



Nestlé Good food, Good life

Annual Review 2019



Nestlé.
Enhancing quality of life
and contributing
to a healthier future.

Our purpose

Nestlé. Enhancing quality of life and contributing to a healthier future.

Quality of food and quality of life go together. What and how people eat and drink is fundamental to their health and well-being. We create good food to nurture good lives and healthier, happier tomorrows.



Front cover

Purina: Strength through innovation and ingenuity

Purina enjoyed one of its best ever performances in 2019. The business grows by harnessing the power of life-changing nutrition.

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Accompanying reports

Corporate Governance Report 2019
Compensation Report 2019
Financial Statements 2019

Online

You can find more information about the Nestlé Group at www.nestle.com

Find out more about Creating Shared Value at www.nestle.com/csv

Our performance

Our Nutrition, Health and Wellness strategy is the engine of our value creation.

2019 was another year of strong progress. Key operating and financial metrics improved significantly for a second consecutive year. Our organic growth reached 3.5%. Real internal growth accelerated to 2.9% for the full year, the highest level in the last six years. Profitability improved again to reach our guided range one year ahead of plan. Cash flow was strong, while underlying earnings per share and returns to shareholders reached record levels. On the right is a summary of the results achieved during the year.

Group sales (in CHF) 92.6 billion	Organic growth* 3.5%	Real internal growth* 2.9%
Underlying trading operating profit* (in CHF) 16.3 billion	Underlying trading operating profit margin* 17.6% Constant currency	Underlying trading operating profit margin* +60 Basis points Constant currency
Trading operating profit* (in CHF) 13.7 billion	Trading operating profit margin* 14.8%	Trading operating profit margin* -40 Basis points Constant currency
Earnings per share (in CHF) 4.30	Earnings per share +28.0%	Underlying earnings per share* +11.1% Constant currency
Operating cash flow (in CHF) 15.8 billion 58.4% of net financial debt	Free cash flow* (in CHF) 11.9 billion	
Proposed dividend (in CHF) 2.70	Proposed dividend increase +10.2%	

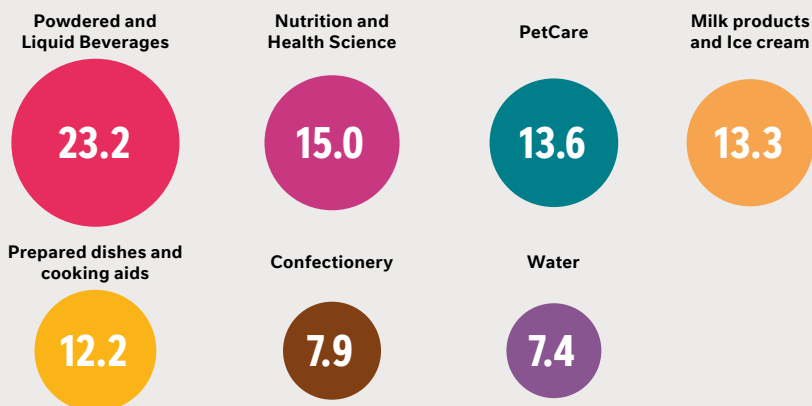
* Financial performance measures not defined by IFRS. For further details see Financial review on page 50.

Our business

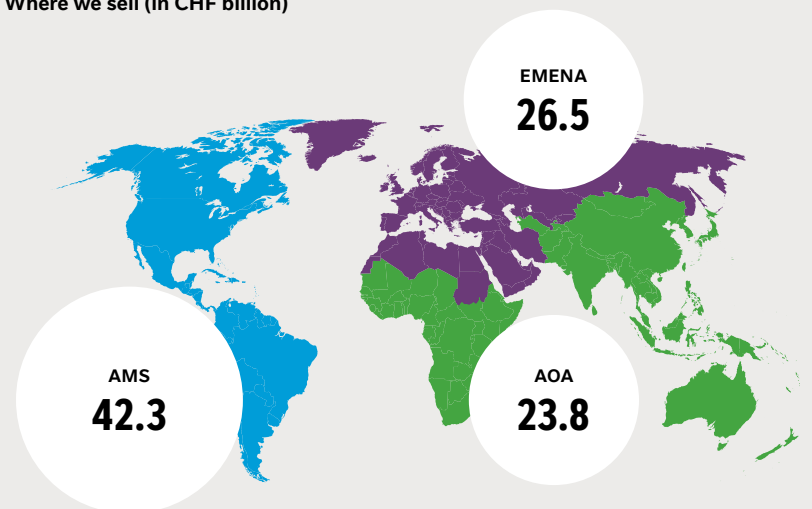
For over 150 years, Nestlé has been producing food and beverages that enhance quality of life and contribute to a healthier future.

Across the globe, we provide healthy, delicious, convenient products for modern, time-constrained lifestyles. Our portfolio includes products in attractive and growing categories, offering solutions for all stages of life, at every moment of the day.

What we sell (in CHF billion)



Where we sell (in CHF billion)



Number of employees

291 000

Number of countries we sell in

187

Total group salaries and social welfare expenses (in CHF)

16 billion

Corporate taxes paid in 2019 (in CHF)

2.9 billion

Our commitments

Our health, social and environmental commitments guide our efforts to be a force for good.

Business benefits and positive societal impact must be mutually reinforcing. This is the core of our Creating Shared Value approach to business. Our company can only be successful in the long term if we create value for all stakeholders.



For individuals and families

Over **1300**

new products were launched in 2019 addressing specific nutritional needs and gaps of babies, children, expecting women or new mothers

185.4 billion

servings of fortified food and beverages delivered in countries with higher vulnerability to micronutrient fortification

27.2 million

children reached through *Nestlé for Healthier Kids*

2.76 billion

portions of vegetables added to our foods and beverages



For our communities

211.9 million

coffee plantlets distributed (cumulative since 2010) to farmers, against a target of 220 million by 2020

Over **24 500**

job opportunities, traineeships or apprenticeships were offered to people under the age of 30 through our *Nestlé needs YOUth* initiative

70%

of the volume of our 15 priority categories of raw materials are responsibly sourced

429 800

farmers trained through capacity-building programs



For the planet

34%

reduction in greenhouse gas emissions per tonne of product since 2010 in our manufacturing operations

328

factories achieved zero waste for disposal

31%

reduction in direct water withdrawal per tonne of product since 2010 in our manufacturing operations

41%

of our electricity comes from renewable sources

Dear fellow shareholders,

Nestlé stands for Good food, Good life. Quality of food and quality of life go together. What and how we eat and drink is fundamental to our health and wellness, today and for the future. Our Nutrition, Health and Wellness journey is guided by our Creating Shared Value approach to business. We live our purpose and responsibilities to our shareholders, the communities in which we operate and the planet on which we live. We aim to be trusted and dependable. That means responsibly manufacturing our products and managing our supply chain, bringing meaningful innovations to market, and building brands that delight and do good. We do this in a way that is true to the values that our company has been built on for more than 150 years. Because Good food and Good life are good business.

Delivering results sustainably

2019 was again a year of progress on all fronts for Nestlé. We delivered improved and industry-leading results, with a balance of top- and bottom-line growth. Highlights include:

- Actively managing our portfolio. We sharpened Nestlé's strategic focus on food, beverage and nutritional health products.
- Accelerating innovation. Science and technology are fundamental to Nestlé. We made fundamental changes in our research and development. This is empowering Nestlé to anticipate changing consumer trends, with faster innovations and product launches.
- Embracing new technologies. We continued to advance our capabilities, from digital marketing and e-commerce to supply chain traceability.
- Taking a leadership role in sustainability. We accelerated actions to tackle climate change and we committed to zero net greenhouse gas emissions by 2050. We made substantial progress on our journey to make 100% of our packaging recyclable or reusable by 2025.

Making progress toward our growth and profitability targets

Our long-term value creation model is based on the balanced pursuit of top-line growth and bottom-line performance as well as improved capital efficiency. Our ambition is to reach a sustainable mid single-digit level of organic growth as from 2021/2022 and to increase our underlying trading operating profit margin to between 17.5% and 18.5% in 2020. We are pleased with our progress against these targets:

- Organic growth increased to 3.5%, with 2.9% of real internal growth (RIG) and pricing of 0.6%. Increased organic growth was supported by good momentum in Nestlé's largest market, the United States, and Purina PetCare. Innovation was key to the accelerated growth.
- Total reported sales increased by 1.2% to CHF 92.6 billion (2018: CHF 91.4 billion). Net divestments had a negative impact of 0.8% and foreign exchange reduced sales by 1.5%.
- Underlying trading operating profit (UTOP) margin increased by 60 basis points in constant currency and on a reported basis to 17.6%.



**Paul Bulcke, Chairman (left),
and U. Mark Schneider, Chief Executive Officer (right)**

- Underlying earnings per share growth increased by 11.1% in constant currency and by 9.8% on a reported basis to CHF 4.41.
- Free cash flow increased by 10.9% to CHF 11.9 billion (2018: CHF 10.8 billion).

Based on these results, the Board of Directors has proposed a 25th consecutive increase of the yearly dividend to CHF 2.70, to be paid in April 2020.

Sharpening our strategic focus around nutrition, health and wellness

2019 was a busy and successful year in terms of portfolio adjustment. We delivered all that we announced at the start of the year and more. We further sharpened Nestlé's strategic focus on food, beverages and nutritional health products. The most significant transaction was the divestment of Nestlé Skin Health for CHF 10.2 billion. This business was no longer core to our Nutrition, Health and Wellness strategy, as its future growth opportunities lie increasingly outside of Nestlé's strategic boundaries. We continued to shift our portfolio toward higher growth categories in a disciplined way to maximize the value of our assets. We reached an agreement to sell our U.S. ice cream business to Froneri for USD 4 billion. We also agreed to sell a 60% stake of Herta and create a joint venture with Casa Tarradellas.

Harmonizing and simplifying our organizational structure

We took the decision to migrate the globally-managed Nestlé Waters business to our three geographic Zones from the start of 2020. This represents a further step toward harmonizing and simplifying our organizational structure. The move is expected to increase responsiveness and competitiveness, as Nestlé Waters generates around 60% of its sales through local brands. This structure change follows the successful migrations of Nestlé Nutrition and Nestlé Professional into the Zones.

Boosting organic growth through fast innovation

An engaged generation of consumers is driving a new food ideology, with trends toward more natural and organic foods, plant-based proteins and simpler, healthier ingredients. They expect brands to provide experiences beyond the product, be authentic and act as a force for good – both socially and environmentally.

These forces have led us to redefine our approach to new product development with shorter innovation cycles and faster launches. During 2019, we shortened timelines of fundamental research projects by 30% on average. Fifty key fast-track projects made the journey from idea to launch within 12 months. In total, we introduced around 1400 new products worldwide and reformulated 4000 products to improve nutritional value.

Starbucks. The rapid launch of our *Starbucks* portfolio is a prime example of how we aim to act with urgency and speed to maximize growth opportunities. Within six months of acquiring the license, we successfully launched the first wave of new products. In 2019, we launched 29 *Starbucks* products into more than 40 countries and generated incremental sales of more than CHF 300 million.

Plant-based food. We believe that plant-based products should be delicious, offer a better nutritional profile and have a lower environmental footprint compared to meat. Through our strong innovation capacity, we developed our *Garden Gourmet* Incredible Burger in one year and launched it successfully in 10 European countries during 2019.

“Companies that Create Shared Value demonstrate that business should be a force for good. Making a real contribution to society and helping to find solutions to global challenges is fundamental to our way of doing business. To give focus to our efforts, we have set goals that include best environmental, social and governance practices across our operations.”

We also launched the Awesome Burger in the United States under the *Sweet Earth* brand. Both *Garden Gourmet* and *Sweet Earth* have developed a wide range of plant-based products that go beyond the burger, including vegan alternatives to chicken, cheese and bacon. We have the ambition and scale to be a major player in this area.

Leveraging technology at all levels of our business

Science and technology touch every part of our business from farm to fork. As suppliers, customers and consumers are increasingly going digital, we are also adapting and evolving our way of working. We take practical inspiration from experts and pioneers across all industries and look to understand emerging, long-term trends with the advice of our Scientific & Technology Advisory Council.

Digital transformation. We are investing in digital transformation across marketing, social media, e-commerce, manufacturing and supply chain. This helps us become data-powered, develop new business models, and deliver more personalized products, messages and services for our consumers.

Supply chain transparency. During 2019, we became the first major food and beverage company to pilot open blockchain technology. This allows consumers to track our food right back to the farm. This is part of Nestlé’s journey toward full supply chain transparency and traceability. We want our consumers to make an informed decision and be able to choose responsibly produced products.

Fueling growth and returns through cost efficiencies

Driving efficiencies across the organization is critical to free up resources for investment in product innovation and brand building, while improving returns. We continued to make progress in reducing our structural costs across administration, procurement and manufacturing. Our structural costs in percentage of sales declined for the third consecutive year, reflecting our ability to control costs even as we grow our businesses.

As part of our structural cost savings program, Nestlé USA started to transition its pizza and ice cream businesses from a frozen Direct-Store-Delivery network to a warehouse distribution model. This change will leverage the highly-efficient warehouse network that is already used for frozen meals and snacks. Leveraging a simpler route to market

unlocks resources we can use to fuel our efforts in demand generation, such as product innovation and brand building. This is a key step to support Nestlé's profitable growth.

Returning significant cash to shareholders

In 2019, we returned CHF 16.9 billion to shareholders through dividends and share repurchases. Share buybacks amounted to CHF 9.7 billion, as part of our buyback program started in July 2017. Over the last fifteen years, Nestlé has returned CHF 153.6 billion to shareholders, of which CHF 67 billion has been in the form of share repurchases.

On December 30, 2019, Nestlé announced to distribute a further amount of up to CHF 20 billion to shareholders over the period 2020 to 2022. We intend to maintain the company's longstanding sustainable dividend practice. The new distribution reflects Nestlé's continued strong cash generation as well as significant cash inflows from disposals. We maintain a preference for value-creating investments in our food, beverage and nutritional products businesses. We will retain the flexibility to adjust the amount distributed through share buybacks, should any sizable acquisitions take place.

Taking a leadership role to be a force for good

Companies that Create Shared Value demonstrate that business should be a force for good. Making a real contribution to society and helping to find solutions to global challenges is fundamental to our way of doing business. To give focus to our efforts, we have set goals that include best environmental, social and governance practices across our operations.

Tackling climate change. Climate change is one of the biggest threats to our society and to our business. In 2019, Nestlé announced its ambition to achieve zero net greenhouse gas emissions by 2050. Some of our specific steps include speeding up the transformation of our products to lower their environmental footprint, scaling up initiatives in agriculture to absorb more carbon and using 100% renewable electricity in Nestlé sites. During 2021, we will lay out a time-bound plan including interim targets consistent with the 1.5°C path. We will review and communicate progress annually to ensure we are on track.

Shaping a waste-free future. We are taking leadership in reducing the environmental impact of our products and have committed to make 100% of our packaging recyclable or reusable by 2025. In 2019, we launched our Institute of Packaging Sciences, dedicated to the discovery and development of functional, safe and environmentally-friendly packaging solutions. We have started to eliminate plastic straws from our products, rolled out paper packaging for products such as *Nesquik* and the *Yes!* snack bar and increased the use of recycled plastic in our water brands.

Promoting gender balance. Gender balance is a key component of Nestlé's approach to diversity and inclusion. We have made progress in recent years with 42% of managerial positions now held by women. With our *Nestlé Gender Balance Acceleration Plan*, Nestlé will put further emphasis on increasing the proportion of women in the Group's top 200 senior executive positions from around 20% currently to 30% by 2022. This is another step in Nestlé's journey toward gender parity.

Board of Directors engagement

Our Board of Directors takes an active role in providing guidance on our long-term Nutrition, Health and Wellness strategy and Creating Shared Value approach to business. We continue to add new perspectives and relevant experience to the Board. In 2019, we appointed two independent directors with expertise in food retail and technology.

During the year, the Board conducted deep-dive analyses of our infant nutrition, coffee and Nestlé Health Science strategies. It also evaluated the company's post-acquisition returns and performance and reviewed our digital strategy. The Board approved the sale of our U.S. ice cream business to the Froneri joint venture and the sale of a 60% stake of Herta to create a joint venture with Casa Tarradellas.

