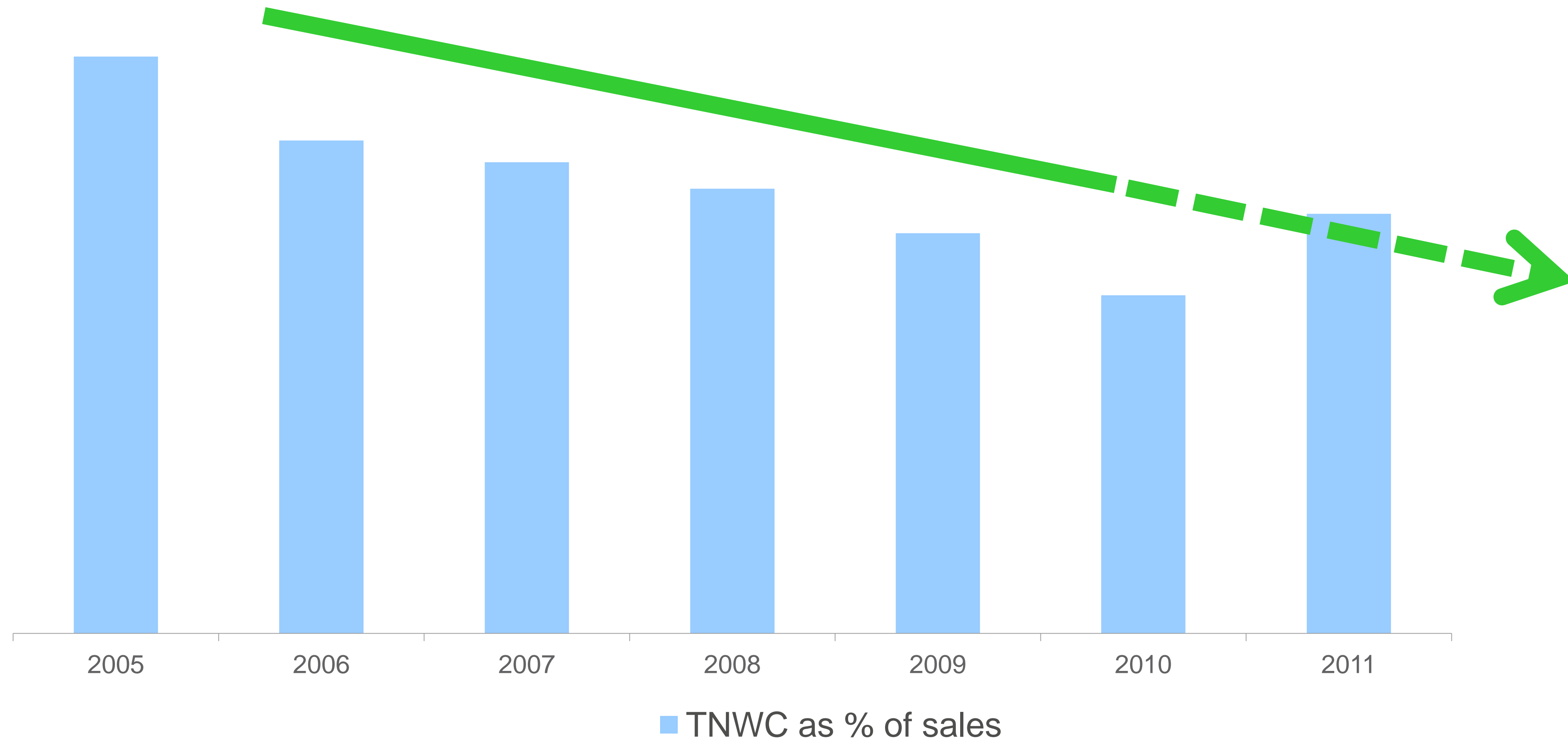


# First Half 2012 Operating Cash Flow +CHF 3.0 bn All Key Drivers Contributed to Improvement



All figures in CHF bn, based on new cash flow presentation.

# Working Capital Long-term Trend



Notes:  
Like for like estimate.  
2010 and 2011 figures exclude Alcon, Hsu Fu Chi and Yinlu.

