



Good Food, Good Life

Annual Review 2017



# Our purpose

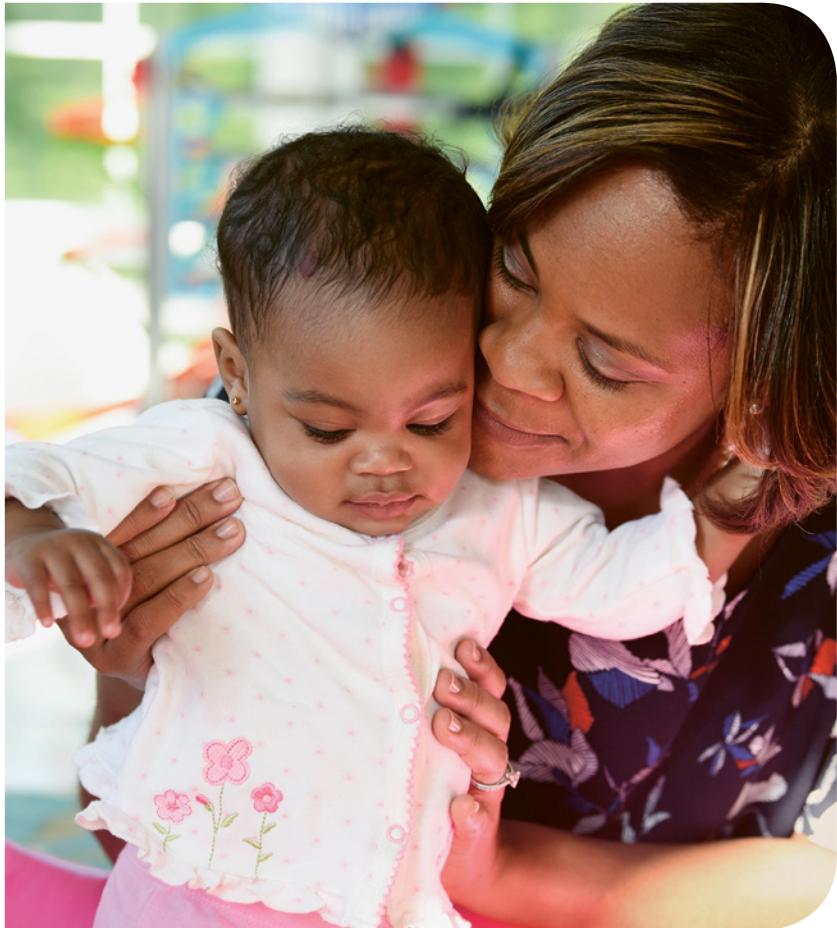
Nestlé. Enhancing quality of life and contributing to a healthier future.

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Nestlé is the world's largest food and beverages company and is present in 189 countries around the world.

We offer a wide portfolio of products and services for people and their pets throughout their lives. Our more than 2000 brands range from global icons like *Nescafé* and *Nespresso* to local favourites like *Ninho*.

Nestlé is based in the Swiss town of Vevey where it was founded more than 150 years ago.



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## Accompanying reports

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<i>Annual Review 2017</i>
<i>Corporate Governance Report 2017</i>
<i>Compensation Report 2017</i>
<i>Financial Statements 2017</i>

## Online

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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.

Our 2017 organic sales growth was within the guided range but below our expectations. Our cost reduction initiatives delivered margin improvement ahead of expectations. On the right is a summary of the results we achieved during the year.

<b>Group sales (in CHF)</b>	<b>Organic growth *</b>	<b>Real internal growth *</b>
<b>89.8 billion</b>	<b>2.4%</b>	<b>1.6%</b>
<b>Underlying trading operating profit* (in CHF)</b>	<b>Underlying trading operating profit margin*</b>	<b>Underlying trading operating profit margin*</b>
<b>14.7 billion</b>	<b>16.5%</b>	<b>+50 basis points</b>
	<b>Constant currency</b>	<b>Constant currency</b>
<b>Trading operating profit* (in CHF)</b>	<b>Trading operating profit margin*</b>	<b>Trading operating profit margin*</b>
<b>13.2 billion</b>	<b>14.7%</b>	<b>-50 basis points</b>
		<b>Constant currency</b>
<b>Earnings per share (in CHF)</b>	<b>Earnings per share</b>	<b>Underlying earnings per share*</b>
<b>2.32</b>	<b>-15.8%</b>	<b>+4.7%</b>
		<b>Constant currency</b>
<b>Operating cash flow (in CHF)</b>	<b>Free cash flow* (in CHF)</b>	
<b>13.5 billion</b>	<b>8.5 billion</b>	
<b>75.4% of net financial debt*</b>		
<b>Proposed dividend (in CHF)</b>	<b>Proposed dividend increase</b>	
<b>2.35</b>	<b>+2.2%</b>	

\* Financial performance measures not defined by IFRS. For further details see Financial review on page 40.

# Our business

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

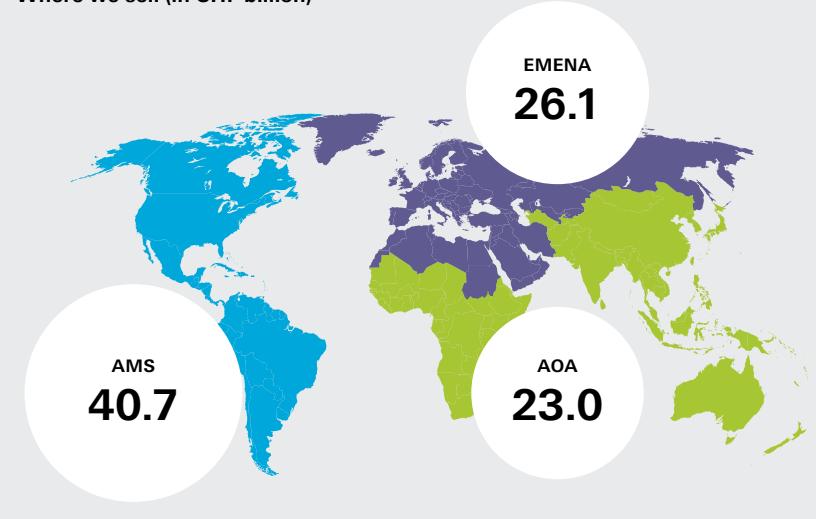
Around the world, we provide safe, quality nutrition for individuals and families. Across our seven product categories, we offer tastier and healthier choices for all life stages and all times of the day.

Through our products and services, we want to help shape a better and healthier world. We also want to inspire people to live healthier lives. This is how we ensure the long-term success of our company while contributing to society.

## What we sell (in CHF billion)



## Where we sell (in CHF billion)



## Number of employees

**323 000**

## Number of countries we sell in

**189**

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

**17 billion**

## Corporate taxes paid in 2017 (in CHF)

**3.7 billion**

# Our commitments

Our 41 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 1000

new nutritious products launched that address daily needs and gaps as per children intake studies

## CHF 40.1 billion

sales of products providing  
*Portion Guidance*

## 174 billion

servings of fortified foods and beverages in 66 countries with higher vulnerability to micronutrient malnutrition

## Over 8000

products/year renovated for nutrition or health considerations (2012–2016 average)



For our  
communities

## 159.9 million

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

## 57%

of the volume of our 12 priority categories of raw materials and paper are responsibly sourced

## 41 867

job opportunities, traineeships or apprenticeships were provided for young people through our *Nestlé needs YOuth* initiative

## 431 000

farmers trained through capacity-building programmes



For the planet

## 33.2%

reduction in our GHG emissions (scope 1 and 2) per tonne of product since 2007

## 38.1%

reduction in our water withdrawal per tonne of product since 2007

## 253

factories achieved zero waste for disposal

## 25.7%

of our electricity comes from renewable sources

# Dear fellow shareholders,

For over 150 years, Nestlé has built its success on a profound understanding of nutrition. That success is based on a continuous, compelling strategy that leads to sustainable value creation. It is also based on the ability to change and adapt. 2017 was no exception. It has been a year of both continuity and change. We continued to build our company for the long term, while increasing speed and efficiency to adapt to the changes around us. Competition is intensifying and consumers' expectations are shifting. Likewise, digital disruption is reshaping how consumers connect and communicate, buy products, and engage with companies. We are anticipating these changes and responding to them with a healthy sense of urgency, setting an agile course for the future.

For the year 2017, Nestlé's organic growth was 2.4%, supported by real internal growth of 1.6%. Pricing of 0.8% was consistent with the prior year. Net divestments reduced sales by 1.9% and foreign exchange had a minimal negative impact of 0.1%. Total reported sales increased by 0.4% to CHF 89.8 billion. Organic growth was 4.8% in emerging markets and 0.7% in developed markets. Underlying Trading operating profit margin was up by 50 basis points in constant currency and up 40 basis points on a reported basis to 16.4%. Based on these results, the Board of Directors is proposing the 23rd dividend increase, underlining our commitment to continuity, of 5 centimes to CHF 2.35 per share this year.

## A clear path forward

Nutrition is at the heart of our company. It has been since Henri Nestlé invented the farine lactée that saved the life of a child. Our Nutrition, Health and Wellness strategy is now more relevant than ever as people around the globe want to lead healthier lives. They are more interested in the role nutrition plays in their personal health and well-being. We are well positioned to support them, providing quality, nutritious food and beverages that are both delicious and convenient. Nestlé has a broad portfolio that includes some of the world's most recognised brands. We are a leader in many of the fastest-growing food and beverages categories.

During the year, we confirmed our long-term value creation model. Our mid-term targets underscore our commitment to the right balance of top-line growth and bottom-line performance. We have set an underlying trading operating profit margin target of 17.5% to 18.5% by 2020, up from 16% in 2016. We aim to achieve mid-single digit organic growth by 2020.

Food and beverages are at the core of our business, with many different categories. To grow steadily, we are managing the categories of coffee, pet care, bottled water and infant nutrition for growth. Consumer healthcare is an additional area for growth, especially in meeting the nutritional needs of ageing populations around the world. Furthermore, we are building on our strong position in emerging markets by allocating capital for growth.

We are actively developing our portfolio to reflect new consumer tastes and lifestyles. Our aim is to have the tastiest and healthiest products in each of the categories in which we compete. We are capitalising on recent consumer trends such as organic, whole grain, reduced calorie and natural foods. We are also delivering more plant-based alternatives.

Continuous innovation is a key differentiator for Nestlé, fueling growth from within the company. Driven by our industry-leading research and development network, combined with deep consumer insights, we are speeding up meaningful innovation to bring products and services to the market quickly.

In 2017, several acquisitions helped to strengthen our positions in fast-growing categories and to give access to new business models. Responding to consumer demand for new coffee experiences, we took a majority stake in the U.S. coffee roaster and retailer Blue Bottle Coffee and acquired Chameleon Cold Brew, the number one organic cold brew brand in the United States. With the market for healthy, convenient meals growing, we acquired Sweet Earth – a California based frozen meals company offering high-quality vegetarian dishes. We also bought a minority interest in the online meal delivery platform, Freshly. In consumer healthcare, we announced the acquisition of Atrium Innovations, a global leader in nutritional health products.



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

## **Increased efficiency**

To support our growth, we are increasing operating efficiency across the company. We are focusing on structural cost savings in the non-consumer facing areas, specifically in manufacturing, procurement and administrative services.

We are simplifying our manufacturing footprint and optimising our factories to utilise capacity more effectively. To leverage our size and scale in our procurement activities, we have established three global purchasing hubs. By 2020, we expect these hubs to source 60% of our requirements. Through Nestlé Business Excellence, we continue to simplify, standardise and share services and processes. We aim to increase the penetration of shared services to 50% by 2020, up from the current level of around 17%.

We are also simplifying our organisation by delayering functions and strengthening local and regional decision-making. We have reorganised our infant nutrition business, moving it from the Globally-Managed Nestlé Nutrition to a Regionally-Managed business to enhance its agility and to respect local preferences. A dedicated Strategic Business Unit has been created to retain the strengths of Nestlé's globally-aligned nutrition strategy. We continued the transformation of Zone EMENA, establishing regional category leadership teams with profit and loss responsibility for our food, confectionery and dairy businesses, while keeping the fundamental role of the respective Nestlé Markets. This model has been successful with both Nestlé Purina and Nescafé. All of these changes will help to ensure faster execution and a closer connection to local business realities.

## **Board engagement**

Our Board of Directors is committed to the highest standards of corporate governance. It oversees management to ensure the long-term health of our company, so it can continue to deliver value over time.

During the year, the Board reconfirmed Nestlé's value creation model, delivering both top and bottom-line growth, as well as capital efficiency. It undertook a comprehensive review of the company's capital structure and priorities to support and enhance our ability to deliver on

our value creation model. As a result, we can return more capital to our shareholders. In June, the Board approved a share buyback programme of up to CHF 20 billion which is to be completed by the end of June 2020, conditional to any sizeable acquisitions.

Our Board ensured the transition to a new Chairman and CEO. At the same time, it rearticulated the company's purpose and values. Our Board's actions to create sustained value included adding four new independent directors in the past three years. The Board continued its refreshment by selecting strong candidates for election. It also expanded the mission of our Nomination and Sustainability Committee to review all aspects of our non-financial performance and it strengthened risk oversight by our Audit Committee.

The Board visited Germany on its annual visit to a major market, where it received a strategic briefing on the food business. Special presentations during the year also included Nestlé's Group strategy, a broader view on M&A, a review of consumer trends, our business in Zone AOA including China, as well as our Nestlé Health Science and Nestlé Skin Health businesses. The Board also reviewed the company's shareholder base, its exposure to cybersecurity risks, its capital investment strategy and capital investment plan, and its annual risk and compliance reports.

Active engagement with our shareholders and other stakeholders allowed the Board to take into account their views on our performance, governance and long-term strategy.

At the 2017 Annual General Meeting, the shareholders elected Paul Bulcke as Chairman of the Board of Directors, following his 37 years of service to Nestlé, including nine years as CEO. They further elected Nestlé CEO U. Mark Schneider and Ursula M. Burns, Chairman of the Board of Xerox Corporation, as new members of the Board. The Board thanked Peter Brabeck-Letmathe, who did not stand for re-election, for his almost 50 years of service to Nestlé and named him Chairman Emeritus.

There were also changes in the Executive Board. Stefan Palzer has been appointed Chief Technology Officer as of 1 January 2018.

Chief Technology Officer Stefan Catsicas decided to pursue entrepreneurial and venture capital activities outside of Nestlé. He will continue as an advisor in science and technology. Deputy Executive Vice President Heiko Schipper decided to pursue interests outside the company as of 31 December 2017. He will not be replaced on the Executive Board following the reorganisation of the Nutrition business.

### **Value for shareholders and society**

Amid many changes, two important dimensions do not change – our purpose and our values. Our purpose is to enhance quality of life and contribute to a healthier future. Our values, rooted in respect, guide our decisions and actions. We believe that business can have a positive impact on society. By doing so, we create shared value. This ensures the long-term success of our business and continued value for our shareholders, while also contributing to society.