The Board agreed to accelerate action on climate change and committed to achieve zero net greenhouse gas emissions by 2050, consistent with a 1.5° C path defined by the Paris Climate Agreement. It also reviewed our Creating Shared Value approach to business and progress against our commitments. It endorsed our broader vision and action plan on achieving a waste-free future by tackling plastics packaging and reviewed progress on gender and inclusion.

The Board carried out an analysis of the company's financial structure and resolved that a further CHF 20 billion be distributed to shareholders between 2020 and 2022. The Board continuously monitors the returns and strategic options of our financial investment in L'Oréal. The Board visited Nestlé in Switzerland on its annual market visit in 2019 after visiting the United States in 2018.

Value for all stakeholders

We believe that our Creating Shared Value approach enables us to optimize value for our shareholders and have a long-term positive impact on all stakeholders connected to our business. This includes: employees, consumers, business partners, as well as the communities in which we operate. We take this opportunity to thank all our employees for their dedication and energy in driving our results. We also express our gratitude to the communities in which we live and work. Finally, we thank you, our shareholders, for your continued support, trust and confidence.



Paul Bulcke
Chairman



U. Mark Schneider
Chief Executive Officer

Pursuing our value-creation strategy



Garden Gourmet: Growing our plant protein platform

The rapid expansion of our plant-based portfolio highlights the speed at which Nestlé can move on trends. This opportunity cuts across segments and our success reflects our commitment to do good business by doing good.

Good food, Good life. It's good business. Consumer expectations, competition, trade landscapes and society are all evolving at an unprecedented pace. Our company must respond to deliver good food in ever more relevant, accessible and sustainable ways. Every choice we make reflects our commitment to deliver Good food, Good life. Good is about holding ourselves to high standards and always striving to be better.

Our strategy: The choices we make

We aim to offer a portfolio of products that evolve with consumer needs, offer good nutrition and delight the senses, contributing to healthier, balanced lives and a healthier planet. This guides the choices we make today and shapes our portfolio for tomorrow – whether through product evolution, innovation, acquisition or partnerships.

We believe that Good food, Good life is best delivered by:

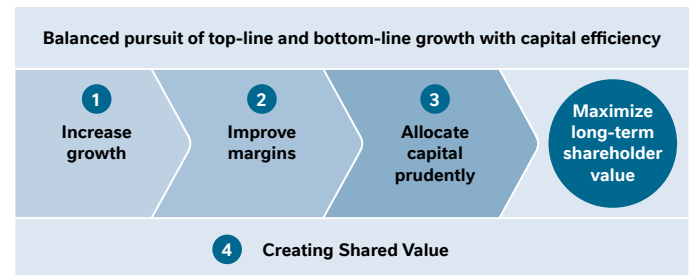
- Applying our nutrition expertise to enhance the health and wellness of people and pets.
- Meeting the needs of the modern consumer with healthy, delicious, convenient products for conscious, time-constrained lifestyles.
- Bringing premium food innovations to market fueled by consumer insights, pioneering nutrition science and culinary excellence.
- Offering a wide array of plant-based foods, to be consumers' preferred choice as they diversify their diets.
- Using our scale and expertise to increase access to nutrition for everyone, everywhere.

We play to win in all our categories while pursuing higher growth in coffee, pet care, infant nutrition, water and nutritional health.

Our value creation model

Our long-term value creation model is based on the balanced pursuit of resource efficient top- and bottom-line growth as well as improved capital efficiency. We create value by:

- Increasing growth through innovation, differentiation and by offering relevant products and solutions to our consumers. We are committed to reach a sustainable mid single-digit level of organic growth.
- Improving operational efficiency with the goal to increase our underlying trading operating profit margin to between 17.5% and 18.5% in 2020 (from 16.0% in 2016).
- Allocating our resources and capital with discipline and clear priorities, including through acquisitions and divestitures.



1 Increase growth

We compete in attractive and growing categories. We have a global footprint with presence in 187 countries. Our portfolio includes more than 2000 brands, from global icons such as *Nescafé* to local favorites like *Bear Brand*. Among these, 34 brands generate over CHF 1 billion each in annual sales at retail level.

We continue to actively manage our portfolio and prioritize our investments to stay relevant, address the latest consumer trends, and win in every category and market in which we operate. This requires setting clear priorities and allocating resources behind activities that create the most value, either through growth or efficiencies.

Invest in high-growth categories and geographies. We increased investment behind our high-growth categories of coffee, pet care, nutrition, water and nutritional health. Together, they represented 59% of sales and grew by 4.1% in 2019. We are also encouraged to see attractive growth levels within other segments of our portfolio, including from brands such as *Maggi*, *KitKat*, *Bear Brand*, *Garden Gourmet* and *Sweet Earth*. We are committed to investing selectively behind growth opportunities across all of our

categories and new growth platforms such as plant-based food and beverages, ready-to-drink beverages and healthy snacking.

Our high-growth regions continued to offer significant opportunities. In 2019, emerging markets represented 42% of sales and grew by 4.7%. This is around twice as fast as developed markets.

We have also continued to invest in strategic areas such as:

- **E-business**, including digital marketing and e-commerce. In 2019, our e-commerce sales represented 8.5% of sales and grew by 18.5%. This puts us at the higher end of the food and beverage industry.
- **Premiumization**. In 2019, our premium offerings represented 26% of sales and grew by 7.4%.
- **Direct-to-consumer**. In 2019, direct-to-consumer businesses represented 8.2% of sales and grew by 4.6%.

Fix underperforming businesses. We continued to take action to restore growth and profitability in underperforming businesses. In 2019, we took the following steps:

- Integrated the Nestlé Waters business into the Group's three geographical Zones from the start of 2020. This came in addition to increased focus on high-growth segments such as sparkling, premium still and flavored waters.
- Developed further the turnaround plan for our *Gerber* baby food business in the United States. Innovation, particularly with organic offerings and healthy snacks, supported the improvement.

Manage our portfolio. We focus on categories and geographies where Nestlé has an ability to win. We continued to evolve our portfolio toward attractive, high-growth businesses by:

- Divesting underperforming or non-core businesses such as Nestlé Skin Health. We also announced the sale of our U.S. ice cream business to Froneri, our global strategic partner in ice cream. We also agreed to sell a 60% stake of Herta and create a joint venture with Casa Tarradellas.
- Acquiring core strategic businesses. We continue to monitor the market for potential acquisitions, but will remain disciplined and diligent to secure attractive returns.

Since 2017, we have completed or announced more than 50 transactions (acquisitions and divestitures) with annual sales equivalent to 12% of Group sales.

2 Improve margins

In order to fuel faster growth we must remain disciplined on our cost management and strive for efficiencies at all levels. This approach enables us to free up resources to reinvest in product innovation and brand building, creating value for our consumers as well as our shareholders. Consumer-facing marketing expenses increased by 3.4% in constant currency.

Reduce costs. We made good progress on our structural savings program across all areas of manufacturing, procurement and administration. At the end of 2019, we reached CHF 1.9 billion gross savings or 76% of the expected amount for the period from 2016 to 2020.

In manufacturing we continued to optimize our production footprint. In 2019, we closed or sold 16 factories and reduced factory fixed overheads by 5.5%.

In procurement we continued to leverage our scale. Global buying through our three global purchasing hubs increased from 55% in 2018 to 61% in 2019. The number of specifications for raw and packaging materials decreased for the second consecutive year, which allowed us to reduce complexity and costs.

In administration we continued to simplify and standardize processes. The penetration of our shared service centers increased for the fourth consecutive year.

Increase operational efficiency. We have continued to adapt our organization to be more agile, simple and digitally enabled. To drive agility, we have further empowered our markets and Zones, increased accountability, enhanced decision-making and encouraged calculated risk-taking. To support simplicity, we have standardized processes, leveraged scale and increased automation. To be digitally enabled, we have raised competencies and developed digital platforms. In parallel, we have aligned compensation incentives to prioritize profitable growth and improve capital efficiency.

3 Allocate capital prudently

Our priorities are to invest in the long-term growth and development of the business, while increasing shareholder returns and Creating Shared Value. Our preference is to allocate capital toward value-

creating investments to expand the company's core food, beverage and nutritional health product business. We take a disciplined approach to capital allocation, with prudent financial policies. In doing so we aim to maintain a conservative but efficient capital structure that provides flexible access to financial markets. In combination with improved operating performance, this has allowed us to increase our return on invested capital by 20 bps, from 12.1% in 2018 to 12.3% in 2019.

Invest in growth drivers. Investing for the long term takes the form of R&D investment, brand support and capital expenditure to support organic profitable growth. We allocate these resources discerningly, focusing on projects with the highest potential to create economic profit. Working capital maintained a downward trend. Our five-quarter average working capital in % of sales reached 0.6% at the end of 2019, -80 bps versus the prior year.

Exercise discipline in acquisitions. Making acquisitions is a key element of our portfolio management strategy. Targets must have a good strategic and cultural fit with our organization, offering attractive financial returns. We are disciplined when it comes to acquisition prices in order to protect our return on invested capital. We have clear governance in place for acquisitions, with solid integration plans, precise accountability and targets. To better identify internal and external strategic growth opportunities, we have created a new *Group Strategy and Business Development* function, effective January 1st, 2020.

Return cash to shareholders. We have demonstrated our strong commitment to maintaining a high level of reinvestment into the business while at the same time continually increasing capital returns to shareholders. We do this by increasing our dividend year after year. Based on our performance of 2019, the Board of Directors has proposed a dividend increase of 25 centimes to CHF 2.70 per share to be paid in April 2020. This will be our 25th consecutive annual dividend increase. We regularly return any excess cash to shareholders through share buybacks. As a result of our strong free cash flow generation we have returned CHF 9.7 billion of capital to shareholders in 2019 through share repurchases. This brings the total returned to shareholders

over the last fifteen years to CHF 153.6 billion. Over the same period the outstanding number of Nestlé shares has been reduced by 26%. We have committed to return a further CHF 20 billion of capital primarily through share repurchases between 2020 and 2022.

4 **Creating Shared Value: The way we operate**

No other food and beverage company has the global resources and local know-how to make positive impact at the scale and pace of Nestlé. We aim to continuously improve, taking on commitments that ensure that we enhance quality of life for everyone.

We rally our 291000 employees and 2000 brands to live our purpose day in and day out. Our people do this by responsibly manufacturing our products and managing our supply chain, bringing innovations to market in agile ways and building brands that delight and do good.

We use digital technology to anticipate consumer needs, then serve them in the most relevant and personalized way. By building a culture of sustainable business practices and continuous improvement, we strive to create a healthier future for all.

We create shared value at a scale that makes a difference. Together with our partners we are:

- Enabling people to lead healthier, happier lives by striving to make better products.
- Building strong communities and supply chains, improving livelihoods in communities directly connected to our business activities.
- Stewarding resources for future generations by minimizing the environmental impact of our operations.
- Maximizing long-term value by accelerating growth, improving margins and allocating capital prudently.

Innovating fast to ensure long-term growth



Purina Calming Care: From science to solution

Scientific research continues to drive many of our most important innovation breakthroughs. Expertise in areas such as the microbiome help us to provide consumers with path-breaking functional solutions such as our *Purina Calming Care* probiotic supplements.

Innovation is at the heart of Nestlé. Ever since Henri Nestlé invented Farine Lactée to save the life of a child, we have been dedicated to enhancing people's lives. It is a cornerstone of our success and key to our strategy. For more than 150 years, innovation has helped us build competitive advantages and continuously evolve our business, product and solution portfolio. Our expertise in understanding the relationship between nutrition and health at every life stage is unmatched and vital to supporting our growth. We identify global trends and translate them into new products that consumers crave. To sustain growth, we strive to ensure these innovations have a positive impact on society and the environment.

Keeping pace with the consumer

Our world is rapidly changing: demographic, environmental, technological, consumer and business trends heavily impact supply and demand in the food and beverage industry. We must anticipate and adapt to shifting consumer needs, expectations and perceptions across all ages.

Our approach to innovation has changed to ensure our products are better differentiated and more consumer-centric. To increase our agility and speed to market, we have:

- Simplified our innovation processes by reducing the number of internal approvals.
- Shortened timelines for the translation of science into innovation, on average by 30%.
- Funded 50 additional fast-track projects leading to launches within 6 to 12 months.
- Enhanced rapid prototyping capabilities.
- Created R&D accelerators where project teams (including internal staff, students and start-ups) can rapidly translate ideas into prototypes for testing.

- Lowered capital investment for market entrance by manufacturing on highly-flexible pilot lines.

Creating competitive gaps through science-based innovation

Long-term scientific research projects help us understand the impact of nutrition on health at all ages. We aim to deliver customized and personalized nutritional solutions. Our work spans from nutrition for the first 1000 days (including maternal nutrition) to cellular nutrition for healthy aging. We translate this research into products that offer meaningful benefits and drive growth.

Leveraging science across categories

We leverage fundamental research across all product categories in areas such as food safety, analytical sciences, material sciences and packaging sciences. Results from life science research can be applied to both our human and Purina PetCare businesses. Examples include research in microbiome, immunology, food allergy/sensitivity and cellular nutrition.

Our category-focused Product Technology Centers translate the results of fundamental research programs into relevant innovations. These are then adapted to different regions and markets by our application groups and innovation centers in high-growth markets.

At a glance

Nestlé operates the world's largest science and innovation network in the food and beverage industry.

R&D investment (in CHF billion)

1.7

Number of R&D centers

25

Percentage of sales from products innovated or renovated in the last three years

30%

Innovating through collaboration

Collaborating with external partners is vital to quickly respond to complex challenges such as plastic waste. We engage with an open approach, which increases our access to disruptive ideas, technologies and business models. For example, in 2019, we launched the Nestlé R&D Accelerator based in Lausanne, Switzerland. It allows our employees and experts to collaborate with students, researchers from leading universities, suppliers and start-ups.

These teams have access to our R&D expertise and select infrastructure such as labs, kitchens, and bench- and pilot-scale equipment. Over six-month periods, they work to translate ideas into prototypes that can be tested commercially. With 1400 square meters, the accelerator is one of the largest of its kind in the food and beverage industry. It combines our expertise and the knowledge of our academic and industrial partners with the entrepreneurial creativity of students, entrepreneurs and start-ups.

Boosting local innovation

We remain a largely decentralized organization. Most of our 2000 brands are locally managed. This allows us to be close to consumers across the 187 countries where we operate. To enhance our ability to identify unmet consumer needs, we are expanding our network of regional incubators and adding accelerators to each of our development centers. These efforts will generate innovations that address local challenges and can be important economic growth drivers.

In Sub-Saharan Africa we launched an R&D innovation challenge targeted at start-ups and universities across six countries. The challenge aims to discover environmentally-friendly packaging solutions, sustainable solutions for transport of cocoa plantlets, affordable nutrition and new routes-to-market.

In China we launched an open innovation challenge to encourage the development of environmentally-friendly packaging solutions with Qinghua University in Beijing. This will enable us to engage with China's research community.

In Switzerland we joined forces with universities ETH Zurich and Ecole Polytechnique Fédérale de

Lausanne (EPFL) and Swiss companies Bühler and Givaudan to launch the *Future Food Initiative*. This focuses on research in the area of ancient grain varieties and plant-based food and beverages.

Advancing sustainability

Our innovation priorities are shaped by our purpose and commitment to Creating Shared Value. This means that in addition to advancing nutrition, health and wellness, we focus on:

- Reducing plastic waste. We are supporting the development of food-grade recyclable packaging and alternative, biodegradable packaging materials.
- Making nutrition affordable. We are applying our expertise to ensure that healthy, nutrient-fortified products are available at lower price points.
- Promoting sustainable consumption. We are reviving ancient ingredients and developing nutritiously-balanced dairy and meat alternatives with less environmental impact.
- Mitigating and adapting to climate change. We are working to better manage our carbon footprint and encourage sustainable-by-design approaches across our value chains.

Purina Institute: Breakthrough allergen-reducing ingredient helps keep people and pets together

Nestlé continues to lead the way in translating fundamental science into practical solutions. Our Purina scientists have developed a cat food ingredient that safely neutralizes allergens in cat hair without affecting the animal's physiology. With one in five adults worldwide affected by cat allergies, this breakthrough has the potential to transform the way cat owners spend time with their pets. New products using this breakthrough technology are expected in 2020.



