



**Nestlé**

Good Food, Good Life

Annual Review 2018



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

# Our purpose

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

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We are dedicated to advancing nutrition, health, and wellness in a way that is sustainable and responsible. Through our portfolio of products and services, we offer people and their pets, tastier, healthier and convenient choices for all life stages and all times of the day.



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## Front cover

**Milo: Energy with purpose**  
*Milo* is an integral part of Nestlé's efforts to promote healthier lifestyles by encouraging sports and healthy eating habits amongst kids. Each year the brand supports grassroots programs, working with different partners to make a positive difference in the lives of more than 22 million children.

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## Contents

2	<b>Letter to our shareholders</b>
6	<b>Pursuing our value-creating strategy</b>
10	<b>Innovating for a changing world</b>
14	<b>Connecting through our brands</b>
30	<b>Creating Shared Value</b>
42	<b>Financial review</b>
57	<b>Corporate Governance and Compliance</b>
65	<b>Shareholder information</b>

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## Accompanying reports

*Corporate Governance Report 2018*  
*Compensation Report 2018*  
*Financial Statements 2018*

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## Online

You can find more information about the Nestlé Group at [www.nestle.com](http://www.nestle.com)  
Find out more about Creating Shared Value at [www.nestle.com/csv](http://www.nestle.com/csv)

# Our performance

Our performance is driven by our Nutrition, Health and Wellness strategy, the engine of our value creation model.

Our 2018 organic sales growth was 3.0%. Our cost-reduction initiatives delivered 50 bps margin improvement, ahead of expectations.

<b>Group sales (in CHF)</b>	<b>Organic growth*</b>	<b>Real internal growth*</b>
<b>91.4 billion</b>	<b>3.0%</b>	<b>2.5%</b>
<b>Underlying trading operating profit* (in CHF)</b>	<b>Underlying trading operating profit margin*</b>	<b>Underlying trading operating profit margin*</b>
<b>15.5 billion</b>	<b>17.0%</b>	<b>+50 basis points</b>
	Constant currency	Constant currency
<b>Trading operating profit* (in CHF)</b>	<b>Trading operating profit margin*</b>	<b>Trading operating profit margin*</b>
<b>13.8 billion</b>	<b>15.1%</b>	<b>+30 basis points</b>
		Constant currency
<b>Earnings per share (in CHF)</b>	<b>Earnings per share</b>	<b>Underlying earnings per share*</b>
<b>3.36</b>	<b>+45.5%</b>	<b>+13.9%</b>
		Constant currency
<b>Operating cash flow (in CHF)</b>	<b>Free cash flow* (in CHF)</b>	
<b>15.4 billion</b>	<b>10.8 billion</b>	
	50.8% of net financial debt	
<b>Proposed dividend (in CHF)</b>	<b>Proposed dividend increase</b>	
<b>2.45</b>	<b>+4.3%</b>	

Performance evolution is based on 2017 restated figures as described in the Foreword on page 44.

\* Financial performance measures not defined by IFRS. For further details see Financial review on page 44.

# Our business

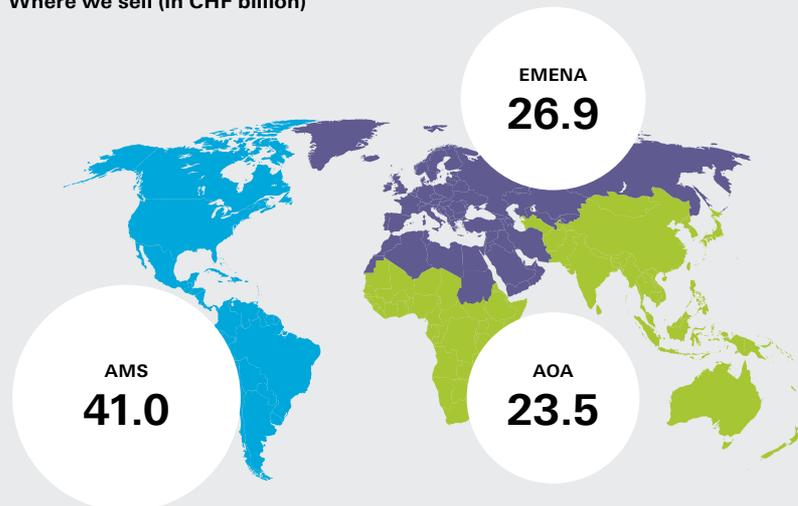
For over 150 years, Nestlé has been producing food and beverages that enhance quality of life and contribute to a healthier future.

Nestlé is the world's largest food and beverages company. We are a global company, combining global strategies with local engagement. Our success is built on trust, innovation and relevance. Across each of our categories, we earn our place in people's lives through our brands and dedication to improving nutrition, health and wellness. We win the right to stay there by offering life-enhancing products, services and experiences. We focus on capturing premiumization opportunities, offering affordable, high-quality nutrition and adding value to our brands and products through meaningful differentiation and innovation.

## What we sell (in CHF billion)



## Where we sell (in CHF billion)



## Number of employees

**308 000**

## Number of countries we sell in

**190**

## Total group salaries and social welfare expenses (in CHF)

**16 billion**

## Corporate taxes paid in 2018 (in CHF)

**3.6 billion**

# Our commitments

Our 36 commitments featured in the Creating Shared Value chapter guide our collective efforts to meet specific objectives.

Every day, we touch the lives of billions of people: from the farmers who grow our ingredients and the families who enjoy our products, through the communities where we live and work, to the natural environment upon which we all depend.



## For individuals and families

**Over 1300**

new products were launched in 2018 addressing specific nutritional needs and gaps of babies, children, expecting women or new mothers

**106 million**

children and families reached with fortified foods and beverages

**13.2%**

decrease in artificial colors

**170 million**

portions of vegetables added to our foods and beverages



## For our communities

**181.8 million**

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

**Over 26 000**

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

**63%**

of the volume of our 14 priority categories of raw materials are responsibly sourced

**440 000**

farmers trained through capacity-building programs



## For the planet

**2.6%**

decrease in indirect greenhouse gas emissions per tonne of product

**293**

factories achieved zero waste for disposal

**29.6%**

reduction in direct water withdrawals per tonne of product across every category since 2010

**34%**

of our electricity comes from renewable sources

# Dear fellow shareholders,

For more than 150 years, Nestlé has consistently delivered sustainable, industry-leading results by offering healthy, delicious, convenient food and beverage products and services. In a rapidly-changing environment, the key to our success has been our ability to balance continuity with change. It has required discipline and decisive actions to build sustainable value for the long term. We continue on our Nutrition, Health and Wellness journey, while we stay true to our purpose and values. We change by adapting our portfolio to meet evolving consumer demands, pushing the boundaries of science, accelerating innovation, as well as driving greater agility and efficiencies. Our people are embracing these changes with passion and dedication. This gives us confidence that Nestlé is well positioned for the future.

## On track to meet our 2020 goals

Our value creation model is based on a balance of top-line growth and bottom-line performance, as well as improved capital efficiency. We plan to reach mid single-digit organic growth by 2020. We also aim to increase our underlying trading operating profit margin to between 17.5% and 18.5% (from 16.0% in 2016). Our 2018 results demonstrate that we are on track to meet these targets:

- Organic growth was 3.0%, with continued strong real internal growth (RIG) of 2.5% and pricing of 0.5%. Growth was supported by stronger momentum in the United States and China, as well as in infant nutrition.
- Total reported sales increased by 2.1% to CHF 91.4 billion (2017: CHF 89.6 billion). Net acquisitions had a positive impact of 0.7% and foreign exchange reduced sales by 1.6%.
- Underlying trading operating profit (UTOP) margin reached 17.0%, up of 50 basis points. Trading operating profit (TOP) margin increased by 30 basis points to 15.1%, reflecting higher restructuring-related expenses.

Based on these results, the Board of Directors has proposed a 24th consecutive increase of the yearly dividend to CHF 2.45, to be paid in 2019.

## Sharpening our strategic focus

During 2018, our Board reaffirmed the Nutrition, Health and Wellness strategy and took decisive

steps to sharpen our strategic focus on food, beverages and nutritional health products. Consistent with this, we continued to invest in advancing the high-growth categories of coffee, petcare, nutrition, water, as well as Nestlé Health Science. We manage the other categories for a balance of growth and value. Due to changing industry dynamics and following detailed analysis, the Board determined that future growth opportunities for Nestlé Skin Health lie increasingly outside the Group's strategic scope. It therefore decided to explore strategic options for Nestlé Skin Health in the best long-term interest of this business and Nestlé shareholders. The review is expected to be completed by mid-2019.

We further accelerated our portfolio management through targeted acquisitions that come with high growth potential, deliver attractive returns and build on our leadership positions. We acquired the perpetual global license of Starbucks consumer packaged goods and foodservice products. With *Starbucks*, *Nescafé* and *Nespresso* we have brought together the world's most iconic coffee brands. We acquired Atrium Innovations, a global leader in natural, non-GMO vitamins and supplements. In addition, we completed the divestiture of our U.S. confectionery business, where our low market share constrained our ability to win in that market. We also completed the sale of the Gerber Life Insurance, which was non-core to our business.



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

“We are executing on our Nutrition, Health and Wellness strategy and creating sustained value for shareholders and society over the short and long term.”

### **Accelerating growth through innovation in a fast-changing environment**

In 2018, we delivered improved revenue growth and profitability. We achieved this in the context of a volatile economic environment and significant disruption in both our industry and the retail sector.

Consumer tastes, preferences and expectations are changing at an unprecedented rate. Trends towards more natural and organic foods, plant-based proteins, as well as simpler and healthier ingredients, are redefining the pace at which we need to innovate. Our growth was supported by disciplined execution and short innovation cycles. In order to launch new products quickly, we use rapid prototyping and leverage our industry-leading R&D network for quick in-market testing. Examples of fast product innovation include *KitKat Ruby*, the *Yes!* snack bar, *Perrier & Juice*, and *Garden Gourmet*, an authentic vegan meat analogue offering.

Moreover, the rise of digital and online shopping is fundamentally changing the retail industry. We are embracing the opportunities offered by the digital transformation across marketing, social media and e-commerce. In doing so, we are delivering more personalized products, messages and services directly to our consumers. In 2018, our e-commerce sales grew organically by +18% (+25% excluding Nespresso) and reached 7.4% of total Nestlé sales. There were also strong contributions from other fast-growing channels, such as Direct-to-Consumer, Convenience, Club, Value, Natural, Specialty stores, as well as Out-of-Home. We are constantly adapting our business models to wherever people look for our brands and products.

Our consumers do not just care about what they eat, but they also care about how products are made and their impact on the environment and society. We have placed packaging and plastics at the top of our agenda by announcing our goal to make 100% of our packaging recyclable or reusable by 2025. We are also pursuing collective action at an industry level in collaboration with our retail partners and governments.

As we look to 2019, we see that input costs are rising, particularly in energy, distribution and packaging. As parts of the world are beginning to see reflation, notably emerging markets and the United States, the strength of our brands and our ability to differentiate and innovate will continue to be key to our success.

### **Improving operational efficiency**

To fuel our growth and improve returns, we have intensified our drive to find operational efficiencies and reduce structural costs. This reflects our belief that consumers should not pay for our inefficiencies. We have made good progress on our significant cost-reduction programs across the areas of administration, procurement and manufacturing.

We continued to strengthen our business focus through simplified and standardized processes. We increased the penetration of our shared service centers from 17% to 35%, and are on track to reach 50% by 2020. In procurement, we realized significant savings by leveraging our size and scale through three global purchasing hubs. We now source 55% of our requirements through these hubs and this will reach 60% by 2020. In manufacturing we have further simplified our factory footprint and increased capacity utilization.

The savings that we have generated so far have made a significant contribution to the improvement in our underlying trading operating profit margin. In 2018, it increased by 50 basis points to 17.0%.

We also continued to deliver efficiencies in the area of R&D and marketing. The primary focus of these efficiencies is to free up resources to reinvest in growth opportunities and innovation.

We continue to simplify our organizational structure to speed up decision-making and responsiveness to new consumer trends. In 2018, infant nutrition successfully moved from a globally-managed to a regionally-managed business reported within the three Zones. Zone EMENA also continued its transformation to a category-focused organization, while maintaining the connection to local consumers through our Nestlé Markets. In parallel, we have tailored compensation to increase focus on pricing and capital efficiency.

### **Increasing cash returns to shareholders**

In 2018, we returned CHF 13.9 billion to shareholders through dividends and share repurchases. Share buybacks amounted to CHF 6.8 billion, as part of the three-year buyback program started in July 2017. Over the last ten years, Nestlé has returned CHF 104 billion to shareholders, of which CHF 40 billion has been in the form of share repurchases.

### **Board of Directors engagement**

Our Board of Directors is fully engaged and takes an active role in providing guidance on our long-term Nutrition, Health and Wellness strategy and Creating Shared Value. We benefit from the perspectives of seven new independent directors who have been added since 2015. This includes three directors added in 2018, who bring highly-relevant expertise and experience as leaders of consumer-facing companies.

In 2018, the Board conducted a strategic review that included an analysis of recent trends in the food and beverages industry, as well as our responses to them. During the year, the Board also carried out an analysis of the company's financial structure. It evaluated the M&A approach and track record. It also decided to explore strategic options for Nestlé Skin Health. In addition, the Board also continuously monitors the returns and strategic options of our financial investment in L'Oréal.

