

NESTLÉ IN 2012¹

NESTLÉ'S BUSINESS

Key figures

From 2009 to 2012 the prevailing economic crisis was particularly severe in Europe. However, Nestlé continued to grow and report profits. In 2012, it was the world's leading food and beverage Group and also a global leader in Nutrition, Health and Wellness.

For 2011 the Nestlé Group reported sales of more than CHF 83 billion² (over € 69 billion), 7.5% organic growth, with 3.9% real internal growth with respect to 2010³.

The leading companies in the food and beverages sector in 2011 in terms of sales were Pepsico (\$ 65 billion), Kraft Foods (\$ 55 billion), Coca Cola (almost \$ 50 billion), Unilever and Mars (around \$30 billion each) and Danone (just over \$ 25 billion).

Nestlé's net profit in 2011 was CHF 9.487 billion (€ 7.86 billion), down 73.18% on the CHF 35.384 billion reported in 2010, although profits were actually up by 8.1% over the previous year if the € 20 billion plus in income collected in 2010 from the sale of Alcon to Novartis is excluded.

Underlying earnings per share were CHF 3.08 (€ 2.55), up 7.8% in constant currencies, and the recommended dividend per share was CHF 1.95 per share, compared with CHF 1.85 per share in 2010. Exhibits 1 and 2 show the income statements and balance sheets for 2010 and 2011.

¹ Supplement prepared by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professor Antonio García de Castro and the research assistant Mrs. Rocio Reina Paniagua from Instituto Internacional San Telmo.

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² The Euro/Dollar exchange rate as at December 31, 2010, was 1.33.

³ The Euro/Dollar exchange rate as at December 31, 2011, was 1.29.

For 2012, Nestlé predicted organic growth of between 5 and 6%. Paul Bulcke, Nestlé's Chief Executive Officer, commented:

"We delivered good performance in 2011. It was a challenging year, and we do not expect 2012 to be any easier. We have continued to invest for the future and strengthen our capabilities across the world".

In the first half of 2012, Nestlé's obtained a net profit of CHF 5.1 billion (€ 4.2 billion), 8.9% up on the same period in 2011.

These results confirmed the group's growth forecasts. In the first half of 2012, the Nestlé Group's organic growth was 6.6%, with sales increasing 7.5% to € 44.1 billion (CHF 36.7 billion).

Nestlé worldwide

Ever since its creation Nestlé has grown internationally and in recent years the Group had been strengthening its market positions globally. An increasingly large portion of Nestlé's growth was driven by emerging markets, which accounted for about 40% of the Group's sales in 2012, and it expects this percentage to continue increasing in the coming years. Of the 6% plus growth achieved in the first half of 2012, 12.9% corresponded to emerging markets and 2.6% to developed markets. The table in Exhibit 3 shows the results by zones and products.

With respect to emerging markets, Paul Bulcke said: *"They are creating a new middle class and they are developing fast, while you look at the developed countries, and they are slowing because of the debt crisis"*.

Paul Bulcke also stated: *"We are continually opening new routes-to-market to reach emerging consumers, and using new media to increase both our direct engagement with consumers and our return on brand investment"*.

In 2011 Zone Americas reported sales of CHF 26.8 billion, 6.2% organic growth, 1.1% real internal growth and an 18.4% trading operating profit margin. The Zone achieved growth in both North America, with the USA maintaining its leadership in the frozen pizzas and petcare segments (despite subdued consumer confidence) and Latin America, which recorded double-digit growth where demand remained strong with Mexico a highlight.

Sales in the first half of 2012 amounted to CHF 13.4 billion (€ 11.1 billion). In Latin America, the two largest markets had a good start to the year, as did the other countries in South America, the key growth drivers being soluble coffee and chocolate.

In Europe sales in 2011 totalled CHF 15.2 billion, with 4.0% of organic growth and 1.8% of real internal growth, and a 15.6% of trading operating profit margin. The Zone achieved growth in Western and Central/Eastern Europe.

In Western Europe, all markets overcame tough economic conditions to deliver real internal growth. Portugal, Italy, Greece and Spain collectively achieved 3.7% organic growth. France, the Benelux countries and Great Britain did well. All the key categories grew with soluble coffee, chilled culinary, frozen pizza and pet care among the highlights.

In Central and Eastern Europe: there were strong performance in Ukraine and Romania and in the Adriatic Region. Trading conditions remained tough in Russia and Poland. The market was shifting from one with highly-atomised distribution to another with a greater presence of large distribution chains and discounters, and it had taken time to adapt to the change, with prices not adjusting sufficiently to the new circumstances. Despite this, the situation in Russia had already improved substantially in the first half of 2012.

Global sales in the first half of 2012 totalled CHF 7.4 billion (€ 6.16 billion), on a par with sales income in the previous year.

In 2011 Africa, Asia and Oceania (AOA) achieved total sales of CHF 15.3 billion, 11.9% organic growth, 7.9% real internal growth and an 18.9% trading operating profit margin.

The AOA Zone achieved growth in emerging and developed markets. Nestlé's presence in the region was already deep-rooted, demonstrated by four 100-year anniversaries: Turkey in 2009, the Philippines in 2011 and Malaysia and India in 2012.

The emerging markets produced double-digit growth. The highlights included China, India, Pakistan, North Africa, Central West Africa (despite the conflict in Côte d'Ivoire) and Egypt (in spite of the turmoil endured for much of the year). In a volatile environment, Nestlé remained focused on deepening distribution, aiming to service an additional one million small retail outlets between 2010 and 2012. The initiatives related with Popularly Positioned Products (PPP) were the key drivers of the Zone's growth.

Global businesses: Nestlé Waters, Nestlé Nutrition and Nestlé Professional

Nestlé Waters recorded sales in 2011 of CHF 6.5 billion, 5.2% organic growth, 3.4% real internal growth and an 8.0% trading operating profit margin.

Nestlé Waters grew in all three zones. North America grew both in the retail channel and home & office. *Nestlé Pure Life* and the international brands *S. Pellegrino*, *Perrier* and *Acqua Panna* performed well, offsetting a tough competitive environment for the regional brands.

The European business gained share with strong performances in most markets including France, Italy, Germany and the UK.