Establishing an end-to-end food and nutrition ecosystem

In 2019, we joined forces with the Swiss Canton of Vaud, the Ecole Polytechnique Fédérale de Lausanne (EPFL) and the Swiss Hospitality Management School in Lausanne (EHL Group) to develop and promote a global innovation ecosystem on food and nutrition. The initiative was launched in January 2020 as the "Swiss Food & Nutrition Valley" to attract talent, start-ups and investment to the region. It will look at the future of food and nutrition, including agricultural production, healthy and sustainable diets, and waste reduction.



Developing affordable maternal nutrition through our R&D accelerator

Improving access to nutrition remains vital particularly in developing countries where much of the population may be living on less than 2 dollars a day. Our R&D accelerator teams are developing ultra-affordable products such as a micronutrient powder for pregnant and lactating women. More broadly the accelerator is helping to trigger the development of supply chains for locally-sourced ingredients.



Advancing personalized nutrition: Nutria, a personalized nutrition coach powered by DNA

At our Silicon Valley Innovation Outpost, we are building diagnostic tools that help consumers to better understand their nutritional needs. This work allows us to deliver customization of dietary requirements and personalized medical nutrition. For this purpose, we are currently piloting a new business model based on customized meals plans.

Creating value through digitalization



Momento: Connecting people through smart coffee systems

Our latest generation of coffee machines, such as Momento, are Internet of Things enabled. This allows real time data flow to and from each machine, helping us to improve product insights and proactively serve consumers and customers.

Digitalization is vital for Nestlé's continued evolution. It covers all aspects of our business, from the way we organize internally to how we engage externally. We are advancing as a digitally enabled and data-powered business. Our digital journey is business-led and focused on becoming faster, more agile and more consumer-centric.

Winning in a connected world

We look for ways to evolve and use technology to accelerate innovation, fuel new growth opportunities and create efficiencies. This includes using analytics, automation, artificial intelligence and machine learning, as well as e-business (digital marketing and e-commerce).

In 2019, our e-commerce sales accounted for 8.5% of sales and grew by 18.5%. This puts Nestlé at the high end of the food and beverage industry. To win in a connected world, we focus our digitalization efforts on:

- Better understanding and engagement with consumers.
- Enabling digital innovation and new business models.
- Digitalizing our operations.
- Raising digital competencies.

Better understanding and engagement with consumers

In a digital world we connect with consumers where and when they are receptive. To do so successfully, our brands must be relevant, speak directly to their needs and preserve their privacy. We use data, technology and digital media to build personalization at scale. Data analysis provides insights that can lead to more relevant messaging, services and products.

Sustainable consumer relationships require active and respectful listening and engagement. With this in mind, we rolled out a new consumer

service ecosystem in more than 70 markets. This combines human and artificial intelligence and allows us to gather feedback from consumers. We analyze data to tailor messages and adapt content to ensure it resonates with consumers. In doing so, we evolve from buying media and marketing to unknown audiences to connecting with consumers in a relevant and personalized way. In 2019, 20% of all our consumer contacts were personalized. Our objective is to reach 40% by the end of 2020.

Digital creates value by making one-to-one relationships possible. We have developed expertise in machine learning and natural language processing. These technologies allow us to boost consumer engagement with conversational experiences. We have built a network of e-content studios covering 24 key markets and a digital assets platform. These studios create impactful and locally relevant content with speed and efficiency. We have also standardized over 800 Nestlé brand websites to ensure quality experiences. These websites are modular to allow content and functionality to be quickly and cost-effectively updated.

We make digital media work smarter. To deliver content with precision we make use of programmatic media buying. Today, 65% of our digital media spend uses automated buying techniques. This means our brands reach their consumers with the right message at the right time in the way they want it. We have put in place systems to detect fraud, understand campaign impact and evaluate cost-effectiveness.

At a glance

Number of factories equipped with collaborative robots	100
Percentage of consumer contacts personalized	20%
Percentage of media spend in digital	41%

Enabling digital innovation and new business models

Digitalization opens up opportunities to create products and services. We partner with retailers to gather consumer feedback to tailor products to local preferences. We build on our existing strengths in direct-to-consumer and e-commerce to create new business models, particularly around personalization as with *Just Right* by Purina. We also invest and acquire companies, such as Freshly and Tails.com. Typically, we look for models, technologies or data that can be applied to other businesses.

We improve our go-to-market strategies using analytics and support them with digital platforms. We deploy new capabilities, such as strategic revenue management, that support decision-making and drive profitable growth. We also collaborate with leading technology companies such as Amazon, Alibaba and Google. This includes virtual testing to measure consumer preference and trial product launches.

Digitalizing our operations

We are transforming our operations by digitalizing our supply chains and manufacturing. Our goal is to create competitive gaps through data, artificial intelligence, automation and predictive analytics. In many facilities, we are scaling up the Internet of Things with remote-sensing technologies, and deploying autonomous vehicles and collaborative robots. For example, at the end of 2019:

- 100 of our factories were equipped with collaborative robots.
- 60 of our warehouses were automated.
- 100 of our factories were paperless.

Digitalization helps us generate efficiencies, create agility and provide new platforms for growth. The shift toward agile manufacturing also helps to deliver faster innovation and supports personalization.

Raising digital competencies

Our people need to have the right mindset, skills and tools. We ask them to be entrepreneurial and externally focused. We also facilitate increased collaboration through internal social networks. We have created digital academies and centers of competency to accelerate our pace of digital transformation. Among them:

- The Global Digital Hub in Barcelona allows us to respond to fast-paced technological changes by building expertise in areas such as artificial intelligence and cloud technologies.
- The Global Digital Media Center of Competencies brings together all our advertising agencies to deliver greater efficiency and transparency in our media investments.
- The Silicon Valley Innovation Outpost enables us to source new ideas and drive digital innovation with partners.

Raising digital competencies: Speeding up the flow of ideas

In 2019, we completed the global rollout of Workplace, our internal social network. This versatile platform builds connections and boosts engagement by enabling more sharing of information. In 2019, this generated 7 million conversations and helped to mobilize teams around key challenges and opportunities facing our business.



Better engagement with consumers: Purina's approach to targeted marketing

Purina has built a digital ecosystem that enables its brands to drive sales growth, build loyalty and encourage advocacy. This approach combines deep insight of the pet parent's journey with a dedicated studio that tailors high-quality e-content and fast messaging.



Digitalizing our operations: Improving supply chain transparency through blockchain

In 2019, we tested several blockchain technologies across our dairy, nutrition and coffee supply chains. We became the first major food company to pilot open blockchain through our collaboration with OpenSC for our *Nido* brands. We also worked with IBM Food Trust on our *NaturNes* brand to provide consumers with information relating to product environmental footprint. These initiatives increase traceability and transparency.

Enabling digital innovation and new business models: Nespresso's subscription service

Nespresso continually evolves its digital ecosystem. The latest addition is a convenient machine and coffee subscription service for businesses and consumers. The service boosts retention by rewarding loyalty and gives users the ability to tailor purchasing plans, trial limited edition coffees and connect via our Internet of Things-enabled machines.



Connecting through our brands

Through our products and brands, we connect with people and their pets millions of times a day and throughout their lives. Our brands are our vehicles for creating experiences beyond products.

Powdered and Liquid Beverages



Nutrition and Health Science



PetCare



Milk products and Ice cream



Prepared dishes and cooking aids



Confectionery



Water



Powdered and Liquid Beverages

Powdered and Liquid Beverages covers our coffee, cocoa and malt beverage and tea categories. This business features iconic coffee brands, including *Nescafé*, *Nespresso* and *Starbucks*. It also includes *Milo*, the world's most popular chocolate malt drink.



Bringing Starbucks "home": How we orchestrated our fastest ever global launch

The rapid launch of our *Starbucks* portfolio is unprecedented in Nestlé history. In less than 12 months, 29 new products across three new platforms were developed from the ground up and rolled out in more than 40 markets. These efforts generated incremental sales of more than CHF 300 million in 2019. This ability to bring *Starbucks* "home" demonstrates our operational strength and global reach. The speed and consistency of what was our largest ever global launch also highlight the efficiencies that come with our new approach to content creation.

At a glance

Sales (in CHF billion)	23.2
UTOP margin	22.4%
Percentage of Nestlé's sales	25%



Our most intense coffee ever

Nescafé Black Roast Blend 43 was created in just six months using our new prototyping model. The product is made with carefully selected beans roasted longer and darker to develop a new level of richness and intensity.

Surfing coffee trends and building coffee relationships

Nescafé Dolce Gusto's new range of *Absolute Origin* organic coffees invites consumers to discover the coffee world. The brand is also piloting its first membership program, *Premio*. This new business model is data-powered and rewards consumers with exclusive, personalized offers. This approach is simple, builds loyalty through relationships and deepens those relationships through personalization. This is a first in retail coffee.



A shared value business model

Tamuka mu Zimbabwe and *Esperanza de Colombia* are the first new products to emerge from Nespresso's *Reviving Origins*. This program is built through partnership with farmers in regions recently blighted by conflict, economic hardship or environmental disaster. The goal is simple: revive the coffee and revive the communities. To ensure the sustainability of this approach, Nespresso agronomists work to improve infrastructure, enhance agricultural practices and, where needed, create farming cooperatives.

World's first plant-based foaming coffees mixes

The first-to-market, plant-based lattes open up incremental growth opportunities with a range of premium offerings. They appeal to consumers looking for non-dairy alternatives and took just eight months to move from idea to launch. The products were initially made using R&D prototyping lines and piloted with a key retail partner.



World's first Milo ready-to-drink no sucrose, no sweeteners and same Milo nourishing energy

The latest addition to the *Milo* ready-to-drink range has no added sucrose. The product was developed in eight months in response to parents looking for healthier lunch box options.



Nutrition and Health Science

Our nutrition business is dedicated to providing high-quality, innovative, science-based nutrition for mothers and infants. The business has built a portfolio that includes billionaire brands such as *NAN*, *illumina*, *Cerelac* and *Gerber*. Our Nestlé Health Science (NHSc) business also works to empower healthier lives through nutrition. It has an extensive portfolio of science-based medical nutrition and consumer health products with an increasing focus on personalization.



Creating a new product platform with healthy hydration alternatives

Gerber has broadened its organic offering with the launch of a new coconut water range, carefully adapted to suit infants. The range caters to parents looking for healthier, nutrient-rich alternatives to juice that help expose babies to new taste varieties.



A billionaire brand continually redefining infant nutrition

illumina has grown from a single product into a complete range through continuous innovation. The goat's milk offering taps into a fast-growing segment and appeals to consumers looking for easier-to-digest alternatives to cow's milk formulas. Hypo-allergenic *illumina* is inspired by human milk. It is scientifically formulated with partially hydrolyzed proteins to help reduce potential allergenicity. At the same time, *illumina* continues to redefine the benchmark for super-premium by introducing a new smart packaging solution. New features include augmented reality storytelling, traceability and, a first for the infant formula category, digital verification of authenticity.

At a glance

Sales (in CHF billion)	15.0
UTOP margin	22.1%
Percentage of Nestlé's sales	16%



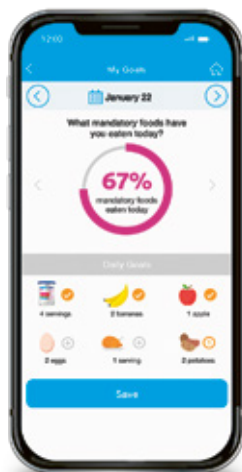
A direct-to-consumer platform with a personalization engine

The acquisition of Persona provides Nestlé Health Science with a new digital platform to deliver customized vitamin packs. The new business uses a proprietary algorithm that factors in drug-nutrient interactions before making personalized recommendations. Each supplement is tailored to the individual's nutritional and lifestyle profile.



Building a new premium segment

Cerelac Organic Selections are the first fully-certified organic infant cereals to launch in India. The new range was made by partnering with farmers to build a traceable organic supply chain that complies with strict standards required for infant nutrition.



Beyond the product: E-health solutions

COPES and *ModuLife* are part of Nestlé Health Science's move into digital business models. The platforms enable collaboration between patients and healthcare providers. They provide healthcare professionals with nutritional and dietary guidance. They give patients round-the-clock support as they use nutrition to help manage their illnesses. These platforms help Nestlé Health Science understand unmet needs and support the development of innovative, whole-food nutritional solutions and products.



Setting the right standard in collagen

Garden of Life's new range of collagen products enjoyed a strong launch in 2019. The entire line is non-GMO and Keto certified, paleo diet friendly and gluten free. Ingredients are sourced from cattle allowed to roam freely and are not treated with antibiotics or hormones, meaning consumers are offered an easy and clean way to add collagen to their diets.

PetCare

Our Purina PetCare portfolio includes some of the world's best-known brands of dog and cat foods, including *Pro Plan*, *Purina ONE*, *Gourmet* and *Merrick*. As pioneers, Purina nutritionists, behaviorists and veterinarians continually develop innovative solutions that create richer lives for pets and the people who love them.



A billionaire brand focused on outcome-based nutrition

Purina ONE has extended its range of products to include new functional cat and dog food offerings with spirulina to strengthen immune health and probiotics to improve digestive health.



At a glance

Sales (in CHF billion)	13.6
UTOP margin	21.4%
Percentage of Nestlé's sales	15%



Translating microbiome knowledge into a formula for well-being

Purina Pro Plan's latest veterinary supplement is based on the proprietary use of probiotic strain BL999 to help dogs maintain calm behavior and cope with external stressors.

Expanding our natural portfolio

The geographic roll out of our natural portfolio including *Merrick's Whole Earth Farms* and *Country Farms* accelerated across 2019. At the same time, the *Beyond* brand expanded with the addition of *Beyond Bio/Organic* and *Grain Free* in Europe. These products respond to consumer interest in minimally processed ingredients and responsible sourcing. *Beyond Grain Free* is the first in the portfolio to move to 100% recyclable plastic packaging.



Providing Pet Parents with support tailored to their pet's journey

At the core of Purina's e-business strategy is a dynamic digital ecosystem that includes platforms with growing audiences in Europe and North America. These platforms build meaningful relationships with pet parents by transforming content into personalized service and proactive care, suited to every stage of their pet's life.



Natural litter without compromise

Tidy Cats is the number one litter brand in the United States and continues to innovate in the segment with the launch of *Naturally Strong*. The product is 100% natural, with no added chemicals, fragrances, dyes or deodorizers. The product has been launched in two formats: a box made from materials certified by the Sustainable Forestry Initiative and a jug made from 50% recycled plastic. The latter is a first for the litter category in the United States and reflects Nestlé's push for greater sustainability.

An irresistibly tasty feeding experience

Felix ready-to-pour soups are an anytime, complementary meal that comes in a variety of recipes. The products contain no added artificial colorants, flavorings or preservatives, and align with trends to humanize pet food by echoing favorite meals.



Milk products and Ice cream

Our Milk products business provides individuals and families with nutritional products essential to healthy diets for all stages of life, from early childhood to old age. The business covers several categories, including ambient dairy, plant-based milks and coffee creamers. Our portfolio includes market-leading brands, such as *Nido* and *Coffee mate*. In Ice cream we have a wide range of delicious, indulgent products with brands such as *Häagen-Dazs* and *Outshine*.



Offering customers their favorite Starbucks flavor at home

Nestlé is taking *Starbucks* into new territory with the introduction of a new creamer format. The products were brought to market in less than a year by combining much-loved *Starbucks* flavors with Nestlé expertise and manufacturing know-how.

Exploring circular economy business models

Häagen-Dazs has partnered with recycling company TerraCycle to launch Loop. This home delivery service supports the circular economy by bringing *Häagen-Dazs* ice cream to consumer's doorsteps in a fully reusable container.



At a glance

Sales (in CHF billion) **13.3**

UTOP margin **20.4%**

Percentage of Nestlé's sales **14%**



Offering consumers plant-based options

This is Nestlé's first plant-based beverage specifically formulated for school-age children. The product comes in recyclable packaging, including paper straws.



Creating differentiation through shared value and transparency

Nido launches the first premium organic-certified milk in Brazil, *Ninho Organico*. The launch is supported by the pilot of CowSense, our new digital farming tool. CowSense offers consumers increased transparency around products, and offers Nestlé the ability to monitor animal welfare and milk quality. The tool is part of a wider set of digital farming initiatives that Nestlé is helping pioneer. These will scale up and make precision farming techniques more accessible.



