



**Nestlé**

Good Food, Good Life

# Annual Report 2012

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Nutrition to enhance  
the quality of life

# Annual Report 2012

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### Nestlé in society Creating Shared Value and meeting our commitments 2012



### Corporate Governance Report 2012 2012 Financial Statements



# Key figures (consolidated)

In millions of CHF  
(except per share data)

	2011	2012
Sales	83 642	92 186
Trading operating profit	12 538	14 012
as % of sales	15.0%	15.2%
Profit for the year attributable to shareholders of the parent (Net profit)	9 487	10 611
as % of sales	11.3%	11.5%
Capital expenditure	4 779	5 368
as % of sales	5.7%	5.8%
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	56 797	60 947
Market capitalisation, end December	171 287	190 038
Operating cash flow <sup>(a)</sup>	10 180	15 772
Free cash flow <sup>(b)</sup>	4 757	9 879
Net financial debt	14 319	18 152
Ratio of net financial debt to equity (gearing)	25.2%	29.8%
Per share		
Total basic earnings per share	CHF 2.97	3.33
Underlying <sup>(c)</sup>	CHF 3.08	3.37
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF 1.95	2.05

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in the Consolidated Financial Statements:  
Note 1 – Accounting policies.

(b) Operating cash flow less capital expenditure, expenditure on intangible assets, sales of property, plant and equipment, investments (net of disinvestments) in associates and other investing cash flows. As from 2012, movements with non-controlling interests are no longer deducted. 2011 comparative has been restated accordingly.

(c) Profit per share for the year attributable to shareholders of the parent before impairments, restructuring costs, results on disposals and significant one-off items. The tax impact from the adjusted items is also adjusted for.

# Nestlé in society: Creating Shared Value Highlights

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75.7%

Nestlé products meeting  
Nutritional Foundation criteria

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5.4 million

Children reached by the Nestlé  
Healthy Kids Global Programme,  
in 64 countries

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6692

Renovated products for nutrition  
or health considerations

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11 700

Equivalent tonnes of salt removed  
by *Maggi* from its portfolio over  
the last eight years

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100 billion

Servings of iodine-enriched  
*Maggi* products sold worldwide

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690 054

Farmers working directly  
with Nestlé

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44 000

Farmers having access to financial  
assistance from Nestlé  
worth up to USD 37.8 million

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489

Water-saving projects in our  
factories, saving 6.5 million m<sup>3</sup>

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217

Clean drinking water projects in  
the South Asia region, helping to  
improve access and sanitation for  
more than 100 000 school children

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39

Factories generating  
zero waste for disposal

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-24%

Reduction in direct GHG  
(Greenhouse Gas) emissions  
since 2002

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18 103

Employees completing our online  
human rights training tool

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# Group highlights

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## The Nestlé Model achieved in 2012

### Group sales

CHF 92.2 billion  
+8.6 billion  
+10.2%

### Organic growth

5.9%

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### Trading operating profit

CHF 14.0 billion  
+1.5 billion

### Trading operating profit margin

15.2%  
+20 basis points

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### Earnings per share

CHF 3.33  
+12.2%

### Underlying earnings per share

+7.5%  
constant currencies

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### Proposed dividend

CHF 2.05

+5.1%

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### Operating cash flow

CHF 15.8 billion  
CHF +5.6 billion

+55%

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## Outlook

Despite the many challenges 2013 will no doubt bring, we expect to deliver the Nestlé Model of organic growth between 5% and 6% as

well as an improved margin and underlying earnings per share in constant currencies.

# Letter to our shareholders

Fellow shareholders,

The 2012 environment was once again challenging, but it also brought opportunities. As such, it was a good example of what we characterise as “the new reality”.

The fact that we delivered for the 17th consecutive time the Nestlé Model of organic growth between 5% and 6% together with an improvement in our trading operating profit margin in such an environment demonstrates the value of having strong alignment of our people behind our strategic priorities.

This strategic alignment provides a framework for accelerated innovation, increased engagement with consumers and enhanced operational and financial performance. It enables us to build appropriate capabilities to ensure we remain fit to win in an ever more intense environment. It creates a real competitive advantage, empowering our people, and unlocking their energy and creativity, as we strive to meet and beat our objectives. It is a marriage of “global inspiration and local execution”, that means we are all on that same roadmap, but are always respectful of local cultures, tastes, habits and laws, and of the individuality of our consumers.

The 2012 results demonstrate that your company has made further progress. Sales were up 10.2% to CHF 92.2 billion, with organic growth of 5.9%, incorporating real internal growth of 3.1%. The trading operating profit was up 11.8% to CHF 14.0 billion and the margin increased by 20 basis points to 15.2%. The net profit was up 11.8% to CHF 10.6 billion and earnings per share increased 12.2% to CHF 3.33 per share. Operating cash flow increased from CHF 10.2 billion to CHF 15.8 billion. In view of this performance and the company's strong financial position, the Board is proposing a dividend of CHF 2.05 per share, up from CHF 1.95 last year.

The history of food has been of continual, gradual change, accompanied by an increasing understanding of the role of nutrition. At first, food was something people needed to survive, then something that brought families together, gave convenience and pleasure. More recently, it has become more consciously a way to bring health benefits. And the role of nutrition continues to evolve. In today's era of spiraling healthcare costs, nutritional science can play a role in disease prevention and management.