Since 2013, Nestlé has been actively involved in supporting young people through initiatives like *Nestlé Needs YOuth*. We firmly believe that young people are our future. They will be our leaders, employees, suppliers and farmers. In 2017, we extended our *Nestlé needs YOuth* initiative globally to encompass our entire value chain and set out an ambition to help 10 million young people have access to economic opportunities by 2030.

In recognition of our work in contributing to the United Nations Sustainable Development Goals (SDGs) through our Creating Shared Value approach, Nestlé received the Concordia Leadership Award. We have also renewed our commitment to the UN Global Compact. It promotes the principle of public-private collaborations in support of the SDGs. These efforts, among others, show that business has a vital role to play in building a better, more sustainable world for everyone.

2017 was an exciting year – one of both continuity and change. Continuity in building on the strong Nutrition, Health and Wellness strategy of our company; change to increase our speed and efficiency, and to simplify the way we work. Nestlé has the people and the leadership across the globe to guide the company through these changes and ensure our long-term success.

We want to thank our 323 000 employees for their ongoing dedication to Nestlé. It is their hard work and commitment to excellence that drives our company day to day.

We thank you, our shareholders, for your continuing support. We value your ongoing trust in our company and our people, and your confidence in our leadership setting a solid, stable course for the future. Nestlé has a strong foundation, a clear path forward and a bright future.



**Paul Bulcke**  
Chairman

**U. Mark Schneider**  
Chief Executive Officer

# Our strategy

Through enhancing quality of life and contributing to a healthier future, we aim to deliver sustainable, industry-leading financial performance and earn trust. For over 150 years, we have built a successful business through understanding and anticipating consumer needs, and adapting to succeed in an evolving marketplace. Based on a compelling strategy, our company delivers dependable value over the short term and long term.



Nestlé has many enduring strengths that keep us at the top of our industry. We have great brands that people love. We have a unique global footprint, a size and scale that we use to our advantage, and the capacity to invest for the long term. In 2017, we reconfirmed our value creation model. Through the right balance of sustainable growth and efficiency, as well as capital efficiency, we will continue to create long-term value for our shareholders and for society as a whole.

### **Building on our Nutrition, Health and Wellness strategy**

Nestlé's success is built on its Nutrition, Health and Wellness strategy. Our founder, Henri Nestlé, believed that good nutrition was the key to a healthy life. Today, food and beverages remain core to our strategy. Our aim is to provide the tastiest and healthiest choices, at all times of the day and for all stages of life, delivered in a convenient and time-saving manner. We also offer consumer healthcare products to help people meet their health and wellness goals. This is what we mean by 'Good food, Good life'.

### **Understanding and serving the consumer**

Nestlé's portfolio is well-positioned for growth. The key to our long-term success continues to be understanding and serving the consumer. By identifying consumer trends early and acting quickly to capture them, we remain at the forefront of the fast-moving consumer goods industry.

People today know the importance of good nutrition and of managing their health more proactively. They want products with simple, understandable ingredients, natural or organic, and ideally locally produced. Likewise, many people do not have the time to prepare and cook meals, so they are looking for food and beverages that are convenient too.

Nestlé has the largest research and development network in the food and beverages industry, continually innovating and renovating our portfolio to meet changing consumer demands. We also work with leading-edge partners around the world, including start-ups, academic institutions and public organisations. They help strengthen our own capabilities by generating ideas, accessing skills and developing new technologies, so we can remain at the forefront of consumer trends.

We are focusing on products with nutrition, health and wellness benefits. This includes delivering products with simpler ingredients, as well as more premium, organic, natural and fortified foods and beverages. Nestlé also offers a range of affordably-priced, high-quality, nutritious products. Many of our foods and beverages, especially those for children, include added micronutrients such as iron, iodine, vitamin A and zinc to support good health and well-being.

## Accelerating growth

At Nestlé, we believe that long-term value creation is the result of both growth and operating efficiency. We achieve sustainable top-line growth by investing selectively in high-growth categories and geographies. The target, set in 2017, is mid-single digit organic growth by 2020. We aim to achieve this by refocusing our base businesses, active portfolio management and prudent investment behind our high-growth categories.

We are managing our coffee, petcare, infant nutrition and bottled water categories with an emphasis on growth. Nestlé has a significant global market share in these categories. We have some of the world's leading brands, including *Nescafé*, *Purina*, *Gerber* and *Nestlé Pure Life*. Furthermore, we have science and technology-based competitive advantages across these categories. Nestlé is also pursuing growth opportunities in consumer healthcare to complement our focus on these key food and beverages categories. As a result, we are expanding our presence across the pharmacy channels in both emerging and developed markets.

The core of value creation comes from product, service and business model innovation. Strength in research and development is a key differentiator for Nestlé, helping us to respond quickly to the ever-changing world. Our innovation is broad-based across all categories, from product renovations to service delivery platforms. It starts with transforming our core portfolio to keep products, brands and services relevant, as well as creating and scaling new brands where needed.

Digital innovation presents us with further opportunities for competitive advantage in developing more personalised experiences and new delivery methods. We are connecting with younger consumers in the digital space, using both local and specialised platforms. We are fully committed to digital marketing and e-commerce platforms as avenues for growth. Hence, we are expanding these new business models, focusing strongly on our direct-to-consumer models, as well as partnering with key online retailers around the world.

## Increasing efficiency

Nestlé is committed to margin expansion. We have set an underlying trading operating profit margin target of 17.5% to 18.5% by 2020, up from 16% in 2016.

Our primary driver is to reduce structural costs in non-consumer facing areas. Well-identified projects in manufacturing, procurement and general administration are expected to deliver total savings of CHF 2.0 to 2.5 billion by 2020.

We are optimising our manufacturing footprint and increasing efficiency throughout our operations. This will both increase our capacity utilisation and reduce our conversion costs. Through global procurement, we leverage Nestlé's purchasing power worldwide. We are supporting our centralised purchasing activities by establishing global procurement hubs.

Scaling up the use of shared services brings further efficiency. We aim to increase the availability and use of shared services to 50% by 2020.

Enhanced local and regional decision-making allows us to move more quickly in the market. Furthermore, we are reviewing and consolidating our real estate portfolio, and we have outsourced the management of the Nestlé pension fund.

## **Allocating capital prudently**

Nestlé has a strong portfolio, with profitable growth platforms and leading market positions in many categories. We take a prudent and focused approach to capital allocation to ensure solid long-term growth.

We constantly review our brand portfolio and are selective in evaluating merger and acquisition opportunities. We will make acquisitions in fast-growing categories only if they are complementary to our existing portfolio, deliver the attractive returns our shareholders expect and are in line with our Nutrition, Health and Wellness strategy.

Nestlé regularly revisits its capital structure to reflect changing market conditions and strategic priorities. Our financial strategy aims at striking the right balance between growth in earnings per share, competitive shareholder returns, flexibility for external growth and access to financial markets.

In June 2017, we announced a new CHF 20 billion share buyback programme to be completed by the end of June 2020. Should any sizeable acquisitions take place during this period, the share buyback programme will be adapted accordingly.

We increasingly focus capital spending on advancing our high-growth food and beverages categories. We are also building on our strong position in emerging markets and pursuing growth opportunities in consumer healthcare. We are taking actions to drive long-term growth through a mix shift towards higher-margin and high-growth categories, and an unmatched dedication to research and development.

## **Creating Shared Value**

Creating Shared Value (CSV) is the fundamental principle of how Nestlé does business. It is our way of creating value for both shareholders and for society at the same time.

We understand that the prospects of our business are linked to the health and resilience of the society and world in which we operate. Our priorities are those areas with the greatest connection between Nestlé's business and society.

Our 41 public commitments bring to life our purpose of enhancing quality of life and contributing to a healthier future. These commitments contribute to the UN's Sustainable Development Goals. The details of our progress against them are published in this *Annual Review*.

# Innovating for a changing world

At Nestlé, continuous innovation is part of our DNA. Our success is founded on over 150 years of anticipating trends and understanding consumers' needs. This approach remains fundamental to our strategy. Nestlé has the most advanced science and innovation network in the food and beverages industry. This enables us to translate our knowledge into highly-relevant products and services for our consumers.



Our understanding of the relationship between nutrition and health is continually evolving. Nestlé's researchers are looking ahead to discover how we can further enhance quality of life and contribute to a healthier future. At our different sites across the world, including the Nestlé Research Centre and the Nestlé Institute of Health Sciences, we are working to discover, develop and deploy new products and services that we aim to scale up rapidly.

To augment our own capabilities, we also collaborate with leading universities, research organisations and start-ups. Likewise, we have a number of innovation partnerships with ingredient suppliers and equipment manufacturing companies to accelerate product and technology development.

### **Creating tastier and healthier products**

We are constantly looking for ways to improve the nutritional profile and taste of our products. Our scientific and technological solutions are inspired by nature.

In 2017, over 60% of our R&D budget was dedicated to developing more nutritious products. For our food and beverages categories, the focus remains on developing tastier and healthier offerings. We also continue to deliver specific health benefits through our products in categories like infant nutrition and health science.

Using food material science, we can increase the sensorial impact of the ingredients we use. For example, our research shows that parts of the ingredients that deliver taste are not fully released or dissolved during eating. Hence, they are not interacting with the taste buds. Applying our knowledge, we can increase the amount that dissolves in the mouth. This allows us to reduce the amount of the ingredient, while keeping the same perceived taste, and make new products that taste good and use fewer ingredients like sugar, salt and fat.

Our groundbreaking work in sugar reduction is an example of this. By structuring sugar differently, we were able to make it dissolve in the mouth quicker. This means we can use significantly less sugar in our confectionery products, while ensuring the same great taste. We have scaled up the production of this new

structured sugar, and are delivering the first confectionery product containing it in 2018.

### **Enhancing infant and maternal nutrition**

Through our research, we know that metabolism and, to some extent, taste preferences are programmed at an early age. We also know that these dietary preferences and patterns can have an impact on health for years to come. So, providing optimal nutrition for infants and young children in the first 1000 days of life – from conception to their second birthday – is crucial.

Our focus on the first 1000 days also includes understanding the nutritional needs of mothers from conception of a child to breastfeeding. Maternal nutrition is one of our main research areas today. To this end, we are working in partnership with a number of universities around the world. In one of the largest public-private partnerships of its kind, we are looking at the impact of nutrition and lifestyle on maternal and infant health in collaboration with the EpiGen Global Research Consortium.

Food sensitivity and allergies in infants is another key area of research. A number of babies and children suffer from cow's milk protein allergy. To help their parents and doctors to better manage their dietary needs, Nestlé Health Science has developed a range of nutritional solutions (*Althéa*, *Alfaré*, *Alfamino*). It has also developed tools that enable early and accurate diagnosis of the allergy.

Breast milk is the ideal nutrition for babies. For babies that cannot be breastfed, we continue to deepen our understanding of the composition of breast milk. Our mission is to innovate and offer the next best alternative.

Human milk oligosaccharides (HMOs) are the third most abundant component of breast milk. They play a key role in an infant's healthy development and well-being, supporting the baby's immune system and promoting healthy gut microbiota. We are the first company to produce two varieties of HMOs on an industrial scale for our *NAN* infant formula range.

### **Understanding the microbiome**

The billions of bacteria that live in our gastrointestinal tract are known as the 'human



#### Enhancing infant and maternal nutrition

Our researchers are focusing on the nutritional needs of both mothers and babies. Products like *NAN Optipro* provide the right amount and quality of proteins needed for babies' growth.

gut microbiome'. They make up the internal ecosystem that influences people's overall health.

As science and technology advances, we see how important the microbiome is in helping to shape people's health. That is why our interest in the human gut microbiome goes beyond infants, to include adults and the elderly. Through Nestlé Health Science, we are strengthening our collaborations with external research partners.

Nestlé Health Science's partner, Seres Therapeutics, is a leader in the field. It is exploring its microbial strains to develop therapeutics that aim to restore a healthy microbiome.

This year, Nestlé Health Science also entered a partnership with Enterome, jointly creating Microbiome Diagnostics Partners. It seeks to develop diagnostics tools to support personalised therapies in microbiome-related diseases, such as inflammatory bowel disease (IBD).

#### Supporting healthy ageing

Nutritional needs evolve with age as the body's ability to efficiently metabolise and absorb nutrients declines. The resulting lack of essential nutrients can then impair body functions, cause feelings of fatigue or weakness, and lead to mobility issues. To support the nutritional needs of a growing ageing population, we have substantially expanded our R&D capability.

Some of our research has already been applied to products like Nestlé Health Science's *Boost* and *Meritene* ranges. Both are designed for individuals who need extra nutrition to fill gaps in their diets. These products provide missing nutrients that can help active seniors enjoy a better quality of life.

We know that the same diet can have very different effects on different people, as we each have unique nutritional needs and a unique microbiome. Hence, we are also developing personalised programmes for individuals.

#### Personalising nutrition

By giving people a better understanding of their own individual nutritional status, lifestyle, environment and genetics, we can help individuals to preserve their health throughout life.

Both the Nestlé Institute of Health Sciences and the Nestlé Research Centre are working in this field to develop more personalised solutions using the 'Internet of things'. As part of this work, we have begun collaborations to harness the power of nutrition science and digital sensor technologies.

Through our expertise in systems-based technology, we are moving towards providing personalised nutrition solutions in and out-of-home. These are based on the personalised experience we already offer through our beverage systems.

We envisage a future where sensors and devices in our daily lives, such as mobile phones, wearables and 'smart' appliances, can connect with each other. The data they provide can help us to understand our nutrition and activity, and guide us towards a healthier and happier life.

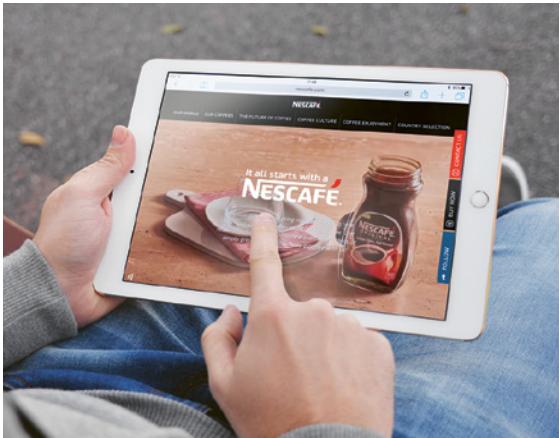
#### Innovating in digital

As well as researching nutrition science and food technology, we also find and develop



#### **Supporting healthy ageing**

Research shows that special nutrition may help to manage normal age-related changes. Our *Meritene* formulas contain nutrients such as dietary fibre, protein, vitamins and minerals to support the needs of active seniors.