Sustainable-by-design healthier kids product range

The *All Natural* range is made using simplified, 100% natural ingredients and offers consumers low- to no-sugar-added variants. The *Nesquik All Natural* cocoa powder is a particular standout, using a breakthrough form of coated-paper packaging that is sustainably sourced and easily recycled. Our ready-to-drink was also launched in Europe with paper straws.



A surprising twist on healthier ice cream

Zoorpresa was created in just five days of ideation and prototyping. The offering meets Chile's strict nutritional requirements making it the only ice cream for children in the market with no front of pack warnings and without artificial sweeteners. The product is made using a custom 3D extrusion process that transforms the base ice cream into multiple animal shapes. This technique ensures each product delivers the same nutrition while giving consumers the chance to discover their animal only after packaging is opened.

Prepared dishes and cooking aids

Our Prepared dishes and cooking aids category contains a wide range of daily staples, from bouillons, soups, ambient and chilled culinary products to frozen food and pizzas. We have iconic brands, including *Maggi*, *Stouffer's* and *DiGiorno* that cater to regional and local tastes and nutritional attitudes. We are committed to transforming our product portfolio with further natural, tasty and healthy ingredients that appeal to diverse consumer diets.



A natural approach to capturing demand for plant-based foods

In 2019, we rapidly expanded our portfolio of plant-based protein products with a range that extends to cook-from-raw burgers and versatile ground meat. This move underlines our increased innovation expertise in bringing the taste, texture and cooking experience of meat to plant-based food. The range resonates strongly with consumers looking for products that are aligned with their environmental and ethical beliefs. All of our products score top marks in nutrition and sustainability.

At a glance

Sales (in CHF billion)	12.2
UTOP margin	17.8%
Percentage of Nestlé's sales	13%



Answering consumer demand for plant-based meals

This Maggi recipe solution is both inspired by and made for consumers looking to add plant-based protein to their daily meals. Developed in less than 12 months, the mix makes healthy veggie patties packed with ancient grains and local flavors.

Co-crafting pizza with customers

DiGiorno's thin crust pizza range is an example of how partnering with a key strategic customer can accelerate entry into new premium segments. This co-creation drew on customer and consumer insights during prototyping to create crafted pizzas in just nine months.



A new range of mayonnaise made better through consumer feedback

Thomy's new range of mayonnaise is an example of how continuous innovation works. The range is made using healthier, lower saturated fat oils, including avocado, almond and hemp. The test launch helped to identify next-generation improvements, which will be added in the soon-to-be launched version 2.0.



Activating our recipe ecosystem to offer convenience and personalization

The development of our Smart Recipe Hub allows us to create, translate and share recipes across our markets. The hub helps us to better understand diet preferences, identify trends and transform insights into relevant products and personalized recommendations. The hub is also a backbone for recipe-driven brands such as *Maggi* to inspire consumers and build food communities. It empowers consumers with shoppable recipes that they can customize using nutritional balance scores, meal planners and nutritional advice.



Building brand awareness through social media

Outsiders is an incubator brand with license to do things differently. The brand is gaining awareness through micro influencers, local music events and Instagram advocates.

Confectionery

Our Confectionery business includes the iconic *KitKat* brand and a portfolio of much loved regional and local brands. Within both chocolate and biscuit categories, we aim to surpass consumer expectations with great tasting products. The business focuses on innovation, premiumization and improving the sustainability and nutrition profile of our products.



Taking a cult classic global

KitKat's European roll out of matcha is an example of how "Japanese-born" fan favorites create "Instagrammable" moments. The product contains no artificial colors, flavors or preservatives. It is made using UTZ-certified cocoa beans and real matcha green tea from Japan and China.

At a glance

Sales (in CHF billion)	7.9
UTOP margin	16.9%
Percentage of Nestlé's sales	9%



The first 70% dark chocolate made entirely from a single ingredient

KitKat Cacao Fruit is made with the world's first chocolate naturally sweetened by cocoa pulp, formerly seen as a waste product. This new chocolate has the potential to change the way cocoa is harvested, processed and enjoyed, and brings greater benefits to farmers.

A healthier-for-kids proposition

Museo is a prime example of how local teams deliver on our commitment to develop healthier snacking options for kids. This all-natural biscuit is tailored for Chilean consumers and is the first biscuit in Chile without any warning signs, containing no artificial sweeteners or added sugars.



Making chocolate both personal and social

KitKat opened new Chocolatory boutiques in the United Kingdom, Canada and Brazil during 2019. As part of this expansion, the brand has stepped up its digital ecosystem, rolling out a new direct-to-consumer e-commerce model that gives *KitKat* lovers the ability to customize their chocolate creations online. At the same time, the brand is enhancing its physical stores, with digital touchpoints to create a more premium and interactive experience. This approach also allows each store to weave local culture into the brand's identity.



Yes! Tasty by nature

Version 2.0 of this wholesome range of fruit and nut bars comes with new flavors and award-winning recyclable paper packaging. *Yes!* responds to consumer demand for more natural and sustainable snacking options. It is an example of how our new approach to innovation drives us to continually make good even better.

Scaling local favorites into regional brands

Lion's newest offerings were Eastern European born. Having enjoyed strong appeal with consumers looking for healthier, lighter chocolate snacks, we have rolled out the new formats to multiple markets using the *Lion* brand. The products are made with 100% sustainably sourced cocoa using the *Nestlé Cocoa Plan*.



Water

Our Waters business is dedicated to providing healthy hydration in many markets worldwide. Our portfolio includes *Nestlé Pure Life*, one of the world's biggest bottled water brands, and our international premium brands *S.Pellegrino*, *Perrier* and *Acqua Panna*. Sustainability is fully embedded in our innovations and we premiumize our range with functional, flavored and carbonated offerings.



Taking action on plastics

With the launch of *Origin*, *Poland Spring* has graduated from a regional to a national brand. Included in the offering is a one-liter format that comes in a 100% recycled PET bottle. The move marks the brand's first step in transitioning their still water portfolio to 100% recyclable packaging. The brand also teamed up with the Recycling Partnership, in an Instagram Recycling Hotline #NotTrash, to encourage consumers to recycle.

At a glance

Sales (in CHF billion)	7.4
UTOP margin	11.4%
Percentage of Nestlé's sales	8%



ReadyRefresh by Nestlé smart sustainability

Reflecting strong interest in consumption beyond the bottle, our ReadyRefresh business is preparing to launch *Refill+*. This smart hydration system is simple to use and enables consumers to fill reusable containers. It also offers customizable sparkling and flavored options.



Shaping a new segment through a premium water with a twist of flavor

S.Pellegrino has extended its *Essenza* range of flavored waters with novel variants. In offering taste with no calories, the products are winning new consumers to the segment.



Taking a premium still brand global

Acqua Panna's entry into the United States coincides with growing demand for premium still waters. Rolled out with a new design that communicates the brand's Tuscan heritage, the brand has added on-the-go formats to broaden its appeal beyond fine dining.

Certified CarbonNeutral

ReadyRefresh by Nestlé has committed to net zero greenhouse gas emissions and was certified a CarbonNeutral Company in accordance with the CarbonNeutral Protocol. The move builds on ReadyRefresh's journey to reduce emissions from deliveries, and parallels the business's, planned nationwide expansion of its customer recycling program.



Adding fun, variety and local favorites into healthy hydration

Sensations is the latest offering in Nestlé *Pure Life's* portfolio. The products took just six months to move from idea to launch and resonate with consumers through the playful addition of different fizziness levels and natural flavors. The range remains true to Nestlé *Pure Life's* purpose of providing healthy hydration with zero calories and zero sweeteners.

Creating Shared Value



Nesquik: Acting on our pledge to tackle plastic packaging waste

The new *Nesquik* features a simplified, natural ingredients list and comes in a first of its kind recyclable paper pouch. The new solution is an example of how Nestlé is deploying more sustainable packaging across our product portfolio.

Creating Shared Value is fundamental to how we do business at Nestlé. We believe that our company can only be successful in the long term by creating value both for our shareholders and for society. Our activities and products should make a positive difference to society while contributing to Nestlé's ongoing success.

The business case for Creating Shared Value

Creating Shared Value is about ensuring long-term sustainable value creation for shareholders while tackling societal issues at the same time. Companies that create shared value demonstrate that business can be a force for good.

We focus our work on three interconnected impact areas: the individuals and families who place their trust in our products and brands, the communities where we operate and the planet. We are driven by our purpose to enhance quality of life and contribute to a healthier future. Our long-term ambitions are:

- For individuals and families, help 50 million children lead healthier lives.
- For our communities, improve 30 million livelihoods in communities directly connected to our business activities.
- For the planet, strive for zero environmental impact in our operations.

In order to achieve these ambitions, we have formulated a series of public commitments that we operationalize across our business. We report on our progress every year. Particular emphasis is on global initiatives to promote healthier lives for children, help young people access economic opportunities and demonstrate our protection of water resources. We also act decisively to tackle the current plastic pollution challenge and are working to become carbon neutral.



Further information

Find details of our management approach and governance structure, as well as performance data, case studies and additional content, in our annual online *Creating Shared Value – Progress Report* and in the section “Our impact” of our corporate website (www.nestle.com/csv).

Measuring shared value

We continue to explore ways to better measure the shared value we create and our impact. Our goal is to invest with greater confidence and continue to build trust with stakeholders by demonstrating tangible results. We welcome work in this area so that it can inform our own methodology and stimulate further debate on this important topic.



Shared value starts with understanding

Our approach to business is built top down and bottom up. We engage with stakeholders at every level to understand their reality. We use these insights to enhance the sustainability of our business by creating long-term partnerships that work to ensure the resilience and adaptability of our supply chains.



Working for a healthier future

We believe that by helping new generations eat and drink better and move more, we enhance quality of life and contribute to a healthier future. This is how we started more than 150 years ago and how we continue to act through our *Nestlé for Healthier Kids* initiative.

Nestlé. Enhancing quality of life and contributing to a healthier future.

Driven by our company purpose, we are committed to ambitious goals across three impact areas: individuals and families, communities and the planet. These align with and support the UN Sustainable Development Goals (SDGs). Our work touches billions of lives, from the farmers who grow our ingredients to the consumers who enjoy our products. We also strive to protect the natural capital on which we depend.

For individuals and families

Enabling healthier and happier lives



Our 2030 ambition is to help 50 million children lead healthier lives



Offering tastier and healthier choices

- Launch more foods and beverages that are nutritious, especially for mothers-to-be, new mothers, and infants and children
- Further decrease sugars, sodium and saturated fat
- Increase vegetables, fiber-rich grains, pulses, nuts and seeds in our foods and beverages
- Simplify our ingredient lists and remove artificial colors
- Address undernutrition through micronutrient fortification



Inspiring people to lead healthier lives

- Apply and explain nutrition information on packs, at point of sale and online
- Offer guidance on portions for our products
- Leverage our marketing efforts to promote healthy cooking, eating and lifestyles
- Empower parents, caregivers and teachers to foster healthy behaviors in children
- Support breastfeeding and protect it by continuing to implement an industry-leading policy to market breast-milk substitutes responsibly
- Inspire people to choose water to lead healthier lives
- Partner for promoting healthy food environments



Building, sharing and applying nutrition knowledge

- Build and share nutrition knowledge from the first 1000 days through to healthy aging
- Build biomedical science leading to health-promoting products, personalized nutrition and digital solutions

Status of our commitments

- New
- In progress
- Achieved



For our communities

Helping develop thriving, resilient communities



Our 2030 ambition is to improve 30 million livelihoods in communities directly connected to our business activities



Enhancing rural development and livelihoods

- Improve farm economics among the farmers who supply us
- Improve food availability and dietary diversity among the farmers who supply us
- Implement responsible sourcing in our supply chain and promote animal welfare
- Continuously improve our green coffee supply chain
- Roll out the *Nestlé Cocoa Plan* with cocoa farmers

Respecting and promoting human rights

- Assess and address human rights impacts across our business activities
- Improve workers' livelihoods and protect children in our agricultural supply chain
- Enhance a culture of integrity across the organization
- Provide effective grievance mechanisms to employees and stakeholders

Promoting decent employment and diversity

- Roll out our *Nestlé needs YOUth* initiative across all our operations
- Enhance gender balance in our workforce and empower women across the entire value chain
- Advocate for healthy workplaces and healthier employees

For the planet

Stewarding resources and the environment



Our 2030 ambition is to strive for zero environmental impact in our operations



Caring for water

- Work to achieve water efficiency and sustainability across all our operations
- Advocate for effective water policies and stewardship
- Engage with suppliers, especially those in agriculture
- Raise awareness on water conservation and improve access to water and sanitation across our value chain

Acting on climate change

- Provide climate change leadership
- Promote transparency and proactive, long-term engagement in climate policy

Safeguarding the environment

- Improve the environmental performance of our packaging
- Reduce food loss and waste
- Provide meaningful and accurate environmental information and dialogue
- Preserve natural capital



Enabling healthier and happier lives

Consumer preferences are evolving; we are developing our portfolio to reflect these changes. We are making our products more nutritious and natural. Our flagship initiative *Nestlé for Healthier Kids* is a driving force, guiding our efforts to help 50 million children lead healthier lives by 2030.



Inspiring people to lead healthier lives

Supporting parents and caregivers by providing them with the information they need to build healthy habits for their families – this runs at the core of our *Nestlé for Healthier Kids* initiative. Through our product reformulation efforts, healthy nutrition programs, portion guidance and healthy recipes, we are promoting healthier eating behaviors in children.

At a glance

Number of children reached through *Nestlé for Healthier Kids* (in million)

27.2

Number of new nutritious products launched for babies, children, expecting women or new mothers

> 1300

R&D investment (in CHF billion)

1.7

Maggi

Maggi's Mum and Me cooking club in Thailand helps children learn cooking skills from their parents.





California Pizza Kitchen: Cauliflower Pizza

To satisfy the needs of health-conscious consumers looking to replace carbs with vegetables, our pizza business is leveraging on-trend ingredients to create a cauliflower crust.



Offering tastier and healthier choices

Consumers are increasingly aware of the nutritional value of different foods, yet taste remains the first criteria in choosing what we eat. We want to make a meaningful impact and to move fast to offer healthier versions of existing products to our consumers. However, we have to take the time to get it right. If the new, healthier version does not taste good, consumers will simply buy a less nutritious alternative that better suits their taste.



Building, sharing and applying nutrition knowledge

What we consume is vital in shaping our future health. Our scientists carefully study the links between health and nutrition at every stage of life, from birth to the golden years. Nestlé’s R&D Accelerator based in Switzerland brings together Nestlé scientists, students and start-ups to advance science and technology. Its objective is to accelerate the development of innovative products and systems. This way, we will be able to better address the specific nutritional requirements of different consumers.



Materna Opti-Lac

Materna Opti-Lac contains a patented probiotic strain, *L. fermentum LC40*, naturally found in breastmilk of healthy mothers. The supplement, backed by microbiome research, is clinically proven to reduce the incidence and severity of breast pain and mastitis. These painful inflammatory conditions can affect up to one-in-three mothers during breastfeeding.

Helping develop thriving, resilient communities

We work with farmers and suppliers across the world, aiming to develop thriving communities, support rural development, and promote gender equality and respect for human rights. Through our *Nestlé needs YOUth* initiative, we aim to help 10 million young people worldwide access economic opportunities by 2030.



Enhancing rural development and livelihoods

Nestlé's coffee sustainability programs aim at supporting rural development and ensuring the long-term supply of coffee. They help address agricultural challenges, from aging farm populations and low farmer incomes to climate change and farming practices. Through *Farmer Connect*, the *Nescafé Plan* and the *Nespresso AAA Sustainability Quality Program* – including its *Reviving Origins*, a new program to restore coffee farming in regions where it is under threat – we work with hundreds of thousands of farmers to improve their economics and the livelihoods for them and their communities.

At a glance

Percentage of the volume of our 15 priority categories of raw materials that is responsibly sourced

70%

Percentage of Nestlé's leadership roles held by women

42%

Number of young people reached through *Nestlé needs YOUth*

> 900 000



Nespresso

Since 2018, Nespresso has been working with the Hispanic Federation and coffee farmers in Puerto Rico to help revitalize their coffee crop after hurricanes Maria and Irma destroyed 80 percent of the island's coffee trees and harvest. This partnership culminated with the launch of *Cafecito de Puerto Rico*, Nespresso's first Puerto Rican coffee, available exclusively to consumers in the U.S.