As the role of nutrition has evolved, so has Nestlé, adjusting our offering to be in line with or anticipate the needs of our consumers, whilst staying true to our core business of food, beverage and nutrition. Today, our nutrition, health and wellness strategy has three aspects:

- All our food and beverage brands, regardless of category or eating occasion, should offer consumers not just the best taste and pleasure but also the best nutritional profile in their category, as part of a healthy diet.
- We are targeting particular nutritional needs through Nestlé Nutrition, with its Infant, Performance and Weight management divisions.
- And, through Nestlé Health Science (NHSc) and the Nestlé Institute of Health Sciences, which was inaugurated in 2012, we are pioneering science-based personalised nutritional solutions to prevent and treat medical conditions.

Nutrition is Nestlé's core. That core was enhanced in 2012 by acquisitions for both Nestlé Nutrition and NHSc. NHSc acquired a stake in Accera, whose key brand is intended for the clinical dietary management of Alzheimer's disease. NHSc also created a joint venture with Chi-Med, Nutrition Science Partners (NSP), to research and bring to market nutritional and medicinal products derived from plants with an initial focus on gastrointestinal health. NSP will get access to one of the leading traditional Chinese medicine libraries.

Nestlé Nutrition's global leadership in infant nutrition was enhanced in November with the acquisition of the Wyeth Nutrition business from Pfizer. This business, with 85% of its sales in emerging markets, is a wonderful fit with our existing business, even after the required divestitures. In particular, it enhances our position in that category in China.

China would now be Nestlé's second biggest market, with annualised sales of around CHF 6 billion, including the Wyeth Nutrition acquisition and our 2011 partnerships, Yinlu and Hsu Fu Chi. Our investments in China, including new R&D units in Xiamen and Dongguan, demonstrate our desire to benefit from the incredible capabilities and know-how which the country has to offer. Another development there was the opening of our dairy farming institute in Heilongjiang province. The institute aims to be the country's leading dairy training centre. Meanwhile, our work with coffee farmers in





**Peter Brabeck-Letmathe**  
Chairman

**Paul Bulcke**  
Chief Executive Officer

Yunnan province over the last 20 years was recognised with a World Business and Development Award at Rio+20.

China is just one market where people's lives are changing dramatically and where there are opportunities for Nestlé to contribute. There are billions of consumers in emerging markets who share the objective of living better lives. This is creating a dynamic catalyst for growth and development, individually for people, collectively for the countries where they live, and for Nestlé.

We have deep roots in emerging markets, where we have continued to expand our presence: in 2012 we opened our first factories in Angola and the Democratic Republic of Congo.

As part of our Creating Shared Value strategy, we have also extended our relationships with farmers across emerging markets.

- One example is helping farmers adapt to climate change. Since 2001, we have halved our greenhouse gas emissions per tonne of product; if we can also reduce the environmental impact of our supply chain, this can help secure an enhanced supply of higher quality raw materials.
- We scaled up the *Nestlé Cocoa Plan* with a significant increase in the amount of cocoa sourced directly from farmers, with the intention to reach 15% in 2013. We are also working with the Fair Labor Association to help eliminate child labour on farms supplying our factories and to allow children to attend school.
- We are working with local authorities in Morocco to increase milk production and improve the quality of fresh milk. The partnership should benefit 10 000 farmers.
- We extended our commitment to Colombian coffee farmers for five years and have joined a programme to help coffee farmers in Haiti. In Vietnam, we are helping 20 000 farmers improve productivity through better farming practices and by distributing high-yield, disease resistant plantlets. In India, we opened our first coffee "demonstration" farm to help improve quality, productivity and sustainability.
- All in all we collaborate with more than 680 000 small-hold farmers, mainly in the areas of milk, cocoa and coffee.

The coffee category had a very dynamic year in 2012, and *Nescafé* will be celebrating its 75th anniversary in 2013. *Nescafé Dolce Gusto* is now in 62 markets, and we are

making capacity investments in Germany and the United Kingdom. Nespresso continued to grow double-digit, and we have announced a CHF 300 million investment in Switzerland. The *Nescafé* systems are also performing well in the out-of-home market.

The success of our coffee systems businesses demonstrates the importance of R&D to Nestlé. In 2012, we celebrated our 100th anniversary in India with the opening of a development centre focused on local ingredients and popularly positioned products (products designed to be affordable on a daily basis for emerging consumers). We also began work on an R&D development centre in Switzerland to manage our global clinical trials programme.

R&D brings consumer benefits even in what might be imagined to be standard food products, such as *Maggi* cubes in Africa. These are in fact fortified with iron and iodine helping to address micronutrient deficiencies; Nestlé can use its R&D capabilities and credibility to be part of the solution to health issues ranging from malnutrition to obesity by enriching the dialogue around health and nutrition issues. With this in mind, we launched several initiatives in 2012.

- We are supporting the United Nations Education First initiative, committing to teach over six million children in 60 countries the value of good nutrition and physical activity. This is part of the Nestlé Healthy Kids Programme, which we plan to extend to 70 countries by 2016, in association with the International Association of Athletics Federations. We are also a sponsor of the "Institute for Healthy Childhood Weight", established by the American Academy of Pediatrics. It will produce clear, accessible resources for health professionals, communities and parents, based on government policies and scientific evidence.
- Healthy aging is another key issue. The 9th Nestlé International Nutrition Symposium, attended by over 150 world-renowned scientists and healthcare professionals, addressed this. We also launched the "Elderly Care – Health Project" in China to enable elderly people to receive free heart checks and health consultations.