#### **Innovating in digital**

New mobile platforms developed for our brands like *Nescafé* have brought us closer to younger consumers, and increased direct sales through 'buy-now' buttons.

new business services, and invest in new food business models to access new ideas and new paths to market. This year we partnered with the Terra Food and Agriculture Technology Accelerator, to select and coach some of the most innovative and disruptive start-ups in the food and agricultural industry.

We are developing new digital services to enhance the personal consumer experience through our brands. To this end, our Silicon Valley Innovation Outpost (SVIO) acts as a hub for sourcing and developing new digital solutions to build our brands. Here we focus on consumer data and intelligence, then identify and apply digital innovations from start-ups and emerging technology partners to support brand engagement.

Our open innovation platform Henri@Nestlé enables entrepreneurs to work as collaborative partners alongside Nestlé teams to tackle social and Nestlé business challenges. It gives us access to the fast-moving start-up mentality and entrepreneurial spirit that a global company needs to stay ahead.

These are just a few of the ways we are constantly building a deeper understanding of nutritional science, and developing products and services that enable us to fulfil our purpose: enhancing quality of life and contributing to a healthier future.

# 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. We have more than 2000 brands, ranging from global icons like *Nescafé* and *Nespresso* to local favourites like *Ninho*.

Powdered and Liquid Beverages



Nutrition and Health Science



Nestlé Skin Health



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Milk products  
and Ice cream



MÖVENPICK  
THE ART OF SWISS ICE CREAM



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PetCare



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Prepared dishes  
and cooking aids



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Confectionery



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Water



# Powdered and Liquid Beverages

To suit consumer preference for unique coffee experiences, we are innovating and building our coffee portfolio – already the world's largest – by introducing new products and services, and making strategic acquisitions.

The world's leading coffee brand, *Nescafé*, is available in over 180 countries with nearly 5500 cups consumed every second. 2017 saw the largest ever renovation of *Nescafé Original*, improving both taste and aroma. In response to consumer desire for quality coffee in a portable format, we launched new premium mixes of *Nescafé Azera* and expanded the *Nescafé* ready-to-drink range. Nestlé Professional is delivering products like *Nescafé Cold Brew* to out-of-home businesses that want to reach consumers who seek more artisanal coffee experiences.

Starting in the United Kingdom, we are relaunching the *Nescafé Gold* premium range globally with improved blends, new packaging and a new global communication campaign. We are also expanding *Nescafé Gold* globally, with the introduction of new premium mixes across the ASEAN markets in 2017.

*Nescafé Dolce Gusto* is the leading retail coffee system brand outside of North America. It is present in more than 80 markets. Known and loved for its wide range of high-quality 'coffee shop at home' recipes, *Nescafé Dolce Gusto* extended its range of products with a limited edition – *Catuai do Brasil*.

*Nespresso*, a truly premium brand with unrivalled brand loyalty, launched 80 new

boutiques in 2017. With more than 600 boutiques worldwide, Nespresso is giving consumers an unmatched premium coffee experience both in boutiques and through e-commerce and digital platforms. As a new offering this year, Nespresso Explorations included two limited editions. Launched twice a year, these coffees come from unique growing regions such as Laos and Kenya.

To further enhance Nestlé's coffee portfolio in premium experiences and e-commerce, we acquired a majority stake in the super premium U.S. roaster and retailer Blue Bottle Coffee in late 2017. Blue Bottle's success is built on three key values: deliciousness, hospitality and sustainability. With 49 cafés and a further 39 to be opened in 2018, future strategic growth focuses on expanding its retail presence in the U.S. and Asia, and accelerating its online and supermarket presence. In late 2017, we also acquired Chameleon Cold Brew, a leading provider of premium crafted coffee. It is the number one organic cold brew brand and one of the top three refrigerated cold brew brands in the U.S.

In healthy on-the-go beverages for younger people, we expanded the number of portable ready-to-drink options available. These included sugar-reduced *Nesquik*, and *Milo Activ-Go* in Nigeria, India and Thailand. We want to encourage children to have healthy, active lives. In 2017, *Milo* and *Nesquik* became sponsors of FC Barcelona, supporting children's sports activities in a number of countries.



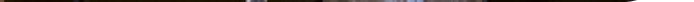
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## 1 Nescafé Gold

Introducing micro-grounds of roasted Arabica coffee enhances the taste of *Nescafé Gold*, while new packaging for the range has a more premium look and feel.



## 2 Nespresso Explorations

Limited edition varieties are launched twice yearly from unique coffee growing regions. Nespresso works with more than 70 000 farmers in 12 countries through its *AAA Sustainable Quality Program* to embed sustainability practices on farms and the surrounding landscapes.

## 3 Nescafé Dolce Gusto Catuai do Brasil

This limited edition is an unconventional way to discover single origin coffee. From the Brazilian region of Cerrado Minero, *Nescafé Dolce Gusto* selected a unique variety of Arabica: 'Catuai', which means 'very good' in the Native American language.

## 4 Blue Bottle

The U.S. premium coffee roaster, *Blue Bottle Coffee*, offers customers personalised online ordering, as well as café and retail experiences.



# Nutrition and Health Science

Our aim is to enhance quality of life with innovative, science-proven, high-quality nutrition for mothers and infants in the first 1000 days.

This period, from conception through pregnancy and up to a child's second birthday, can have a profound impact on long-term growth and development, and is vital for setting the foundation for a healthy future. Our high-quality products are made from carefully selected ingredients to meet the specific needs of infants and young children in this critical timeframe.

Breastfeeding is the ideal nutrition for at least the first six months of life. If breastfeeding is not possible due to medical or physical conditions, infant formula is the only breast-milk substitute that is recognised by the World Health Organization (WHO). We are committed to marketing infant formulas responsibly and complying with the WHO Code as implemented by national governments, as well as our *Nestlé Policy on the Marketing of Breast Milk Substitutes*, to ensure breastfeeding is supported, promoted and encouraged around the world.

Our *Start Healthy Stay Healthy First 1000 Days* nutrition e-learning programme helps new mothers understand what to feed, how to feed and why the first 1000 days are crucial to their baby's future health.

We launched *NAN Optipro* and *Optipro Supreme* with human milk oligosaccharides (HMO) infant formulas in eight markets in 2017. HMOs are an important component of breast milk, supporting babies' overall health. These science-based products are inspired by breast milk, optimising the quality and quantity of proteins.

In response to consumer preferences for natural products, our *Gerber*, *Nido*, *illumia* and *NAN* product ranges now include organic options. We achieved this by working closely with farmers to source raw materials that meet organic standards and quality requirements.



## 1 Gerber Baby Food

*Gerber's* new range includes organic baby cereals with fruit to help satisfy the needs of growing babies. New formats include convenient pouches for on-the-go parents and caregivers.

## 2 illumia Organic

Launched initially in Hong Kong, *illumia Organic* is the first organic product of its kind in the region.

Nestlé Health Science (NHSc) delivers solutions designed to meet the nutritional needs of children, healthy ageing adults and patients with specific medical conditions.

*Meritene Mobilis*, a powder drink solution for improved mobility, was launched in European markets.

To extend our consumer healthcare portfolio, we agreed to acquire Atrium Innovations, a leading provider of over-the-counter health supplements. Atrium's largest brand, *Garden of Life*, is the number 1 brand in the natural supplement industry in the U.S.

In Asia, NHSc expanded its medical nutrition range with the launch of *Resource Thicken Up* in China, for people with swallowing difficulties after a stroke.

This year, we partnered with Enterome to develop solutions for gut diseases and continued to work with Aimimmune to develop treatments for food allergies such as peanut.

Prometheus, a subsidiary of NHSc, launched four diagnostic tests to help healthcare professionals monitor patients with persistent diarrhoea, Crohn's disease, liver fibrosis and inflammatory bowel disease.

Nestlé Skin Health aims to change the way the world thinks about skin health. In 2017, we initiated changes to the portfolio and optimised the product ranges. Important restructuring programmes were started to set the base for future success. We continued to build strategic brands in our Consumer, Aesthetic and Prescription categories.

In our Consumer business, we launched new range extensions of *Cetaphil*, our dermatologically-formulated skincare range.

In our Aesthetic business, we broadened our portfolio with new launches for *Restylane*, our leading dermal filler brand, providing new options for patients and healthcare professionals to achieve natural-looking results.

In the Prescription business, we enrolled the first patient in a clinical trial for 'Nemozilumab', a disruptive innovation in the treatment of atopic dermatitis, and we continued the global roll-out of *Epiduo Forte* for acne and *Soolantra* for rosacea.



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### 3 Differin Gel

*Differin Gel 0.1%* is the first U.S. FDA-approved prescription-strength retinoid that can be used to treat acne without a prescription. Nestlé Skin Health focuses on meeting consumers' increasing skin health needs with innovative products with scientifically-proven benefits.

### 4 Boost

Nestlé Health Science partnered with Ali Health to launch the consumer products *Boost Energis* and *Boost Mobilis* in China. *Boost Energis* is a high-quality protein powder that provides 20 vitamins and minerals including vitamin B2, B6 and B12.

## Milk products and Ice cream

We continued to transform our portfolio to reflect changing consumer needs in dairy and dairy-free options. We introduced more value-added and alternative products such as organic, yoghurt, plant-based and lactose-free while reducing sugar and improving fortification.

Our affordable dairy ranges help meet the nutritional requirements of children in developing countries. New product launches in Asia included *Bear Brand Yogu*, a fortified ready-to-drink solution for school snacking with the goodness of milk, yoghurt and fruit juice.

With a growing need for products that address specific dietary needs, *Nido* added several new products including: *Nido FortiGrow* low lactose, tailored to the nutritional needs of school-age children who have difficulties in digesting lactose; *Nido Nature's Benefits*, the first organic proposition of the range, and *Nido GoldenStart*, a breakfast on-the-go solution in ready-to-drink format.

Consumers are looking for more plant-based dairy-free options. *Coffee Mate natural bliss* brought to market a number of all-natural plant-based innovations and flavours, including almond milk and coconut milk. In the U.S., *Coffee Mate Liquid* developed a more premium range for the brand.

Our ice cream and frozen desserts ranges include local brands such as *Dreyer's*, *Outshine*, *5Rams*, *Extrême* and *Mövenpick*, as well the premium brand *Häagen-Dazs* in North America. In 2017, *Häagen-Dazs* opened its first ever pop-up shop in Canada, while in the U.S. it launched four non-dairy products. These offer indulgent, dairy-free flavours with a creamier texture and an authentic taste.

2017 was the first full year of operation of our newly-created ice cream joint venture, Froneri. We have successfully developed the business partnership and started to realise operational and commercial synergies. Froneri is continuously investing in priority brands and further driving confectionery brand extensions into ice cream. This year, we launched a refreshing stick under the *Mövenpick* label in Switzerland, made with 100% natural ingredients. It combines a mango and passion fruit coating with an indulgent, creamy ice cream.

We know healthy cows make healthy milk. Through the *Dairy for You* programme, our agronomists work on quality assurance with more than 350 000 farmers to provide the best-quality milk. Together with farmers, we continuously improve animal welfare practices on dairy farms.



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## 1 Coffee Mate natural bliss almond milk

From 100% natural ingredients, *Coffee Mate natural bliss* is made with real almonds, pure cane sugar and natural vanilla flavour that includes extracts from Madagascar vanilla beans.

## 2 Nido Nature's Benefits

*Nido Nature's Benefits* is made from 100% organic whole milk. It provides the essential nutrients children need to grow.

## 3 Bear Brand Yoghurt

*Bear Brand Yoghurt* is a fortified ready-to-drink solution made with milk, yoghurt and fruit juice.

## 4 Häagen-Dazs non-dairy frozen dessert

*Häagen-Dazs* offers a range of non-dairy frozen desserts including coconut caramel flavour. It blends coconut with ribbons of caramel for the ultimate creamy non-dairy treat.

# PetCare

Nestlé Purina continues to bring to market new innovations for pets and their owners that strengthen both our brands and our commitment to the best nutrition for pets.

Responding to the trend of natural products, we continue to update our portfolio through including more recognisable ingredients and simpler ingredient lists.

The most recent example of this includes the global expansion of the *Beyond* range of dog and cat foods.

In Asia, Oceania and Africa, the reposition and expansion of the *Supercoat* brand continued to show strong regional results in both dog and cat ranges.

*Merrick* is driving growth as Nestlé Purina's lead exclusive natural brand of dog and cat foods in the U.S. This year, *Merrick* launched the *Castor & Pollux Pristine* dog and cat subranges – the first complete line of pet food positioned around providing responsibly-sourced ingredients, animal welfare and responsible farming assurances.

In dog snacks, the successful global expansion of *Dentalife* continued in 2017. We also introduced two premium offerings in the U.S from *Beggin'* that feature real meat as the number one ingredient.

Our *Felix* cat food brand continues its successful expansion globally in both wet and dry product lines, with *Felix 'As Good as it Looks'* as the primary offering.

Production of cat food has also expanded globally with capacity investments in Poland, Russia, Hungary, Brazil, Mexico and the U.S.



## 1 Purina Pro Plan Veterinary Diets NeuroCare

*NeuroCare* is the first and only diet to nutritionally manage dogs with canine epilepsy as an accompaniment to veterinary therapy.

## 2 Purina One Bifensis

*Bifensis* is a unique nutritional formula scientifically proven to strengthen your cat's natural defences on the inside by supporting natural antibody production, and on the outside by maintaining healthy skin and coat.

# Prepared dishes and cooking aids

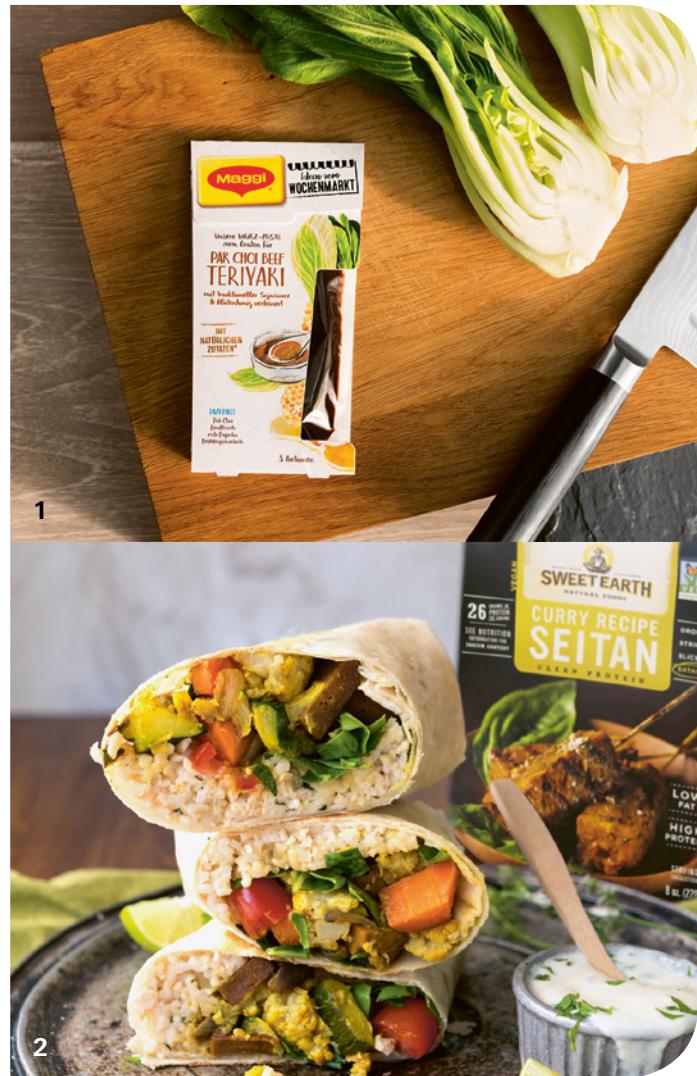
We continue to transform our food portfolio to capture the 'naturality' trend for consumers who are looking for tastier and healthier options. Our 'kitchen cupboard' approach means we are removing ingredients such as artificial colours, flavours and taste enhancers, while adding ingredients that consumers recognise and desire for better nutrition. To this end, we are bringing new products to market that include simple, transparent ingredients for main meals and dishes.