Respecting and promoting human rights

Our human rights work is embedded in our activities and policies, and we make training in key human rights issues available to all our employees.

We are committed to respecting and promoting human rights throughout our value chain and work with expert organizations to proactively identify and resolve issues. Through our 'Tell Us' grievance mechanism people can report specific complaints and raise concerns of policy breaches. Each concern is investigated, and we design and implement action plans to rectify issues.



KitKat

Through the *Nestlé Cocoa Plan* we work to improve the lives of farmers and address the root causes of child labor in our cocoa supply chain. All chocolate for *KitKat* is sourced through our *Nestlé Cocoa Plan*.



Promoting decent employment and diversity

A business thrives when it has a healthy, diverse and engaged workforce that reflects society. Cultural diversity makes businesses stronger, as it brings innovation and encourages different ways of thinking. We have a particular focus on gender balance. Our *Nestlé Gender Balance Acceleration Plan*, launched in 2019, includes a series of actions to champion equality throughout our business and increase women's representation at senior levels.

Parent leave

We believe that good parenting starts from day one. We are extending parental leave for primary caregivers, from 14 to 18 weeks of fully-paid leave. Secondary caregivers will also be entitled to take four weeks leave on full pay.



Stewarding resources and the environment

We want to be a more sustainable business, for a more sustainable society. This means protecting biodiversity and natural resources, while encouraging others to act responsibly. Our ambition is to strive for zero environmental impact in our operations. We have public commitments to use sustainably-managed and renewable resources, operate more efficiently, achieve zero waste for disposal and improve water management.



Caring for water

We believe that access to water is a basic human right for everyone. It is a precious resource and we are committed to protecting it for the future. We are cutting water use in our factories and working with farmers globally to improve water efficiency in our supply chain. We also partner with organizations such as the Ghana Red Cross Society to increase access to safe water, sanitation and hygiene. We have certified 27 Nestlé Waters bottling facilities with the Alliance for Water Stewardship (AWS) standard, which recognizes sustainable water governance. We are committed to certifying all our bottled water production sites by 2025.

Nestlé Waters

Nestlé Waters has been engaged in long-term collaborative solutions, at both factory and watershed level, to preserve the quantity and quality of local water resources.



At a glance

Number of zero water factories

20

Percentage of reduction in greenhouse gas emissions per tonne of product since 2010 in our manufacturing operations

34%

Packaging avoided since 2015 (in tonnes)

> 142 000



Acting on climate change

The impacts of climate change are already apparent. It is a global issue that will affect everyone. We are innovating to reduce our environmental footprint, in line with our commitment to achieve net zero carbon emissions by 2050. This supports the ambitious 1.5°C target outlined in the Intergovernmental Panel on Climate Change's latest report. To thrive, businesses must be resilient to the risks of climate change. We conducted a high-level assessment of physical and transitional risks for several of our key commodity supply chains using a number of climate scenarios.



Garden Gourmet

Launching more plant-based products with a better environmental footprint is a key part of our strategy to achieve zero net greenhouse gas emissions by 2050.



Safeguarding the environment

We are committed to using natural resources sustainably. In 2019, we joined One Planet Business for Biodiversity (OP2B), scaling up efforts to protect and restore biodiversity. We continued to work to make our supply chains deforestation-free, with over 90% of our commodities set to be verified deforestation-free by the end of 2020. Nestlé's efforts will not stop there – we will continue to work with smallholder farmers and large suppliers alike to be close to 100% deforestation-free within the next three years. In addition, as part of our vision for a waste-free future, we inaugurated our Nestlé Institute of Packaging Sciences. It will be instrumental in achieving our commitment to make 100% of our packaging recyclable or reusable by 2025.

Protecting the environment requires a multifaceted approach. In 2019, thousands of Nestlé employees, together with their families and friends, took part in clean-up activities worldwide. These clean-ups – organized within the framework of *Nestlé Cares*, our global volunteering program – took place in parks, forests, and on beaches, riverbanks and lakeshores. A total of 13 000 people participated in clean-up events throughout the year, with participation recorded across 80 countries and in close to 180 different locations.

Purina

In Mexico, Chile and Switzerland, Purina PetCare sells dry pet food without single-use packaging. Consumers can bring and fill their own reusable containers.



Stakeholder engagement

Our global stakeholder network includes investors, multilateral organizations, governments, NGOs, academia, local communities, suppliers, consumers and customers. One way we engage with our stakeholders is through regular convenings, providing opportunities to highlight issues that are important to them. The outcomes of these convenings are then communicated to senior management so actions can be taken to address concerns. Our most recent stakeholder convening was held in London in 2019. Seventy stakeholders were present, as well as Nestlé's CEO, U. Mark Schneider, two members of Nestlé's Executive Board and 15 Nestlé employees. Three themes were covered during the two-day event: nutrition in the first 1000 days, diversity and inclusion, and plastic packaging.

Our performance in leading indices

We are not driven by awards and recognition, but we are proud to have our sustainability efforts and achievements acknowledged by world-leading ratings and rankings agencies:



FTSE4Good

Nestlé has been consistently listed in the **FTSE4Good** Responsible Investment Index since 2011.



ACCESS TO NUTRITION INDEX™

Ranked first out of 22 global food and beverage manufacturers in the 2018 **Access to Nutrition Index (ATNI)**.



CCC B BB BBB A AA AAA

In 2019, Nestlé was rated **AA** by the **MSCI ESG Research** according to its performance on environmental, social and governance (ESG) issues.



Nestlé maintained its top scores in the categories of health & nutrition, environmental & management policy, packaging, and water risks.



Retained our place in **CDP's** Climate A list.

The materiality process

Every two years, we conduct a thorough materiality analysis. This helps us identify the economic, social and environmental issues that matter most to our business and our stakeholders.

Nestlé materiality matrix (as assessed in 2018)

Importance to stakeholders	Major	<ul style="list-style-type: none"> Natural resource and water stewardship Climate change 	<ul style="list-style-type: none"> Supply chain stewardship Over and undernutrition 	
	Significant	<ul style="list-style-type: none"> Women's empowerment Community relations 	<ul style="list-style-type: none"> Rural development and poverty alleviation Human rights Business ethics Responsible marketing and influence Product quality Food and nutrition security Resource efficiency, (food) waste and the circular economy Land management in the supply chain 	<ul style="list-style-type: none"> Food and product safety Changing consumer demographics and trends Product packaging and plastic
	Moderate	<ul style="list-style-type: none"> Animal welfare Employee safety, health and wellness Fair employment and equal opportunities 	<ul style="list-style-type: none"> Product regulation and taxation Geopolitical uncertainty Responsible use of technology Data privacy and cyber security 	
		Moderate	Significant	Major
Impact on Nestlé's success				

For individuals and families 	For our communities 	For the planet 
<ul style="list-style-type: none"> Over and undernutrition Responsible marketing and influence Product quality Food and product safety Changing consumer demographics and trends Food and nutrition security Data privacy and cyber security 	<ul style="list-style-type: none"> Supply chain stewardship Women's empowerment Product regulation and taxation Human rights Animal welfare Business ethics Employee safety, health and wellness Geopolitical uncertainty Fair employment and equal opportunities Responsible use of technology Community relations Rural development and poverty alleviation 	<ul style="list-style-type: none"> Natural resource and water stewardship Resource efficiency, (food) waste and the circular economy Land management in the supply chain Climate change Product packaging and plastic

Financial review

Key figures (consolidated)

In millions of CHF (except for data per share and employees)

	2018	2019
Results		
Sales	91 439	92 568
Underlying trading operating profit ^(a)	15 521	16 260
as % of sales	17.0%	17.6%
Trading operating profit ^(a)	13 789	13 674
as % of sales	15.1%	14.8%
Profit for the year attributable to shareholders of the parent (Net profit)	10 135	12 609
as % of sales	11.1%	13.6%
Balance sheet and Cash flow statement		
Equity attributable to shareholders of the parent	57 363	52 035
Net financial debt ^(a)	30 330	27 138
Ratio of net financial debt to equity (gearing)	52.9%	52.2%
Operating cash flow	15 398	15 850
as % of net financial debt	50.8%	58.4%
Free cash flow ^(a)	10 765	11 934
Capital additions	14 711	5 482
as % of sales	16.1%	5.9%
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 014	2 929
Basic earnings per share	CHF 3.36	4.30
Underlying earnings per share ^(a)	CHF 4.02	4.41
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF 2.45	2.70
Market capitalization, end December		
	237 363	301 772
Number of employees (in thousands)		
	308	291

Principal key figures ^(b) (illustrative) in CHF, USD, EUR

In millions (except for data per share)	Total CHF 2018	Total CHF 2019	Total USD 2018	Total USD 2019	Total EUR 2018	Total EUR 2019
Sales	91 439	92 568	93 366	93 218	79 208	83 217
Underlying trading operating profit ^(a)	15 521	16 260	15 848	16 374	13 445	14 618
Trading operating profit ^(a)	13 789	13 674	14 080	13 770	11 945	12 293
Profit for the year attributable to shareholders of the parent (Net profit)	10 135	12 609	10 348	12 698	8 779	11 336
Equity attributable to shareholders of the parent	57 363	52 035	58 177	53 700	50 855	47 921
Market capitalization, end December	237 363	301 772	240 733	311 426	210 432	277 911
Data per share						
Basic earnings per share	3.36	4.30	3.43	4.33	2.91	3.87

(a) Certain financial performance measures are not defined by IFRS. For further details, see Foreword on page 50.

(b) Income statement figures translated at weighted average annual rate; Balance sheet figures at year-end rate.

Group overview

Foreword

The Financial review contains certain financial performance measures, that are not defined by IFRS, that are used by management to assess the financial and operational performance of the Group. They include among others:

- Organic growth, Real internal growth and Pricing;
- Underlying trading operating profit margin and Trading operating profit margin;
- Net financial debt;
- Free cash flow; and
- Underlying earnings per share (EPS) and EPS in constant currency.

Management believes that these non-IFRS financial performance measures provide useful information regarding the Group's financial and operating performance.

The *Alternative Performance Measures* document published under www.nestle.com/investors/publications defines these non-IFRS financial performance measures.

Underlying and Trading operating profit 2018 comparatives of the operative segments have been adjusted. See Note 1 Accounting policies, changes in presentation – analyses by segment of the 2019 Consolidated Financial Statements.

Introduction

We saw strong progress in 2019, with key operating and financial metrics improving significantly for the second consecutive year. Organic growth accelerated, fueled by strong momentum in the United States and *Purina* PetCare globally. Profitability improved again and reached our guided range one year ahead of plan. Cash flow was strong, while underlying earnings per share and returns to shareholders reached record levels. In 2020, we expect continued organic sales growth improvement as we take further steps to decisively address underperforming businesses.

In 2019, we made significant progress in our portfolio transformation. We did what we said we would do and more. We are not done yet. We will respond to rapid changes in the industry and fast-evolving consumer preferences to position our portfolio for higher growth.

Nestlé will continue to focus on fast innovation. The launch of our premium Starbucks products, for example, has been a great success. We are very pleased with the speed of the product rollout and the positive response by consumers. The company is fully embracing the need for speed, as the rapid expansion of our new plant-based food and beverage offerings has shown. We are getting to market faster with must-have products.

Our shareholders are seeing reliable, sustainable and increasing cash returns even in turbulent times. A key driver is our sustainable dividend practice. We are proud to propose the 25th consecutive annual dividend increase to our shareholders this year.

Group sales

Organic growth (OG) reached 3.5% in 2019, fully in line with our guidance. Real internal growth (RIG) accelerated to 2.9% for the full year, the highest level in the last six years. Growth was supported in particular by innovation and portfolio management. Pricing contributed 0.6% and returned to positive territory in the fourth quarter.

Year-on-year organic growth acceleration was supported by strong growth in the United States and Brazil, as well as improved momentum in Western Europe. Our Zone AOA saw solid growth despite softness in some categories in China and Pakistan. Organic growth accelerated to 2.6% in developed markets and remained largely unchanged in emerging markets at 4.7%.

All product categories saw positive organic growth. The largest contribution came from *Purina* PetCare and its premium brands *Purina Pro Plan* and *Purina ONE*. Coffee had good momentum, helped by strong demand for Starbucks products, which by now have been rolled out in more than 40 countries. In total, Starbucks products generated more than CHF 300 million of incremental sales in 2019. Nestlé Health Science made good progress, based on strong sales development for Medical Nutrition and Atrium products. Water was subdued, reflecting pricing pressure in the mainstream segment and soft demand in Europe. Vegetarian and plant-based food products, including the *Sweet Earth* Awesome Burger and the *Garden Gourmet* Incredible Burger, saw strong double-digit organic growth, reaching sales of close to CHF 200 million.

Net acquisitions had a negative impact of 0.8%, largely related to the divestment of Nestlé Skin Health and Gerber Life Insurance. Foreign exchange reduced sales by 1.5%. Total reported sales increased by 1.2% to CHF 92.6 billion.

Sales by geographic areas

	Differences 2019/2018 (in %)		in CHF millions
	in CHF	in local currency	
By principal markets			2019
United States	+4.4%	+3.0%	28 831
Greater China Region	-1.3%	+1.5%	6 913
France	-3.0%	+0.7%	4 423
Brazil	-1.0%	+5.1%	3 647
Mexico	+4.3%	+2.7%	2 934
United Kingdom	-0.5%	+2.2%	2 917
Philippines	+6.7%	+3.2%	2 643
Germany	-4.4%	-0.7%	2 632
Canada	+5.7%	+6.6%	2 182
Japan	+1.9%	-1.0%	1 816
Russia	+6.8%	+8.0%	1 703
Italy	-8.0%	-4.5%	1 674
India	+9.0%	+10.6%	1 667
Spain	-2.6%	+1.1%	1 512
Australia	-5.4%	-0.2%	1 468
Switzerland	-6.2%	-6.2%	1 164
Rest of the world	-0.1%	(a)	24 442
Total	+1.2%	(a)	92 568

(a) Not applicable.

Underlying trading operating profit

Underlying trading operating profit increased by 4.8% to CHF 16.3 billion. The underlying trading operating profit margin reached 17.6%, an increase of 60 basis points in constant currency and on a reported basis.

Margin expansion was supported by structural cost reductions, portfolio management, pricing and improved mix, which more than offset input cost inflation. Consumer-facing marketing expenses increased by 3.4% in constant currency.

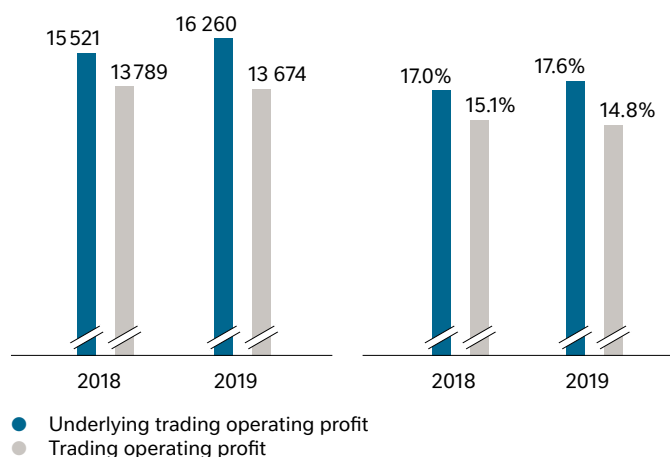
Restructuring expenses and net other trading items increased by CHF 854 million to CHF 2.6 billion, largely reflecting increased impairments of assets related to the Yinlu business. As a result, trading operating profit decreased by 0.8% to CHF 13.7 billion and the trading operating profit margin decreased by 30 basis points on a reported basis to 14.8%.

Net financial expenses and Income tax

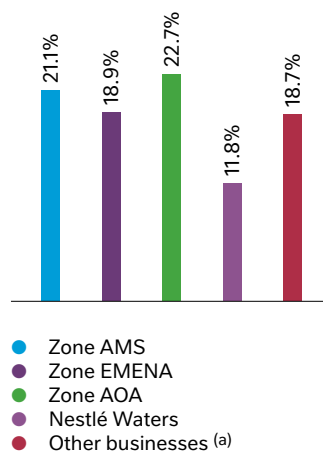
Net financial expenses grew by 33.5% to CHF 1.0 billion, largely reflecting an increase in average net debt during the year.