A priority for R&D is to advance food and nutrition science. In 2012 our projects included childhood allergies, diabetes, osteoporosis, inflammatory bowel disease, healthy





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Nestlé can use its R&D capabilities and credibility to be part of the solution to health issues ranging from malnutrition to obesity by enriching the dialogue around health and nutrition issues.”

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hydration, immune systems, healthier alternatives to salt, and the impact of dark chocolate on stress, as well as agriculture, packaging and environmental life cycle analysis of products. A strong R&D capability is at the heart of our ambition to be the trusted leader in Nutrition, Health and Wellness. As such, it is a prerequisite for a successful future, together with a willingness to invest and a focus on the longer term, regardless of shorter-term challenges.

Critical to our success in the future is the development of people, the management of career paths and succession planning. Nestlé now has about 339 000 people, with thousands having joined in the last two years. They have found themselves part of a decentralised organisation which is aligned, entrepreneurial and fast moving wherever it operates, and which is linked together by firm values and principles, including a warm appreciation for the benefits of diversity. We have welcomed them into our group, expecting many to benefit from the international opportunities that we offer as their careers progress.

It is fundamental that a company such as Nestlé plays a positive role in society. Indeed, we believe that we will create long-term value for our shareholders only if we connect positively with society at large. This is what we call “Creating Shared Value”. We have discussed in this letter how we use our know-how and resources not just to ensure that we run our business sustainably, but also to play a broad role in society. The accompanying *Nestlé in society* report details our approach and lists various commitments that we have made around nutrition, compliance and environmental sustainability amongst others.

This commitment to Creating Shared Value stands front and centre as we pursue our objective of being the reference for financial performance in our industry and, as such, is a priority for your Board.

The Board’s other priorities in 2012 included the Wyeth Nutrition acquisition and the related funding strategy, balance sheet management and capital allocation, the management of the Group’s pensions, the asset and liability review, as well as reviewing the direction of our Nutrition, Health and Wellness strategy.

André Kudelski, will retire from our Board after twelve years. We would like to thank him for his greatly appreciated contribution. Peter Brabeck-Letmathe, Steven G. Hoch,

a member of our Nomination Committee; Titia de Lange, a member of Nestlé's Nutrition Council; and Jean-Pierre Roth, a member of our Compensation Committee, are standing for re-election. Eva Cheng, of Chinese nationality, will be proposed for election to the Board. She is the former Corporate Executive Vice President responsible for Greater China and Southeast Asia Region of Amway Corporation, a U.S. based global consumer product company. We believe that with her extensive business experience and strong entrepreneurial background, Ms Cheng will enrich our Board's business competencies particularly in light of our expanding footprint in Asia.

There were changes to the Executive Board in 2012. James Singh retired as Chief Financial Officer and was succeeded by Wan Ling Martello, who joined the Group in 2011. The Board thanks Jim for his many years of service. Kurt Schmidt decided to leave the company, and was replaced by Luis Cantarell as Head of Nestlé Nutrition. Luis will combine this position with running Nestlé Health Science, though the two businesses will remain separate.

As always, it is our pleasure to express our gratitude to all our people on behalf of the Board and our shareholders. The year under review has been another characterised by difficulties and challenges, whether caused by natural disasters, civil unrest or the macro issues in many countries. Regardless, our people have continued to devote their energies and resourcefulness to ensuring that our company continues to perform to the highest levels and standards. Our thanks go to all of them.

The environment looks to be every bit as challenging in 2013 as it was in 2012. But 2013 will again provide opportunities to leverage our competitive advantages, deliver on our growth opportunities and benefit from our drive for continuous improvement across the Group. We expect, therefore, to deliver the Nestlé Model once again in 2013: organic growth between 5% and 6% together with an improved trading operating profit margin and underlying earnings per share in constant currency, as well as improvement in our capital efficiency.

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A strong R&D capability is at the heart of our ambition to be the trusted leader in Nutrition, Health and Wellness. As such, it is a prerequisite for a successful future, together with a willingness to invest and a focus on the longer term, regardless of shorter-term challenges.”



**Peter Brabeck-Letmathe**  
Chairman



**Paul Bulcke**  
Chief Executive Officer

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Nutrition  
is at the heart  
of Nestlé



# Corporate Governance and Compliance

Board of Directors of Nestlé S.A.  
at 31 December 2012

## Corporate Governance

The prerequisite for a company to engage with society is compliance and effective governance. The Chairman and the CEO ensure the tone of good governance at Board level and below on the basis of strong principles that provide the framework of how we do business.

In our *Corporate Governance Report* we outline how our governance ensures the effectiveness of our Board. It explains the role of our Board and its committees, Board processes and risk oversight in line with established best practices. Our Compensation Report is submitted annually to a separate advisory vote of our shareholders. The Board regularly solicits the input from investors, governance experts and proxy advisors on our governance. Resulting changes are described in the report and explained to shareholders prior to the relevant vote at the Annual General Meeting.

We integrate the reporting of financial and non financial performance measures along the lines of the UN Global Compact Principles for Responsible Investment (UNPRI) and the Global Reporting Initiative (GRI), which plays a critical role in demonstrating our commitments on governance, environmental, social, ethical and sustainability issues.