Around the world, the *Maggi* range has been improved with more natural and locally sourced ingredients. The *Naija Pot* bouillon cube was launched in Nigeria. It includes recognisable local ingredients inspired by the taste and aroma of southern Nigerian dishes. *Maggi* continues to lead the portfolio in micronutrient fortification and salt reduction, supporting our 2016 commitment to reduce sodium by 10% by 2020.

In frozen pizza, we are delivering winning taste and better nutrition through product renovations. *Di Giorno*, *CPK*, *Buitoni* and *Wagner* were relaunched with less salt, less saturated fat and simplified ingredients. For consumers looking for more artisanal, locally-crafted options, we launched *Outsiders* in the U.S.

We have also increased the number of gluten-free, high-protein and organic products in our portfolio to meet the increasing adoption of free-from diets. *Stouffer's Fit Kitchen Bowls* were launched in 2017, featuring at least 20g of protein in every meal.

Plant-based ranges offer growth opportunities as more people adopt vegetarian and flexitarian lifestyles. *Winiary Kaszotto* was launched in Poland as a meal kit with grains. For those looking for meat-free alternatives, we launched *Garden Gourmet Vegane Filet* across Europe. The acquisition of Sweet Earth brings a wide range of quality vegetarian frozen foods to the portfolio. Sweet Earth will be launching new lines in early 2018, combining Nestlé and Sweet Earth know-how on plant-based proteins and bold, global flavours.



## 1 Maggi Marketplace

*Maggi Marketplace* is a premium range of products including Pak Choi Beef Teriyaki seasoning paste. Our 'Simply Good' commitment to tastier and healthier foods means we are increasing the use of simple, recognisable ingredients, including more vegetables, herbs, spices and grains.

## 2 Sweet Earth

*Sweet Earth's* range of organic, plant-based frozen foods offers vegetarians, flexitarians and vegans a wide range of frozen meal choices in line with modern health trends.

# Confectionery

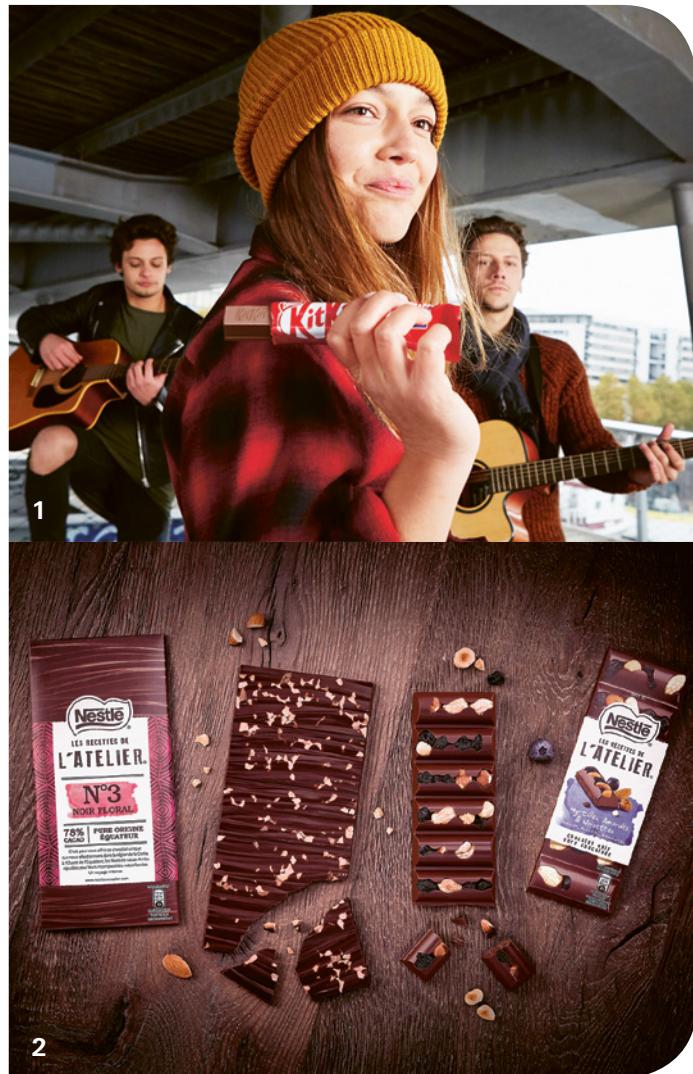
Confectionery is focused on driving both our strong local chocolate brands and our global brand *KitKat*, while building a broader portfolio of healthier on-the-go snacks. We continue to improve market share in important markets such as Brazil, Russia, the Middle East and China, while the UK has started its turnaround. In 2017, we made the strategic decision to sell our U.S. retail business. We will concentrate on *Nestlé Toll House*, the leading chocolate baking brand in the U.S.

*KitKat* continued its premiumisation journey with several new *KitKat Chocolatory* boutiques, enhancing the *KitKat* break experience for consumers worldwide. This provided an opportunity to launch premium retail versions inspired by the best-selling *Chocolatory* range. These complement the rich innovation and renovation agenda *KitKat* has brought across segments and markets, and helped the brand grow at twice the rate of the total chocolate market.

Our premium chocolate platform, *Les Recettes de l'Atelier*, captures artisanal flair with visible ingredients, whole nuts and natural chunks of fruit, making each piece unique. Currently sold in 15 countries, it has become the third largest premium tablet in Europe, driving growth in our local chocolate brand portfolios.

In cereal-based snacks, we are concentrating on developing healthier, on-the-go wholesome snacks. The *Fitness* brand continues to grow rapidly and leads the adult wellness biscuit market in Brazil. It is now present in more than 11 markets across Latin America and Israel.

For children, we are reformulating our popular children's snack treats like *MilkyBar*, *Galak* and *Trencito*, using milk as the first ingredient and reducing added sugar.



## 1 KitKat

The successful global relaunch of *KitKat*'s improved recipe with extra milk & cocoa, combined with strong added value innovations across markets, contributed to its accelerated growth. *KitKat* is our first global brand made with 100% sustainable cocoa, supplied through the *Nestlé Cocoa Plan*.

## 2 Les Recettes de l'Atelier

The growing trend toward premium confectionery is reflected in the success of the new super-premium chocolate tablet *Les Recettes de l'Atelier*. Launched in 2014, this premium range is Nestlé's fastest-growing confectionery brand.

# Water

Nestlé Waters is leading a fast-growing category, with a unique brand portfolio including the world's largest water brand, *Nestlé Pure Life*. By addressing consumer needs, providing access to water and preserving water resources where we operate, we are enhancing quality of life through healthy hydration.

Bottled water replaced carbonated drinks as a preferred beverage in the U.S., proving that people are more concerned than ever before about what they consume.

The U.S. continued to be a focus for the development of our premium range, including the international and heritage brands *Perrier* and *S.Pellegrino*. We also increased premiumisation of local brands around the world. This includes *Poland Spring* in the U.S., *Buxton* in the UK, *Vittel* across Europe and *Eriklı* in Turkey.

In the U.S., our *Ready Refresh* direct delivery offers individuals, as well as small and large businesses, a wide variety of beverage options.

We encourage and support healthy hydration through innovations in flavoured and functional waters. Campaigns such as *Nestlé Pure Life* 'Water Buddies' inspires children to drink water, making it fun and enjoyable.

Environmental sustainability is a vital component of our business. Around the world, we are investing for the future in environmentally friendly bottling plants, including nearly CHF 230 million in the *Perrier* bottling site in France.

In 2017, three of our factories received Alliance for Water Stewardship (AWS) certification for water conservation and water stewardship. We have also strengthened our collaboration with the AWS to certify 20 factories by 2020.

In the U.S., we formed the California Water Action Collective to help protect California's water future. Across North America, Nestlé Waters sustainably manages nearly 50 spring sites, as well as over 5600 hectares of watershed as open space.



## 1 S.Pellegrino

*S.Pellegrino* is a fine-quality mineral water that flows from natural spring at the foothills of the Italian Alps. It surfaces perfectly sparkling and naturally enriched with mineral salts.

## 2 Nestlé Pure Life

The *Nestlé Pure Life* 'Planet of Possibilities' global campaign raises awareness of the importance of quality drinking water for future generations. It aims to make water a conscious choice for consumers today and in the future.

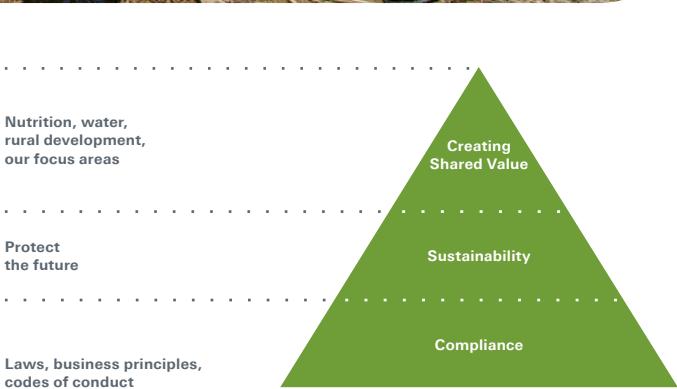
# Creating Shared Value

We believe that our company will be successful in the long term by creating value for both our shareholders and for society as a whole. This approach, called Creating Shared Value (CSV), is the principle for how we do business. It enables us to bring our purpose to life: enhancing quality of life and contributing to a healthier future.



## 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)).



## **Maximising value creation**

Through our CSV approach we aim to create value not only for shareholders but also for society. Our CSV priorities are those areas of greatest intersection between Nestlé’s business and society. These include: nutrition, rural development and water.

Our aim is to have a positive impact on society while we grow our business. We enable healthier and happier lives for individuals and families, we help develop thriving and resilient communities, and finally, we steward the planet’s natural resources for future generations.

To guide us, we have developed long-term ambitions and specific commitments, against which we report our progress transparently each year. Essential to achieving our goals is a robust approach to sustainability, human rights and compliance.

## **Our values**

Underpinning all our efforts are our values, which are rooted in respect: respect for ourselves, respect for others, respect for diversity and respect for the future. Guided by these values, we work alongside our partners and stakeholders to ensure that our approach to CSV continues to inform all our behaviours, policies and actions.

## **The business case for CSV**

A long-term approach to business has always been part of Nestlé’s DNA. Through CSV, we integrate sustainable development into business activities. This is increasingly important to long-term investors.

CSV brings business and society together by generating economic value in a way that also produces value for society. Foods and beverages with a nutrition, health and wellness dimension perform better. Rural development programmes for farmers offer commercial differentiation to consumers, while responsible stewardship of water reduces costs and secures supplies for our businesses.

## **Stakeholder engagement**

Engaging others on important issues lies at the heart of how we do business. We seek the advice of experts and advocates to develop our



New York, 18 September 2017 – Nestlé Chairman, Paul Bulcke, receives the Concordia Leadership Award 2017 for leading the company’s ongoing commitment to CSV and supporting the UN Sustainable Development Goals.

corporate policies and commitments, strengthen our business and target our investments.

Stakeholder convenings and CSV events provide opportunities to intensify that dialogue and increase our understanding of the intersection between business and society. They facilitate collective action, and promote trust and mutual respect. In March 2017, our Chief Executive Officer, U. Mark Schneider, participated in our stakeholder convening in London, which was attended by 66 representatives from a wide number of organisations.

## **Our material issues**

Every two years, we invite an independent third party to conduct a formal materiality assessment. It helps us to identify the issues that matter most to our business and our stakeholders, and to better support our strategic decision-making and reporting. Issues of concern are evaluated to determine both risks and opportunities for our reputation, revenues and costs.

Our most material issues are:

- over- and undernutrition
- water stewardship
- human rights
- food and product safety
- responsible marketing and influence
- business ethics
- resource efficiency and (food) waste
- responsible sourcing and traceability
- climate change
- rural development and poverty alleviation

# 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.

## Focused on impact

We recognise that we live in an interconnected world in which our futures are inextricably linked. Hence, our work in our three main impact areas is supported by 41 public commitments, many of which target our efforts towards meeting our three 2030 ambitions. Having helped to shape the 17 Sustainable Development Goals (SDGs), we – and many companies like Nestlé – are now contributing towards delivering them.

## Working towards our ambitions

We have integrated the SDGs into our CSV approach. In 2017, we took a number of steps to drive progress towards meeting our 2030 ambitions, as well as contributing to the 17 SDGs. These included strengthening *Nestlé for Healthier Kids*, extending our *Nestlé needs YOuth* initiative and further developing our responsible water stewardship activities.



## For individuals and families

### Enabling healthier and happier lives

Food is not just a source of nutrition, it also brings us together as families and friends. It is part of every culture. But food also presents one of the largest public health challenges: obesity has doubled since 1980, while hunger and malnutrition affect millions. We support individuals and their families with tastier and healthier choices, with information programmes that inspire people to live healthier lives, and through helping millions of children develop good eating habits and to enjoy exercise.

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

### Related CSV impact area

– Nutrition



## Committed to healthier kids

We enhance quality of life and contribute to a healthier future, by offering healthier products and by helping families to eat and drink better and move more. We have developed *Nestlé for Healthier Kids* to bring together all our efforts that support parents and caregivers. This includes research, product formulation, education and lifestyle services.