The Board reviewed the progress of Nestlé Business Excellence. It assessed the company's talent pool, supporting actions to improve gender balance and increase cultural diversity. It examined how the company's talent acquisition, retention and development strategies are being

adapted to cope with the demands of a changing work force.

The Board also visited Nestlé in the United States on its annual visit to a major market.

During 2018, the Board continued its ongoing review of the company's governance policies and compensation to ensure best practices. The Audit Committee and the Chairman's and Corporate Governance Committee provided thorough risk oversight. The Sustainability Committee reviewed our environmental, social and governance commitments to support our goal of enhancing quality of life and contributing to a healthier future for individuals and families, our communities and the planet.

### **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 recognize that we need to continually earn the trust of all of our stakeholders. This must be done through the way we manage our businesses, create products and pursue profitable growth. We emphasize a balanced approach by taking an inclusive view of these stakeholders, placing Nutrition, Health and Wellness at the core of our strategy.

We take this opportunity to thank all our associates for their dedication, initiative 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-creating strategy



**Purina ONE: Nestlé's fastest growing billionaire brand**

*Purina One's* success is driven by the superior nutrition profile of its products which

deliver visibly enhanced health throughout the life of the pet.

As the 'Good Food, Good Life' company, we enhance quality of life and contribute to a healthier future. Winning with consumers is the source of our sustainable financial performance and our way to earning trust and maintain our market leadership. Based on a compelling Nutrition, Health and Wellness strategy, our company delivers sustainable value over the short term and the long term.

Nestlé has many distinctive strengths that keep us at the top of our industry. Our people are our greatest strength. We have an attractive product portfolio in growing categories with leading market positions. We are a global company with deep local roots, which gives us a unique ability to understand local consumers and adapt fast to their preferences. We have powerful, valuable brands, which consumers trust. Our products reach more than 1 billion consumers every day across the world. We also have industry-leading R&D capabilities that support our Nutrition, Health and Wellness strategy and our innovation initiatives.

### **Our Nutrition, Health and Wellness strategy**

Our success is built on our Nutrition, Health and Wellness strategy. Food and beverages are core to Nestlé. We aim to provide the tastiest and healthiest choices, for all times of the day and for all stages of life, delivered in a convenient manner. We aim to capture premiumization opportunities and, at the other end of the spectrum, offer affordable, high-quality nutrition. We add value to our brands and products through meaningful differentiation and innovation. We do this by continually improving the taste, convenience and nutritional qualities of our products. We are also well-positioned to build and share nutrition

knowledge from the first 1000 days of life through to healthy aging, and benefit from increased interest in nutrition to support good health.

### **How do we create long-term value?**

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

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

### **Increasing growth**

Our portfolio is well positioned for growth. In the past, we have consistently delivered organic growth at the high end of the industry. We have a clear path to achieving mid single-digit organic growth by 2020.

Investing in high-growth categories and regions. We have identified five high-growth food and beverages categories with attractive growth rates: coffee, petcare, nutrition, water and Nestlé Health Science. Together, they represent 57% of sales and 61% of underlying trading operating profit\*. In 2018, organic growth was +4.0%. In these key categories, we have strong market positions and highly-differentiated offerings. They receive particular emphasis from a capital allocation standpoint, with significant investments in R&D, marketing, capital expenditure and external growth whenever appropriate. The other categories continue to be important contributors and had 1.9% organic growth in 2018. These businesses are managed for a combination of growth and value.

We are also focused on expanding our presence in high-growth regions. Emerging markets represent 42% of sales. In 2018, they

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\* Before unallocated items.

grew organically by +4.9%, three times faster than developed markets and with a higher underlying trading operating profit margin. In most of these emerging markets, Nestlé has been present for many decades and our brands enjoy a high level of trust and are rightly viewed as local.

#### Fixing underperforming businesses.

We have taken decisive actions to improve underperforming businesses through innovation, better consumer understanding and, when needed, management changes and restructuring. In 2018, turnaround examples included Nestlé Skin Health and Yinlu in China.

#### Innovating products and business models.

Rapid innovation and bringing products to market faster are key dimensions of our growth agenda. At the same time, we continue to invest in cutting-edge science and technology to address evolving consumer expectations through new offerings and product reformulations. Innovation also helps us to premiumize our offering and contributes to margin improvement. In 2018, 22% of our sales came from premium products. We are not just innovating with new products but also new business models. In particular, we have a strong focus on personalized and Direct-to-Consumer offerings. In 2018, 8.2% of our sales came from Direct-to-Consumer business models.

Embracing digital opportunities. Our digital transformation focuses on delivering personalized messaging, services and products to consumers at scale. Powered by data and technology, we are modernizing our existing brands and business operations while developing new, digitally-centric business models. Already 10% of all consumer contacts are personalized. In addition, in 2018, our e-commerce sales grew five times faster than the Group average and reached 7.4% of total Nestlé sales.

Managing our portfolio. We continue to actively evolve our portfolio towards attractive, high-growth businesses. In 2018, we strengthened our position in coffee through the acquisition of the perpetual global license of Starbucks consumer packaged goods and foodservice products. We also divested our U.S confectionery and Gerber Life Insurance businesses. While much work

has been done, we are not yet finished. We recognize that acquisitions can provide access to new technologies, brands, categories and geographies. Similarly, small to medium-sized acquisitions can offer a fast and cost-effective way to embrace new capabilities or business models. We are also actively divesting businesses that are non-core and where we have limited ability to win. We do this in a disciplined way with an aim to minimize potential disruption and maximize the value of existing businesses.

### **Improving operational efficiency**

In addition to our growth agenda, we have committed to increase our underlying trading operating profit margin from 16.0% in 2016 to between 17.5% and 18.5% by 2020.

Reducing costs. We are actively executing several cost-saving initiatives to reduce non-consumer facing structural costs by between CHF 2.0 and 2.5 billion. These are primarily focused on the areas of administration, procurement and manufacturing.

We continued to strengthen our business focus through our Nestlé Business Excellence program to simplify and standardize processes, which helped reduce administrative costs. We have increased the penetration of our shared service centers from 17% to 35% and are on track to reach 50% by 2020. We have also generated efficiencies in facility management, and real estate through site closure and consolidations.

In procurement we have realized significant savings by leveraging our size and scale through three global purchasing hubs. We now source 55% of our requirements through these hubs, and this will reach 60% by 2020.

In manufacturing we have further simplified our factory footprint and increased capacity utilization.

The savings generated in these three areas so far have made a significant contribution to the improvement in our underlying trading operating profit margin by 50 basis points to 17.0% in 2018, and there is more to come.

Freeing up resources. We have also continued to deliver efficiencies in R&D and marketing. The primary focus of these programs is to free up resources to provide fuel for growth and innovation. As an example, in the last three years,

## A balanced value creation model

At Nestlé, we believe the best way to guarantee long-term sustainable value creation is through a balanced pursuit of growth, profitability and capital efficiency. Growth is the primary driver of value creation. At the same time, we pursue efficiency and profitable growth because we recognize that our competitiveness is what ensures our sustainability. We are disciplined in our capital allocation and committed to increasing shareholder returns, while investing for the long-term and Creating Shared Value.

more than CHF 500 million in marketing savings have been reinvested in building our brands.

Adjusting management structures and systems. We have continued to adapt our organization to be simpler and faster. We are empowering our market and regional teams to drive growth. To support them, we have implemented initiatives to delayer our organization and speed up decision making at a local level. In parallel, we have tailored compensation to prioritize profitable growth and improved capital efficiency.

### **Allocating capital with discipline and clear priorities**

We follow prudent financial policies designed to strike the right balance between capital allocation and flexible access to financial markets. We have well-defined priorities in this regard.

Investing in organic growth. We invest in our business through R&D, brand support and capital expenditure to support top-line growth. Our approach is rigorous and discerning. We are allocating more resources behind those businesses with the highest potential to create economic profit. We have also continued to focus on reducing working capital. The five-quarter average working capital in % of sales reached 1.4% at the end of 2018, –20 bps versus the restated figure for 2017.

Paying dividends. For 2019, the Board of Directors has proposed a 24th consecutive dividend increase amounting to CHF 2.45. This underlines our commitment to continually return capital to shareholders.

Disciplined approach to acquisitions. This is based on strategic and cultural fit, as well as financial returns. We pursue a disciplined acquisition policy, particularly in terms of the price that we are prepared to pay. We prioritize our high-growth categories and regions, particularly coffee, nutrition, petcare, water and Nestlé Health Science. For the companies we acquire, we have solid integration plans with clear accountability and precise targets.

Share buybacks. We have returned CHF 6.8 billion of capital to shareholders in 2018 through share repurchases. This is part of the three-year CHF 20 billion share buyback program announced in July 2017. This brings the total returned to shareholders over the last ten years to 104 billion.

We also regularly review our capital structure to ensure it is appropriate in the context of market conditions and our strategic priorities.

### **Creating Shared Value**

Creating Shared Value (CSV) is fundamental to how we do business. We believe that our company will only be successful for the long term by creating value for both our shareholders and for society.

Business benefits and positive societal impact are mutually reinforcing. In practical terms, our products must provide a nutritional benefit to the consumer. They must also contribute to the development of the local communities where we operate and protect the environment for future generations through the practice of resource stewardship.

# Innovating for a changing world



**NAN Supreme: Breakthrough science creates new competitive advantage**

Nestlé continues to lead the way in developing innovative and scientifically-proven infant formulas. *NAN Supreme*

contains a Human Milk Oligosaccharide (HMOs) blend which promotes a healthy baby gut bacteria and reduces the risk

of infections by stimulating the immune system.

At Nestlé, continuous innovation is part of our DNA. It is a cornerstone of our success and key to our strategy. For over 150 years, we have built unique competitive advantages. We have unmatched expertise in understanding the relationship between nutrition and health. Our ability to identify local and global trends and translate these into meaningful innovations that meet consumer demand is what drives our growth.

### **Science-based innovation**

Nestlé operates the world's largest science and innovation network in the food and beverages industry. In 2018, we invested CHF 1.7 billion into R&D. This investment enables us to strengthen our solid scientific foundation, leading to new breakthrough science and technologies.

We continue to invest in long-term innovation projects with the potential for high returns. Examples include infant and maternal nutrition, healthy aging, personalized nutrition, and understanding the microbiome. We are committed to delivering on our Nutrition, Health and Wellness strategy by further reducing sugar, salt and fat. We are also eliminating food additives, while fortifying existing products with added nutritional benefits.

At the same time, we have increased the pace of innovation to be even more responsive to consumer trends. We are encouraging our researchers to think like entrepreneurs, to explore and rapidly test new ideas. In order to stay on top of emerging science and technology trends, we collaborate closely with academic institutions, start-ups and innovation partners across the world.

### **Rapidly-evolving consumer preferences**

The food and beverages industry is transforming rapidly. Smaller, agile and fast-moving start-ups are challenging larger companies by increasing the rate of change. Consumer needs and expectations are also evolving. There is greater demand for healthier and more authentic products, including those that are locally inspired. These reflect a desire for greater transparency and new product experiences. There is also a growing global trend toward healthier lifestyles, including specific dietary requirements such as vegetarian, lactose-free or gluten-free.

### **Increasing our speed**

Having great ideas is important, but the real opportunity lies in how fast we translate these into attractive and relevant products. We want to win in the marketplace by creating more new and impactful products, services and experiences. To launch new products quickly we use fast prototyping and leverage our size and scale for quick in-market testing. Our R&D and commercial functions join forces from the start to determine what is desirable to the consumer, feasible for the business and creates value for Nestlé. We combine this with a pragmatic approach to market entry. We are leveraging our existing industrial footprint, R&D facilities and co-manufacturing partners to support faster launches. This allows us to lower or defer capital expenditure commitments until we have evidence from the market place that an innovation can gain traction.

### **Addressing local consumer trends**

When it comes to understanding consumers we remain at the forefront of our industry. We are a largely decentralized organization, which means that our teams are close to the consumer. We want to take greater advantage of this strength. To do so, we are simplifying our innovation processes, and empowering our local teams to move earlier on trends. We encourage these teams to take greater initiative and create products relevant to local consumers. Our ambition is to create a steady stream of innovative stand-out products.

**Innovating with purpose:  
Advancing sustainability**

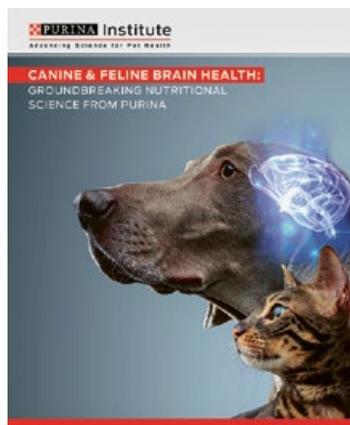
Our innovation priorities are shaped by our purpose and commitment to creating value for *all* our stakeholders. This means that in addition to advancing the nutrition, health and wellness profile of our categories, we have a special focus on:

- **Developing recyclable packaging solutions to reduce our impact on the environment:** we are investing in environmentally-friendly packaging solutions and alternative packaging materials.
- **Developing plant-based offerings and promoting sustainable nutrition:** we are developing nutritious dairy and meat alternatives with a taste profile consumers love.
- **Promoting affordable nutrition:** we are applying our expertise and novel technological solutions to make healthy, fortified products available at very low cost.