Good governance helps us create and maintain trust with our employees, investors, governments, NGOs, our customers, consumers and other stakeholders. In our *Nestlé in society* report we demonstrate how we engage with society at large. Conditioned upon strong compliance, we aim to run our business sustainably and for the long term. This gives us the legitimacy to engage with society in a way that leads to the creation of shared value.

Nestlé has a highly diversified ownership structure, and we use a number of ways to communicate with our shareholders. Through shareholder surveys, investor roundtables, analyst and engagement calls, and bilateral meetings, we have established a dialogue with our investors, pursuing a holistic approach that manages both their financial and governance expectations.

We are actively engaged in the development of Swiss law and governance practices. In 2012, focus was on the proper functioning of the voting chain and the development of a Swiss Code of Best Practice for the Exercise of Voting Rights by Institutional Investors.



Peter Brabeck-Letmathe



Paul Bulcke



Andreas Koopmann

**Helmut O. Maucher**  
Honorary Chairman

**David P. Frick**  
Secretary to the Board

**KPMG SA Geneva branch**  
Independent auditors  
Term expires 2013 <sup>(1)</sup>

**Peter Brabeck-Letmathe** <sup>(2,4)</sup>  
Chairman

Term expires 2013 <sup>(1)</sup>

**Paul Bulcke** <sup>(2)</sup>  
Chief Executive Officer  
Term expires 2014 <sup>(1)</sup>

**Andreas Koopmann** <sup>(2,3,4)</sup>  
1st Vice Chairman  
Chairman of Georg Fischer AG.  
Term expires 2014 <sup>(1)</sup>

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

For further information on the Board of Directors, please refer to the *Corporate Governance Report 2012*, enclosed.



**Rolf Hänggi**



**Jean-Pierre Meyers**



**Naina Lal Kidwai**



**Ann M. Veneman**



**Beat Hess**



**André Kudelski**



**Titia de Lange**



**Henri de Castries**



**Daniel Borel**



**Steven G. Hoch**



**Jean-Pierre Roth**

**Rolf Hänggi** <sup>(2,5)</sup>  
 2nd Vice Chairman  
 Former Chairman, Rüd,  
 Blass & Cie AG.  
 Term expires 2014 <sup>(1)</sup>  
**Beat Hess** <sup>(2)</sup>  
 Former Group Legal Director,  
 Royal Dutch Shell plc.  
 Term expires 2014 <sup>(1)</sup>  
**Daniel Borel** <sup>(3)</sup>  
 Co-founder and Board member,  
 Logitech International S.A.  
 Term expires 2015 <sup>(1)</sup>

**Jean-Pierre Meyers** <sup>(3)</sup>  
 Vice Chairman, L'Oréal S.A.  
 Term expires 2014 <sup>(1)</sup>  
**André Kudelski** <sup>(5)</sup>  
 Chairman and CEO, Kudelski  
 Group.  
 Term expires 2013 <sup>(1)</sup>  
**Steven G. Hoch** <sup>(4)</sup>  
 Founder and Senior Partner,  
 Highmount Capital.  
 Term expires 2013 <sup>(1)</sup>

**Naina Lal Kidwai** <sup>(5)</sup>  
 Country Head of HSBC Group  
 of Companies in India.  
 Term expires 2014 <sup>(1)</sup>  
**Titia de Lange**  
 Associate Director, Anderson  
 Cancer Center,  
 The Rockefeller University.  
 Term expires 2013 <sup>(1)</sup>  
**Jean-Pierre Roth** <sup>(3)</sup>  
 Chairman, Geneva Cantonal Bank.  
 Term expires 2013 <sup>(1)</sup>

**Ann M. Veneman** <sup>(4)</sup>  
 Former Executive Director  
 UNICEF and Secretary of U.S.  
 Department of Agriculture.  
 Term expires 2014 <sup>(1)</sup>  
**Henri de Castries** <sup>(5)</sup>  
 Chairman and CEO, AXA.  
 Term expires 2015 <sup>(1)</sup>



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We continue to pursue initiatives to improve dialogue with all our stakeholders on the basis of the clear expectations set in the purpose clause of our Articles of Association, where we have committed ourselves to aim for long-term, sustainable value creation.

### **Compliance**

We will not sacrifice our principles and values for short-term success. Compliance with laws, codes of conduct and our own principles forms the basis of how we do business and is the foundation on which we engage with society. While responsibility is assigned to the markets as per our Custodian Concept, a dedicated corporate Compliance function and a cross-functional Compliance Committee define the framework, facilitate the coordination between the relevant support functions and provide guidance and best practices in a holistic approach to Governance, Risk and Compliance (GRC).

The right commitment and tone at the top foster a strong, principles-based compliance culture. The ten principles of our Corporate Business Principles provide the over-arching framework. Various corporate functions ensure their continued implementation. Our Management and Leadership Principles, our Code of Business Conduct and our Supplier Code are other cornerstones of our cross-functional Corporate Compliance Programme. Awareness campaigns and regular risk assessments help us implement and develop relevant best practices. Compliance is regularly monitored by our corporate functions, internal and external audit, and through our expanded CARE audit programme relying on an independent external audit network. In our performance evaluations compliance is linked to “how” goals were accomplished.