### Supporting the SDGs:

- |                                     |  |
|-------------------------------------|--|
| <b>1</b> No poverty                 | <b>12</b> Responsible consumption and production |
| <b>2</b> Zero hunger                | <b>13</b> Climate action                         |
| <b>3</b> Good health and well-being | <b>14</b> Life below water                       |
| <b>4</b> Quality education          | <b>15</b> Life on land                           |
| <b>5</b> Gender equality            | <b>17</b> Partnerships for the goals             |
| <b>10</b> Reduced inequalities      |  |



## For our communities

### Helping develop thriving, resilient communities

1.2 billion people live in extreme poverty, many of them in rural areas and dependant on agriculture. Our ambition is to help improve livelihoods and develop thriving communities. Our global reach allows us to improve rural development through better incomes, fostering education, respecting human rights, and supporting women and young people.

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

### Related CSV impact areas

- Rural development
- Our people, human rights and compliance



### Supporting our youth

Our ambition for our global youth initiative, *Nestlé needs YOuth*, is to help 10 million young people around the world have access to economic opportunities by 2030. This global initiative combines and coordinates all our activities, and those of our partners, that support young people around the world.



## For the planet

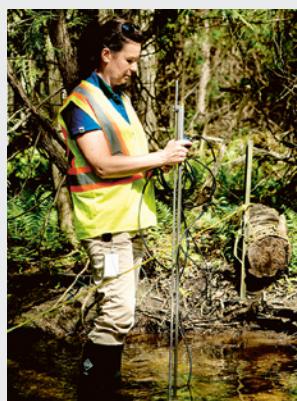
### Stewarding resources for future generations

Natural resources are becoming more constrained. Biodiversity is rapidly declining and forests are still disappearing. Water is increasingly scarce. Moreover, climate change will exacerbate all the challenges that we are currently facing. In addition, one third of the food produced is either lost or wasted every year. To grow sustainably, we must use the planet's resources wisely and draw on our global influence to effect positive change.

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

### Related CSV impact areas

- Water
- Environmental sustainability



### Improving our environmental performance

We act on climate change by further reducing greenhouse gas (GHG) emissions along our value chain. We continue to reduce withdrawals of water per tonne of product and help increase access to safe water and sanitation. Reducing waste is a priority: we reuse and recycle wherever possible. We help the farmers we work with to adopt sustainable practices.

### Supporting the SDGs:

- 1 No poverty
- 3 Good health and well-being
- 4 Quality education
- 5 Gender equality
- 8 Decent work and economic growth

- 10 Reduced inequalities
- 12 Responsible consumption and production
- 16 Peace, justice and strong institutions
- 17 Partnerships for the goals

### Supporting the SDGs:

- 1 No poverty
- 2 Zero hunger
- 3 Good health and well-being
- 6 Clean water and sanitation
- 7 Affordable and clean energy
- 9 Industry, innovation and infrastructure

- 11 Sustainable cities and communities
- 12 Responsible consumption and production
- 13 Climate action
- 14 Life below water
- 15 Life on land
- 17 Partnerships for the goals

# Enabling healthier and happier lives

Inspired by our founder, Henri Nestlé, and with nutrition at our core, we work closely with partners to offer foods and beverages that enable healthier and happier lives. We have set commitments and objectives to make our portfolio even healthier and tastier, inspire consumers to lead healthier lives, and develop and share our understanding of the connection between nutrition and health.



*Uncle Tobys, Australia's leading brand of oats, has launched *Nature's Mix*, a no-added sugar range that is naturally sweetened with dried fruit and nuts.*

## Offering tastier and healthier choices

Nutrition is the area of greatest intersection between Nestlé's business and society, where we can help tackle the global public health issues of over- and undernutrition. It is important that consumers have tasty, convenient options containing the nutrients they need, so that they can maintain a healthy diet.

We are launching more nutritious foods and beverages, simplifying ingredient lists and removing artificial colours, while adding micronutrients where they are deficient in the local population.

A scientific breakthrough will allow us to reduce the total amount of sugar in confectionery by up to 40% without compromising on taste. The first products will be launched in 2018.

We have also reinforced our commitment to further reduce sodium by an average of 10% by the end of 2020, in support of the WHO recommended intake levels.

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**7%**

reduction in sugar content of *KitKat*, which we achieved by using more milk and cocoa

**174 billion**

servings of fortified foods and beverages in 66 countries with higher vulnerability to micronutrient malnutrition

## ↗ Added value for investors

The market for healthier foods and beverages is growing. Products with a nutrition, health and wellness dimension perform better. Through our broad portfolio, covering needs from babies to old age, and our constant investment in product innovation we are well placed to seize this opportunity.

Nestlé foods and beverages with an above average NHW benefit achieve 1.8x higher growth rates than other products and are 1.5x more profitable. This is clearly an opportunity for increased financial impact. Furthermore, our health and wellness work helps us stay ahead of regulations, possibly avoiding major costs of non-compliance.



Every year, over 22 million children benefit from Nestlé Milo's programmes promoting physical activity. A new partnership with FC Barcelona signed in 2017 will inspire millions more children to participate in sport.

### Inspiring people to lead healthier lives

We are committed to improving access to nutrition to help reduce non-communicable diseases. We work with partners to promote balanced diets, healthy cooking and hydration, and regular physical activity. We encourage people to lead healthier lives by providing nutritional information and portion guidance, and through responsible marketing.

Nestlé for Healthier Kids celebrated International Chefs' Day by conducting cookery workshops with Nestlé Professional chefs and children from over 50 countries. In Thailand, Milo launched a low-sugar ready-to-drink beverage, and the Milo sports programme reached over one million children in 1000 schools.

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**89.4%**

of our foods and beverages display Guideline Daily Amount labels on the front of pack

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**81**

countries participating in Nestlé for Healthier Kids



In 2016, we announced a new way to structure sugar particles that allows us to reduce the sugar in some of our confectionery products. We scaled up our technology in 2017 and 2018 will see our first launches.

### Building, sharing and applying nutrition knowledge

Our scientists examine the link between nutrition and health across generations. From maternal and children's health to healthy ageing, we adopt a holistic approach. It focuses on nutrition and physical activity and their combined impact on metabolic health. We use our findings to improve our own foods and beverages.

Our Feeding Infants and Toddlers Study (FITS) and Kids Nutrition and Health Study (KNHS) continued to research the eating habits of infants and children. FITS in the US, for example, found that 30% of older infants and toddlers eat very few or no vegetables each day. In 2017, as a result of our research, we launched *Gerber Grabbers Strong Veggies Squeezable Puree*, a nutritious snack providing one serving of vegetable (the first ingredient) and three-quarters of a serving of fruit.

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**1.724 billion**

Swiss francs invested in research and development

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**313**

Our scientists shared nutrition knowledge by publishing 313 research papers

# Help develop thriving, resilient communities

In addition to our own employees, we work with hundreds of partners, thousands of suppliers and millions of farmers around the world. Our collective aim is to help develop thriving and resilient communities as part of a secure, long-term supply chain. Our programmes and commitments are designed to support rural development, promote and respect human rights, and ensure fair employment and diversity.



As part of Nestlé's *Cocoa Plan*, we have developed the Child Labour Monitoring and Remediation System. Detailed in our first *Tackling Child Labour* report, it is the most comprehensive programme yet to help children working in cocoa production, according to the organisation STOP THE TRAFFIK.

## Enhancing rural development and livelihoods

We have over four million farmers in our supply chain and we work directly with approximately 700 000 of them. To help secure a long-term supply of high-quality raw materials for our foods and beverages, we need to understand where and how our ingredients are produced, support the farmers who supply us and drive rural development. We include in this process our commitment to continue to improve animal welfare and, in 2017, we set new goals in this regard.

Our agripreneurship programme supports the next generation of farmers by providing essential skills training. We offer training to improve agricultural practices, develop alternative income streams and improve dietary diversity.

Through our partnership with the International Federation of the Red Cross and Red Crescent Societies (IFRC), we support access to water, sanitation and hygiene, and women's empowerment in selected areas where we source our products.

### Added value for investors

Consumers increasingly want to know where their foods and beverages come from and that human rights are respected during their production. Our responsible sourcing activities, such as our *Nespresso AAA Program*, *Nescafé Plan* and *Nestlé Cocoa Plan*, help us to ensure the resilience of our supply chain and offer commercial differentiation to the consumer.

**57%**

of the volume of our 12 priority categories of raw materials and paper are responsibly sourced

**2025**

Our aim is to source all our eggs from cage-free hens for all our food products globally by 2025



**Responsible sourcing in pet food:** in partnership with the Thai Government and a supplier, we have developed a showcase vessel. It is used in trainings to address labour rights abuses in the seafood industry.



Nestlé with other partnering companies have offered young people over 95 000 jobs and training opportunities since 2014.

### Respecting and promoting human rights in our business activities

Human rights abuses have no place in our supply chain, which is why we promote human rights at global and local levels across our business operations and value chain. We continually strive to meet the highest ethical standards, and insist that our partners and suppliers uphold the same high criteria. This requires commitment and work over time. We will always be open and transparent about our efforts to address issues, from forced labour and gender inequality to corruption.

Through our responsible sourcing activities, we take concrete actions, based on our 11 salient human rights issues identified in 2015. As part of this effort, in 2017 we published our *Labour Rights in Agricultural Supply Chains: A Roadmap*. It has enabled us to identify and prioritise 11 countries that present known higher levels of labour risks and from which we source our 12 priority commodities. Through this process, we can better target our remediation efforts on labour rights.

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**13**

human rights impact assessments completed in countries where we have significant business operations

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**96 599**

employees trained in human rights since 2011

### Promoting fair employment and diversity

Fair employment, diversity and inclusion are integral to Nestlé's culture. We aim to provide a safe, rewarding workplace that inspires employees to fulfil their potential. We provide people with equal development opportunities and treat each other with dignity and respect.

We place a particular focus on the challenge of youth unemployment. In 2017, we announced the extension of our *Nestlé needs YOuth* initiative to our entire value chain. Its aim is to help 10 million young people around the world have access to economic opportunities by 2030. By doing so, we support the development of the communities where we live and work, while ensuring our talent pipeline. This brings diversity and new skills to the organisation and supports local innovation and entrepreneurship.

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**30 157**

jobs and 11 710 traineeships or apprenticeships provided to young people under 30 in 2017

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**97%**

of our markets have a health and wellness programme in place

# Steward resources for future generations

We are working, with partners and stakeholders, towards our ambition to strive for zero environmental impact in our operations. We have set clear commitments and objectives to use sustainably-managed and renewable resources, operate more efficiently, aim for zero waste for disposal and improve water management. We also continue to participate actively in initiatives that reduce food loss and waste, and that preserve our forests, oceans and biodiversity.



The Nestlé Pakistan water plan was unveiled in October 2017, in collaboration with Lahore University of Management Sciences and WWF. It promotes water resources conservation, introduces sustainable agricultural techniques, and provides access to clean and safe water.

## Caring for water

Water is a shared and precious resource that we need to manage sustainably. We unequivocally believe access to water is a basic human right. Everyone, everywhere in the world, has the right to clean, safe water for drinking and sanitation.

Caring for water is a key part of achieving our ambition to strive for zero environmental impact in our operations. Water is essential for our business. The ingredients we source need water to grow. We need water to run our factories and consumers use water to enjoy many of our foods and beverages.

Our initiatives continue to look for ways to further reduce withdrawals per tonne and reuse water in our operations. We also work with others on water stewardship initiatives, and increase access to safe water, sanitation and hygiene.

## Added value for investors

By offering consumers more sustainable foods and beverages, we provide them with more reasons to choose our brands, generating additional revenue. We bring savings through improved operational efficiency, better resource management and less waste. Investing in climate change adaptation and mitigation, as well as responsible water stewardship, helps secure a more sustainable supply of resources for our business.

**38.1%**

reduction in our water withdrawals per tonne of product since 2007

**20**

Nestlé Waters announced that it will strengthen its collaboration with the Alliance for Water Stewardship (AWS) to certify 20 factories by 2020



Our Nescafé Dolce Gusto factory in Montes Claros, Brazil, achieved a triple-zero milestone: zero water withdrawal, zero waste for disposal and zero net GHG emissions.

### Acting on climate change

Climate change is a major global challenge, with shifting weather patterns threatening food security and changes in consumption putting pressure on natural resources. Our size and scale means we can show real leadership on climate change, and find ways to further reduce the emissions of greenhouse gases (GHGs) and use more renewable energy. We have set ambitious targets to reduce GHGs, in line with the Paris Agreement on climate change.

We have doubled the amount of renewable energy we procure compared to 2016. More than 100 sites are now powered with renewable electricity, including from spent coffee grounds or wood chips. These are just some of the many initiatives that have helped us earn a place in the annual CDP Climate A List and become No.1 in the food products industry in the 2017 Dow Jones Sustainability Index.

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**25.7%**

of our electricity now comes from renewable sources. In markets such as Germany, UK & Ireland and Brazil, we procure 100% from solar, wind and hydropower sources

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**33.2%**

reduction in our GHG emissions (scope 1 and 2) per tonne of product since 2007



Nespresso continues to extend its global recycling scheme and invested CHF 25 million in 2017.

### Safeguarding the environment

The basic ingredients of all of our food products come from plants and animals, forests, farms, and oceans. Protecting the natural environment where those ingredients grow and live is essential.

We aim to develop our business while improving our environmental performance, to ensure that a more sustainable supply of natural resources and raw ingredients goes into making our products.

We continue to play our part in helping to reduce food loss and waste. In our sites, we reduce, reuse and recycle with the ultimate goal of achieving zero waste for disposal. On an agricultural level, our team of over 1000 agronomists and other support staff provides training to help our farmers improve their methods, reduce losses and keep their land healthy and productive.

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**253**

factories achieved zero waste for disposal in 2017

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**100%**

Nestlé Waters joined the Natur'ALL Bottle Alliance in striving to create a fully recyclable plastic bottle made from 100% bio-based material

# Our 2020 commitments

Our impact areas – individuals and families, our communities and the planet – are interconnected, and our efforts in each of these areas are supported through our 41 public commitments. These hold us publicly accountable for our performance and we report our progress against them every year.

All our public commitments are directly aligned with our corporate purpose, our 2030 ambitions and the UN SDGs. The majority of these commitments are supported by specific objectives for 2020.

The table below shows our current progress against our 2020 commitments, including those achieved by the end of 2017, as indicated by a tick. Our full online report provides more detailed information and updates on progress.

## Our performance in leading indices

Although we are not driven by awards and recognition, we remain proud to have our sustainability efforts and achievements acknowledged by world-leading rating and ranking agencies:



FTSE4Good

**First** breast-milk substitute manufacturer to be included in the **FTSE4Good Index**, and we have retained our place for six years.



ACCESS TO  
NUTRITION  
INDEX™

**Second** out of 22 global food and beverage manufacturers in the 2016 **Access to Nutrition Index™ (ATNI)**.

MEMBER OF  
**Dow Jones**  
**Sustainability Indices**  
In Collaboration with RobecoSAM

**First** in the foods products sector of the 2017 **Dow Jones Sustainability Index (DJSI)** with an overall score of 89 out of 100.