**Reducing packaging waste: The Nestlé Institute of Packaging Sciences**

The new Institute of Packaging Sciences is part of a company-wide drive to make 100% of our packaging recyclable or reusable by 2025. The institute accelerates the research and development of recyclable, biodegradable and compostable polymers, as well as functional paper alternatives to plastics. This work is expected to deliver a pipeline of functional, safe and environmentally-friendly packaging solutions.



**Enhancing the science of petcare:  
Nestlé Purina Institute**

Purina has been instrumental in shaping the science of pet nutrition. To continue that tradition, the newly-launched state-of-the-art Purina Institute will promote global collaboration with veterinary and scientific thought leaders. This will enhance veterinary knowledge and increase our understanding of the critical role diet plays in pet health, which will help fuel and support future innovations.

**Leveraging our plant-based protein platform to capture food industry trends: Garden Gourmet**

Alternative proteins are a new growth platform that capture cross-category opportunities by expanding our flexitarian and vegan product portfolios. The continued expansion of the *Garden Gourmet* range also reflects how we are encouraging consumers to participate in a more sustainable future by shifting to more plant-based diets.



**A unique solution to capture vegan trends: Häagen-Dazs**

Consumer appetite for vegan alternatives is shaping a new segment in ice cream. By creating a unique recipe that uses cocoa, peanut butter or coconut cream instead of less sustainable non-dairy alternatives such as almond milk, the *Häagen-Dazs* team was able to quickly leverage the trend across the *Trio* platform. With its signature thin chocolate layers, *Trio* offers an indulgent experience strongly differentiated from competitors.

**Internal incubator enables rapid product launch: Outsiders**

*Outsiders* pizza is an example of how Nestlé teams are embracing a start-up mentality. These locally inspired pizzas were created by one of our internal incubators, with the product brought on-shelf within nine months of concept.



# 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



Milk products  
and Ice cream



PetCare



Prepared dishes  
and cooking aids



Confectionery



Water



# Powdered and Liquid Beverages

Powdered and Liquid Beverages covers our coffee, cocoa and malt beverages and tea categories. This business features some of our most iconic brands, such as: *Nescafé*, the world's favorite coffee brand; *Nespresso*, our premium coffee experience; and *Milo*, the world's most popular chocolate malt drink.



## Accelerating an international rollout through a coordinated campaign: Nescafé

The relaunch of *Nescafé Gold*, our premium soluble coffee range, was rolled out across multiple markets in EMENA and ASEAN during 2018. A single advertising campaign was adapted globally to improve speed, scale and efficiency.



## Premiumizing through organic offerings: Nescafé Dolce Gusto

*Dolce Gusto* launched *Absolute Origin*, a fully organic, sustainably-sourced range of single origin coffees that offer consumers a premium, authentic coffee experience.

## At a glance

- 1 Sales: **CHF 21.6 billion**
- 2 UTOP: **22.7%**
- 3 **23.6%** of Nestlé's sales



**Reinforcing premium credentials through craftsmanship: Nespresso**

*Master Origin* Indonesia is the latest in a range of crafted coffees that reinforce *Nespresso*'s premium positioning. It is fully Fairtrade-certified, underlining the brand's commitment to authenticity and sustainability.

**Blending a new brand into our coffee portfolio: Starbucks**

The Starbucks license agreement significantly strengthens our position in roast & ground coffee, particularly in the United States. In 2019, we will launch *Starbucks* products in retail internationally and in a range of formats, including capsules compatible with *Nespresso* and *Nescafé Dolce Gusto* systems.



**Expanding portfolios to include zero added and lower sugar offerings: Milo**

*Milo's Gao Kosong* is a prime example of Nestlé's continued efforts to reduce sugar content. This new product, created for our Singapore market, relies on a recipe that provides a better carbohydrate profile by using only natural sugars from malt and milk, with no added sucrose.



**Novel offering to seed new trends: Nescafé**

*Azera's* nitrogen-infused coffee broadens the appeal of *Nescafé's* premium offering in both Ready-to-Drink and Out-of-Home. With coffee textures that create an exciting experience, *Nitro* provides coffee-shop generation consumers with an experience designed to delight and differentiate.



# Nutrition and Health Science

Our nutrition business includes infant formula and baby food. The strength of our portfolio in these high-growth categories is built on leading science and strong positions in emerging markets. Nestlé Health Science (NHSc) is an additional growth platform for Nestlé and is well positioned for leadership in medical nutrition, consumer care, and in vitamins, minerals and supplements.



## Strengthening a megabrand through continuous innovation: S-26

In 2018, the S-26 brand reshaped its core GOLD range with HMOs and  $\alpha$ lipids, a unique ingredient that contains key nutrients to support brain development that is backed by robust ongoing clinical programs. S-26 also extended its range with the launch of S-26 Organic to align with consumer demand.



## At a glance

- 1 Sales: **CHF 16.2 billion**
- 2 UTOP: **20.6%**
- 3 **17.7%** of Nestlé's sales



## Fundamental research creates a new growth platform: NAN

The rollout of our ground-breaking Human Milk Oligosaccharide (HMO) products accelerated in 2018 and now extends to 36 countries across multiple brands. The NAN with HMO launch is one of the most successful in Nestlé's 150-year history. It is an example of Nestlé's commitment to long-term fundamental research.



**A pure born brand that continually differentiates: Garden of Life**

Atrium's *Garden of Life* is a pure-born brand that enjoys strong consumer appeal. The brand's latest line of herbal supplements is fully traceable and sustainably farmed. It is also certified organic and non-GMO, and is gluten-free and vegan. The new line makes use of ingredients with known health benefits, such as turmeric.



**Expanding our portfolio with on-trend organic and natural offerings: illumina**

Following the launch of organic varieties in 2017, *illumina* continued to meet demand for naturality with the launch of *illumina Atwo*. The new product made with A2 milk, was brought to market within seven months. The success of these launches reflects our ability to source the right ingredients and ensure the integrity of our value chain from farm to bottle.



**Building trust through transparency: Gerber**

Gerber's organic range has helped open new growth avenues for this iconic brand. These products are GMO-free, made with natural ingredients and come in pouches and glass jars. The combination of transparent packaging and clear messaging around Clean-Field Farming™ strongly resonates with consumers in a category where quality food credentials are fundamental.

**Resonating with local preferences: OptiFibre and Fibermais**

Nestlé Health Science's *OptiFibre* powder continued its successful rollout in 2018, helped by its credentials as a clean label, 100% vegetal origin fiber product that is safe, effective and free of side effects. In Brazil, *Fibermais* with collagen also enjoyed a successful launch by resonating with consumer interest in the link between gut health and skin beauty.



# Milk products and Ice cream

Milk products, particularly our ambient dairy products under the *Nido* brand, are a key pillar of our Nutrition, Health and Wellness strategy. We leverage our scientific and nutritional expertise to provide individuals and families with dairy products to support healthy diets for all stages of life, from early childhood to old age. Our coffee creamer business is based on constant innovation with our market-leading brand, *Coffee Mate*. In Ice cream, we have a wide range of delicious, indulgent products, from affordable price points to premium offerings such as *Häagen-Dazs*.



## Expanding our affordable nutrition range: Nido and Ninho

*Nido* is well-positioned as a trusted brand in the area of affordable nutrition with a range of products tailored to the evolving nutritional needs of growing children. The addition of this lactose-free format reflects our commitment to providing parents everywhere with nutritional solutions for the specific needs of their children.



## New formats broaden appeal to capture snacking and vegan trend: Häagen-Dazs

The non-dairy bar is a unique, first-to-market format that aligns this superpremium brand with rising demand for vegan and flexitarian ice cream options. The addition of the new cookie format also opens up new opportunities for the brand in the sandwich segment.



## At a glance

- 1 Sales: **CHF 13.2 billion**
- 2 UTOP: **19.1%**
- 3 **14.5%** of Nestlé's sales



**Extending into superpremium: Coffee Mate**

The launch of *Natural Bliss Artisan Café* creamer reinforces *Coffee Mate*'s growing reputation for clean label, healthier creamers. By using rapid prototyping and exotic premium ingredients, the development team were able to fast-track *Natural Bliss*'s entry into the super premium segment.

**Capturing gaps in the market: Drumstick**

*Drumstick Mini Drums* mini cones are the latest addition to our portfolio of snack-sized treats. We were first to market with a format that meets growing demand for convenience and portion-control. At less than 140 calories per treat, the product has proven a big hit with both parents and those looking for permissible indulgence.



**Reshaping the premium snack market: Outshine**

*Outshine*'s new formulation leverages on-trend flavors and the brand's fruit-first approach to ingredients to create a range of refreshing, "snack brighter" offerings. This latest launch reinforces its role in pioneering a new snacking segment. Reflecting consumer appetite for natural, wholesome indulgence, the range is free from corn syrup, artificial colors, fat and gluten. This product is also non-GMO and vegan.



**Expanding our plant-based non-dairy options: Nesfit and Carnation**

New offerings from *Nesfit* and *Carnation* reflect portfolio-wide efforts to expand our range of non-dairy alternatives. *Nesfit* products are made from wholesome wholegrains while *Carnation*'s new range offers a non-dairy cooking solution that does not compromise on rich, creamy flavors.

# PetCare

Nestlé Purina's leading portfolio of brands include *Pro Plan*, *Purina ONE*, *Gourmet* and *Merrick*, among others. We continue to improve our core products, address consumer preferences for natural pet food, advance our e-commerce capabilities and offer new personalized Direct-to-Consumer experiences. To support global demand for our brands in both developed and emerging markets, we continue to invest in our worldwide manufacturing footprint. Our focus on developing nutritional breakthroughs based on proven science will also allow us to deliver on our commitment to help pets live better, longer lives.



## Increased manufacturing capacity set to boost growth: Purina Cat

To support robust growth in the cat food segment, Purina's production capacity has been expanded with new plants coming online in Hungary, Poland, Chile, Mexico, Brazil and the United States. Nestlé's lead in the segment reflects how our investment in science and taste create competitive advantage and robust brand loyalty.



## At a glance

- 1 Sales: **CHF 12.8 billion**
- 2 UTOP: **21.6%**
- 3 **14.0%** of Nestlé's sales

## Offering probiotic solutions: Pro Plan

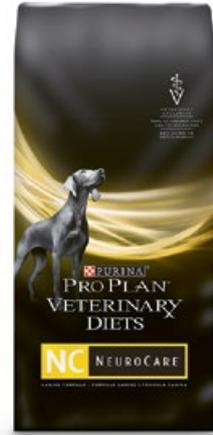
*Pro Plan* is the flagship nutrition brand for Purina and select *Pro Plan Savor* dry formulas offer live probiotics to support digestive health in cats and dogs.





**Strengthening Nestlé’s move into personalized petcare: Tails.com**

With its proprietary nutritional algorithm, convenient subscription service and home delivery model, the acquisition of a majority stake in Tails.com offers Nestlé the opportunity to further expand into the field of personalized petcare. The platform comes with a new digital business model that fits strongly with our petcare drive into e-commerce.

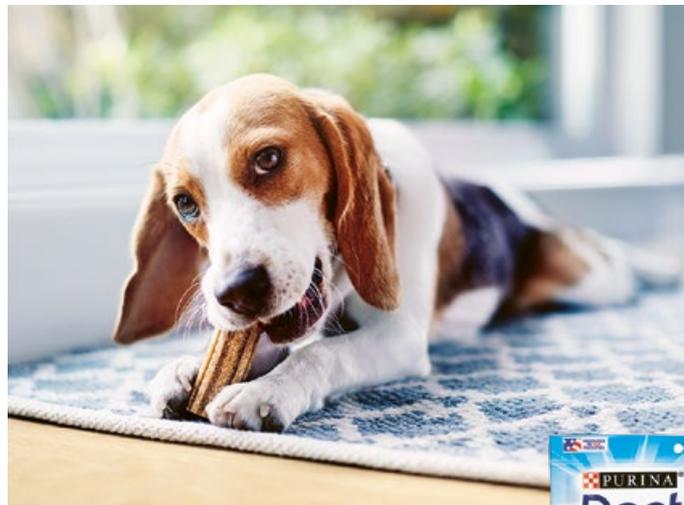


**Growing opportunities in specialty and veterinarian channels through nutritional solutions: Pro Plan**

*Pro Plan Veterinary Diets NC NeuroCare* is the world’s first and only pet food diet developed to help nutritionally manage epilepsy in dogs as an adjunct to veterinary therapy. *NeuroCare* can also be used to manage cognitive dysfunction in dogs. The product is an example of how leading research can support growth in the veterinary segment.

**New format, same dedication to taste experience: Gourmet Gold**

This year’s launch of the *Gourmet Gold Melting Heart* range is an example of successful premiumization based on superior taste experience.



**Opening up healthy growth opportunities in snacks: DentaLife**

*DentaLife* daily oral treats provide pet owners with a pioneering aerated chew that reduces tartar buildup in pets. The product is part of Purina’s drive to capture rising demand for healthy pet snacks with functional benefits.



# 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 a number of iconic brands, including *Maggi*, *Stouffer's* and *Buitoni* that cater to regional and local tastes. We are committed to renovating our product portfolio with more natural, tasty and healthy ingredients.