Our anti-bribery and antitrust programmes included global training initiatives in 2012. Our integrity reporting system was rolled out globally to deal with compliance related grievances, complementing the “whistleblower procedure” introduced with our Code of Business Conduct. Fraud, employment conditions, privacy and regulatory compliance were other focus areas. We use our Nestlé Continuous Excellence (NCE) framework to foster a common understanding of compliance across the functions. This includes the verification of appropriate

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Good compliance is a condition for us to engage credibly with society. Beyond compliance, we do business sustainably – preserving our business and our environment for future generations.”





Standing (from left to right): Marc Caira, John J. Harris, Werner Bauer, Chris Johnson, Laurent Freixe, Doreswamy (Nandu) Nandkishore, David P. Frick, Jean-Marc Duvoisin  
Seated (from left to right): José Lopez, Patrice Bula, Paul Bulcke, Wan Ling Martello, Luis Cantarell

**Paul Bulcke** Chief Executive Officer

Members, Executive Board  
**Werner Bauer** EVP, Innovation, Technology, Research and Development  
**Luis Cantarell** EVP, Nestlé Nutrition, President and CEO, Nestlé Health Science  
**José Lopez** EVP, Operations, GLOBE

**John J. Harris** EVP, Nestlé Waters  
**Laurent Freixe** EVP, Europe  
**Chris Johnson** EVP, United States of America, Canada, Latin America, Caribbean  
**Patrice Bula** EVP, Strategic Business Units, Marketing and Sales  
**Doreswamy (Nandu) Nandkishore** EVP, Asia, Oceania, Africa, Middle East

**Wan Ling Martello** EVP, Chief Financial Officer (includes Legal, Intellectual Property, Global Business Services)  
**Marc Caira** Deputy EVP, Nestlé Professional  
**Jean-Marc Duvoisin** Deputy EVP, Human Resources  
**David P. Frick** SVP, Corporate Governance, Compliance and Corporate Services

**Yves Philippe Bloch**, Corporate Secretary

EVP: Executive Vice President  
SVP: Senior Vice President

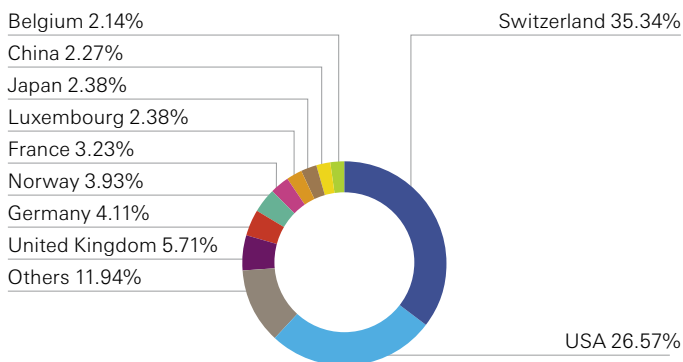
principles and policies, adequate internal controls, effective structures, monitoring and reporting, proper consequence management and above all the right culture and top level commitment.

Our WHO Code Compliance programme covers all Nestlé operations involved in the marketing of infant nutrition products. We adhere to the decisions of all governments regarding the application of the WHO Code in their countries and voluntarily apply the WHO Code in all developing countries. Our Code Compliance Committee provides guidance in this area and a separate reporting system helps us manage complaints. Our inclusion in the FTSE4Good Index is a testimony to our commitment and has allowed us to focus our efforts in specific areas for improvement in 2012.

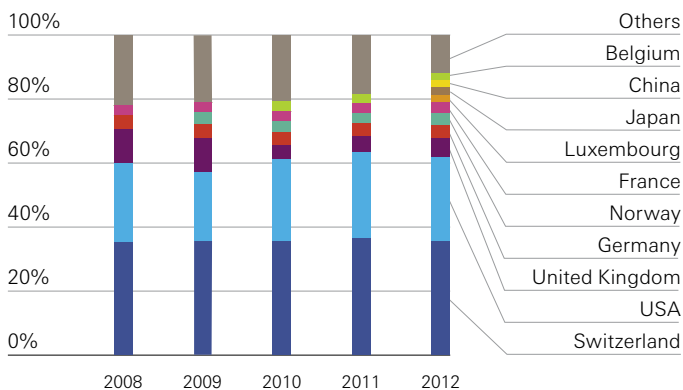
Our human rights due diligence programme, coordinated by our Human Rights Working Group, is based on the UN Framework on Business and Human Rights and our cooperation with the Danish Institute for Human Rights. It includes risk assessments, impact evaluation, training and monitoring.

Good compliance is a condition for us to credibly engage with society. Beyond compliance, we do business sustainably – preserving our business and our environment for future generations. Ultimately, to build a profitable business, we must create long-term value for society as well as for our shareholders. We must create shared value.

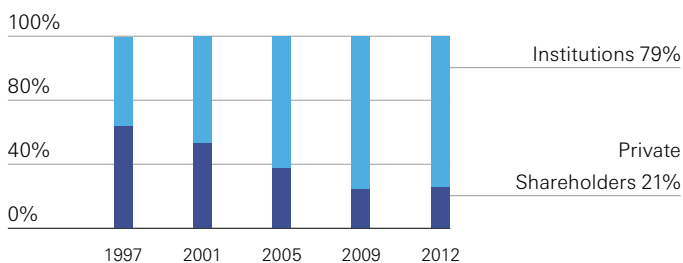
**Shareholders by geography <sup>(a)</sup>**



**Distribution of Share Capital by geography <sup>(a)</sup>**



**Share Capital by Investor Type, long-term evolution <sup>(a)</sup>**



(a) Percentage derived from total number of registered shares. Registered shares represent 62.3% of the total share capital. Statistics are rounded, as at 31.12.2012.