DRIVING SUSTAINABLE ECONOMIES  
**Ceres**

**Topped** the list of global companies in 2017 **CDP climate change**, earning a place in CDP's Climate A list.

Ranked **top scorer** within the packaged food industry at **Ceres'** Feeding Ourselves Thirsty an analysis comparing the water risk management performance of 42 global companies.



## For individuals and families

### Offering tastier and healthier choices

Launch more nutritious foods and beverages, especially for mothers-to-be, new mothers and children

Further decrease sugars, sodium and saturated fat

Increase vegetables, fibre-rich grains, pulses, nuts and seeds in our foods and beverages

Simplify our ingredient list and remove artificial colours

Address undernutrition through micronutrient fortification

### Inspiring people to lead healthier lives

Apply and explain nutrition information on packs, at point of sale and online

Offer guidance on portions for our products

Market to children only choices that help them achieve a nutritious diet ✓

Empower parents, caregivers and teachers to foster healthy behaviours in children

Leverage our marketing efforts to promote healthy cooking, eating and lifestyles

Support breastfeeding and protect it by continuing to implement an industry-leading policy to market breast-milk substitutes responsibly

Inspire people to choose water to lead healthier lives

Partner for promoting healthy food environments

### Building, sharing and applying nutrition knowledge

Build and share nutrition knowledge from the first 1000 days through to healthy ageing

Build biomedical science leading to health-promoting products, personalised nutrition and digital solutions



## For our communities

### Rural development and enhancing rural livelihoods

Roll-out rural development baseline assessments to understand the needs of farmers



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 organisation

### Promoting decent employment and diversity

Roll-out our *Nestlé needs YOuth* initiative across all our operations

Provide training on *Corporate Business Principles*, Nutrition and Environmental Sustainability



Enhance gender balance in our workforce and empower women across the entire value chain

Advocate for healthy workplaces and healthier employees

Provide effective grievance mechanisms to employees and stakeholders



## For the planet

### Caring for water

Work to achieve water efficiency and sustainability across our operations

Advocate for effective water policies and stewardship

Treat the water we discharge effectively



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

Assess and optimise the environmental impact of our products



Improve the environmental performance of our packaging

Reduce food loss and waste

Provide meaningful and accurate environmental information and dialogue

Preserve natural capital, including forests

✓ Commitments achieved by the end of 2017

# Financial review

# Key figures (consolidated)

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

2016 2017

## Results

Sales		89 469	89 791
Underlying Trading operating profit *		14 307	14 729
as % of sales		16.0%	16.4%
Trading operating profit *		13 693	13 233
as % of sales		15.3%	14.7%
Profit for the year attributable to shareholders of the parent (Net profit)		8 531	7 183
as % of sales		9.5%	8.0%

## Balance sheet and Cash flow statement

Equity attributable to shareholders of the parent		64 590	61 504
Net financial debt *		13 913	17 875
Ratio of net financial debt to equity (gearing)		21.5%	29.1%
Operating cash flow		15 582	13 486
as % of net financial debt		112.0%	75.4%
Free cash flow *		10 108	8 509
Capital expenditure		4 010	3 934
as % of sales		4.5%	4.4%

## Data per share

Weighted average number of shares outstanding (in millions of units)		3 091	3 092
Basic earnings per share	CHF	2.76	2.32
Underlying earnings per share *	CHF	3.40	3.55
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	2.30	2.35

## Market capitalisation, end December

Number of employees (in thousands)		328	323
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## Principal key figures <sup>(a)</sup> (illustrative) in CHF, USD, EUR

In millions (except for data per share)	Total CHF 2016	Total CHF 2017	Total USD 2016	Total USD 2017	Total EUR 2016	Total EUR 2017
Sales	89 469	89 791	90 796	91 236	82 055	80 690
Underlying Trading operating profit *	14 307	14 729	14 519	14 966	13 121	13 236
Trading operating profit *	13 693	13 233	13 896	13 446	12 558	11 892
Profit for the year attributable to shareholders of the parent (Net profit)	8 531	7 183	8 658	7 299	7 824	6 455
Equity attributable to shareholders of the parent	64 590	61 504	63 156	62 965	60 075	52 675
Market capitalisation, end December	226 310	256 223	221 287	262 309	210 490	219 440

## Data per share

Basic earnings per share		2.76	2.32	2.80	2.36	2.53	2.08
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\* Certain financial performance measures are not defined by IFRS. For further details, see Foreword on page 40.

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

# Group overview

## Foreword

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

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

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

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

## Introduction

Our 2017 organic sales growth was within the guided range but below our expectations, in particular due to weak sales development towards the end of the year. Sales growth in Europe and Asia was encouraging while North America and Brazil continued to see a challenging environment.

Our cost-reduction initiatives delivered margin improvement ahead of 2017 expectations, in spite of considerable commodity price increases.

During the past months, we have completed initial portfolio adjustments with very favourable results. We will continue this active portfolio management approach in a disciplined manner and fully in line with our strategy. Regarding our core portfolio, accelerating our growth through product innovation and renovation is high on the agenda.

Organic sales growth is expected to improve in 2018 and we are firmly on track for our 2020 margin improvement target.

## Group sales

Organic growth (OG) of 2.4% was at the low end of our expectations, following slow growth of 1.9% in the fourth quarter. Real internal growth (RIG)

## Sales by geographic area

	Differences 2017/2016 (in %)		
	in CHF	in local currency	in CHF millions
<b>By principal markets</b>			
United States	-0.1%	0.0%	26 678
Greater China Region	+0.6%	+2.3%	6 578
France	-1.2%	-3.2%	4 426
Brazil	+4.8%	-2.7%	4 317
Mexico	+4.9%	+6.2%	2 722
United Kingdom	-0.7%	+4.0%	2 708
Germany	-6.7%	-8.6%	2 681
Philippines	-6.2%	-0.4%	2 571
Canada	+2.8%	+0.9%	1 947
Italy	-4.1%	-6.1%	1 784
Japan	+0.2%	+3.5%	1 751
Russia	+15.7%	+1.8%	1 620
Australia	+3.3%	+0.4%	1 569
Spain	-9.7%	-11.6%	1 525
India	+11.6%	+8.2%	1 457
Switzerland	-14.4%	-14.4%	1 262
Rest of the world	+1.6%	(a)	24 195
<b>Total</b>	<b>+0.4%</b>	<b>(a)</b>	<b>89 791</b>

(a) Not applicable.

was 1.6% for the full-year and remained at the high end of the food and beverage industry.

Pricing of 0.8% was consistent with the prior year. Organic growth was 0.7% in developed markets and 4.8% in emerging markets. Net divestments reduced sales by 1.9%, largely related to the creation of the Froneri joint venture. Foreign exchange had a minimal negative impact of 0.1%. Total reported sales were CHF 89.8 billion, a 0.4% increase for the year.

Organic growth in Zone AMS was subdued and decelerated in the back half of the year. Excluding the confectionery business, growth in the United States was flat, reflecting soft consumer demand and challenging category dynamics. Brazil maintained solid RIG in a difficult trading environment, but pricing was negative due to deflationary pressures.

Mexico was resilient and other parts of Latin America sustained good momentum.

Growth in Zone EMEA increased following a significant improvement in the second half of the year, with two consecutive quarters in excess of 3%. This was largely driven by strong results in petcare and coffee.

Zone AOA saw its highest growth in four years, with positive RIG and pricing. This was based on a return to positive growth in China, which was achieved despite difficult comparables in the fourth quarter due to the timing of Chinese New Year. There was continued good growth across the other sub-regions.

Nestlé Waters posted high single-digit growth in the international premium brands. The regional brands in North America faced weak demand and pricing pressure. Growth remained soft in Nestlé Nutrition as sales were subdued in North America and declined in Brazil. There was modest improvement in China, driven by new organic offerings. Nespresso reported consistent mid-single-digit growth, with positive momentum in all regions and sustained mid-teen growth in North America. Nestlé Health Science maintained solid growth and Nestlé Skin Health improved slightly.

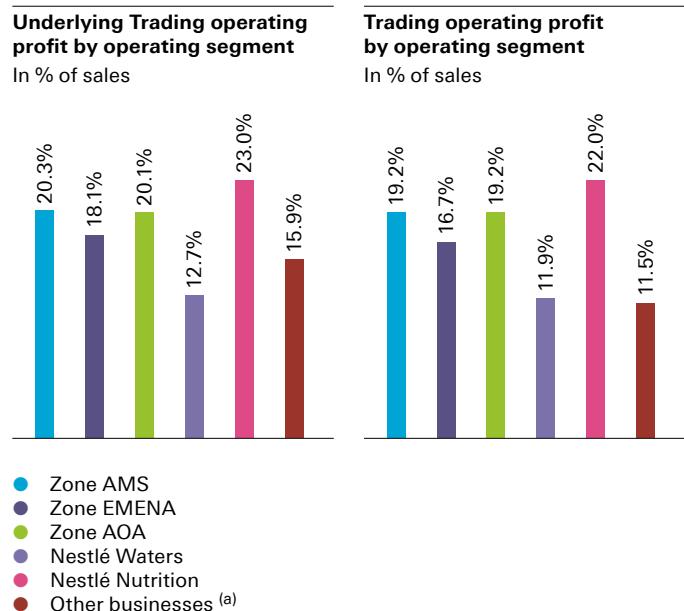
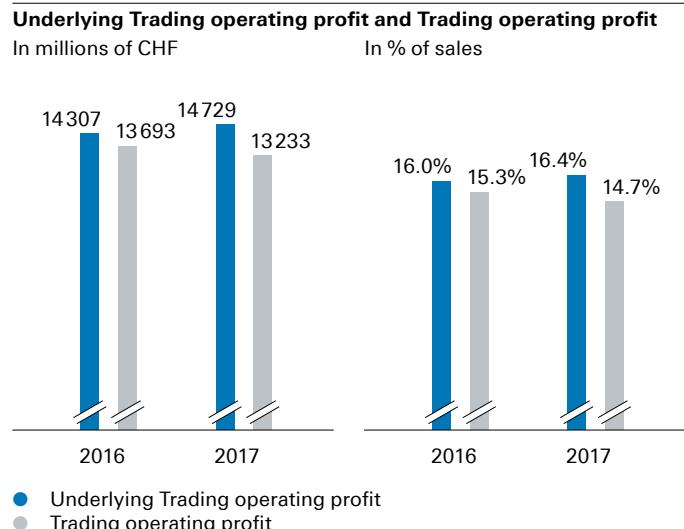
All categories reported positive growth, led by coffee, petcare and Nestlé Health Science.

#### **Underlying Trading operating profit**

**Underlying Trading operating profit**  
Underlying Trading operating profit increased by 2.9% to CHF 14.7 billion. The Underlying Trading operating profit margin was up 50 basis points in constant currency and up 40 basis points on a reported basis to 16.4%. This improvement puts us on track to meet our 2020 target.

Margin expansion was supported by operating efficiencies and successful execution of ongoing restructuring initiatives. These cost savings largely offset the increase in commodity costs of around CHF 900 million.

Restructuring expenditure and net other trading items increased by CHF 900 million to CHF 1.5 billion due to the acceleration of restructuring projects. As a consequence, Trading operating profit decreased by 3.4% to CHF 13.2 billion. The Trading operating profit margin decreased by 60 basis points on a reported basis to 14.7%, in line with our guidance.



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

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Effective as from 1 January 2017, Nestlé Professional (NP) is no more reported as a Globally-Managed Business but as a Regionally-Managed Business included in the Zones. 2016 comparatives have been restated

## Impact of the United States Corporate Tax Reform

As a result of the United States Tax Reform, we expect a reduction in our United States corporate tax expenses of around CHF 300 million per year, as from January 2018. This equates to a reduction of the Group underlying tax rate of around 200 basis points from 2018 onwards, assuming no other changes. In addition, the tax rate reduction triggered a one-time deferred tax gain in 2017 of around CHF 850 million.

## Net profit and Earnings per share

Net profit decreased by 15.8% to CHF 7.2 billion and earnings per share decreased by 15.8% to CHF 2.32. This was mainly due to an impairment of goodwill related to Nestlé Skin Health, which was taken to reflect the current prospects of the business.

Underlying earnings per share increased by 4.7% in constant currency and by 4.6% on a reported basis to CHF 3.55.

## Cash flow

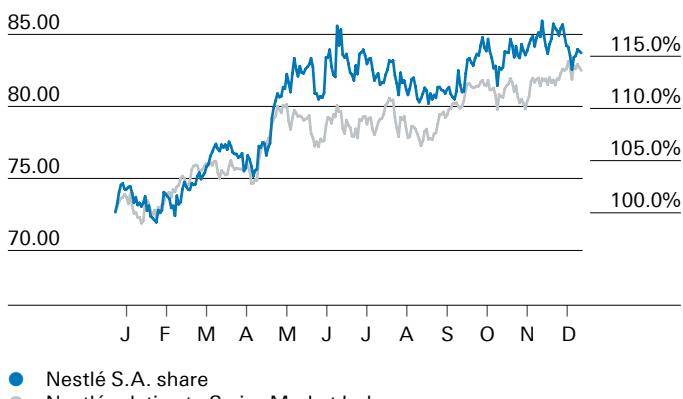
Free cash flow declined from CHF 10.1 billion to CHF 8.5 billion. This was driven by working capital development, which saw a slower rate of improvement following the exceptionally large reduction in the prior year.

## Financial position

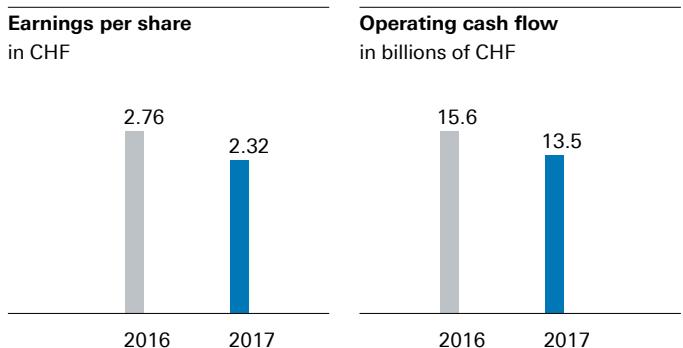
The Group's net debt increased from CHF 13.9 billion to CHF 17.9 billion in 2017 mainly due to the share buy-back programme launched in the second half of 2017.