# New Cash Flow Presentation – Increased Transparency

- **Effective 30<sup>th</sup> June 2012:**

- **Enhanced transparency** and disclosure of **Operating Cash Flow**, segregated by key drivers:

- Cash flow before changes in operating Assets and Liabilities
- Working Capital and other operating Assets and Liabilities
- Taxes, Treasury activities and Dividends from Associates

- **Change definitions of Operating Cash Flow and Free Cash Flow**, to align with common practice amongst peers:

- Operating Cash Flow to include Dividends from Associates (mainly L'Oréal)
- Free Cash Flow to exclude minority interests (dividends paid, acquisitions of shares)

# Alignment Behind our Roadmap Drives Performance



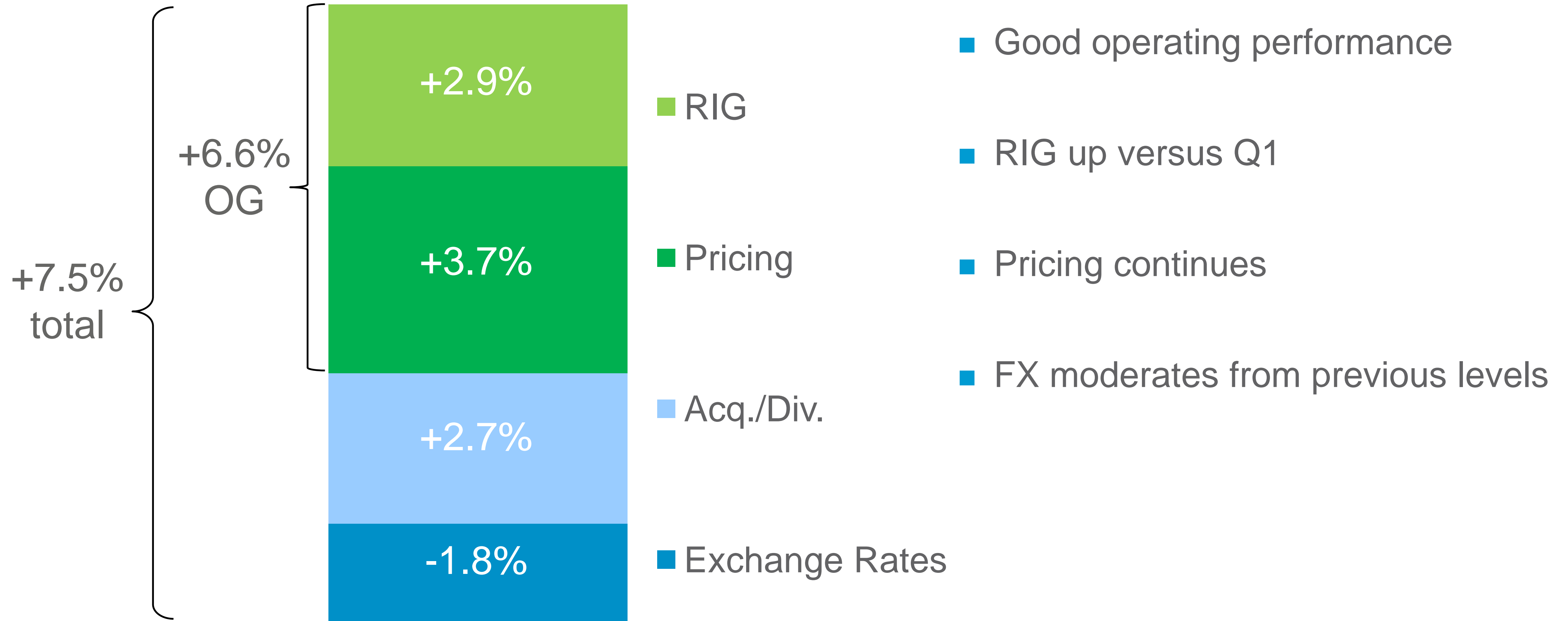
# 2012 First Half Results



## Discussion

# Appendix

# Key Elements of Sales



OG = Organic Growth  