## Meeting local consumer taste: Maggi

*Naija Pot* reflects Maggi's ability to localize through consumer insight and recipe adaptation. By combining rapid prototyping with local flavors, we were able to capture the 'bottom of the pot' taste that consumers craved. The product reflects Maggi's 'partner to everyday cooking' approach by using local raw materials.

## The authentic taste of italian pizza: Buitoni

*Buitoni* has leveraged pizzeria chef expertise to create an authentic Italian pizza experience inspired by neapolitan know-how. *Buitoni Bella Napoli* combines the unique taste and texture of 22-hour fermented dough with ingredients sourced from regions known for traditional and quality-focused food culture. The product is also available under the Wagner brand as *Ernst Wagners "Original"*.



## At a glance

- 1 Sales: **CHF 12.1 billion**
- 2 UTOP: **18.0%**
- 3 **13.2%** of Nestlé's sales



**Adding exotic ingredients to excite and surprise: Thomy**

Thomy has introduced ethnically-inspired flavors and natural ingredients to meet growing consumer appetite for convenient world cuisine. The brand has also extended its offering in vegan-friendly products.



**Enhancing flavor in top family meals: Maggi**

Magic Sarap and Masala Ae Magic are examples of Maggi’s strategy to be the partner to every main meal. The ‘All-in-one’ seasonings use simple, natural ingredients and a digital recipe service to inspire parents to cook delicious, balanced meals. Reflecting Nestlé’s core purpose, the products help provide affordable nutrition for the whole family.



**Repositioning the core to adapt to new trends: Hot Pockets**

Hot Pockets’ successful relaunch has been achieved by adjusting both its target consumer and value proposition. By adding high-protein variants and investing in its core sandwich segment, the new offering appeals to consumers looking for convenient ‘on the go’ solutions.



**Scaling up our plant-based portfolio: Sweet Earth**

The launch of the Sweet Earth plant-based pizza illustrates our efforts to enable the shift to more balanced and sustainable food systems by offering consumers vegan choices for top dishes.

# Confectionery

Our Confectionery category includes the iconic global brand *KitKat* and a large portfolio of much-loved local brands. We have continued to focus on innovation and premiumization in the category. In line with our aim to provide consumers with healthier options, we launched *MilkyBar Wowsomes*, a new chocolate bar with 30% less sugar based on Nestlé's breakthrough technology of micro-aerated sugar.



## A world first in chocolate: KitKat

*KitKat Ruby* is the world's first naturally ruby-colored chocolate bar, offering consumers a completely new and innovative chocolate experience. What makes the ruby chocolate special is the intense taste it achieves without the addition of any flavor or color.



## Creating new brand experiences beyond the moment of consumption: KitKat Chocolatory

The *KitKat* Chocolatory temporary pop-up format has continued to expand across new markets. The approach is a showcase for brand building through immersive, personalized experience that goes beyond the moment of consumption.

## At a glance

- 1 Sales: **CHF 8.1 billion**
- 2 UTOP: **17.3%**
- 3 **8.9%** of Nestlé's sales

**Premiumization through personalization: Quality Street**

*Quality Street* now allows consumers to customize their own sweet mix and personalize each tin. By collaborating with select retailers, the brand has generated significant consumer excitement and social media buzz. This approach has opened up new growth opportunities for a traditionally seasonal product.



**Reducing sugar content through our breakthrough facets technology: Milkybar**

*Milkybar Wowsomes* is our first product to market to leverage our breakthrough micro-aeration technology to reduce sugar content by 30%. This innovation opens up new opportunities in indulgence by providing a natural alternative to artificial sweeteners.



**Innovating with local hero brands: Rossiya and Talento**

*Rossiya* (Russia) and Garoto's *Talento* (Brazil) latest product innovations match local favorites with a new, layered fruit, nut and dark chocolate format that is strongly visually-differentiated. *Talento* is also the first mainstream, clean label organic chocolate in Brazil giving it specific appeal to millennials.



**A new all-natural brand created by an internal start-up: Yes!**

*Yes!*, Nestlé's new brand of vegetarian, gluten-free snack bars, was developed from concept to launch in nine months. The brand is positioned to capture the rapid growth in healthy snacking. Using tasty combinations of wholesome ingredients, *Yes!* delivers great texture and novel flavors such as lemon and quinoa to create meaningful product differentiation.

# Water

Nestlé Waters is leading in a fast-growing category where consumers are increasingly seeking healthier alternatives to sugary drinks and juices, and hydration options with functional benefits. Our Waters business includes *Nestlé Pure Life*, the world's biggest bottled water brand, which provides affordable healthy hydration in many markets worldwide. Meanwhile, our international sparkling water brands, *S.Pellegrino* and *Perrier*, continue to enjoy strong growth in the premium segment.



## Accelerating leadership in premium sparkling and flavored: S.Pellegrino and Perrier

Our flagship brands *S.Pellegrino* and *Perrier* have added new natural, fruit-flavored offerings and aluminum can formats to capture surging consumer demand for flavored water. Trading on heritage, premium sourcing and naturality these brands appeal strongly to millennials. The new *S.Pellegrino Essenza* range showcases how the brands continue to refresh their premium differentiation by offering novel flavor combinations and linking consumption to specific occasions.

## At a glance

- 1 Sales: **CHF 7.4 billion**
- 2 UTOP: **10.5%**
- 3 **8.1%** of Nestlé's sales



## Breakthrough cold brew technology creates bio-infused water: Vittel

*Vittel's* bio-infusion range is made by slowly brewing fruit at ambient temperature to preserve their natural taste. All products are 100% organic, with no preservatives, no added aromas and no sweeteners satisfying consumer appetites for natural, healthy hydration with authentic taste.



**Expanding a premium still icon: Acqua Panna**

*Acqua Panna* has begun a major transformation that will see production capacity significantly increased and the brand image refreshed to emphasize its Tuscan origins. These actions offer timely support to the brand’s international expansion.



**Expanding into sparkling and flavored water growth spaces: U.S regional spring water brands**

In the United States, we have introduced sparkling and flavored variants made with natural flavors to our leading local spring water brands. The move is in response to a significant shift in consumer habits away from sugary drinks. The range is free from calories, sugars, sweeteners and colors.

**Opening up functional water opportunities: Levissima+**

*Levissima+* not only quenches thirst but also replenishes through the addition of mineral salts, providing functional benefits such as improved muscle function and reduced tiredness.



**Expanding our kid-friendly formats to encourage healthy-hydration habits: Nestlé Pure Life**

*Nestlé Pure Life* has expanded its product portfolio by introducing new iconic formats and bottle shapes. Launched in more than 15 countries, the new range of ‘*Water buddies*’ aims to make pure water a go-to for kids, breaking sugary drink habits.

# Creating Shared Value



**Maggi Naija Pot: A seasoning cube with a social impact**

Produced at our Flowergate factory in Nigeria, *Maggi's* new *Naija Pot* seasoning responds to local tastes and the preferences

of today's consumer for simple and familiar ingredients, while offering an improved nutritional profile that contains less salt.

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

#### Focus on key areas

Long-term value creation requires focus. In consultation with experts, we chose to prioritize the three areas where our business intersects the most with society: nutrition, rural development and water. Value creation is only possible with a solid foundation of compliance and a culture of respect, as well as a firm commitment to environmental and social sustainability. Our impact on these focus areas is measured by progress against publicly stated commitments, which are informed by our materiality assessment (see p. 41) and regular feedback from external groups.

#### The business case for Creating Shared Value

We cannot maximize long-term sustainable value creation for shareholders at the expense of other stakeholders. We believe that societies will not support a business that harms our communities and overall sense of well-being. Creating Shared Value helps ensure that we remain relevant with consumers.

To better connect financial with non-financial value creation and reporting, we worked with Ernst & Young (EY) and Valuing Nature to conduct an impact assessment to calculate the societal and business value generated by our *Global Youth Initiative* (GYI). Launched in 2017, the GYI is expected to create 10 million economic opportunities for young people over the next decade. The study revealed that the initiative generated a positive business return on



Nestlé CEO U. Mark Schneider with students of the Kouadiolankokro bridge school in rural Côte d'Ivoire. Built in partnership with the Jacobs Foundation, bridge schools provide access to education and help prevent child labor.

investment, and an even higher societal return. More detail on the results and methodology have been published on our website.

This impact valuation methodology has been peer-reviewed by FSG and continues to be refined through application to other projects. We are currently conducting an impact valuation of our *Caring for Water* initiative.

We also participated in the work of the Embankment Project for Inclusive Capitalism (EPIC), which aims at shaping the broader conversation on long-term value creation.



#### Further information

Find details of our management approach and governance structure, as well as performance data, case studies and additional content, in our annual *Nestlé in society – Creating Shared Value* online report and the Nestlé in society section of our corporate website ([www.nestle.com/csv](http://www.nestle.com/csv)).

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

Driven by our company purpose —enhancing quality of life and contributing to a healthier future— our 2030 ambitions align with those of the United Nations 2030 Agenda for Sustainable Development.

At Nestlé, we touch billions of lives worldwide: from the individuals and families who enjoy our products, to the communities in which we live, work and source our ingredients, and the natural environment upon which we all depend. Having identified three core areas where we make an impact, we have made public commitments against our most material issues, which help us achieve our ambitions and ultimately support the UN Sustainable Development Goals (SDG) for 2030.

## 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	Inspiring people to lead healthier lives	Building, sharing and applying nutrition knowledge
<ul style="list-style-type: none"> <li>●●○ Launch more foods and beverages that are nutritious, especially for mothers-to-be, new mothers, and infants and children</li> <li>●●○ Further decrease sugars, sodium and saturated fat</li> <li>●●○ Increase vegetables, fiber-rich grains, pulses, nuts and seeds in our foods and beverages</li> <li>●●○ Simplify our ingredient lists and remove artificial colors</li> <li>●●○ Address undernutrition through micronutrient fortification</li> </ul>	<ul style="list-style-type: none"> <li>●●○ Apply and explain nutrition information on packs, at point of sale and online</li> <li>●●○ Offer guidance on portions for our products</li> <li>●●○ Leverage our marketing efforts to promote healthy cooking, eating and lifestyles</li> <li>●●○ Empower parents, caregivers and teachers to foster healthy behaviors in children</li> <li>●●○ Support breastfeeding and protect it by continuing to implement an industry-leading policy to market breast-milk substitutes responsibly</li> <li>●●○ Inspire people to choose water to lead healthier lives</li> <li>●●○ Partner for promoting healthy food environments</li> </ul>	<ul style="list-style-type: none"> <li>●●○ Build and share nutrition knowledge from the first 1000 days through to healthy aging</li> <li>●●○ Build biomedical science leading to health-promoting products, personalized nutrition and digital solutions</li> </ul>

### 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 for future generations



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 food habits are changing. In line with these evolving needs, we are transforming our products, making them more nutritious and natural. We also help parents everyday through supportive services. The driving force is *Nestlé for Healthier Kids*, our flagship initiative to help 50 million children lead healthier lives by 2030.



## Inspiring people to lead healthier lives

We make sure our brands provide healthy recipes, clear nutrition information and portion guidance to raise awareness and help consumers adopt healthier lifestyles.

Good nutrition in the early years lays the foundation for lifelong health and well-being. Our flagship initiative *Nestlé for Healthier Kids* aims to educate and inspire parents and caregivers of children during the crucial period from conception to adolescence.

## At a glance

- 1 29 million** children reached through *Nestlé for Healthier Kids*
- 2 Over 1300** new nutritious products launched for babies, children, expecting women or new mothers
- 3 CHF 1.7 billion** invested in research and development

## Nesquik

Making healthy choices easier with a range of reduced sugar options of iconic brands.



## Sweet Earth

Flexitarian, vegetarian, these plant-based meal options help to support a healthy diet without compromising on nutrition, taste or convenience.



## Offering tastier and healthier choices

Malnutrition comes in many forms: undernutrition, obesity or being overweight, and micronutrient deficiencies. Combating malnutrition remains one of the greatest global health challenges.

With particular attention to children, we are committed to launching more nutritious foods and drinks, increasing vegetable and whole grain content, simplifying ingredient lists and removing artificial colors. We also fortify products where needed and are reducing sugar, sodium and saturated fat.

## Building, sharing and applying nutrition knowledge

Our scientists and researchers work to discover how different aspects of nutrition impact us at every stage of life. Our studies of infants' and children's eating habits for instance, which include dietary intake information from over 55 000 infants, toddlers and school-aged children worldwide, help us to improve products and services. The learnings are also shared with medical and nutrition communities to address various global health challenges.



## Vitaflo

Our cutting edge research allows us to help people with food-related medical conditions.



# Helping develop thriving, resilient communities

We aim to develop thriving, resilient communities as part of a secure, long-term value chain, empowering our employees, supporting rural development, ensuring responsible sourcing and promoting human rights. Initiatives such as our *Nespresso AAA Sustainable Quality Program*, *Nescafé Plan*, *Nestlé Cocoa Plan* and *Farmer Connect* help ensure the resilience of thousands of suppliers and farmers around the world.



## Enhancing rural development and livelihoods

By understanding the challenges farmers face, we aim to improve productivity and incomes, make agriculture more attractive and secure long-term supplies.

Our Child Labour Monitoring and Remediation System continues to grow in our cocoa supply countries, Côte d'Ivoire and Ghana, and has now helped 11 130 children.

In 2018, we launched *Grown Respectfully* to communicate the work of our *Nescafé Plan* by conveying real, inspiring experiences from coffee growers.