## Evolution of the Nestlé S.A. share in 2017

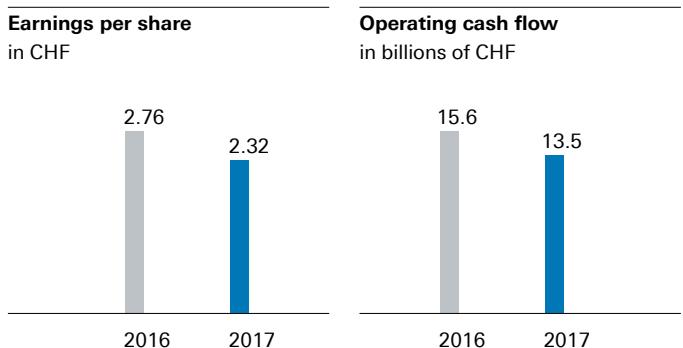
In CHF



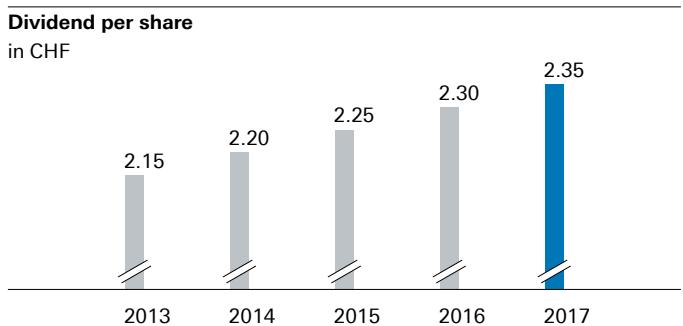
**Earnings per share**  
in CHF



**Operating cash flow**  
in billions of CHF



**Dividend per share**  
in CHF



## **Return on invested capital**

The Group's return on invested capital including goodwill and intangible assets decreased by 230 basis points to 8.9% mainly due to the impairment of goodwill of Nestlé Skin Health. Return on invested capital before goodwill and intangible assets decreased by 10 basis points to 31.6%.

## **Dividend**

The Board of Directors is proposing a dividend of CHF 2.35 per share, up from CHF 2.30 last year.

## **Outlook**

In 2018, we expect organic sales growth between 2% and 4%, and Underlying Trading operating profit margin improvement in line with our 2020 target. Restructuring costs\* are expected at around CHF 700 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

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

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### **Sales, employees and factories by geographic area**

	Sales		Employees		Factories	
	2016	2017	2016	2017	2016	2017
AMS	44.9%	45.3%	33.2%	33.5%	158	158
EMENA (a)	30.0%	29.1%	33.2%	33.9%	151	146
AOA	25.1%	25.6%	33.6%	32.6%	109	109

(a) 10133 employees in Switzerland in 2017.

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### **Employees by activity**

In thousands

	2016	2017
Factories	168	164
Administration and sales	160	159
<b>Total</b>	<b>328</b>	<b>323</b>

# Product category and operating segment review

In millions of CHF	2016 *	2017	Proportion of total sales (%)	RIG (%)	OG (%)
<b>Powdered and Liquid Beverages</b>					
Soluble coffee/coffee systems	9 072	9 277		45.5%	
Other	10 720	11 131		54.5%	
<b>Total sales</b>	<b>19 792</b>	<b>20 408</b>		<b>+ 2.1%</b>	<b>+ 3.6%</b>
Underlying Trading operating profit	4 270	4 461		21.9%	
Trading operating profit	4 129	4 302		21.1%	
<b>Water</b>					
<b>Total sales</b>	<b>7 414</b>	<b>7 455</b>		<b>+ 2.1%</b>	<b>+ 2.4%</b>
Underlying Trading operating profit	950	968		13.0%	
Trading operating profit	906	905		12.1%	
<b>Milk products and Ice cream</b>					
Milk products	10 540	10 767		80.1%	
Ice cream	3 791	2 680		19.9%	
<b>Total sales</b>	<b>14 331</b>	<b>13 447</b>		<b>+ 0.4%</b>	<b>+ 2.0%</b>
Underlying Trading operating profit	2 759	2 509		18.7%	
Trading operating profit	2 649	2 326		17.3%	
<b>Nutrition and Health Science</b>					
<b>Total sales</b>	<b>15 038</b>	<b>15 257</b>		<b>+ 1.9%</b>	<b>+ 2.1%</b>
Underlying Trading operating profit	2 900	2 961		19.4%	
Trading operating profit	2 775	2 425		15.9%	
<b>Prepared dishes and cooking aids</b>					
Frozen and chilled	6 512	6 139		51.3%	
Culinary and other	5 636	5 818		48.7%	
<b>Total sales</b>	<b>12 148</b>	<b>11 957</b>		<b>+ 1.0%</b>	<b>+ 2.2%</b>
Underlying Trading operating profit	1 940	2 103		17.6%	
Trading operating profit	1 838	1 933		16.2%	
<b>Confectionery</b>					
Chocolate	6 267	6 366		72.3%	
Sugar confectionery	1 111	1 099		12.5%	
Biscuits	1 301	1 340		15.2%	
<b>Total sales</b>	<b>8 679</b>	<b>8 805</b>		<b>+ 1.4%</b>	<b>+ 0.3%</b>
Underlying Trading operating profit	1 237	1 387		15.8%	
Trading operating profit	1 192	1 237		14.0%	
<b>PetCare</b>					
<b>Total sales</b>	<b>12 067</b>	<b>12 462</b>		<b>+ 2.5%</b>	<b>+ 3.0%</b>
Underlying Trading operating profit	2 554	2 678		21.5%	
Trading operating profit	2 535	2 626		21.1%	

\* 2016 figures have been restated – see note on page 41.

# Zone Americas (AMS)

Sales	CHF 28.5 billion
Organic growth	+ 0.9%
Real internal growth	+ 0.2%
Underlying Trading operating profit margin	20.3%
Underlying Trading operating profit margin	+ 60 basis points
Trading operating profit margin	19.2%
Trading operating profit margin	+ 20 basis points

- 0.9% organic growth: 0.2% RIG; 0.7% pricing.
- North America saw slightly negative organic growth with positive pricing.
- Latin America had positive RIG and pricing but organic growth for the region decelerated due to lower pricing in Brazil.
- The Underlying Trading operating profit margin increased by 60 basis points to 20.3%.

Organic growth was subdued at 0.9%, with RIG of 0.2%, following a slowdown in North America. Softer pricing of 0.7% reflected a lower contribution from Latin America, mainly Brazil. Net divestments reduced reported sales by 0.5%, but foreign exchange increased reported sales by 0.8%. Reported sales in Zone AMS increased by 1.2% to CHF 28.5 billion.

Organic growth in the United States was slightly negative, as weak consumer demand persisted throughout the year, resulting in stagnant food and beverage category growth. The coffee creamer and petcare categories generated growth in North America, offset by declines in confectionery and ice cream. Excluding confectionery, growth in the United States was flat.

In Brazil, RIG was solid but organic growth was negative as deflationary pressures led to lower pricing, particularly in dairy. Mexico maintained resilient mid single-digit growth, mainly coming from pricing. This was achieved in a volatile economic environment and despite some impact from natural disasters. PetCare had another strong year in Latin America, with double-digit growth across the region. The professional business also achieved high single-digit growth driven by successful product launches.

The Zone's Underlying Trading operating profit margin improved by 60 basis points, as ongoing restructuring projects reduced structural costs. Operational efficiency savings helped to offset cost increases from commodity inflation and foreign exchange.

## Zone AMS

In millions of CHF

	2016 *	2017	Proportion of total sales (%)	RIG (%)	OG (%)
United States and Canada	19 212	19 138	67.2%		
Latin America and Caribbean	8 918	9 341	32.8%		
Powdered and Liquid Beverages	3 314	3 366	11.8%		
Milk products and Ice cream	7 176	7 292	25.6%		
Prepared dishes and cooking aids	5 630	5 618	19.7%		
Confectionery	3 451	3 507	12.3%		
PetCare	8 559	8 696	30.6%		
<b>Total sales</b>	<b>28 130</b>	<b>28 479</b>		<b>+ 0.2%</b>	<b>+ 0.9%</b>
Underlying Trading operating profit	5 537	5 791	20.3%		
Trading operating profit	5 356	5 459	19.2%		
Capital expenditure	1 083	1 200	4.2%		

\* 2016 figures have been restated – see note on page 41.

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

Sales	CHF 16.5 billion
Organic growth	+ 2.3%
Real internal growth	+ 1.7%
Underlying Trading operating profit margin	18.1%
Underlying Trading operating profit margin	+ 80 basis points
Trading operating profit margin	16.7%
Trading operating profit margin	+ 10 basis points

- 2.3% organic growth: 1.7% RIG; 0.6% pricing.
- Western Europe maintained positive organic growth with balanced contributions of RIG and pricing.
- Central and Eastern Europe achieved mid single-digit organic growth, driven entirely by RIG.
- Middle East and North Africa saw mid single-digit organic growth, both RIG and pricing were positive.
- The Underlying Trading operating profit margin grew by 80 basis points to 18.1%.

Organic growth increased to 2.3% as the Zone finished the year with good momentum, reporting two consecutive quarters in excess of 3%. RIG remained solid at 1.7% and pricing improved

to 0.6%, driven by a return to positive pricing in Western Europe. Net divestments reduced reported sales by 8.0%, mainly reflecting the transfer of the ice cream business to the Froneri joint venture. However, foreign exchange effects increased reported sales by 0.6%. Reported sales in Zone EMEA decreased by 5.1% to CHF 16.5 billion.

Zone EMEA saw positive growth across all sub-regions and categories, with PetCare and coffee the main contributors. PetCare's performance was supported by very strong growth in Russia and other emerging markets. Nescafé had good growth in Western Europe, the Middle East and North Africa, following price increases taken during the year. Confectionery, culinary and dairy all delivered improved growth, helped by successful product launches. The United Kingdom returned to solid growth after a challenging start to the year, with positive RIG and pricing.

The Zone's Underlying Trading operating profit margin increased by 80 basis points, despite higher commodity costs. This improvement was driven by price increases, portfolio management, operational efficiencies and structural cost savings.

## Zone EMEA

In millions of CHF

	2016 *	2017	Proportion of total sales (%)	RIG (%)	OG (%)
Western	11 567	10 665	64.5%		
Eastern and Central	2 843	3 053	18.5%		
Middle East and North Africa	3 018	2 817	17.0%		
 Powdered and Liquid Beverages	4 989	5 136	31.1%		
Milk products and Ice cream	2 095	1 061	6.4%		
Prepared dishes and cooking aids	4 208	3 885	23.5%		
Confectionery	3 156	3 226	19.5%		
PetCare	2 980	3 227	19.5%		
<b>Total sales</b>	<b>17 428</b>	<b>16 535</b>		<b>+ 1.7%</b>	<b>+ 2.3%</b>
 Underlying Trading operating profit	3 020	2 990	18.1%		
Trading operating profit	2 888	2 768	16.7%		
Capital expenditure	791	725	4.4%		

\* 2016 figures have been restated – see note on page 41.

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

Sales	CHF 16.2 billion
Organic growth	+ 4.7%
Real internal growth	+ 2.9%
Underlying Trading operating profit margin	20.1%
Underlying Trading operating profit margin	+ 20 basis points
Trading operating profit margin	19.2%
Trading operating profit margin	- 20 basis points

- 4.7% organic growth: 2.9% RIG; 1.8% pricing.
- China returned to positive growth despite difficult comparables due to the timing of Chinese New Year.
- South-East Asia and South Asia maintained good organic growth, with strong RIG and positive pricing.
- Sub-Saharan Africa saw strong double-digit growth with positive RIG and pricing.
- Developed markets remained solid, with good RIG partially offset by negative pricing.
- The Underlying Trading operating profit margin increased by 20 basis points to 20.1%.

Organic growth was strong at 4.7%. RIG was consistent at 2.9%, while pricing improved to 1.8%. Net divestments and foreign exchange

reduced reported sales by 0.4% and 2.3%, respectively. Reported sales in Zone AOA increased by 2.0% to CHF 16.2 billion.

Organic growth in Zone AOA had a good balance of RIG and pricing. The Zone achieved its highest growth in four years despite difficult comparables in the fourth quarter due to the timing of Chinese New Year. There was a return to slightly positive growth in China, helped by the stabilisation of Yinlu and solid contributions across coffee, ice cream and culinary products. Growth was broad-based across the Zone, with a notable acceleration in Nestlé Professional and PetCare. There was good growth in sub-Saharan Africa, South-East Asia and South Asia, despite some impact on organic growth from the implementation of the Goods and Services Tax (GST) in India. Developed markets saw strong RIG, especially Japan. This was partially offset by negative pricing.

The Zone's Underlying Trading operating profit margin improved by 20 basis points, as pricing, operational efficiencies and structural cost savings more than offset an increase in commodity costs.

## Zone AOA

In millions of CHF

	2016 *	2017	Proportion of total sales (%)	RIG (%)	OG (%)
ASEAN markets	4 878	4 924		30.3%	
Oceania and Japan	2 956	2 979		18.4%	
Other Asian markets	6 159	6 304		38.9%	
Sub-Saharan Africa	1 911	2 017		12.4%	
Powdered and Liquid Beverages	5 841	5 956		36.7%	
Milk products and Ice cream	5 214	5 262		32.5%	
Prepared dishes and cooking aids	2 305	2 453		15.1%	
Confectionery	2 016	2 014		12.4%	
PetCare	528	539		3.3%	
<b>Total sales</b>	<b>15 904</b>	<b>16 224</b>		<b>+ 2.9%</b>	<b>+ 4.7%</b>
Underlying Trading operating profit	3 171	3 265		20.1%	
Trading operating profit	3 085	3 123		19.2%	
Capital expenditure	574	539		3.3%	

\* 2016 figures have been restated – see note on page 41.

# Nestlé Waters

Sales	CHF 8.0 billion
Organic growth	+ 2.1%
Real internal growth	+ 1.8%
Underlying Trading operating profit margin	12.7%
Underlying Trading operating profit margin	+ 20 basis points
Trading operating profit margin	11.9%
Trading operating profit margin	0 basis point

- 2.1% organic growth: 1.8% RIG; 0.3% pricing.
- North America had slightly positive organic growth driven entirely by RIG, with negative pricing.
- Europe maintained low single-digit organic growth on a full-year basis.
- Emerging markets overall delivered high single-digit growth.
- The Underlying Trading operating profit margin increased by 20 basis points to 12.7%.

Organic growth slowed to 2.1% following a challenging second half of the year. RIG decelerated to 1.8%, reflecting softer growth across both North America and Europe. Pricing remained limited at 0.3% in a deflationary environment. Net divestments and foreign

exchange reduced reported sales by 0.5% and 1.4%, respectively. Reported sales in Nestlé Waters increased by 0.2% to CHF 8.0 billion.

Nestlé Waters saw high single-digit growth in the international premium brands. The regional brands in North America faced weak demand and pricing pressure. RIG was solid in the developed markets but pricing remained negative. Growth remained strong across Latin America and solid in AOA.

Nestlé Waters faced higher commodity costs in 2017. The Underlying Trading operating profit margin improved by 20 basis points, driven by efficiencies and increased structural cost savings. The strong growth of the international brands also drove improved profitability through premiumisation.