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Our objective  
is to be  
the leader  
in Nutrition,  
Health and  
Wellness,  
trusted by  
all stakeholders



# The Nestlé Roadmap to Good Food, Good Life

In recent years the Nestlé 4x4x4 Roadmap has helped us build both a strong alignment within our Company and a deep understanding of what we want to achieve, strategically and financially, and how to go about it.

Our people are better able than ever today to pursue our ambition to be the recognised and trusted leader in Nutrition, Health and Wellness. That trust is reflected in the hundreds of millions of purchase decisions – made by consumers every day – enabling them to enhance their lives and those of their families by providing tastier and healthier food and beverage choices for all stages of life, and at any time of the day.

True to our values and principles, and our commitment to environmental sustainability and compliance along every step of our value chain, we also seek to Create Shared Value in communities where we operate. We believe that this is the only way to secure long-term value creation for our shareholders.

Our commitment is to provide Good Food, Good Life.

## Four competitive advantages

**Nestlé's product and brand portfolio** ranges from global icons to local favourites. It is supported by an **unmatched research and development capability**, with clear priorities, focused on driving innovation and renovation that is relevant and attractive for consumers.

Our Group has an **unmatched geographic presence**, due to the depth of our roots in countries all over the world, which often stretch back many generations. This has created strong relationships between our brands and their consumers, as well as an unrivalled understanding of consumers, enabling us to anticipate their needs and improve the quality of their lives.

**Our people, culture, values and attitude** are our greatest strength. The Nestlé culture, with its natural openness to diversity, binds our people together all over the world with a shared set of behaviours and values into a single way of doing business. Our culture combines a long-term mindset with short-term action. It encompasses a passion for quality – in products, in relationships, in everything we do. It is focused on competitiveness, calculated risk-taking and an unswerving determination to deliver our goals, while creating value for society as a whole.

## Four growth drivers

Leadership in **Nutrition, Health and Wellness** means offering tastier and healthier choices to consumers throughout the day; it means responding to specific nutritional needs through Nestlé Nutrition; and it means pioneering ways to address critical illness through nutrition at Nestlé Health Science.

Emerging consumers are consuming our **Popularly Positioned Products (PPP)**. We bring all our nutritional know-how to these consumers, the same brand promise and quality, and we strive to add the extra plus – such as fortification against nutritional deficiencies. With **premium products**, consumers want an indulgent moment of pleasure, an everyday reward. Our premiumisation strategy, incorporating systems, services and products, is enhancing consumers' lives, whilst creating additional value per consumption moment: many consumers are not looking to eat and drink more; they are looking to eat and drink better.

**Out-of-home** consumption is a fast growing part of our industry. This covers leisure, from roadside kiosks in Asia to gourmet restaurants in the capitals of the world, and institutional catering, from schools to hospitals. Our focus here is on added-value branded food and beverage solutions and services.

## Four operational pillars

We want to be the leader in **innovation and renovation**, whether of products, systems or processes. Some products will be entirely new, some will have a refreshed aspect. Regardless, we take an invigorating point of view to keep our consumers excited about our brands.

We also need to have the most efficient supply chain – from farm to fork and beyond – to ensure that we have the best raw materials, the best processes and the freshest products on our customers' shelves. Nestlé Continuous Excellence is our approach to **operational efficiency**, with its objectives of eliminating waste, increasing efficiency and effectiveness, and improving quality in all operations.

It is not enough, however, just to make the most innovative products in the most efficient way; we also need to ensure that our products are available sustainably **whenever, wherever and however** consumers want to buy them. And, of course, we need to **engage with our consumers** in a dynamic way: both to keep them abreast of all that is new and exciting, but also to learn from them, so that we can bring their experiences to bear on our new and updated products – helping us to achieve our ambition to be a leader in innovation and renovation.

You will find some of these aspects brought to life on the following pages.

Our objective is to be the leader in Nutrition Health and Wellness, and the industry reference for financial performance, trusted by all stakeholders





# 2012 Highlights Global

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Building a sustainable  
future and creating value  
for Nestlé and society



## Infant Nutrition

### **Enhanced position, enhancing life**

The highlight of 2012 was the acquisition of Pfizer's Wyeth Nutrition business for USD 11.85 bn. The business fulfils the crucial criteria for an acquisition: it is both a good strategic and cultural fit, and it makes strong financial sense. The products complement Nestlé's *Start Healthy Stay Healthy* focus on a child's first 1000 days. It has good positions in China and other Asian countries with high numbers of births, and where increasing affluence is growing the market. It is a high value, high growth business which will enhance our infant nutrition division and contribute positively to the Nestlé Model in its first full year. ■

**Wyeth**® | Nutrition





#### Creating Shared Value Prize

##### Supporting education globally

An organisation that aims to boost education and entrepreneurship for young people is the winner of this year's Nestlé Prize in Creating Shared Value. The prize went to the Fundación Paraguaya de Cooperación y Desarrollo for its "agricultural self-sufficient school" project, which makes sure students receive technical and business training as well as their normal academic curriculum through micro-businesses based in the schools. These businesses include agricultural technical assistance, milk production, farming, organic gardening, hotel services, bee keeping and egg production. Money generated from the enterprises covers their operating costs. The project, set up in 2003, has already reached more than 500 students. Thirty countries in Latin America and Africa are replicating the project. ■