RIG = Real Internal Growth

# Weighted Average Exchange Rates

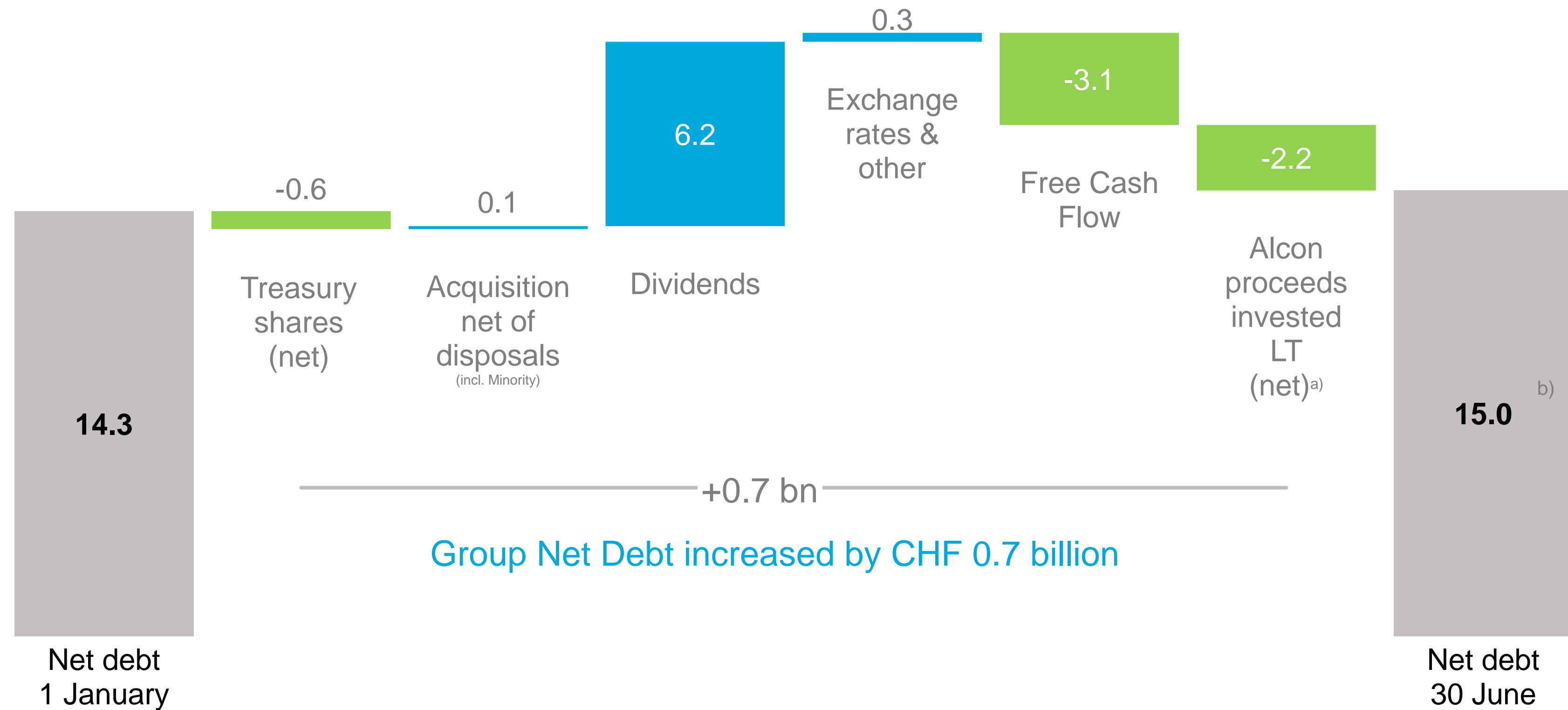
CHF per	1H 2011	1H 2012	(%)
US Dollar (1)	0.90	0.93	+2.7
Euro (1)	1.27	1.20	-5.1
£ Sterling (1)	1.46	1.46	+0.1
Real (100)	55.36	49.90	-9.9
Mex. Peso (100)	7.62	7.01	-8.0
Yen (100)	1.11	1.16	+5.2



# FX Impact on Businesses

(%)	1Q 2012	HY 2012
Zone EUR	-5.9	-4.4
Nestlé Nutrition	-5.3	-2.6
Zone AMS	-4.2	-0.8
Zone AOA	-3.8	-0.6
Nestlé Waters	-4.5	-0.5
Other	-4.4	-2.4
<b>Total</b>	<b>-4.6</b>	<b>-1.8</b>

# First Half Group Net Debt In line with Seasonal Trend



a) Mainly bonds, Asian equities reclassified to Liquid assets/Net debt because they will be realised within one year

b) Adjusted Net Debt including LT investment of Alcon cash proceeds amounts to CHF 14.3 bn