## Nestlé Waters

In millions of CHF

	2016	2017	Proportion of total sales (%)	RIG (%)	OG (%)
Europe	1 966	1 980	24.9%		
United States and Canada	4 385	4 417	55.5%		
Other regions	1 575	1 558	19.6%		
<b>Total sales</b>	<b>7 926</b>	<b>7 955</b>		<b>+ 1.8%</b>	<b>+ 2.1%</b>
Underlying Trading operating profit	990	1 012	12.7%		
Trading operating profit	946	948	11.9%		
Capital expenditure	496	545	6.9%		

# Nestlé Nutrition

Sales	CHF 10.4 billion
Organic growth	+ 1.1%
Real internal growth	+ 0.9%
Underlying Trading operating profit margin	23.0%
Underlying Trading operating profit margin	- 10 basis points
Trading operating profit margin	22.0%
Trading operating profit margin	- 70 basis points

- 1.1% organic growth: 0.9% RIG; 0.2% pricing.
- In China, organic growth remained soft but saw some improvement in the back half of the year.
- The United States had slightly positive organic growth driven by price increases.
- Brazil had negative growth, reflecting price decreases and soft demand.
- The Nestlé Nutrition Underlying Trading operating profit margin decreased by 10 basis points to 23.0%.

Organic growth was soft at 1.1%, comprised of 0.9% RIG and 0.2% pricing. Net divestments and foreign exchange reduced reported sales by 0.4% and 0.2% respectively. Reported sales in Nestlé Nutrition increased by 0.5% to CHF 10.4 billion.

Growth in China remained soft but did improve compared to the prior year, driven by new organic offerings for *NAN* and *illuma*. The United States was subdued with slightly positive growth in the context of ongoing weak category dynamics. The comprehensive re-launch of Gerber's baby food range is in progress, including new organic and natural lines. Growth of Nestlé Nutrition was impacted by negative results in Brazil, especially in the back half of the year. Significant deflation in Brazil's dairy market resulted in negative pricing and demand remained weak. South Asia and the Middle East made strong contributions with mid single-digit growth.

Nestlé Nutrition's Underlying Trading operating profit margin decreased by 10 basis points, mainly due to lower profitability in Brazil, where pricing was significantly impacted by deflationary pressures.

## Nestlé Nutrition

In millions of CHF

	2016	2017	Proportion of total sales (%)	RIG (%)	OG (%)
EMENA	1 978	1 977		19.1%	
AMS	3 751	3 724		35.9%	
AOA	4 597	4 660		45.0%	
<b>Total sales</b>	<b>10 326</b>	<b>10 361</b>		<b>+ 0.9%</b>	<b>+ 1.1%</b>
Underlying Trading operating profit	2 389	2 384		23.0%	
Trading operating profit	2 342	2 282		22.0%	
Capital expenditure	414	331			3.2%

## Other businesses

Sales	CHF 10.2 billion
Organic growth	+ 4.8%
Real internal growth	+ 4.5%
Underlying Trading operating profit margin	15.9%
Underlying Trading operating profit margin	+ 50 basis points
Trading operating profit margin	11.5%
Trading operating profit margin	- 290 basis points

- 4.8% organic growth: 4.5% RIG; 0.3% pricing.
- Nespresso posted good organic growth, with sustained mid-teen momentum in North America.
- Nestlé Health Science maintained mid single-digit growth with positive RIG and pricing.
- Nestlé Skin Health saw slightly improved growth.
- The Underlying Trading operating profit margin of Other businesses increased by 50 basis points to 15.9%.

Organic growth of 4.8% was driven by strong RIG of 4.5% and pricing of 0.3%. Net acquisitions decreased reported sales by 0.8% and foreign exchange had a positive 1.0% impact.

Reported sales in Other businesses increased by 5.0% to CHF 10.2 billion.

Nespresso reported consistent mid single-digit growth, with positive growth in all regions and sustained mid-teen momentum in North America. Nespresso continued to expand its global footprint throughout the year, opening 80 new boutiques. The business also introduced its Vertuo system in the UK and in Australia, building on previous successful launches in the USA, Canada and France. Nestlé Health Science maintained solid growth driven by Medical Nutrition. Nestlé Skin Health had slightly improved growth, however, this was still materially below the initial business plans.

The Underlying Trading operating profit margin of Other businesses increased by 50 basis points. This was mainly driven by an improvement in Nestlé Skin Health, however, the profitability of this business remained substantially below its historical level.

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

In millions of CHF

	2016*	2017	Proportion of total sales (%)	RIG (%)	OG (%)
<b>Total sales</b>	<b>9 755</b>	<b>10 237</b>		<b>+ 4.5%</b>	<b>+ 4.8%</b>
Underlying Trading operating profit	1 503	1 625	15.9%		
Trading operating profit	1 407	1 174	11.5%		
Capital expenditure	451	421	4.1%		

\* 2016 figures have been restated – see note on page 41.

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

# Principal risks and uncertainties

## Group Risk Management

The Nestlé Group Enterprise Risk Management Framework (ERM) is designed to identify, communicate and mitigate risks in order to minimise their potential impact on the Group and ensure the achievement of Nestlé's long-term goals.

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

Nestlé's reputation is based on consumers' trust. 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, e.g. a more highly-regulated environment for the healthcare segment, etc. The Group's investment choices are aligned with our strategy and prioritised based on the potential to create value over the long term.

The Group, as part of the strategy, undertakes business transformations such as large scale change management projects, mergers and acquisitions. To ensure the realisation 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 emphasises 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 behaviours.

The Group depends on accurate, timely data along with increasing integration of digital

solutions, services and models, both internal and external. Disruption impacting the reliability, security and privacy of the data, as well as the IT infrastructure, is a threat. 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 189 countries. Security, political instability, legal and regulatory, fiscal, macroeconomic, foreign trade, labour 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 spreads represents a tremendous natural hedge.

## Factories

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	13	●	■	●	■	●	■	●	■
Greece	2	●	■	●	■	■	■	■	■
Hungary	2	●	■	■	■	■	■	■	■
Iran	2	■	■	●	■	●	■	■	■
Iraq	1	■	■	●	■	■	■	■	■
Ireland	1	■	■	■	■	■	■	■	■
Israel	9	●	■	■	■	■	■	●	■
Italy	10	●	■	●	■	■	■	●	■
Jordan	1	■	■	●	■	■	■	■	■
Lebanon	2	■	■	●	■	■	■	■	■
Morocco	1	●	■	■	■	■	■	●	■
Netherlands	1	■	■	■	■	■	■	■	■
Poland	5	●	■	●	■	■	■	●	■
Portugal	3	●	■	■	■	■	■	■	■
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	2	●	■	●	■	■	■	●	■
Ukraine	3	●	■	■	■	■	■	●	■
United Arab Emirates	3	●	■	●	■	■	■	●	■
United Kingdom	9	●	■	●	■	■	■	●	■
Uzbekistan	2	■	■	●	■	■	■	■	■

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).
  - 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 in our long-term, sustainable value creation based on strong principles of governance and an appropriate tone from the top. It ensures the long-term health of our company so it can continue to deliver dependable value over time. We invest in our future as others have done for us in the past.

In 2017, our Board of Directors facilitated the transition to a new Chairman and CEO. At the same time, it rearticulated the company's purpose and values to confirm our mission and basic values in times of change. Nestlé's purpose remains enhancing quality of life and contributing to a healthier future. Culture changes, values stay.

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. It stated our commitments to margin expansion, streamlining the portfolio and a prudent approach toward capital allocation and M&A. It approved a share buyback programme of up to CHF 20 billion subject to strategic opportunities.

Our Board's recent actions to create sustained value also included adding four new independent directors in the past three years; expanding the mission of our Nomination and Sustainability Committee and strengthening risk oversight by our Audit Committee.

Intense engagement with our shareholders and other stakeholders allowed us to take into account their views through our Chairman's Roundtables, roadshows, investor meetings, analyst and engagement calls, as well as stakeholder convenings.

Our Chairman's and Corporate Governance Committee liaises between the Chairman and the full Board and provides advice to the Chairman and CEO. It regularly reviews all aspects of our governance, as well as the company's asset and liability management.

Our Nomination and Sustainability Committee puts a strong focus on Board composition, structure and succession planning. It evaluates candidates for nomination to the Board in the coming years. It reviews all aspects of our environmental and social sustainability. It is chaired by our Lead Independent Director.

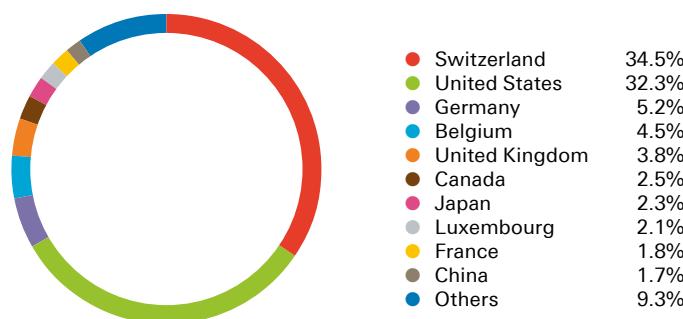
Our Compensation Committee sets our remuneration principles and submits the proposals

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.

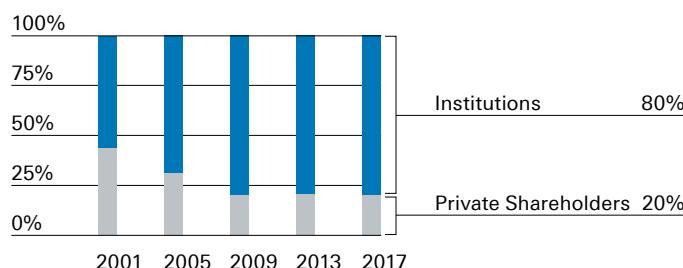
Our Audit Committee oversees internal and external audit, financial reporting, compliance and risk management. In 2017, our internal audit function was strengthened, and our risk and compliance reporting was enhanced.

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, i.e. 'Create Shared Value'.

## 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 57.2% of the total share capital.  
Statistics are rounded, as at 31.12.2017.

# Board of Directors of Nestlé S.A.

## **Helmut O. Maucher**

Honorary Chairman

## **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



Andreas Koopmann



U. Mark Schneider



Naïna Lal Kidwai



Henri de Castries

## Board of Directors of Nestlé S.A. at 31 December 2017

### **Paul Bulcke<sup>(1, 2, 4)</sup>**

Chairman

### **U. Mark Schneider<sup>(1, 2)</sup>**

Chief Executive Officer

### **Andreas Koopmann<sup>(1, 2, 3)</sup>**

Vice Chairman

Chairman, Georg Fischer AG

### **Henri de Castries<sup>(1, 2, 4, 5)</sup>**

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

### **Steven G. Hoch<sup>(1, 4)</sup>**

Partner, Brown Advisory, LLC

### **Naïna Lal Kidwai<sup>(1, 5)</sup>**

Former Chairperson, HSBC

Group of Companies in India

### **Jean-Pierre Roth<sup>(1, 3)</sup>**

Former Chairman, Geneva

Cantonal Bank



Renato Fassbind



Ruth K. Oniang'o



Steven G. Hoch



Ursula M. Burns



Eva Cheng



Jean-Pierre Roth



Ann M. Veneman



Patrick Aebischer

**Ann M. Veneman** <sup>(1, 4)</sup>  
Former Secretary, U.S.  
Department of Agriculture,  
and Executive Director, UNICEF  
**Eva Cheng** <sup>(1, 5)</sup>  
Former Chairman 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)</sup>  
Former Chairwoman and CEO,  
Xerox Corporation

- 
- (1) Term expires on the date of the Annual General Meeting 2018.
  - (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 2017*.

# Executive Board of Nestlé S.A.



## Executive Board of Nestlé S.A. at 31 December 2017

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

**5 Wan Ling Martello**  
EVP, CEO Zone Asia, Oceania,  
sub-Saharan Africa  
**6 Stefan Catsicas**  
EVP, Innovation Technology,  
Research and Development  
**7 Marco Settembre**  
EVP, CEO Zone Europe,  
Middle East, North Africa

**8 François-Xavier Roger**  
EVP, Chief Financial Officer  
**9 Magdi Batato**  
EVP, Operations  
**10 Peter Vogt**  
Deputy EVP,  
Human Resources  
**11 Heiko Schipper**  
Deputy EVP, Nestlé Nutrition  
**12 Maurizio Patarnello**  
Deputy EVP, Nestlé Waters

**13 Greg Behar**

CEO, Nestlé Health  
Science S.A.

**14 David P. Frick**

SVP, Corporate Governance,  
Compliance and Corporate  
Services

**Yves Philippe Bloch**  
Corporate Secretary

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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 2017*.

# 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 2017, 145 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. 79 157 employees performed our *Code of Conduct* training in 2017.

Our Integrity Reporting System and our 'Tell Us' system allow us to address complaints from employees and external stakeholders. 1725 complaints from employees and 613 complaints from suppliers and other third parties were investigated and remedial action taken this year. Markets were supported with investigative guidelines and best practices.

Following an assessment of all Markets' compliance programs all Markets worked on closing gaps to ensure a consistent approach across the Group. Our *Nestlé Continuous Excellence* program supported this goal. Specific focus areas included further enhancing our

compliance culture and grievance mechanisms, and our anti-corruption policy framework. An annual compliance risk assessment was performed by the Corporate Compliance Committee.

Transparency and eagerness to improve are key principles of the program to remain effective and trusted by all stakeholders. Therefore, our compliance commitments and efforts are externally shared in the *Nestlé in society* report.

# Shareholder information

## Stock exchange listing

At 31 December 2017, Nestlé S.A. shares are listed on the SIX Swiss Exchange, Zurich (ISIN code: CH0038863350). American Depository Receipts (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank, N.A., New York.

## Registered Offices

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

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

## 12 April 2018

151st Annual General Meeting,  
Beaulieu Lausanne,  
Lausanne (Switzerland)

## 13 April 2018

Last trading day with entitlement to dividend

## 16 April 2018

Ex-dividend date

## 18 April 2018

Payment of the dividend

## 19 April 2018

2018 First quarter sales figures

## 26 July 2018

2018 Half-yearly Results

## 18 October 2018

2018 Nine months sales figures

## 14 February 2019

2018 Full Year Results

## 11 April 2019

152nd 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.

This *Annual Report* is published in German, English and French. The English version is binding for the content of the *Annual Report of Nestlé S.A.*

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**Visual concept and design**  
Nestec Ltd., Corporate Identity & Design, with Gavillet & Cie

**Photography**  
Anoush Abrar, Jeremie Bouillon, Céline Clanet/Interlinks Image, Deco Cury, Dan Darius/Freepik, Harald Eisenberger, Peter Ginter, Felipe Gombossy, Gilles Leimdorfer/Interlinks Image, Jonas Marguet, Caspar Miskin, Francesca Moscheni, Remo Naegeli, Riccardo Savi/Getty Images, Tobias Schult, Aude Sirvain/Interlinks Image, Jackie Sobon, Kevin Wolf