## At a glance

- 1 63%** of our 14 priority categories of ingredients are responsibly sourced
- 2 43.2%** of Nestlé's leadership roles are held by women
- 3 Over 400 000** young people reached through *Nestlé needs YOUth*

## Nescafé

*Grown Respectfully* brings to life the work that *Nescafé* has been doing for over 80 years to help our farmers grow better coffee, sustainably.



## Respecting and promoting human rights

We are committed to respecting and promoting human rights across our activities. We work with experts to identify risks and implement action plans.

We have further promoted human rights at country operation level, a key step toward governance structures to oversee human rights risks and opportunities. We also launched an updated training tool, which will help us achieve our objective to train all Nestlé employees on human rights.



### KitKat

Nestlé is committed to supporting sustainable cocoa farming and teamed up with ethical ad platform Good-Loop to allow viewers to donate part of the *KitKat* brand's media budget to the *Nestlé Cocoa Plan*.



## Promoting decent employment and diversity

Ensuring decent employment, diversity and inclusion is a key aspect of Nestlé's culture. In 2018, we pledged to accelerate achieving equal pay. We implemented a new maternity policy across our markets and publicly committed to the UN's Standards of Conduct for Business to tackle LGBTI discrimination. Furthermore, we worked on tackling conscious and unconscious biases in our organization through trainings and communications.



### Nespresso

The role of women in coffee smallholder farming is very important to the sustainable development of their local communities and the sector. This is why *Nespresso* emphasizes gender equality in coffee-sourcing regions.

# Stewarding resources for future generations

We are dependent upon forests, soils, the oceans and the climate to deliver a sustainable supply of resources for our operations. We have set commitments and objectives to use and manage resources sustainably, by operating more efficiently, responding to climate change, reducing food loss and waste, and caring for water. Our ambition is to strive for zero environmental impact in our operations.



## Caring for water

Caring for water is a key part of achieving our ambition of zero environmental impact in our operations. We continue to reduce withdrawals per tonne of product and reuse water. We also work with others, such as the Alliance for Water Stewardship, on water stewardship initiatives and increasing access to safe water, sanitation and hygiene, a fundamental right for everyone.

## At a glance

- 1 We have **18** zero water factories
- 2 **38.2%** reduction in GHG emissions per tonne of product since 2008
- 3 **118 710 tonnes** of packaging avoided since 2015

## Nido

Nestlé dairy processing factories are progressing toward becoming zero water facilities by reusing the water recovered from the milk evaporation process.



### Acting on climate change

As an industry, we are impacted by climate change. Changing weather influences crop yields and the livelihoods of farmers. We are determined to help our farmers build resilience to climate change, and are playing our part in reducing our impact upon the climate by reducing greenhouse gas (GHG) emissions in line with science-based targets throughout the value chain.



### Extrafino

We work closely with local dairy farmers, collecting fresh milk and supporting energy-efficient projects.



### Safeguarding the environment

Across Nestlé, we reduce, reuse and recycle to move our sites toward zero waste for disposal. We want no Nestlé packaging to end up in landfills or as litter, on land or at sea.

In 2018, we announced the creation of the Nestlé Institute of Packaging Sciences, dedicated to the discovery and development of functional, safe and environmentally-friendly packaging solutions. This is a step toward our ambition to make 100% of our packaging recyclable or reusable by 2025.

We rely on healthy forests, soils and oceans for the ingredients we use. We aim to improve our environmental performance while growing our business: from working with farmers to manage soils and avoid excess run-off, to investing in waste infrastructure to stop plastic leakage, to supporting global efforts, like the Global Ghost Gear Initiative.

### Pure Life

Nestlé Pure Life water bottles, already made from recyclable plastic, are an example of our global packaging ambition to make 100% of our packaging recyclable or reusable by 2025.



# Stakeholder engagement and materiality mapping

Engaging with others on important issues strengthens our business. We seek the advice of experts, advocates and challengers to develop our corporate policies and commitments, inform strategy and prioritize investments.

Our stakeholders include: investors, multilateral organizations, governments, NGOs, academia, local communities, suppliers, consumers and business-to-business customers.

Every two years, we ask an independent third party to carry out a formal materiality assessment, to help us identify the most important issues for our business and our stakeholders.

Our stakeholder convenings and other events provide further opportunities for dialogue. In March 2018, our Creating Shared Value Forum —attended by Nestlé Chairman Paul Bulcke and CEO U. Mark Schneider—was held in conjunction with the eighth Global World Water Forum in Brasilia, Brazil. In 2018, as part of our investor outreach we met with 660 firms and 1148 investors across 23 cities.

## Our performance in leading indices

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



Nestlé Chairman Paul Bulcke speaks at the 2018 Creating Shared Value Forum in Brasilia, Brazil, where the topic was “Water as a driver for the Sustainable Development Goals.”



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



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



Ranked second in the Food Products industry of the 2018 **Dow Jones Sustainability Index (DJSI)**, scored 100 for Health and Nutrition performance, and hold the leadership scores in the Environmental and Social Dimensions.



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

## Nestlé materiality matrix 2018

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

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

# Financial review

# Key figures (consolidated)

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

	2017*	2018
<b>Results</b>		
Sales	89 590	91 439
Underlying Trading operating profit <sup>(a)</sup>	14 771	15 521
as % of sales	16.5%	17.0%
Trading operating profit <sup>(a)</sup>	13 277	13 789
as % of sales	14.8%	15.1%
Profit for the year attributable to shareholders of the parent (Net profit)	7 156	10 135
as % of sales	8.0%	11.1%
<b>Balance sheet and Cash flow statement</b>		
Equity attributable to shareholders of the parent	60 956	57 363
Net financial debt <sup>(a)</sup>	21 369	30 330
Ratio of net financial debt to equity (gearing)	35.1%	52.9%
Operating cash flow	14 199	15 398
as % of net financial debt	66.4%	50.8%
Free cash flow <sup>(a)</sup>	9 358	10 765
Capital additions	6 569	14 711
as % of sales	7.3%	16.1%
<b>Data per share</b>		
Weighted average number of shares outstanding (in millions of units)	3 092	3 014
Basic earnings per share	CHF 2.31	3.36
Underlying earnings per share <sup>(a)</sup>	CHF 3.55	4.02
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF 2.35	2.45
<b>Market capitalization, end December</b>		
	256 223	237 363
<b>Number of employees (in thousands)</b>		
	323	308

## Principal key figures <sup>(b)</sup> (illustrative) in CHF, USD, EUR

In millions (except for data per share)	Total CHF 2017	Total CHF 2018	Total USD 2017	Total USD 2018	Total EUR 2017	Total EUR 2018
Sales	89 590	91 439	91 032	93 366	80 509	79 208
Underlying Trading operating profit <sup>(a)</sup>	14 771	15 521	15 009	15 848	13 274	13 445
Trading operating profit <sup>(a)</sup>	13 277	13 789	13 490	14 080	11 931	11 945
Profit for the year attributable to shareholders of the parent (Net profit)	7 156	10 135	7 271	10 348	6 430	8 779
Equity attributable to shareholders of the parent	60 956	57 363	62 404	58 177	52 205	50 855
Market capitalization, end December	256 223	237 363	262 309	240 733	219 440	210 432
<b>Data per share</b>						
Basic earnings per share	2.31	3.36	2.35	3.43	2.08	2.91

\* 2017 figures have been restated, see Foreword on page 44.

(a) Certain financial performance measures are not defined by IFRS. For further details, see Foreword on page 44.

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

# Group overview

## Foreword

2017 figures disclosed in the Financial review have been restated to reflect:

- modifications as described in Note 1 Accounting policies of the Consolidated Financial Statements of the Nestlé Group 2018; and
- the changes of business structure, effective as from January 1, 2018, mainly Nestlé Nutrition from a Globally-Managed to a Regionally-Managed Business transferred to the Zones and Other businesses.

In addition, 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](http://www.nestle.com/investors/publications) defines these non-IFRS financial performance measures.

## Introduction

We are pleased with our progress in 2018. All financial performance metrics improved significantly and we saw revived growth in our two largest markets, the United States and China, as well as in our infant nutrition business. Nestlé keeps investing in future growth and—at the same time—has increased the amount of cash returned to shareholders through our dividend and share buyback program.

We made significant progress with our portfolio transformation and sharpened our Group's strategic focus, strengthening key growth categories and geographies in the process. Our unique Nutrition, Health and Wellness strategy,

## Sales by geographic areas

	Differences 2018/2017 (in %)		in CHF millions
	in CHF	in local currency	
By principal markets			2018
United States	+ 4.1%	+ 4.6%	27 618
Greater China Region	+ 6.5%	+ 5.2%	7 004
France	+ 3.1%	- 0.7%	4 561
Brazil	- 14.7%	- 1.5%	3 683
United Kingdom	+ 8.4%	+ 5.8%	2 930
Mexico	+ 3.4%	+ 6.0%	2 813
Germany	+ 2.6%	- 1.1%	2 752
Philippines	- 3.7%	+ 1.3%	2 476
Canada	+ 6.2%	+ 6.9%	2 064
Italy	+ 2.1%	- 1.6%	1 819
Japan	+ 1.8%	+ 0.9%	1 782
Russia	- 1.6%	+ 6.9%	1 595
Spain	+ 1.7%	- 2.0%	1 552
Australia	- 1.1%	+ 2.1%	1 529
India	+ 4.9%	+ 10.9%	1 529
Switzerland	- 1.8%	- 1.8%	1 241
Rest of the world	+ 1.3%	(a)	24 468
<b>Total</b>	<b>+ 2.1%</b>	(a)	<b>91 439</b>

(a) Not applicable.

with food, beverages and nutritional health products at its core, has become much clearer as we completed a sizeable number of transactions and announced strategic reviews for Nestlé Skin Health and Herta.

In 2018, we upgraded our innovation engine notably to ensure continued technology leadership and a shorter time to market. In the fast-changing food and beverages space Nestlé has what it takes to truly excite consumers with meaningful innovation and must-have products.

We reaffirmed our sustainability leadership at a time when consumers and regulators around the world are increasingly looking for solutions to today's environmental and societal problems. Our decisive action and strong commitments to tackle the global packaging waste problem are a case in point.

We are on our way to meeting our 2020 targets and positioning Nestlé for sustained and sustainable growth in the years beyond.

### Group sales

Organic growth (OG) reached 3.0%, fully in line with the February 2018 guidance. Group real internal growth (RIG) increased to 2.5% for the full year and remained at the high end of the food and beverages industry. This was supported by disciplined execution, faster innovation and successful new product launches. Pricing was 0.5%, with some improvement from 0.3% in the first half to 0.9% in the second half of the year. Net acquisitions increased sales by 0.7%. This was largely related to the acquisitions of the Starbucks license and Atrium Innovations, which more than offset divestments, mainly U.S. confectionery. Foreign exchange reduced sales by 1.6% as several emerging market currencies devalued against the Swiss franc. Total reported sales increased by 2.1% to CHF 91.4 billion.

2018 organic growth was supported by stronger momentum in the United States and China, Nestlé's two largest markets. There was also a step up in organic growth for the infant nutrition and confectionery businesses. PetCare, coffee and Nestlé Health Science continued to make significant contributions with sustained high growth. Organic growth for the Group was 1.6% in developed markets and 4.9% in emerging markets.

### Underlying Trading operating profit

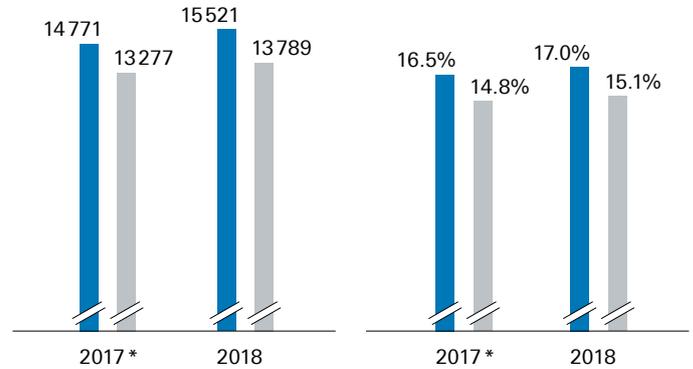
Underlying Trading operating profit increased by 5.1% to CHF 15.5 billion. The Underlying Trading operating profit margin increased by 50 basis points in constant currency and on a reported basis to 17.0%.

Margin expansion was supported by operational efficiencies, structural cost reductions and improved mix, which more than offset higher distribution expenses. Overall, the impact of commodity costs was broadly neutral, as increases in Zone AMS and Nestlé Waters were compensated by decreases in the other geographies and categories. Consumer-facing marketing expenses increased by 1.3% in constant currency.

### Underlying Trading operating profit and Trading operating profit

In millions of CHF

In % of sales



- Underlying Trading operating profit
- Trading operating profit

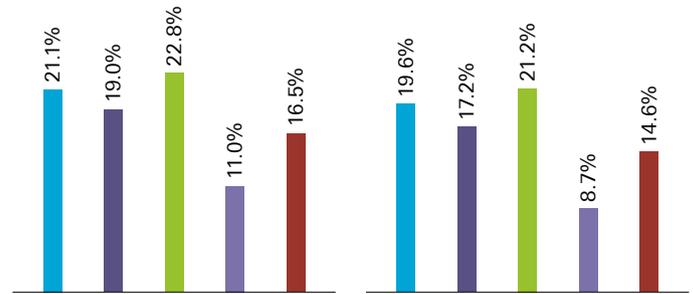
\* 2017 figures have been restated, see Foreword on page 44.