The Group reported tax rate decreased by 550 basis points to 21.0% due to exceptional items including the sale of Nestlé Skin Health. The underlying tax rate declined by 220 basis points to 21.6%, mainly due to the evolution of the geographic and business mix.

Underlying trading operating profit and Trading operating profit
In millions of CHF In % of sales



Underlying trading operating profit by operating segment
In % of sales



Trading operating profit by operating segment
In % of sales



(a) Mainly Nespresso, Nestlé Health Science and Nestlé Skin Health.

Net profit and Earnings per share

Net profit increased by 24.4% to CHF 12.6 billion, and earnings per share increased by 28.0% to CHF 4.30. Net profit benefited from the sale of Nestlé Skin Health.

Underlying earnings per share increased by 11.1% in constant currency and by 9.8% on a reported basis to CHF 4.41. The increase was mainly the result of improved operating performance. Nestlé's share buyback program contributed 1.9% to the underlying earnings per share increase, net of finance costs.

Cash flow

Free cash flow grew by 10.9% to CHF 11.9 billion. The increase resulted from stronger operating performance and improved capital discipline. Cash flow is expected to remain at around 12% of sales, with working capital trending to zero.

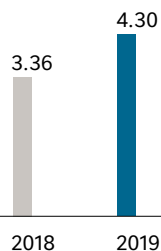
Evolution of the Nestlé S.A. share in 2019

In CHF



Earnings per share

in CHF

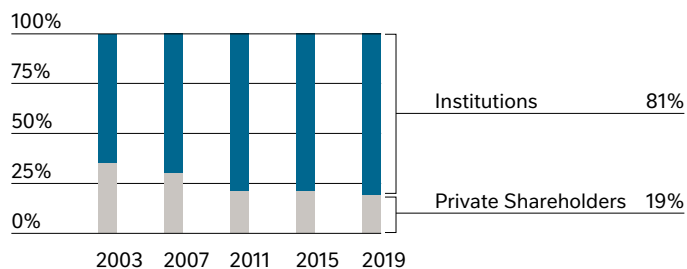


Operating cash flow

in billions of CHF



Share capital by investor type, long-term evolution (a)



(a) Percentage derived from total number of registered shares. Registered shares represent 57.3% of the total share capital. Statistics are rounded, as at 12/31/2019.

Dividend

At the Annual General Meeting on April 23, 2020, the Board of Directors will propose a dividend of CHF 2.70 per share, an increase of 25 centimes. If approved, this will be the company's 25th consecutive annual dividend increase. The company has maintained or increased its dividend in Swiss francs over the last 60 years. Nestlé is committed to maintaining this long-held practice to increase the dividend in Swiss francs every year.

The last trading day with entitlement to receive the dividend will be April 24, 2020. The net dividend will be payable as from April 29, 2020.

Shareholders entered in the share register with voting rights on April 16, 2020 at 12:00 noon (CEST) will be entitled to exercise their voting rights.

Share buyback program

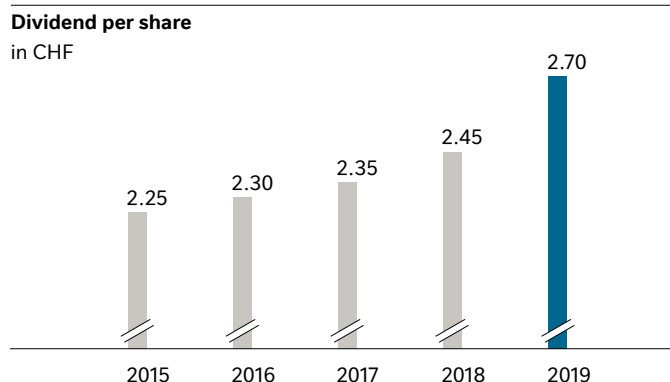
During 2019, the Group repurchased CHF 9.7 billion of Nestlé shares. On December 30, 2019, Nestlé completed the CHF 20 billion share buyback program initiated in July 2017 at an average price per share of CHF 88.82. On the same day, Nestlé announced that it will start a new share buyback program of up to CHF 20 billion. Share repurchases under this program are foreseen over a three-year period and commenced on January 3, 2020. Should any extraordinary dividend payments or sizeable acquisitions take place during this period, the amount of the share buyback will be reduced accordingly.

Net debt

Net debt decreased to CHF 27.1 billion as at December 31, 2019, compared to CHF 30.3 billion at the end of 2018. The decrease in net debt largely reflected strong free cash flow generation and a net cash inflow from acquisitions and divestments, mainly the disposal of Nestlé Skin Health. This more than offset the CHF 16.9 billion returned to shareholders through dividends and share buybacks.

Return on invested capital (ROIC)

The Group's ROIC increased by 20 basis points to 12.3%. The improvement was the result of improved operating performance and disciplined capital allocation. ROIC will trend toward 15% over time, including the impact of any future mid-sized acquisitions.



Portfolio management

Nestlé completed acquisitions and divestments with a total value of around CHF 10.4 billion in 2019. The most significant transaction was the divestment of Nestlé Skin Health for CHF 10.2 billion.

In December 2019, an agreement was reached to sell Nestlé's U.S. ice cream business for USD 4 billion to the Froneri ice cream joint venture with PAI Partners. The transaction was closed on January 31, 2020.

Nestlé also agreed to sell a 60% stake in its Herta charcuterie (cold cuts and meat-based products) business to Casa Tarradellas and create a new joint venture for Herta with the respective equity stakes of 40% and 60%. The total business has been valued at EUR 690 million. Closing is expected to take place in the first half of 2020.

Strategic developments

In May 2019, Nestlé announced the transition of the U.S. pizza and ice cream businesses from a Direct-Store-Delivery network to a warehouse distribution model. The transition was successfully completed at the end of 2019, six months ahead of schedule.

In October 2019, Nestlé announced the integration of its Waters business into the Group's three geographical Zones, effective January 1, 2020. This move will help utilize the company's strong local expertise, better respond to rapidly changing consumer preferences and create synergies. Nestlé will take further steps to improve profitable growth in Waters and to address underperformance in certain segments of this business.

Outlook 2020

Nestlé expects a continued increase in organic sales growth. The company foresees further organic sales growth acceleration in 2021/2022 toward sustainable mid single-digit growth. The underlying trading operating profit margin is expected to see continued improvement. 2020 restructuring costs* are expected at around CHF 500 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase. It is too early to quantify the financial impact of the coronavirus outbreak at this time.

* Not including impairment of fixed assets, litigation and onerous contracts.

Sales, employees and factories by geographic area

	Sales		Employees		Factories	
	2018	2019	2018	2019	2018	2019
AMS	44.9%	45.7%	33.9%	33.1%	159	156
EMENA (a)	29.4%	28.6%	34.1%	34.3%	146	141
AOA	25.7%	25.7%	32.0%	32.6%	108	106

(a) 8678 employees in Switzerland in 2019.




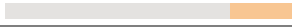





Employees by activity

In thousands

	2018	2019
Factories	152	145
Administration and sales	156	146
Total	308	291

Product category and operating segment review

In millions of CHF

	2018*	2019	Proportion of total sales (%)	RIG (%)	OG (%)
Powdered and Liquid Beverages					
Soluble coffee/coffee systems	9 314	9 144	 39.4%		
Other	12 306	14 077	 60.6%		
Total sales	21 620	23 221		+2.9%	+2.8%
Underlying trading operating profit	4 879	5 197	22.4%		
Trading operating profit	4 553	4 701	20.2%		
Water					
Total sales	7 409	7 391		-1.6%	+0.7%
Underlying trading operating profit	775	846	11.4%		
Trading operating profit	603	667	9.0%		
Milk products and Ice cream					
Milk products	10 507	10 433	 78.6%		
Ice cream	2 710	2 835	 21.4%		
Total sales	13 217	13 268		+1.7%	+3.3%
Underlying trading operating profit	2 506	2 706	20.4%		
Trading operating profit	2 397	1 678	12.6%		
Nutrition and Health Science					
Total sales	16 188	14 990		+4.2%	+4.9%
Underlying trading operating profit	3 306	3 314	22.1%		
Trading operating profit	2 795	3 092	20.6%		
Prepared dishes and cooking aids					
Frozen and chilled	6 105	6 092	 50.0%		
Culinary and other	5 960	6 096	 50.0%		
Total sales	12 065	12 188		+2.5%	+2.5%
Underlying trading operating profit	2 161	2 170	17.8%		
Trading operating profit	2 029	1 857	15.2%		
Confectionery					
Chocolate	6 031	5 930	 75.2%		
Sugar confectionery	812	722	 9.1%		
Snacking and biscuits	1 280	1 236	 15.7%		
Total sales	8 123	7 888		+3.2%	+1.9%
Underlying trading operating profit	1 391	1 332	16.9%		
Trading operating profit	1 279	1 241	15.7%		
PetCare					
Total sales	12 817	13 622		+5.3%	+7.0%
Underlying trading operating profit	2 758	2 919	21.4%		
Trading operating profit	2 562	2 741	20.1%		

* 2018 comparatives adjusted, see Foreword on page 50.

Zone Americas (AMS)

Sales	CHF 33.2 billion
Organic growth	+3.9%
Real internal growth	+2.6%
Underlying trading operating profit margin	21.1%
Underlying trading operating profit margin	+10 basis points
Trading operating profit margin	18.6%
Trading operating profit margin	-90 basis points

- 3.9% organic growth: 2.6% RIG; 1.3% pricing.
- North America saw mid single-digit organic growth, with positive RIG and pricing.
- Latin America reported mid single-digit organic growth, with positive RIG and pricing.
- The underlying trading operating profit margin increased by 10 basis points to 21.1%.

Organic growth increased to 3.9%, supported by higher RIG of 2.6%. Pricing improved to 1.3% with positive contributions from both North and Latin America. Net acquisitions increased sales by 3.5%, largely related to the acquisition of the Starbucks license. Foreign exchange had a negative impact of 0.4%. Reported sales in Zone AMS increased by 7.0% to CHF 33.2 billion.

North America grew at a mid single-digit pace. RIG was strong, reaching its highest level in the last decade reflecting a pipeline of successful innovations and strong demand for premium products across categories. The largest contributors to organic growth were *Purina* PetCare and the beverages category. *Purina* PetCare saw strong sales development in

e-commerce, premium brands such as *Purina Pro Plan* and *Purina ONE*, and veterinary products. *Tidy Cats* litter had double-digit growth. The beverages category saw high single-digit growth based on strong demand for Starbucks, *Coffee mate* and *Nescafé* products. *Gerber* baby food returned to positive growth following innovations in the organic range and healthy snacking. The transition of the U.S. pizza and ice cream businesses from a Direct-Store-Delivery system to a warehouse distribution model was successfully completed ahead of time. Ice cream performed well helped by new product launches for *Häagen-Dazs*, *Outshine* and *Drumstick*. Frozen food posted low single-digit growth, supported by pizza, *Hot Pockets* and *Stouffer's*.

Latin America posted mid single-digit growth with positive contributions across all categories. Brazil reached mid single-digit growth, supported by stronger sales in dairy, infant nutrition, *KitKat* and *Nescafé*. Mexico grew at a mid single-digit rate with continued robust demand for *Nescafé*. Sales in Chile declined following a challenging trading environment in the fourth quarter. Latin America recorded double-digit growth for *Purina* PetCare and strong mid single-digit growth in dairy and coffee.

The Zone's underlying trading operating profit margin increased by 10 basis points. Pricing and structural cost reductions more than offset cost increases from commodity inflation and one-off Direct-Store-Delivery transition costs. Marketing and commercial investments increased to support innovation and brand building.

Zone AMS

In millions of CHF

	2018*	2019	Proportion of total sales (%)	RIG (%)	OG (%)
United States and Canada	20 540	22 719			
Latin America and Caribbean	10 435	10 435			
Powdered and Liquid Beverages	4 057	5 473			
Milk products and Ice cream	6 991	7 291			
Prepared dishes and cooking aids	5 541	5 604			
Confectionery	2 718	2 514			
PetCare	8 783	9 370			
Nutrition and Health Science	2 885	2 902			
Total sales	30 975	33 154		+2.6%	+3.9%
Underlying trading operating profit	6 496	6 998		21.1%	
Trading operating profit	6 053	6 159		18.6%	
Capital additions	7 356	1 804			5.4%

* 2018 comparatives adjusted, see Foreword on page 50.

Zone Europe, Middle East and North Africa (EMENA)

Sales	CHF 18.8 billion
Organic growth	+2.7%
Real internal growth	+4.2%
Underlying trading operating profit margin	18.9%
Underlying trading operating profit margin	+20 basis points
Trading operating profit margin	18.0%
Trading operating profit margin	+110 basis points

- 2.7% organic growth: 4.2% RIG; -1.5% pricing.
- Western Europe posted strong RIG and positive organic growth. Pricing was negative.
- Central and Eastern Europe maintained mid single-digit organic growth with strong RIG. Pricing was slightly negative.
- Middle East and North Africa saw mid single-digit organic growth based on strong RIG and flat pricing.
- The underlying trading operating profit margin grew by 20 basis points to 18.9%.

Organic growth was 2.7%, with strong RIG of 4.2% supported by both volume and mix. RIG more than offset negative pricing of 1.5%, mainly related to coffee prices. Net acquisitions reduced sales by 0.2%. Foreign exchange negatively impacted sales by 3.0%. Reported sales in Zone EMENA decreased by 0.5% to CHF 18.8 billion.




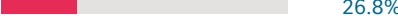



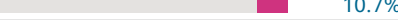

Zone EMENA recorded its best RIG in the last five years. In a low-growth environment Nestlé made broad-based market share gains across categories and geographies. Each sub-region had positive organic growth, with an acceleration in both Western Europe and Eastern Europe, particularly

Russia. By category, the largest growth contributor was *Purina PetCare*, supported by *Felix*, *Purina ONE* and *Tails.com*. Infant nutrition grew at a mid single-digit rate with strong growth in Eastern Europe and MENA. Innovation, in particular human milk oligosaccharides (HMOs), contributed to growth. Coffee saw positive growth with mid single-digit RIG, helped by the launch of Starbucks products in 28 countries. Confectionery maintained good momentum with strong growth for *KitKat*. Vegetarian and plant-based food products posted double-digit growth, supported by the expansion of the *Garden Gourmet* range with new offerings such as the Incredible Burger and Incredible Mince.

The Zone's underlying trading operating profit margin increased by 20 basis points. This improvement was supported by structural cost reductions, operational efficiencies and product mix. Marketing and commercial investments increased to support innovation and brand building.

Zone EMENA

In millions of CHF

	2018*	2019	Proportion of total sales (%)	RIG (%)	OG (%)
Western	11 791	11 587			
Eastern and Central	3 570	3 699			
Middle East and North Africa	3 571	3 548			
Powdered and Liquid Beverages	5 154	5 045			
Milk products and Ice cream	1 067	987			
Prepared dishes and cooking aids	3 923	3 847			
Confectionery	3 293	3 319			
PetCare	3 466	3 624			
Nutrition and Health Science	2 029	2 012			
Total sales	18 932	18 834		+4.2%	+2.7%
Underlying trading operating profit	3 545	3 567		18.9%	
Trading operating profit	3 206	3 394		18.0%	
Capital additions	1 422	1 083		5.8%	

* 2018 comparatives adjusted, see Foreword on page 50.

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

Sales	CHF 21.6 billion
Organic growth	+3.2%
Real internal growth	+2.5%
Underlying trading operating profit margin	22.7%
Underlying trading operating profit margin	0 basis point
Trading operating profit margin	16.9%
Trading operating profit margin	-410 basis points

- 3.2% organic growth: 2.5% RIG; 0.7% pricing.
- China posted slightly positive organic growth, with flat RIG and positive pricing.
- South-East Asia and South Asia saw mid single-digit organic growth, with strong RIG and positive pricing.
- Sub-Saharan Africa reached high single-digit organic growth, with strong RIG and positive pricing.
- Japan and Oceania had low single-digit organic growth, as strong RIG more than offset negative pricing.
- The underlying trading operating profit margin was unchanged at 22.7%.

Organic growth was 3.2%, with RIG of 2.5% and pricing of 0.7%. Net acquisitions had a minimal negative impact of 0.1%. Foreign exchange reduced sales by 1.8%. Reported sales in Zone AOA increased by 1.3% to CHF 21.6 billion.