#### Nestlé Institute of Health Sciences

##### NIHS inauguration

The Nestlé Institute of Health Sciences (NIHS) had its official opening in Switzerland in November. The NIHS performs biomedical research and uses advanced technologies to develop a better understanding of human health. The NIHS supports Nestlé Health Science by providing the scientific foundation for innovative products that combine medical nutrition with diagnostics, with an aim to delay the onset and to modify the course of chronic diseases such as diabetes, obesity, and Alzheimer's disease. The institute is based on the university campus of the world-renowned EPFL in Lausanne and is part of Nestlé's global Research & Development network. ■





#### *Nestlé Cocoa Plan*

##### **Investment with cocoa farmers**

The *Nestlé Cocoa Plan* is our 10-year, CHF 110 million investment that aims to tackle key issues facing cocoa farmers, their families and communities, and to create a better future for cocoa farming. In 2012, we trained 21 000 farmers, distributed 1.1 million high-yielding, disease-resistant plantlets and sourced 38 000 tonnes of cocoa through the plan. We are working with partners UTZ and Fairtrade to certify the cocoa produced by *Nestlé Cocoa Plan* co-operatives; and we have partnered with the World Cocoa Foundation in Côte d'Ivoire to build or refurbish 40 schools in 4 years. By 2013 we aim to source up to 15% of our cocoa through the *Nestlé Cocoa Plan*. Learn more at [www.nestlecocoaplan.com](http://www.nestlecocoaplan.com). ■



#### Fair Labor Association

##### **Working to eliminate child labour**

Nestlé has partnered with the Fair Labor Association to map the cocoa supply chain in order to prevent the use of child labour in cocoa-growing areas in Côte d'Ivoire. Together with the FLA, Nestlé has developed an action plan to eliminate child labour and build on existing efforts to develop a more sustainable cocoa supply. This collaboration has led to a close cooperation with the International Cocoa Initiative to develop and implement an innovative child monitoring and remediation system in our supply chain for child labour. We are working to establish this within the certification systems of Fairtrade and UTZ so that it has a wider impact. Nestlé partnered with the FLA in 2011 in mapping the hazelnut supply chain in Turkey and developing an action plan. ■



Why do they need water  
throughout their day?



#### Nestlé Business Services

##### Enabling efficiencies and growth

The role of Nestlé Business Services is to provide highly efficient support to our Group in areas such as finance & control, human resources, procurement and facilities management. The creation of NBS has enabled our people all over the world to focus on their core activities and to devote more time to their customer and consumer-facing activities. NBS is a contributor not just to efficiencies in its areas of activity, but also to driving growth in our businesses around the world. There are five Regional NBS centres, in the Philippines, Brazil, Egypt, Ghana and Ukraine. These provide services to more than 100 countries and more than 200 000 Nestlé employees. ■

#### Nestlé Waters

##### Healthy family hydration

*Nestlé Pure Life* has become the world's leading bottled water, with more than 9.2 billion litres sold in 2012 – more than 1100 glasses per second of healthy family hydration in more than 40 countries. The development of *Nestlé Pure Life* demonstrates our commitment to create innovative healthy hydration solutions: such as the introduction in Pakistan of *Nestlé Pure Life Protect* with zinc, an essential mineral to support the immune system. And kid-friendly offers went on sale in Turkey, Egypt and Saudi Arabia. In Europe, one example of how we are helping mums to lead their families to healthier lifestyles was a campaign about how water can help improve a child's ability to concentrate. ■



Growth drivers

# Nutrition, Health and Wellness

Enhancing quality of life for everyone every day  
Addressing specific needs and chronic illness

## GET A NEW LEASH ON LIFE.



Jenny

### THE WEIGHT LOSS JOURNEY IS MORE FUN WITH A FRIEND.

Your dog or cat makes a great weight loss partner. That's why Jenny has a new pet partner of its own — Project: Pet Slim Down\* from Purina, a program dedicated to fighting the growing trend of pet obesity. Make a resolution to get fit together with your pet in 2012. For more information, see your Consultant.

GET A \$20 COUPON\* AND A FREE LEASH\*\* WHEN YOU SIGN UP AT [ProjectPetSlimDown.com/Jenny](http://ProjectPetSlimDown.com/Jenny)



\*\$20 off any Purina Veterinary Diets\* OM Overweight Management Canine or Feline Formula.  
\*\*While supplies last.

### PetCare

#### Project: Pet Slim Down: pets and owners get a new leash on life

With an estimated 55% of dogs and cats in the USA overweight, innovative programmes like Purina's "Project: Pet Slim Down" have been designed to include pets in families' health and wellness activities. This on-line programme encourages pet owners to work with their veterinarian to help their pets reach their ideal weight and body condition. Pets at a healthy weight enjoy happier lives. Many pet owners have discovered that they, too, can enjoy the benefits of being more active with their pet, from walking the dog to playing fetch or constructing a simple obstacle course. See success stories at [www.projectpetslimdown.com](http://www.projectpetslimdown.com).

### Infant Nutrition

#### Achieving GRAS status in the USA

Nestlé Lactogen with Gentle Start/Gentle Plus/Gentle Grow containing a proprietary active culture, *L. Comfortis*, achieved GRAS (Generally Recognised as Safe) status from the US Food and Drug Administration for use in newborns. This infant formula has been successfully rolled out in nearly 50 countries globally. In the USA it is sold as Gerber Good Start Soothe.