### Underlying Trading operating profit by operating segment

In % of sales

### Trading operating profit by operating segment

In % of sales



- Zone AMS
- Zone EMENA
- Zone AOA
- Nestlé Waters
- Other businesses (a)

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

Restructuring expenses and net other trading items increased by CHF 238 million to CHF 1.7 billion. This was mainly due to higher impairments and other restructuring-related expenses. Trading operating profit increased by 3.9% to CHF 13.8 billion. The Trading operating profit margin increased by 30 basis points on a reported basis to 15.1%.

### Net financial expenses and Income tax

Net financial expenses grew by 9.3% to CHF 761 million, largely reflecting an increase in net debt.

The Group tax rate decreased by 280 basis points to 26.5%. The underlying tax rate declined by 320 basis points to 23.8%, mainly as a result of the United States tax reform.

### Net profit and Earnings per share

Net profit grew by 41.6% to CHF 10.1 billion, and Earnings per share increased by 45.5% to CHF 3.36. Net profit benefited from several large one-off items, including income from the disposal of businesses. The increase was also supported by the improved operating performance.

Underlying earnings per share increased by 13.9% in constant currency and by 13.1% on a reported basis to CHF 4.02. Nestlé's share buyback program contributed 2.0% to the underlying earnings per share increase, net of finance costs.

### Cash flow

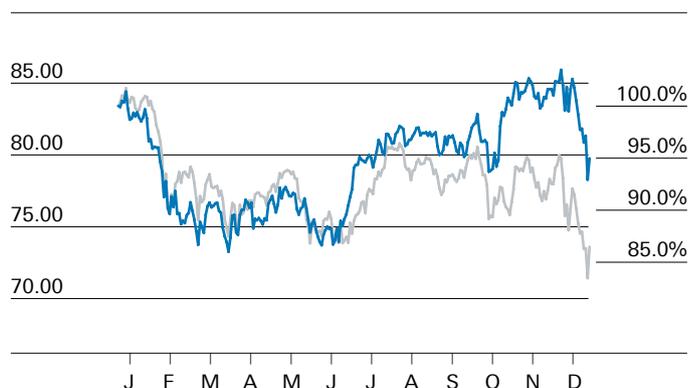
Free cash flow grew by 15% and reached CHF 10.8 billion. The increase resulted mainly from higher operating profit, improved working capital and disciplined capital expenditure.

### Share buyback program

During 2018, the Group repurchased CHF 6.8 billion of Nestlé shares. As of December 31, 2018, the Group had implemented CHF 10.3 billion (52%) of Nestlé's CHF 20 billion share buyback program announced in 2017. In light of strong free cash flow generation, Nestlé intends to complete its current program six months ahead of schedule by the end of December 2019.

### Evolution of the Nestlé S.A. share in 2018

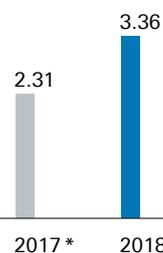
In CHF



- Nestlé S.A. share
- Nestlé relative to Swiss Market Index

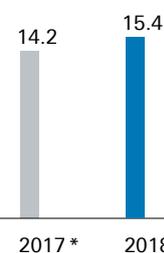
### Earnings per share

in CHF



### Operating cash flow

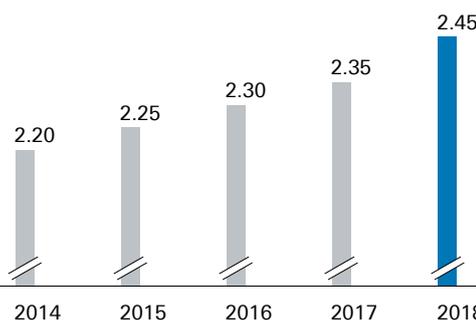
in billions of CHF



\* 2017 figures have been restated, see Foreword on page 44.

### Dividend per share

in CHF



## Net debt

Net debt increased to CHF 30.3 billion as at December 31, 2018, compared to CHF 21.4 billion at the end of 2017. The increase largely reflected share buybacks of CHF 6.8 billion completed during 2018, and a net cash outflow of CHF 5.2 billion on acquisitions and divestments.

## Return on invested capital

The Group's return on invested capital increased to 12.1%. The improvement was the result of lower goodwill impairment, improved operating performance and disciplined capital allocation.

## Dividend

The Board of Directors is proposing a dividend of CHF 2.45 per share, up from CHF 2.35 last year.

## Outlook

Continued improvement in organic sales growth and Underlying Trading operating profit margin toward our 2020 targets. Restructuring costs <sup>(1)</sup> are expected at around CHF 700 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

(1) Not including impairment of fixed assets, litigation and onerous contracts.

## Sales, employees and factories by geographic area

	Sales		Employees		Factories	
	2017 *	2018	2017	2018	2017	2018
AMS	45.3%	44.9%	33.5%	33.9%	158	159
EMENA <sup>(a)</sup>	29.1%	29.4%	33.9%	34.1%	146	146
AOA	25.6%	25.7%	32.6%	32.0%	109	108

\* 2017 figures have been restated, see Foreword on page 44.

(a) 9666 employees in Switzerland in 2018.

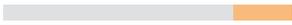
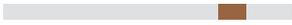
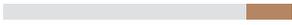
## Employees by activity

In thousands

	2017	2018
Factories	164	152
Administration and sales	159	156
<b>Total</b>	<b>323</b>	<b>308</b>

# Product category and operating segment review

In millions of CHF

	2017 *	2018	Proportion of total sales (%)	RIG (%)	OG (%)
<b>Powdered and Liquid Beverages</b>					
Soluble coffee/coffee systems	9 265	9 314	 43.1%		
Other	11 123	12 306	 56.9%		
<b>Total sales</b>	<b>20 388</b>	<b>21 620</b>		<b>+2.5%</b>	<b>+3.3%</b>
Underlying Trading operating profit	4 478	4 898	22.7%		
Trading operating profit	4 319	4 572	21.1%		
<b>Water</b>					
<b>Total sales</b>	<b>7 382</b>	<b>7 409</b>		<b>-0.6%</b>	<b>+2.3%</b>
Underlying Trading operating profit	978	775	10.5%		
Trading operating profit	915	603	8.1%		
<b>Milk products and Ice cream</b>					
Milk products	10 751	10 507	 79.5%		
Ice cream	2 679	2 710	 20.5%		
<b>Total sales</b>	<b>13 430</b>	<b>13 217</b>		<b>+1.3%</b>	<b>+1.8%</b>
Underlying Trading operating profit	2 515	2 521	19.1%		
Trading operating profit	2 333	2 412	18.2%		
<b>Nutrition and Health Science</b>					
<b>Total sales</b>	<b>15 247</b>	<b>16 188</b>		<b>+4.5%</b>	<b>+4.6%</b>
Underlying Trading operating profit	3 063	3 337	20.6%		
Trading operating profit	2 539	2 826	17.5%		
<b>Prepared dishes and cooking aids</b>					
Frozen and chilled	6 130	6 105	 50.6%		
Culinary and other	5 808	5 960	 49.4%		
<b>Total sales</b>	<b>11 938</b>	<b>12 065</b>		<b>+1.2%</b>	<b>+1.2%</b>
Underlying Trading operating profit	2 108	2 176	18.0%		
Trading operating profit	1 938	2 044	16.9%		
<b>Confectionery</b>					
Chocolate	6 362	6 031	 74.2%		
Sugar confectionery	1 098	812	 10.0%		
Biscuits	1 339	1 280	 15.8%		
<b>Total sales</b>	<b>8 799</b>	<b>8 123</b>		<b>+3.2%</b>	<b>+2.7%</b>
Underlying Trading operating profit	1 393	1 403	17.3%		
Trading operating profit	1 243	1 291	15.9%		
<b>PetCare</b>					
<b>Total sales</b>	<b>12 406</b>	<b>12 817</b>		<b>+3.5%</b>	<b>+4.5%</b>
Underlying Trading operating profit	2 673	2 768	21.6%		
Trading operating profit	2 621	2 572	20.1%		

\* 2017 figures have been restated, see Foreword on page 44.

## Zone Americas (AMS)

Sales	CHF 31.0 billion
Organic growth	+ 2.0%
Real internal growth	+ 1.3%
Underlying Trading operating profit margin	21.1%
Underlying Trading operating profit margin	+ 50 basis points
Trading operating profit margin	19.6%
Trading operating profit margin	+ 20 basis points

- 2.0% organic growth: 1.3% RIG; 0.7% pricing.
- North America saw positive organic growth, with positive RIG and pricing.
- Latin America reported positive organic growth, comprised of a balance of RIG and pricing.
- The Underlying Trading operating profit margin increased by 50 basis points to 21.1%.

Organic growth increased to 2.0%, supported by higher RIG of 1.3% following an acceleration in North America. Pricing remained soft at 0.7% but showed improved momentum in the second half of the year. Net acquisitions increased sales by 0.3%. Foreign exchange had a negative impact of 3.2%. Reported sales in Zone AMS decreased by 0.9% to CHF 31.0 billion.

North America returned to positive growth in 2018, with strong momentum in the fourth quarter. This was supported

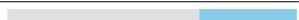
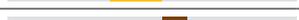
by continued solid growth in *Purina* petcare, particularly with *Pro Plan*, *Fancy Feast* and *Tidycat*, and the e-commerce channel. *Coffee Mate* creamers and Nestlé Professional also maintained high growth. The infant nutrition business returned to positive growth in the fourth quarter. The licensed Starbucks business was smoothly integrated and saw strong demand for its coffee products. Growth in frozen food, including pizza, was flat.

Latin America posted positive organic growth with broad-based contributions from most categories. Momentum improved sequentially in each quarter of the year, with mid single-digit growth in the fourth quarter, helped by increased pricing. In Brazil the trading environment remained challenging. The market returned to positive organic growth in the second half of the year, with stronger pricing and an acceleration across most categories, especially in confectionery and infant nutrition. Mexico maintained consistent mid single-digit organic growth, with a strong contribution from *Nescafé* and *NAN* infant formula. *Purina* petcare, with sales in excess of CHF 1 billion in Latin America, reported another year of double-digit growth.

The Zone's Underlying Trading operating profit margin improved by 50 basis points as ongoing restructuring projects reduced structural costs. Operational efficiencies and pricing helped to offset significant cost increases from commodity and freight inflation, as well as foreign exchange.

### Zone AMS

In millions of CHF

	2017 *	2018	Proportion of total sales (%)	RIG (%)	OG (%)
United States and Canada	20 217	20 540			
Latin America and Caribbean	11 038	10 435			
Powdered and Liquid Beverages	3 356	4 057			
Milk products and Ice cream	7 166	6 991			
Prepared dishes and cooking aids	5 606	5 541			
Confectionery	3 501	2 718			
PetCare	8 641	8 783			
Nutrition and Health Science	2 985	2 885			
<b>Total sales</b>	<b>31 255</b>	<b>30 975</b>		<b>+ 1.3%</b>	<b>+ 2.0%</b>
Underlying Trading operating profit	6 425	6 521		21.1%	
Trading operating profit	6 062	6 078		19.6%	
Capital additions	1 941	7 356		23.7%	

\* 2017 figures have been restated, see Foreword on page 44.

## Zone Europe, Middle East and North Africa (EMENA)

Sales	CHF 18.9 billion
Organic growth	+ 1.9%
Real internal growth	+ 2.6%
Underlying Trading operating profit margin	19.0%
Underlying Trading operating profit margin	+ 80 basis points
Trading operating profit margin	17.2%
Trading operating profit margin	+ 40 basis points

- 1.9% organic growth: 2.6% RIG; –0.7% pricing.
- Western Europe posted positive RIG. Pricing declined resulting in negative organic growth.
- Central and Eastern Europe maintained mid single-digit organic growth, mainly driven by RIG. Pricing was also positive.
- Middle East and North Africa saw continued mid single-digit organic growth. RIG and pricing were positive.
- The Underlying Trading operating profit margin grew by 80 basis points to 19.0%.

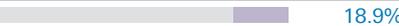
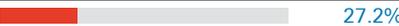
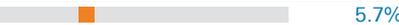
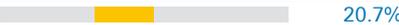
Organic growth was 1.9%, supported by solid RIG at 2.6%. Pricing declined by 0.7% as deflationary trends continued to affect the food and retail sectors across most markets in Western Europe. Net acquisitions increased sales by 0.1%. Foreign exchange increased sales by 0.5%. Reported sales in Zone EMENA increased by 2.5% to CHF 18.9 billion.

Zone EMENA maintained solid organic growth in 2018. RIG was resilient and positive across all subregions. The trading environment in Western Europe remained deflationary, resulting in negative pricing. The Zone's growth was mainly driven by *Purina* petcare, infant nutrition and Nestlé Professional. Premium products, representing 22% of the Zone's sales, saw strong growth of around 10%. This strong momentum came from products such as *Félix* and *Gourmet* cat food, as well as *NAN* infant formula with Human Milk Oligosaccharides (HMOs). *Nescafé* posted positive growth in spite of lower coffee commodity prices and a challenging competitive environment. Confectionery had positive growth supported by innovation. The new all-natural, vegetarian and gluten-free snack bar *Yes!* was launched in September.

