

# 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