# Cash Flow

Illustrative examples of new presentation  
based on FY 2010 and FY 2011 figures

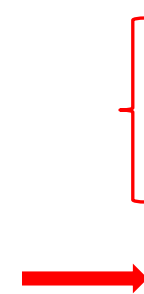
# Operating Cash Flow

## Old presentation (until 2011)

In millions of CHF	2011	2010
<b>Operating activities</b>		
Profit for the period	9'804	35'384
Non-cash items of income and expense	3'039	(20'948)
Decrease/(increase) in working capital	(1'837)	(632)
Variation of other operating assets and liabilities	(1'243)	(196)
<b>Operating cash flow</b>	<b>9'763</b>	<b>13'608</b>

*Seperate disclosure of taxes and treasury operational activities*

*New component of the operating cash flow*



## New presentation (as from 2012)

In millions of CHF	2011	2010
<b>Operating activities</b>		
Operating profit	12'471	38'820
Non-cash items of income and expense	3'335	(20'563)
<b>Cash flow before changes in operating assets and liabilities</b>	<b>15'806</b>	<b>18'257</b>
Decrease/(increase) in working capital	(1'983)	(907)
Variation of other operating assets and liabilities	(760)	210
<b>Cash generated from operations</b>	<b>13'063</b>	<b>17'560</b>
Net cash flows from treasury activities	(745)	(946)
Taxes paid	(2'555)	(3'006)
Dividends from associates	417	360
<b>Operating cash flow</b>	<b>10'180</b>	<b>13'968</b>

# Enhanced Transparency for FY Disclosure

- **Effective 31<sup>st</sup> December 2012:**
  - Presentation of the detail components of the **Free Cash Flow**
  - **Reconciliation** between Operating Cash Flow, Free Cash Flow and evolution of the **Group Net Financial Debt**

# Enhanced Transparency for FY Disclosure

In millions of CHF

	2011	2010
<b>Operating cash flow</b>	<b>10'180</b>	<b>13'968</b>
Capital expenditure	(4'779)	(4'576)
Expenditure on intangible assets	(247)	(408)
Sale of property, plant and equipment	111	113
Investments (net of disinvestments) in associates	(60)	(106)
Other investing cash flows	(448)	(439)
<b>Free cash flow</b>	<b>4'757</b>	<b>8'552</b>
Acquisition of businesses	(3'742)	(5'582)
Financial liabilities and short-term investments acquired/transferred	(76)	(330)
Disposal of businesses	7	27'715
Outflows from long-term financial investments	(1'802)	(2'528)
Reclassification of long-term investments from non-current financial assets	1'274	0
Dividends paid to shareholders of the parent	(5'939)	(5'443)
Purchase of treasury shares (net sale)	(4'953)	(11'857)
Cash flows with non-controlling interests	(266)	(791)
Cash inflows from hedging derivative financial instruments	394	1'118
Currency retranslations and exchange differences	(140)	664
Other movements	21	(196)
<b>(Increase)/Decrease of Net financial debt</b>	<b>(10'465)</b>	<b>11'322</b>
Net financial debt at beginning of year (2010: including Alcon)	(3'854)	(15'176)
<b>Net financial debt at end of year</b>	<b>(14'319)</b>	<b>(3'854)</b>

*Detail components of Free Cash Flow*

*“Bridge” Free Cash Flow and Net Financial Debt Evolution*

# 2013 Pension Accounting Changes

# Main Changes Pension Accounting (IAS 19 revised)

Impact P&L as from 2013 onwards (2012 will be restated):

- Replacement of the Expected Return on Plan Assets (ERoA) by the **Discount Rate (DR)** used for Plan Liabilities => Calculation of a net interest cost/income
- **Split** of the pension costs:
  - **Service costs** continue to be included in Trading Operating Profit
  - **Net interest cost/income** to be presented together with the Group financing costs



# Impact on Nestlé of New Pension Accounting (as from 2013)

Based on 2012 estimates:

- Trading Operating Profit margin: approx. **-20 to -30 bps**
- Net Financing Cost increase by **CHF 250 million**
- Net Profit decrease of approx. **CHF 360 million (30-40 bps)**
- Impact on EPS of approx. **10 cents** per share

**Just an accounting change,  
no change of underlying performance  
& cash generation**

# How will Nestlé Mitigate the Impact of Pension Liabilities Going Forward?

- Continue to progressively transition from Defined Benefit to **Hybrid Plans** (Defined Contribution oriented)
- Continued improvement in **operating performance**

# Comparability with Peers

- Applies for **all companies** reporting in accordance with **IFRS**
- Comparability issue with US-based competitors, as reporting of pension costs has **not changed under US GAAP**: the use of a long-term expected return on plan assets (as maintained under US GAAP) usually results in **lower pension costs** recognized in the P&L