The Zone's Underlying Trading operating profit margin increased by 80 basis points. This improvement was supported by product mix, structural cost savings, operational efficiencies and lower commodity costs.

### Zone EMENA

In millions of CHF

	2017 *	2018	Proportion of total sales (%)	RIG (%)	OG (%)
Western	11 448	11 791			
Eastern and Central	3 486	3 570			
Middle East and North Africa	3 544	3 571			
Powdered and Liquid Beverages	5 108	5 154			
Milk products and Ice cream	1 061	1 067			
Prepared dishes and cooking aids	3 885	3 923			
Confectionery	3 226	3 293			
PetCare	3 227	3 466			
Nutrition and Health Science	1 971	2 029			
<b>Total sales</b>	<b>18 478</b>	<b>18 932</b>		<b>+ 2.6%</b>	<b>+ 1.9%</b>
Underlying Trading operating profit	3 354	3 590		19.0%	
Trading operating profit	3 111	3 251		17.2%	
Capital additions	1 021	1 422		7.5%	

\* 2017 figures have been restated, see Foreword on page 44.

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

Sales	CHF 21.3 billion
Organic growth	+ 4.3%
Real internal growth	+ 3.6%
Underlying Trading operating profit margin	22.8%
Underlying Trading operating profit margin	+ 60 basis points
Trading operating profit margin	21.2%
Trading operating profit margin	-20 basis points

- 4.3% organic growth: 3.6% RIG; 0.7% pricing.
- China posted mid single-digit organic growth, significantly higher than the prior year.
- South-East Asia reported mid single-digit organic growth, with positive RIG and pricing.
- South Asia saw mid single-digit organic growth, with strong RIG and positive pricing.
- Sub-Saharan Africa had mid single-digit organic growth with a balance of positive RIG and pricing.
- Japan and Oceania reported low single-digit growth. Positive RIG was partially offset by negative pricing.
- The Underlying Trading operating profit margin increased by 60 basis points to 22.8%.

Organic growth was strong at 4.3%, comprised of 3.6% RIG and 0.7% pricing. Acquisitions and divestments had no impact on sales. Foreign exchange reduced sales by 2.1%.

Reported sales in Zone AOA increased by 2.2% to CHF 21.3 billion.

Zone AOA maintained consistent mid single-digit organic growth. China saw improved growth compared to 2017. This was supported by innovations in infant nutrition, coffee and culinary, as well as strong growth in e-commerce. South-East Asia posted solid growth underpinned by double-digit growth in Vietnam and Indonesia, led by *Milo* and *Bear Brand* in particular. Robust growth in South Asia was based on strong momentum for *Maggi*, *Nescafé* and *KitKat*, with several new product launches. Sub-Saharan Africa posted mid single-digit growth despite a lower contribution from pricing. Japan and Oceania reported positive growth with successful launches of *Nescafé Gold* and *KitKat Gold* in Australia. Overall for the Zone, infant nutrition, *Purina* petcare and Nestlé Professional grew mid single-digit, helped by a strong performance in the second half.

The Zone's Underlying Trading operating profit margin improved by 60 basis points, supported by operational efficiencies, pricing and volume leverage.

### Zone AOA

In millions of CHF

	2017 *	2018	Proportion of total sales (%)	RIG (%)	OG (%)
ASEAN markets	6 423	6 563			
Oceania and Japan	3 036	3 036			
Other Asian markets	8 997	9 309			
Sub-Saharan Africa	2 422	2 423			
Powdered and Liquid Beverages	5 953	6 086			
Milk products and Ice cream	5 192	5 149			
Prepared dishes and cooking aids	2 443	2 599			
Confectionery	2 014	2 056			
PetCare	539	568			
Nutrition and Health Science	4 737	4 873			
<b>Total sales</b>	<b>20 878</b>	<b>21 331</b>		<b>+3.6%</b>	<b>+4.3%</b>
Underlying Trading operating profit	4 644	4 866		22.8%	
Trading operating profit	4 468	4 514		21.2%	
Capital additions	770	1 103		5.2%	

\* 2017 figures have been restated, see Foreword on page 44.

# Nestlé Waters

Sales	CHF 7.9 billion
Organic growth	+ 2.1%
Real internal growth	-0.6%
Underlying Trading operating profit margin	11.0%
Underlying Trading operating profit margin	-200 basis points
Trading operating profit margin	8.7%
Trading operating profit margin	-350 basis points

- 2.1% organic growth: -0.6% RIG; 2.7% pricing.
- North America saw increased pricing and declining RIG.
- Europe saw positive RIG and slightly negative pricing.
- Emerging markets posted low single-digit organic growth, driven by pricing.
- The Underlying Trading operating profit margin decreased by 200 basis points to 11.0%.

Organic growth was 2.1%. Pricing improved to 2.7%, mainly due to price increases in North America. This was partially offset by a RIG decline of 0.6%, also attributable to North America. Net acquisitions reduced sales by 1.0%. Foreign exchange had a negative impact on sales of 1.2%. Reported sales in Nestlé Waters were CHF 7.9 billion.

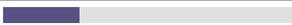
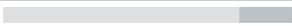
In North America growth was supported by price increases in the United States, reflecting significant cost inflation in packaging and distribution. There were strong

contributions to growth from the international premium brands *S.Pellegrino* and *Perrier*, the launch of sparkling spring waters such as *Poland Spring* and *Zephyrhills*, as well as the Direct-to-Consumer business, *ReadyRefresh*. Europe saw positive growth following a return to mid single-digit growth in the second half of the year, most notably in the UK and France. The international premium sparkling brands, *S.Pellegrino* and *Perrier*, maintained good growth.

The Underlying Trading operating profit margin decreased by 200 basis points. Profitability was impacted by higher PET packaging and distribution costs. These were only partly offset by operational efficiencies, structural cost reduction and price increases taken in June 2018.

## Nestlé Waters

In millions of CHF

	2017 *	2018	Proportion of total sales (%)	RIG (%)	OG (%)
Europe	1 980	2 088	 26.5%		
United States and Canada	4 344	4 357	 55.3%		
Other regions	1 558	1 433	 18.2%		
<b>Total sales</b>	<b>7 882</b>	<b>7 878</b>		<b>-0.6%</b>	<b>+2.1%</b>
Underlying Trading operating profit	1 022	865	11.0%		
Trading operating profit	958	683	8.7%		
Capital additions	702	884	11.2%		

\* 2017 figures have been restated, see Foreword on page 44.

## Other businesses

Sales	CHF 12.3 billion
Organic growth	+ 5.7%
Real internal growth	+ 5.4%
Underlying Trading operating profit margin	16.5%
Underlying Trading operating profit margin	+ 60 basis points
Trading operating profit margin	14.6%
Trading operating profit margin	+ 280 basis points

- 5.7% organic growth: 5.4% RIG; 0.3% pricing.
- Nespresso maintained mid single-digit organic growth, with very strong momentum in North America.
- Nestlé Health Science posted mid single-digit growth, driven by strong RIG.
- Nestlé Skin Health saw mid single-digit organic growth. RIG was positive but pricing was slightly negative.
- The Underlying Trading operating profit margin of Other businesses increased by 60 basis points to 16.5%.

Organic growth of 5.7% was supported by strong RIG of 5.4% and pricing of 0.3%. Net acquisitions increased reported sales by 5.6% and foreign exchange had a negative 0.2% impact. Reported sales in Other businesses increased by 11.1% to CHF 12.3 billion.

Nespresso reported consistent mid single-digit growth, with positive growth across all regions. North America

and emerging markets grew double-digit. Momentum was supported by innovation, with strong demand for the recently launched *Master Origin* range and the latest limited edition coffees inspired by Parisian cafés. Vertuo, a versatile coffee system with five capsule sizes, gained further traction globally and is now available in fourteen markets worldwide. Nespresso continued to expand its distribution and global footprint throughout the year, reaching 792 boutiques. Nestlé Health Science delivered mid single-digit growth supported by medical nutrition and consumer care products. Atrium Innovations grew double-digit, with continued strong demand for its innovative, non-GMO, organic and natural offerings. Nestlé Skin Health posted mid single-digit growth.

The Underlying Trading operating profit margin of Other businesses increased by 60 basis points. This was mainly due to an improvement in Nestlé Skin Health and Nespresso.

### Other businesses <sup>(a)</sup>

In millions of CHF

	2017 *	2018	RIG (%)	OG (%)
<b>Total sales</b>	<b>11 097</b>	<b>12 323</b>	<b>+5.4%</b>	<b>+5.7%</b>
Underlying Trading operating profit	1 763	2 036	16.5%	
Trading operating profit	1 309	1 794	14.6%	
Capital additions	1 712	3 593	29.2%	

\* 2017 figures have been restated, see Foreword on page 44.

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

# Principal risks and uncertainties

## Group Risk Management

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, for others, for diversity and for the future, guide our decisions and actions. Our creating shared value approach helps to prioritize those areas which 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 on the Group 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 mega-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 the aggregation of individual assessments by all Markets and Globally-Managed Businesses. 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 in the *Nestlé in society* report) 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; this applies equally to a business, a market or a function, 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.

The results of the Group ERM are presented annually to the Executive Board, half-yearly to the Audit Committee, and reported annually to the Board of Directors.

The factors identified below are considered the most relevant for our business and performance. Many of the long-term mitigation strategies are expanded on in our *Nestlé in society* report.

## Factors affecting results

Maintaining high levels of trust with consumers is essential for Nestlé's success. Any major event triggered by a serious food safety or other compliance issue could have a negative effect on Nestlé's reputation or brand image. The Group has policies, processes, controls and regular monitoring to ensure high-quality products and prevention of health risks arising from handling, preparation and storage throughout the value chain.

The success of the Nestlé Group depends on its ability to anticipate consumer preferences and to offer high-quality, competitive, relevant and innovative products. Our Nutrition, Health and Wellness strategy aims to enhance people's lives at all stages through industry-leading research and development to drive innovation and the continuous improvement of our portfolio.

Prolonged negative perceptions concerning health implications of processed food and beverages categories could lead to an increase in regulation of the industry and may also influence consumer preferences. The Group has long-term objectives in place to apply scientific and nutritional know-how to enhance nutrition, health and wellness, contributing to healthier eating, drinking and lifestyle habits, as well as improve the accessibility of safe and affordable food.

Changing customer relationships and channel landscape may inhibit our growth if we fail to maintain strong engagements or adapt to changing customer needs. Our strategy is to maintain and develop strong relationships with customers across the world to help them win in their respective prioritized categories where we operate.

Nestlé is dependent on the sustainable supply of a number of raw and packaging materials. Longer-term changes in weather patterns; water shortages; shifts in production patterns; economic and social inequality in supply chains, etc., could result in capacity constraints, as well as reputational damage. The Group has long-term commitments to promote better agricultural practices, support rural development in line with local priorities and address supply chain issues from gender inequality to deforestation. Progress against these commitments is monitored to

ensure positive social and environmental impacts along with delivering our own growth strategy.

Nestlé manages risks related to climate change and water resources. Our long-term commitments and strategies on climate change and water are available in Nestlé's response to the CDP Climate Change report and Water questionnaires in the *Nestlé in society* report.

The Group is subject to environmental regimes applied in all countries where it operates and has controls in place to comply with legislation concerning the protection of the environment, including the use of natural resources, release of air emissions and waste water, and the generation, storage, handling, transportation, treatment and disposal of waste materials.

Nestlé is reliant on the procurement of materials, manufacturing and supply of finished goods for all product categories. A major event impacting input prices, or in one of Nestlé's key plants, at a key supplier, contract manufacturer, co-packer, and/or warehouse facility could potentially lead to a supply disruption. Active price-risk management on key commodities and business continuity plans are established and regularly maintained in order to mitigate against such events.

The investment choices of the Group evolve over time and may include investments in emerging technologies; new business models; expansion into new geographies; and creation of, or entry into, new categories. This may result in broader exposures for the Group. The Group's investment choices are aligned with our strategy and prioritized based on the potential to create value over the long term.

As part of the strategy, the Group undertakes business transformations such as large-scale change management projects, mergers and acquisitions. To ensure the realization of the anticipated benefits of them, these transformations receive executive sponsorship with aligned targets, as well as appropriate levels of resource to support successful execution of them.

The ability to attract and retain skilled, talented employees is critical to achieving our strategy. Our initiatives and processes aim to sustain a high-performance culture, supported by a total

awards approach and people development that emphasizes diversity, innovation and growth.

Nestlé is subject to health and safety regimes in all countries where it operates. Nestlé has procedures in place to comply with legislation concerning the protection of the health and welfare of employees and contractors, as well as long-term initiatives to promote safe and healthy employee behaviors.

Failure to act with integrity or behavior that is inconsistent with the expectations of our stakeholders may adversely impact our corporate reputation and brands. The Group's *Corporate Business Principles* and *Code of Conduct* outline our commitment to integrity and the corporate compliance program defines the framework and coordinates assurance processes.

The Group depends on accurate, timely data along with increasing integration of digital solutions, services and models, both internal and external. The threat of cyber attacks disrupting the reliability, security and privacy of data, as well as the IT infrastructure, continues to increase. Contingency plans along with policies and controls are in place aiming to protect and ensure compliance on both infrastructure and data.