Zone AOA saw solid growth despite slower momentum in China and negative sales development in Pakistan due to challenging trading conditions.

China posted slightly positive growth, with some benefit in the fourth quarter from the timing of Chinese New Year. Culinary, coffee and ice cream performed well. Infant nutrition

in China slowed to slightly positive growth as strong sales momentum for *illumina* was largely offset by a decline for the S-26 range. *Yinlu* peanut milk and congee continued to see a decrease in sales.

South-East Asia posted good growth, with strong momentum in Indonesia and Vietnam. *Bear Brand*, ready-to-drink *Milo* and *Nescafé* grew double-digit. South Asia grew at a mid single-digit rate driven by strong growth in India. *Maggi*, *NAN* and *Nescafé* performed well, helped by innovations and distribution expansion. Sub-Saharan Africa accelerated to mid single-digit growth, supported by infant nutrition, *Maggi* and *Nescafé*. Japan and Oceania maintained low single-digit growth with strong demand for *Purina* PetCare products and the newly launched Starbucks range.

By product category the largest contributions to the Zone's growth came from culinary products, infant nutrition, and *Purina* PetCare. Infant nutrition maintained mid single-digit growth, with good momentum in all markets except S-26 range in China.

The Zone's underlying trading operating profit margin was unchanged. Structural cost reductions, pricing and favorable mix offset cost increases from commodity inflation. Marketing investments increased to support innovation and brand building.

Zone AOA

In millions of CHF

	2018*	2019	Proportion of total sales (%)	RIG (%)	OG (%)
ASEAN markets	6 563	7 034			
Oceania and Japan	3 036	3 040			
Other Asian markets	9 309	9 120			
Sub-Saharan Africa	2 423	2 408			
Powdered and Liquid Beverages	6 086	6 287			
Milk products and Ice cream	5 149	4 982			
Prepared dishes and cooking aids	2 599	2 737			
Confectionery	2 056	2 001			
PetCare	568	628			
Nutrition and Health Science	4 873	4 967			
Total sales	21 331	21 602		+2.5%	+3.2%
Underlying trading operating profit	4 834	4 908		22.7%	
Trading operating profit	4 482	3 658		16.9%	
Capital additions	1 103	862		4.0%	

* 2018 comparatives adjusted, see Foreword on page 50.

Nestlé Waters

Sales	CHF 7.8 billion
Organic growth	+0.2%
Real internal growth	-1.9%
Underlying trading operating profit margin	11.8%
Underlying trading operating profit margin	+80 basis points
Trading operating profit margin	9.5%
Trading operating profit margin	+80 basis points

- 0.2% organic growth: -1.9% RIG; 2.1% pricing.
- North America saw slightly positive organic growth. Positive pricing was mostly offset by negative RIG.
- Europe reported negative organic growth largely due to lower RIG. Pricing declined slightly.
- Emerging markets posted mid single-digit organic growth, with strong pricing and positive RIG.
- The underlying trading operating profit margin increased by 80 basis points to 11.8%.

Organic growth was 0.2% as pricing increased by 2.1% and RIG declined by 1.9%. Net acquisitions reduced sales by 0.1%. Foreign exchange had a negative impact on sales of 0.9%. Reported sales in Nestlé Waters decreased by 0.8% to CHF 7.8 billion.

In North America organic growth was slightly positive. International premium brands saw double-digit growth with strong demand for *S.Pellegrino* and *Perrier* in sparkling and *Acqua Panna* in still water. The *ReadyRefresh* direct-to-consumer business grew at a mid single-digit rate, helped by pricing and the deployment of a new online platform.

The mainstream segment, particularly the case-pack format and *Nestlé Pure Life*, remained challenged.




Europe saw negative growth with a weak second half of the year. Emerging markets posted mid single-digit growth.

Nestlé Waters is managed and reported as part of the Group's three geographical Zones since January 1, 2020.

The underlying trading operating profit margin increased by 80 basis points. The improvement was based on structural cost reductions and pricing. These more than offset higher PET packaging costs and higher marketing investments.

Nestlé Waters

In millions of CHF

	2018	2019	Proportion of total sales (%)	RIG (%)	OG (%)
Europe	2 088	1 975	 25.3%		
United States and Canada	4 357	4 435	 56.7%		
Other regions	1 433	1 411	 18.0%		
Total sales	7 878	7 821		-1.9%	+0.2%
Underlying trading operating profit	865	922		11.8%	
Trading operating profit	683	740		9.5%	
Capital additions	884	848		10.8%	

Other businesses

Sales	CHF 11.2 billion
Organic growth	+6.4%
Real internal growth	+5.8%
Underlying trading operating profit margin	18.7%
Underlying trading operating profit margin	+220 basis points
Trading operating profit margin	18.2%
Trading operating profit margin	+360 basis points

- 6.4% organic growth: 5.8% RIG; 0.6% pricing.
- Nespresso reported mid single-digit organic growth driven by RIG. Pricing was positive.
- Nestlé Health Science posted high single-digit growth based entirely on strong RIG.
- Nestlé Skin Health saw high single-digit organic growth for the nine months of consolidation.
- The underlying trading operating profit margin of Other businesses increased by 220 basis points to 18.7%.

Organic growth of 6.4% was supported by strong RIG of 5.8% and pricing of 0.6%. Net acquisitions decreased reported sales by 14.1%, due to the divestment of Nestlé Skin Health. Foreign exchange had a negative impact of 1.7%. Reported sales in Other businesses decreased by 9.4% to CHF 11.2 billion.

Nespresso maintained mid single-digit organic growth, with positive growth across all regions. North America grew at a strong double-digit rate, outpacing market growth. The *Vertuo* system was the main growth contributor as it continued to gain traction globally. The out-of-home segment

also saw good momentum, particularly in France and the United States.

Nestlé Health Science grew at a high single-digit rate, supported by strong growth in Medical Nutrition and Atrium products in Consumer Care. This reflected a pipeline of successful innovations and strong growth in the e-commerce channel. In September, Nestlé Health Science expanded into personalized nutrition with the acquisition of Persona, a leading personalized vitamin business.

Nestlé Skin Health posted high single-digit growth for the nine months of consolidation until September.

The underlying trading operating profit margin of Other businesses increased by 220 basis points. This was the result of broad based improvements across all businesses.

Other businesses (a)

In millions of CHF

	2018	2019	RIG (%)	OG (%)
Total sales	12 323	11 157	+5.8%	+6.4%
Underlying trading operating profit	2 036	2 089	18.7%	
Trading operating profit	1 794	2 026	18.2%	
Capital additions	3 593	606	5.4%	

(a) Mainly Nespresso, Nestlé Health Science, Nestlé Skin Health (until beginning of October 2019) and in 2018 Gerber Life Insurance.

Principal risks and uncertainties

The Group adopts a risk profile aligned to our purpose and business strategy. We aim to create long-term value through a balance of sustainable growth and resource efficiency. Our culture and values – rooted in respect for ourselves, others, diversity and the future – guide our decisions and actions. Our Creating Shared Value approach helps to prioritize those areas that maximize value creation for shareholders and cultivate positive societal and environmental impacts.

The Nestlé Group Enterprise Risk Management (ERM) framework is designed to assess and mitigate risks in order to minimize their potential impact and support the achievement of Nestlé's long-term purpose and business strategy. A top-down assessment is performed at Group level once a year to create a good understanding of the company's key risks, to allocate ownership to drive specific actions around them and take any relevant steps to address them. A bottom-up assessment occurs in parallel, resulting in aggregation of the individual market assessments. Additionally, Nestlé engages with external stakeholders to better understand the issues that are of most concern to them.

For each issue, the materiality matrix (included on page 47) rates the degree of stakeholder concern and potential business impact. These different risk mappings allow the Group to make sound decisions on the future operations of the company.

Risk assessments are the responsibility of line management and any mitigating actions identified in the assessments are the responsibility of the individual line management. If Group-level intervention is required, responsibility for mitigating actions will generally be determined by the Executive Board. Further details of the ERM processes can be found in the *Corporate Governance Report 2019*.

The annual Group risk assessment is reported annually to the Executive Board, Audit Committee and Board of Directors.

The following factors identified are considered the most relevant for our business and performance. Many of the long-term mitigation strategies are expanded on in our online *Creating Shared Value – Progress Report*.

Principal risk	Description	Potential impact	Key mitigations
Product quality and safety	Major event triggered by a serious food safety or other compliance issue	<ul style="list-style-type: none"> – Negative effect on Nestlé’s reputation and/or brands – Loss of consumer trust 	<ul style="list-style-type: none"> – Policies, processes and controls to ensure high-quality products and prevention of health risks
Consumer preferences	Failure to adequately anticipate evolving consumer preferences and to offer relevant, competitive and innovative products	<ul style="list-style-type: none"> – Negative effect on Nestlé’s reputation and/or brands – Failure to achieve growth targets 	<ul style="list-style-type: none"> – Apply scientific and nutritional know-how to enhance nutrition, health and wellness – Improve the accessibility of safe and affordable food
Discriminatory regulation	Prolonged negative perceptions concerning health implications of processed food and beverage categories	<ul style="list-style-type: none"> – Increase in regulation on industry and/or specific categories – Erosion of consumer confidence in industry – Limitations on marketing and distribution 	<ul style="list-style-type: none"> – Focus scientific and nutritional know-how to enhance nutrition, health and wellness – Policies including Responsible Marketing to Children and Marketing of Breast Milk Substitutes in place
Customer and channel management	Concentration of customers, change in channel landscape intensifying pressure on pricing, trade terms and distribution	<ul style="list-style-type: none"> – Reduced distribution of our products to consumers – Restricted ability to price impacting margin 	<ul style="list-style-type: none"> – Maintain and develop strong relationships with our customers to help them win in their respective prioritized categories where we operate
Sustainable supply of raw and packing materials	Changes in weather patterns; water shortages; shifts in production patterns; economic and social inequality in supply chains impact variability and quality of yields, etc.	<ul style="list-style-type: none"> – Supply constraints as well as reputational damage – Increase in input pricing impacting growth and margin targets 	<ul style="list-style-type: none"> – Promote better agricultural practices, support local rural development, address supply chain issues from gender inequality to deforestation
Climate change (see also page 65 for Climate disclosure)	Climate-related physical and transitional disruption including policy and legislative actions, technological advances, market sentiment, supply availability with potential to disrupt our operations and/or consumer demand	<ul style="list-style-type: none"> – Carbon tax, land use restrictions, agricultural subsidy shifts impacting supply and/or operating costs – Increased consumer and/or stakeholder concern on climate impacting reputation 	<ul style="list-style-type: none"> – Commitments on climate change and water included in Nestlé’s response to the CDP Climate Change report and Water questionnaires in our online <i>Creating Shared Value – Progress Report</i> – Adoption of Taskforce for Climate-related Financial Disclosures (TCFD) framework
Product and plastic packaging	Failure to comply with current or future regulation on plastic packaging and/or failure to meet commitments on packaging and the environment	<ul style="list-style-type: none"> – Banned and/or delisted products – Products, brands and/or categories stigmatization 	<ul style="list-style-type: none"> – Strategy to pioneer new packaging materials, collaborations to drive recycling penetration and education and awareness via brand communications
Environmental health	Failure to comply with legislation or meet expectations concerning the environment, use of natural resources, release of air emissions and waste water, etc.	<ul style="list-style-type: none"> – Negative effect on Nestlé’s reputation and/or brands – Corporate fines and/or taxation on products/categories – License to operate challenges e.g. access to water 	<ul style="list-style-type: none"> – <i>Caring for Water</i> plan to implement water stewardship initiatives – Commitments to improve operational efficiencies, e.g. switch to renewable energy sources, reduction in air emissions, etc.

Principal risk	Description	Potential impact	Key mitigations
Health and safety	Failure to comply with health and safety regimes in all countries where Nestlé has a presence	<ul style="list-style-type: none"> – Negative effect on Nestlé’s reputation and/or brands – Corporate fines and/or penalties 	<ul style="list-style-type: none"> – Procedures in place to comply with health and safety legislation – Long-term initiatives to promote safe and healthy behaviors
Systems, security and privacy	Threat of cyber-attacks or failure of internal systems may disrupt the reliability, security and privacy of data and/or ability to operate	<ul style="list-style-type: none"> – Inability to run operational activities – Loss of confidential information impacting corporate reputation – Loss of consumer trust 	<ul style="list-style-type: none"> – Contingencies and policies in place to protect hardware and software – Privacy policy and program to monitor and comply with privacy laws and regulations
Supply chain disruption	Major event impacting raw material sourcing and/or internal or external manufacturing facilities, e.g. commodity shortages, strikes, sanctions, natural disasters, epidemics, etc.	<ul style="list-style-type: none"> – Reduced ability to ensure supply of key products – Increase in input prices and/or production and distribution costs 	<ul style="list-style-type: none"> – Policies and procedures in place to ensure the health and safety of our people, products and sites – Business continuity and disaster recovery plans for key sites – Active price risk management on key commodities
Strategic investment choices	Investment choices evolve over time and may include emerging technologies; new business models; creation of, or entry into, new categories; geographic expansion	<ul style="list-style-type: none"> – Broader exposures for the Group – Acceptance of higher risk and return metrics 	<ul style="list-style-type: none"> – Group’s investment choices aligned with strategy and prioritized based on the potential to create value over the long term
Business transformations	Failure of strategic transformations such as large scale change management projects, restructuring, mergers & acquisitions, etc.	<ul style="list-style-type: none"> – Failure to realize anticipated benefits – Impairments – Low employee morale and/or engagement 	<ul style="list-style-type: none"> – Transformations receiving executive sponsorship with aligned targets and appropriate levels of resource to support successful execution
People engagement	Failure to attract and retain skilled, talented employees in a competitive market place	<ul style="list-style-type: none"> – Failure to achieve growth and profit targets 	<ul style="list-style-type: none"> – Initiatives and processes in place to sustain a high-performance culture – Total awards approach and people development to emphasize diversity, innovation and growth
Ethics and compliance	Failure to act with integrity or behave in a manner inconsistent with our purpose and values	<ul style="list-style-type: none"> – Adverse impact on our corporate reputation and brands – Regulatory penalties/fines 	<ul style="list-style-type: none"> – <i>Corporate Business Principles</i> and <i>Code of Business Conduct</i> outlining the Group’s commitment to integrity – Compliance program and systems including grievance mechanisms in place
Macro financial factors	Volatility and/or sudden shocks impacting macro factors (currencies, interest rates, cost of capital, credit ratings, pension liabilities)	<ul style="list-style-type: none"> – Government intervention (e.g. capital controls, price controls) impacting operations and financial performance – Access to capital markets 	<ul style="list-style-type: none"> – Appropriate governance and risk mitigation measures to actively manage exposures and long-term asset and liability outlook
Geo-political factors	Adverse instability and/or uncertainty, e.g. political instability, conflicts, trade wars, labor and/or infrastructure related risks	<ul style="list-style-type: none"> – Disruption of Nestlé’s ability to do business in a country or region – Reduction in consumer demand impacting financial performance – Pandemics, etc. 	<ul style="list-style-type: none"> – Monitoring ad-hoc continuity plans to mitigate against events – Group-wide geographical and product category spreads representing a natural hedge

Climate disclosure

Climate change has been identified as one of the greatest risks to the future of Nestlé. The Group adopted the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations and began implementation in 2019.

The Nomination and Sustainability Committee of the Board of Directors of Nestlé provides strategic guidance on climate-related matters and reports to the full Board, which has overall oversight. Executive responsibility is shared by the Head of Operations and the Chief Financial Officer. In 2019, the Board of Directors approved the Group's long-term climate ambition to achieve zero net greenhouse gas emissions by 2050.

To understand the potential risks and opportunities of climate change, in 2019 the Group conducted a high-level assessment of physical and transitional exposures, focused on coffee, cereals and dairy. Two climate scenarios were considered in terms of global temperature rise by the year 2100: "Business-as-usual" (4–5°C warming) and "Paris Agreement" (warming below 2°C). Potential impacts for the business were considered up until 2030. Both scenarios present strategic risks and opportunities.

We assumed physical impacts on the business are relatively similar for both scenarios up until 2030. Acute physical impacts such as an increase in frequency and severity of extreme weather events have an impact today. Chronic physical risks are more likely to manifest themselves over the longer term weighted to the second half of the century.