The Group's liquidities/liabilities (currency, interest rate, hedging, cost of capital, pension obligations/retirement benefits, banking/commercial credit, etc.) could be impacted by any major event in the financial markets. Nestlé has the appropriate risk mitigation measures in place with strong governance to actively manage exposures and long-term asset and liability outlook.

Nestlé has factories in 85 countries and sales in 190 countries. Security, political instability, legal and regulatory, fiscal, macroeconomic, foreign trade, labor and/or infrastructure risks could potentially impact Nestlé's ability to do business in a country or region. Major events caused by natural hazards (such as flood, drought, infectious disease, etc.) could also impact the Group's ability to operate. Any of these events could lead to a supply disruption and impact Nestlé's financial results. Regular monitoring and ad hoc business continuity plans are established in order to mitigate against such events. The Group-wide geographical and product category spread represents a tremendous natural hedge.

# Factories

Americas (AMS)	
Argentina	6
Bolivia	1
Brazil	17
Canada	8
Chile	9
Colombia	5
Costa Rica	1
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	1
Venezuela	5

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	32
India	7
Indonesia	3
Japan	3
Kenya	1
Malaysia	7
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

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	19
Germany	14
Greece	2
Hungary	2
Iran	2
Iraq	1
Ireland	1
Israel	9
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	2
Switzerland	11
Syria	1
Tunisia	1
Turkey	3
Ukraine	3
United Arab Emirates	3
United Kingdom	10
Uzbekistan	1

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

- Local production (may represent production in several factories).
- Imports (may, in a few particular cases, represent purchases from third parties in the market concerned).

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

# Corporate Governance and Compliance

# Corporate Governance

Our Board of Directors is highly engaged and dedicated to creating long-term, sustainable value based on strong principles of governance and an appropriate tone from the top. Our corporate governance framework is carefully constructed, and continually evaluated and updated, to ensure that it promotes accountability and supports our strategy to foster long-term value and sustainable growth for the benefit of all shareholders.

In 2018, our Board of Directors and management continued to evolve our strategy and governance to anticipate and reflect changing global consumer preferences and offer high-quality, competitive, relevant and innovative products. As part of this effort, we have been driving growth through innovation with significant investments in R&D. In addition to our organic growth strategy, our Board and management have taken an active role in streamlining Nestlé's portfolio to focus on high-growth, high-margin businesses, and we will continue to rigorously review our business mix for further opportunities to drive profitable growth and shareholder value. To ensure that our incentive plans promote the execution of our strategy, we have updated our executive compensation plan to introduce Return on Invested Capital (ROIC) as a performance measure. Tying compensation to returns promotes the efficient use of capital and M&A discipline.

The Board also reconfirmed Nestlé's value creation model delivering both top- and bottom-line growth, as well as capital efficiency to drive continuous long-term shareholder value creation. We continue to deliver on our commitments to execute the proven Nutrition, Health and Wellness (NHW) strategy and promoting a prudent approach toward capital allocation and M&A. We also remain focused on executing on our CHF 20 billion repurchase program and sustainable dividend policy. To date, our strategy has yielded strong, consistent results for our shareholders, as reflected in our short- and long-term outperformance of the STOXX 1800 Food & Beverage index. CHF 104 billion cash was returned to shareholders since 2009 including CHF 40 billion in share buybacks and CHF 64 billion in dividends.

Our Board's recent actions to create sustained value also include continued efforts to enhance

the composition of the Board. As a truly global business, we have always felt that constructing a diverse board—including but not limited to diversity in background, geography, experience, ethnicity and gender—is critical to our ability to effectively oversee the direction of our company. In 2018, we nominated three new independent directors, each of whom was elected by our shareholders at our 2018 Annual Meeting. Since 2015, we have strengthened the Board through the addition of seven new independent directors with unique depth of experience and expertise that is directly relevant for Nestlé and aligned with our strategy. To this end, we will continue to maintain a long-term approach to board refreshment and succession planning to ensure that our Board has the right mix of backgrounds, skills and expertise to understand the trajectory of our business and drive a winning strategy that creates value for all of our shareholders.

Intense engagement with our shareholders through our roadshows, investor meetings and analyst calls has sharpened our focus on our core priorities and strategic vision. In 2018, we visited 23 cities and attended 488 meetings representing 1148 investors. Moreover, our shareholder engagement effort continues to be highlighted by our Chairman's Roundtables that we held this past year in Hong Kong, Frankfurt, Paris, Zurich, London, New York and Tokyo. The Board and management will continue to seek and incorporate feedback to ensure we are acting in the best interests of our shareholders.

Our Chairman's and Corporate Governance Committee acts as a consultant body to the Chairman and CEO, and regularly reviews aspects of our governance, as well as asset and liability management.

Our Nomination and Sustainability Committee, chaired by our Lead Independent Director, evaluates Board composition, structure and succession planning. The Committee regularly assesses potential candidates for nomination to the Board in the coming years. It also reviews all aspects of our environmental and social sustainability policies.

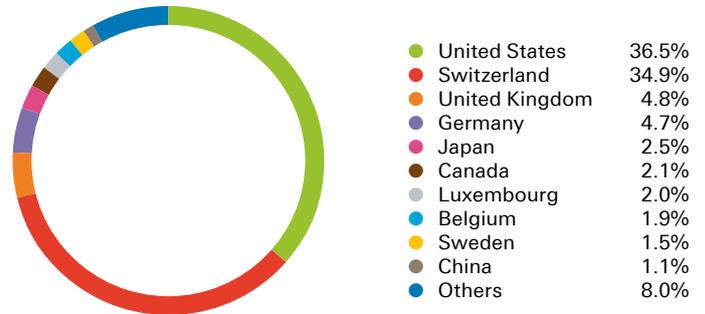
Our Compensation Committee sets our remuneration principles and submits the proposals for remuneration of the Board and

the Executive Board to the Board and the AGM. It ensures the alignment of our values, strategies and performance management. Our compensation budgets and our compensation report are submitted to annual votes by our shareholders.

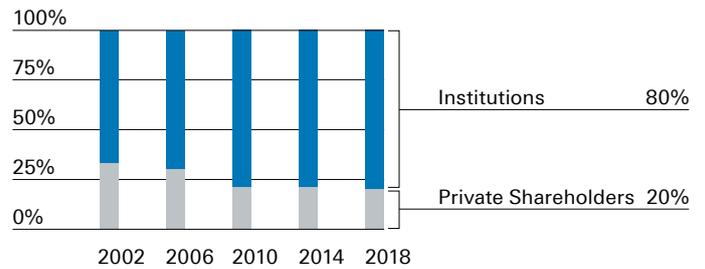
Our Audit Committee oversees internal and external audit, financial reporting, compliance and risk management. Our internal audit function was strengthened and our mandate for external audit was put up for tender.

We further integrated our public reporting on our financial and non-financial performance by including the highlights from our *Nestlé in society* report in our *Annual Review*. 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 do this through our more than 2000 brands that enhance quality of life and contribute to a healthier future.

#### Share capital distribution by geography



#### Share capital by investor type, long-term evolution <sup>(a)</sup>



(a) Percentage derived from total number of registered shares. Registered shares represent 57.6% of the total share capital. Statistics are rounded, as at 31.12.2018.

# Board of Directors of Nestlé S.A.

**Peter Brabeck-Letmathe**  
Chairman Emeritus  
**David P. Frick**  
Secretary to the Board  
**KPMG SA Geneva branch** <sup>(1)</sup>  
Independent auditors



Paul Bulcke



Beat Hess



Kasper Rorsted



U. Mark Schneider



Pablo Isla



Henri de Castries

## Board of Directors of Nestlé S.A. at December 31, 2018

**Paul Bulcke** <sup>(1, 2, 4)</sup>  
Chairman  
**U. Mark Schneider** <sup>(1, 2)</sup>  
Chief Executive Officer

**Henri de Castries** <sup>(1, 2, 4, 5)</sup>  
Vice Chairman  
Lead Independent Director  
Former Chairman and CEO, AXA  
**Beat Hess** <sup>(1, 2, 3)</sup>  
Chairman, LafargeHolcim Ltd  
Former Group Legal Director,  
Royal Dutch Shell plc.

**Renato Fassbind** <sup>(1, 2, 5)</sup>  
Vice Chairman, Swiss Re AG  
**Jean-Pierre Roth** <sup>(1, 3)</sup>  
Former Chairman, Geneva  
Cantonal Bank  
**Ann M. Veneman** <sup>(1, 4)</sup>  
Former Secretary, U.S.  
Department of Agriculture,  
and Executive Director, UNICEF



Renato Fassbind



Ruth K. Oniang'o



Kimberly A. Ross



Ursula M. Burns



Eva Cheng



Jean-Pierre Roth



Ann M. Veneman



Patrick Aebischer

**Eva Cheng** <sup>(1, 4, 5)</sup>  
 Former Chairwoman and CEO,  
 Amway China & Southeast Asia  
**Ruth K. Oniang'o** <sup>(1)</sup>  
 Professor of Food Science  
 and Nutrition  
**Patrick Aebischer** <sup>(1, 3)</sup>  
 President Emeritus of the  
 Swiss Federal Institute of  
 Technology Lausanne (EPFL)

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

- 
- (1) Term expires on the date of the Annual General Meeting 2019.
  - (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 2018*.

# Executive Board of Nestlé S.A.



**Executive Board of Nestlé S.A.  
at December 31, 2018**

**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, Human Resources and Business Services

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

**5 Wan Ling Martello**  
EVP, CEO Zone Asia, Oceania, sub-Saharan Africa

**6 Marco Settembri**  
EVP, CEO Zone Europe, Middle East, North Africa

**7 François-Xavier Roger**  
EVP, Chief Financial Officer

**8 Magdi Batato**  
EVP, Operations

**9 Stefan Palzer**  
EVP, Innovation Technology, Research and Development

**10 Maurizio Patarnello**  
Deputy EVP, Nestlé Waters

**11 Greg Behar**  
CEO, Nestlé Health Science S.A.



**12 David P. Frick**  
SVP, Corporate Governance,  
Compliance and Corporate  
Services

EVP: Executive Vice President  
SVP: Senior Vice President  
CEO: Chief Executive Officer

For further information on the  
Executive Board, please refer to the  
*Corporate Governance Report 2018*.

# Compliance

Compliance is 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 success of our company.

Our Board of Directors and our Executive Board oversee and promote good practices throughout the company and oversee our corporate compliance program. 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 holistic, 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.

We monitor compliance through our corporate functions, our internal audit function and our external auditors. Through our CARE program, which relies on independent external auditors, we regularly assess specific aspects of our compliance. In 2018, 291 CARE audits were conducted and gaps addressed. The necessary training is provided in our internal Management School, at in-person trainings in the Markets, as well as through our e-learning tools. 48 741 employees performed our *Code of Conduct* training in 2018.

Our Integrity Reporting System and our 'Tell Us' system allow us to address complaints from employees and external stakeholders. 1 837 complaints from employees and 699 complaints from suppliers and other third parties were investigated and remedial action taken this year. Markets were supported with investigative guidelines and best practices.

All Markets confirmed a mature 'fit for purpose' level in their local program (defined as more than 80% score in all categories), based on a self-assessment of the Market Compliance Programs by the local Compliance Committees. In 2019, the program will be updated and Markets

will perform a new assessment to ensure that their compliance program remain relevant to the business needs. During the last 3 years more than 160 000 employees have been trained on our compliance foundations. Special initiatives related to WHO Code compliance and the prevention of harassment and discrimination. An annual compliance risk assessment regarding third party risks was performed by the Corporate Compliance Committee.

Our Compliance commitments and progress are externally shared in the *Nestlé in society* report.

# Shareholder information

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## Stock exchange listing

At December 31, 2018, 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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## Registered Offices

Nestlé S.A.  
Avenue Nestlé 55  
CH-1800 Vevey (Switzerland)  
tel. +41 (0)21 924 21 11

Nestlé S.A. (Share Transfer Office)  
Zugerstrasse 8  
CH-6330 Cham (Switzerland)  
tel. +41 (0)41 785 20 20

For additional information, contact:  
Nestlé S.A.  
Investor Relations  
Avenue Nestlé 55  
CH-1800 Vevey (Switzerland)  
tel. +41 (0)21 924 35 09  
e-mail: ir@nestle.com

As to information concerning the share register (registrations, transfers, dividends, etc.), please contact:  
Nestlé S.A. (Share Transfer Office)  
Zugerstrasse 8  
CH-6330 Cham (Switzerland)  
tel. +41 (0)41 785 20 20  
fax +41 (0)41 785 20 24  
e-mail: shareregister@nestle.com

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](http://www.nestle.com)

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## April 11, 2019

152nd Annual General Meeting, Beaulieu Lausanne, Lausanne (Switzerland)

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## April 12, 2019

Last trading day with entitlement to dividend

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## April 15, 2019

Ex-dividend date

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## April 17, 2019

Payment of the dividend

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## April 18, 2019

2019 First quarter sales figures

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## July 26, 2019

2019 Half-yearly Results

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## October 17, 2019

2019 Nine months sales figures

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## February 13, 2020

2019 Full Year Results

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## April 23, 2020

153rd 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.

The brands in italics are registered trademarks of the Nestlé Group.

## Visual concept and design

Nestec Ltd., Corporate Identity & Design, with Gavillet & Cie

## Photography

Sébastien Agnetti,  
Mareen Fischinger/Getty Images,  
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