Physical risks have a higher probability to impact coffee, with higher temperatures and water shortages compromising quality and

reducing availability. This may lead to an increase in raw material costs for the industry, and have economic and social impacts on coffee-growing communities. For wheat and dairy, there is a potential increase in the volatility of regional sourcing due to greater local climate variability but overall we foresee limited impact on global macro yields.

The Group has initiatives in place to support our farmers and our business in mitigating and adapting to climate-related physical impacts. These include providing technical assistance to farmers through our *Nescafé Plan* and *Nespresso AAA Program*, enhancing resilience to climate change in our plant breeding programs and improving management of the dairy supply chain. We are scaling up initiatives in agriculture to build farm-level resilience by storing carbon through soil management and land restoration, helping farmers reduce greenhouse gas emissions and halting deforestation.

The analysis indicated that key climate-related risks are likely to be transitional risks up until 2030. Under the Paris Agreement scenario, macro shifts will be required to move to a low-carbon economy, such as policy and regulatory changes (adoption of carbon pricing, shifts in agricultural subsidies, incentives for renewable energy). Investments in technology to adapt to and mitigate climate change will carry uncertainty due to the immaturity of technological solutions. Sector or business level reputation may be impacted (positively or negatively depending on the category) by increased stakeholder concern and shifts in consumer sentiment. Competitor responses may change competitive dynamics and impact on

Factories

the sector's reputation. This may impact revenue and growth projections, as well as indirectly impact business in a number of areas including community relations, employee attraction and engagement.

The Group is accelerating its climate change efforts to transition to a low-carbon economy. Consumer demand for products with a positive environmental footprint is rapidly increasing and the Group is focused on the opportunities to transform our products in line with the trends. Nestlé will launch more products with improved environmental footprints that contribute to a balanced diet, including more plant-based options, reformulate products using more climate-friendly ingredients and develop alternative packaging materials. The Group continues to increase the use of renewable energy sources enabling investments in new infrastructure such as wind and solar farms.

The work undertaken in 2019 confirms the importance of further understanding critical dependencies and externalities of climate change on our strategy. Climate change time horizons are challenging, as they are significantly longer than political terms, investor outlooks and planning cycles. The transformational shifts in policy and capital allocation required over the next decade to address climate change are in their infancy. The lack of clear transition pathways for climate scenarios may create significant divergence of assumptions. The Group is collaborating with the World Business Council for Sustainable Development's Food, Agriculture & Forest Products TCFD Preparer Forum project to develop sector specific guidance in 2020. This work will be used in our future climate scenario assessments.

Americas (AMS)							
Argentina	6	●	●	●	●	●	●
Bolivia	1					●	
Brazil	16	●	●	●	●	●	●
Canada	6	●	●	●	●	●	●
Chile	9	●		●	●	●	●
Colombia	5	●		●	●	●	●
Cuba	3		●	●			
Dominican Republic	2	●		●	●		
Ecuador	4	●		●	●	●	●
Guatemala	2	●		●	●		
Mexico	13	●	●	●	●	●	●
Nicaragua	1	●		●			
Panama	2			●	●		
Peru	1	●		●	●	●	
Trinidad and Tobago	1	●		●			
United States	77	●	●	●	●	●	●
Uruguay	2	●			●	●	
Venezuela	5	●		●	●	●	●

The figure in black after the country denotes the number of factories.

* Idle factory

- Powdered and Liquid Beverages
- Water
- Milk products and Ice cream
- Nutrition and Health Science
- Prepared dishes and cooking aids
- Confectionery
- PetCare

Europe, Middle East and North Africa (EMENA)						
Algeria	2	●	●	●		
Bahrain	1		●			
Belgium	1		●			
Bulgaria	1					●
Czech Republic	3				●	●
Denmark	1				●	
Egypt	2	●	●	●	●	●
Finland	2				●	●
France	18	●	●	●	●	●
Germany	13	●		●	●	●
Greece	2	●	●			
Hungary	2	●				●
Iran	2	●	●		●	
Iraq*	1					
Ireland	1				●	
Israel	8	●		●	●	●
Italy	9		●		●	●
Jordan	1		●			
Lebanon	2		●			
Morocco	1	●		●		
Netherlands	1				●	
Poland	5	●	●	●	●	●
Portugal	2	●		●	●	
Qatar	1		●			
Republic of Serbia	1	●			●	●
Romania*	1					
Russia	6	●		●	●	●
Saudi Arabia	7		●			
Slovak Republic	1				●	
Spain	10	●	●	●	●	●
Sweden	1	●				
Switzerland	10	●	●		●	●
Syria*	1					
Tunisia	1	●		●		
Turkey	3	●	●		●	●
Ukraine	3	●				●
United Arab Emirates	4	●	●	●	●	●
United Kingdom	9	●	●	●		●
Uzbekistan	1		●			

Asia, Oceania and sub-Saharan Africa (AOA)						
Angola	1			●		
Australia	7	●		●	●	●
Bangladesh	1	●			●	
Cameroon	1	●		●	●	
Côte d'Ivoire	2	●			●	
Ethiopia	1		●			
Ghana	1	●		●	●	●
Greater China Region	31	●	●	●	●	●
India	7	●		●	●	●
Indonesia	3	●		●	●	
Japan	3	●		●	●	●
Kenya	1	●		●	●	
Malaysia	6	●		●	●	●
Myanmar	1	●		●		
New Zealand	2				●	●
Nigeria	3	●	●		●	●
Pakistan	4	●	●	●	●	
Papua New Guinea	1	●		●	●	
Philippines	5	●		●	●	
Republic of Korea	1	●	●			
Senegal	1			●	●	
Singapore	2	●		●	●	
South Africa	5	●		●	●	●
Sri Lanka	1	●		●	●	
Thailand	8	●	●	●	●	●
Vietnam	6	●	●	●	●	
Zimbabwe	1	●		●	●	

Corporate Governance and Compliance

Corporate Governance

In 2019, our Board of Directors and management continued to evolve our strategy and governance to anticipate and reflect changing needs of society. We have been driving growth through innovation with significant investments in R&D, and have streamlined Nestlé's portfolio. Our value creation model continued to deliver both top- and bottom-line growth, as well as capital efficiency.

We are delivering on our commitments to execute our proven Nutrition, Health and Wellness strategy and expanding the boundaries of nutrition. At the same time, we continue to pursue our Creating Shared Value approach to business. Our conviction is that our business will only be successful in the long term by creating value for both our shareholders and society.

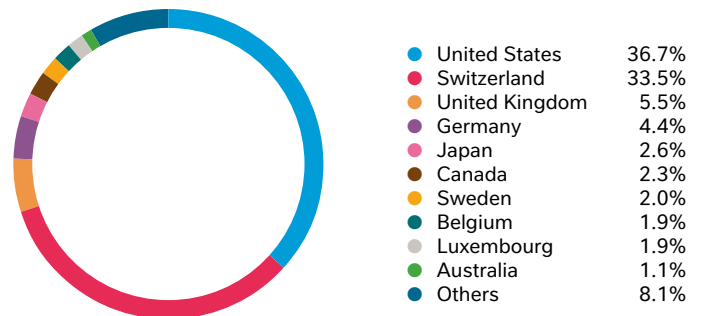
Our Board of Directors considers the interests of our shareholders as well as our other stakeholders. Adjusting our business model to changing consumer priorities makes business sense and is fundamental to sustainable value creation. We see no contradiction between pursuing our business interests and investing into our long-term sustainability. This has been reflected in the purpose clause of our Articles of Association since 2008. Accordingly, Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.

Our diverse Board of Directors is critical to our ability to effectively oversee the direction of our company. Since 2015, we have strengthened the Board through nine new independent directors with diverse experience and expertise directly relevant to Nestlé. We will continue to ensure that our Board understands the trajectory of our business and can ask relevant questions from all angles.

Engagement with our shareholders through our roadshows, investor meetings and analyst calls has sharpened our focus on our core priorities, strategic vision and governance. Our Chairman's Roundtables took place this past year in Singapore, Frankfurt, Paris, Zurich, London and New York. We continue to listen to all our shareholders and other stakeholders.

Our Chairman's and Corporate Governance Committee regularly reviews aspects of our governance, as well as asset and liability management.

Share capital distribution by geography



Our Nomination and Sustainability Committee, chaired by our Lead Independent Director, evaluates Board composition, structure and succession planning. It assesses candidates for nomination to the Board in the coming years. Importantly, this Committee reviews all aspects of our environmental and social sustainability including our responses to climate change.

Our Compensation Committee sets our remuneration principles and submits the proposals for remuneration of the Board and the Executive Board to the Board and the AGM. It ensures the alignment of our values, strategies and performance. Our compensation proposals and our compensation report are submitted to annual votes by our shareholders.

Our Audit Committee oversees internal and external audit, financial reporting, compliance and risk management. In 2019, our mandate for external audit was put up for tender. The Board will propose EY to be elected as our new audit firm for the business year 2020 at the upcoming AGM.

We recognize that for our company to be successful over time and create sustainable value for shareholders, we must also create value for society. We see governance as a framework to align the interests of all our stakeholders behind our purpose of enhancing quality of life and contributing to a healthier future.

Board of Directors of Nestlé S.A.

Peter Brabeck-Letmathe

Chairman Emeritus

David P. Frick

Secretary to the Board

KPMG SA Geneva branch ⁽¹⁾

Independent auditors



Paul Bulcke



Henri de Castries



Renato Fassbind



U. Mark Schneider



Beat Hess



Ann M. Veneman

Board of Directors of Nestlé S.A. at December 31, 2019

Paul Bulcke ^(1, 2, 4)

Chairman

U. Mark Schneider ^(1, 2)

Chief Executive Officer

Henri de Castries ^(1, 2, 4, 5)

Vice Chairman

Lead Independent Director

Former Chairman and CEO, AXA

Beat Hess ^(1, 2, 3)

Chairman, LafargeHolcim Ltd

Former Group Legal Director,

Royal Dutch Shell plc.

Renato Fassbind ^(1, 2, 5)

Vice Chairman, Swiss Re AG

Ann M. Veneman ^(1, 4)

Former Secretary, U.S. Department

of Agriculture,

and Executive Director, UNICEF

Eva Cheng ^(1, 4, 5)

Former Chairwoman and CEO,

Amway China & Southeast Asia

Patrick Aebischer ^(1, 3)

President Emeritus of the

Swiss Federal Institute of

Technology Lausanne (EPFL)



Eva Cheng



Ursula M. Burns



Pablo Isla



Dick Boer



Patrick Aebischer



Kasper Rorsted



Kimberly A. Ross



Dinesh Paliwal

Ursula M. Burns ^(1, 3)
 Former Chairwoman and CEO,
 Xerox Corporation
Kasper Rorsted ⁽¹⁾
 CEO adidas AG
Pablo Isla ^(1, 3)
 Executive Chairman Inditex
Kimberly A. Ross ^(1, 5)
 Former CFO, Baker Hughes LLC,
 Avon Products Inc. and
 Royal Ahold N.V.

Dick Boer ⁽¹⁾
 Former President and CEO,
 Ahold Delhaize N.V.
Dinesh Paliwal ⁽¹⁾
 President and CEO, Harman
 International Industries Inc.

-
- (1) Term expires on the date of the Annual General Meeting 2020.
 - (2) Chairman's and Corporate Governance Committee.
 - (3) Compensation Committee.
 - (4) Nomination and Sustainability Committee.
 - (5) Audit Committee.

For further information on the Board of Directors, please refer to the *Corporate Governance Report 2019*.

Executive Board of Nestlé S.A.



Executive Board of Nestlé S.A. at December 31, 2019

1 U. Mark Schneider
Chief Executive Officer

2 Laurent Freixe
EVP, CEO Zone United States
of America, Canada, Latin
America, Caribbean

3 Chris Johnson
EVP, CEO Zone Asia, Oceania,
sub-Saharan Africa

4 Patrice Bula
EVP, Strategic Business Units,
Marketing, Sales, Nespresso

5 Marco Settembri
EVP, CEO Zone Europe,
Middle East, North Africa

6 François-Xavier Roger
EVP, Chief Financial Officer

7 Magdi Batato
EVP, Operations

8 Stefan Palzer
EVP, Innovation Technology,
Research and Development

9 Béatrice Guillaume-Grabisch
EVP, Human Resources
and Business Services



- 10 Leanne Geale**
EVP, General Counsel,
Corporate Governance
and Compliance
- 11 Maurizio Patarnello**
Deputy EVP, Nestlé Waters
- 12 Greg Behar**
Deputy EVP, CEO,
Nestlé Health Science

EVP: Executive Vice President
CEO: Chief Executive Officer

For further information on the
Executive Board, please refer to the
Corporate Governance Report 2019.

Compliance

Business ethics and compliance remain the foundation of how we do business and a condition for Creating Shared Value. Compliance at Nestlé not only refers to applicable laws but to Nestlé policies across all our *Corporate Business Principles* and our commitment to integrity as explained in our Purpose and Values and our *Code of Business Conduct*. Our clear commitments are fundamental to the long-term success of our company. We conduct business in a sustainable, ethical manner even in the absence of legal or regulatory frameworks. Where our own principles and standards are stricter than local legislation, the higher standard applies. This helps us meet societal expectations and distinguishes us in the marketplace.

Our Board of Directors and our Executive Board oversee and promote good practices throughout the company. Line management is supported by our dedicated corporate Compliance function, which provides guidance and functional leadership, as well as by all other functions engaged in our risk- and principles-based Compliance program. Our Corporate Compliance Committee defines the framework and coordinates assurance processes. Market Compliance Officers and Committees ensure a consistent approach across the Group and help identify local Compliance priorities. In 2019, all Markets reconfirmed a mature “fit for purpose” level in their local program based on a self-assessment by the local Compliance Committees. Our commitments and progress made are externally shared in our *Creating Shared Value – Progress Report*.

We monitor Compliance through our corporate functions, our internal audit function and our external auditors. Through our CARE program, which engages independent external auditors,

we regularly assess specific aspects of our Compliance. In 2019, 193 CARE audits were conducted and gaps addressed. Training is provided in our internal Management School, at in-person trainings in the Markets, as well as through our e-learning tools. For example in 2019, 44 959 employees performed our *Code of Business Conduct* training.

In 2019, we have released new e-learning coverings the *Code of Business Conduct*, sexual harassment prevention, fraud prevention and compliance as a leadership responsibility.

Our Integrity Reporting System and our ‘Tell Us’ system allowed us to address 1745 complaints from employees and 1180 complaints from external stakeholders and other third parties. Complaints are investigated and remedial actions taken. Markets were supported with investigative guidelines and best practices, as well as escalation procedures. Awareness was reinforced in low volume reporting markets. A visibility mapping of existing grievance mechanisms in our value chain takes into account external learnings from the UN Working Group on Business & Human Rights.

In 2019, Nestlé’s Compliance program received a top assessment by the Dow Jones Sustainability Index (ranked 96 percentile). Going forward, we will continue to strengthen a “do the right thing for the right reason” mindset in order to create sustainable value for our business, our consumers, shareholders and communities. We will strive to anticipate and mitigate risks taking into account societal and regulatory trends. We will support our employees to act with integrity, fairness and authenticity. We will honor our commitments in order to maintain trust and make a positive contribution to society.

Shareholder information

Stock exchange listing

At December 31, 2019, Nestlé S.A. shares are listed on the SIX Swiss Exchange, Zurich (ISIN code: CH0038863350).

American Depositary Receipts (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank, N.A., New York.

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As to information concerning the share register (registrations, transfers, dividends, etc.), please contact:
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The *Annual Review* is available online as a PDF in English, French and German. The consolidated income statement, balance sheet and cash flow statement are also available as Excel files.

www.nestle.com

April 23, 2020

153rd Annual General Meeting,
Beaulieu Lausanne,
Lausanne (Switzerland)

April 24, 2020

2020 First quarter sales figures

April 24, 2020

Last trading day with entitlement to dividend

April 27, 2020

Ex-dividend date

April 29, 2020

Payment of the dividend

July 30, 2020

2020 Half-year Results

October 21, 2020

2020 Nine months sales figures

February 18, 2021

2020 Full Year Results

April 15, 2021

154th Annual General Meeting,
Beaulieu Lausanne,
Lausanne (Switzerland)

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The *Annual Report* contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures, and regulatory developments.

The *Annual Report* is published in English, German and French. The English version is binding for the content.

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