### World Diabetes Day

#### Promoting education and prevention

Nestlé and the International Diabetes Federation have entered into a partnership to promote diabetes education and prevention and raise awareness of diabetes around the world. Nestlé is a World Diabetes Day partner from 2012 to 2014. It is helping to raise awareness for diabetes by promoting this key global campaign at country level, using the global network of both organisations as well as the Nestlé Healthy Kids Programme. Nestlé is also looking into opportunities for joint scientific research projects with IDF in 2013 and beyond. ■



### International Association of Athletics Federations

#### Partnering for healthy kids

Nestlé signed a five-year global partnership agreement with the International Association of Athletics Federations to align IAAF Kids' Athletics with the Nestlé Healthy Kids Programme. The partnership with IAAF enhances the programme, which aims to raise the Nutrition, Health and Wellness awareness of school children around the world. Brazil, Chile, Mexico and Argentina have benefited from this partnership with activities in 2012 that included government representatives, sports groups and community-based organisations. This programme will help expand sporting activities throughout Zone Americas, increase sports participation in schools and promote a balanced and healthy lifestyle. In 2013, it will be expanded to Jamaica, Trinidad and Tobago, USA, Colombia, Ecuador, Panama and Peru. Nestlé also supports the EPODE («Ensemble, Prévenons l'Obésité Des Enfants») International Network with the aim of reducing childhood obesity. ■





**Dairy products**

**Nestlé ActiCol – young at heart**

In a world with an aging population, *Nestlé ActiCol* is a strong proposition for consumers wanting to keep a healthy heart. Launched in Chile and Mexico in 2012, it is based on Nestlé's scientific expertise and is available as liquid milk,

powdered milk and yoghurt. The product is clinically proven to help reduce cholesterol. ■



**Ice cream**

**Peeling is believing...**  
... but it is now a reality, and this playful experience can be enjoyed in the form of an innovative and unusual ice cream stick, which can be peeled just like a banana. It is not only fun, but it also supports Nestlé's Nutrition, Health and Wellness strategic drive by meeting the Nestlé nutritional foundation criteria for kids. This affordable playful snack has been rolled-out from Thailand to the western world, and quickly became a highly sought after success in 25 countries. ■



**Light cereal snacks**

**Nestlé Fitness in Latin America**  
We addressed the growing consumer trend for lighter snacking with the *Nestlé Fitness* launch in our six key biscuit markets in 2012. The new snacking range is low in sugar and fat and is made using whole grain wheat, oats and other protein and fibre-rich grains. The regional launch of *Nestlé Fitness* presents a great opportunity to leverage manufacturing assets and maximise the impact of innovations from our dedicated cereal snacks R&D centre in Santiago, Chile. The range will be strengthened in 2013 with the launch of new added value snacks. ■

**Nestlé Professional**

**Oscar premium in Europe**  
In January Nestlé Professional strengthened its position in savoury culinary flavour solutions with the acquisition of Oscar – a well-established Nordic premium fonds, bouillon and sauces business. This allowed Nestlé Professional to expand its culinary flavour business in Denmark and Finland, where the *Oscar* brand is very popular, and to expand beyond its traditional markets, with the products being introduced under the *Maggi* and *Chef* brands in Europe. *Oscar* crafts its products with renowned international chefs following the traditional culinary methods of Escoffier – industrialised home cooking, free from additives. ■





### Culinary nutrition

#### **Maggi expanding micronutrient fortification**

Having fortified the vast majority of its products around the world with iodine, Maggi started to address iron deficiencies in 2009 with launches of iron-fortified bouillons and noodles in Africa, Asia and Latin America. In 2012, Maggi achieved a major step by renovating its cube seasoning in Nigeria, providing billions of fortified servings every year to the local population with the same taste and at the same affordable price. ■



### Nestlé Health Science

#### **NHSC – a new industry**

After being formed in January 2011, Nestlé Health Science has accelerated its quest to shape a new industry between traditional nutrition and pharma, building on science-based personalised nutritional solutions for chronic disease. There has been good progress with new disease platforms: in Brain Health, clinical trials are underway with new partner Accera to explore the role of nutrition to better manage mild-to-moderate Alzheimer's disease; in Gastrointestinal Health, a joint venture – Nutrition Science Partners – was announced with Chi-Med, giving access to the world's largest Traditional Chinese Medicine libraries and discovery platforms. Clinical trials behind an innovative botanically-based treatment for inflammatory bowel disease are planned as part of this relationship. It also has the potential to support the Metabolic and Brain Health platforms. Diagnostics tests have been

launched by Prometheus in the gastrointestinal area, which enable us to explore opportunities to combine diagnosis with nutrition. Meanwhile, the established HealthCare Nutrition business has benefited from innovations and renovations around the Aging Medical Care, Critical Care/Surgery and Paediatric Medical Care platforms, as well as from geographic expansion, as Nestlé Health Science strives to elevate the role of nutrition as an integral part of personalised healthcare. ■



# Consumer engagement

Engaging with our consumers and society  
And living our principles through our brands



## Brand building

### Building brands better

Brand Building the Nestlé Way (BBNW) was launched in 2009 and is the one-stop source of inspiration and support for our marketing community. BBNW has created a unified and rigorous approach to marketing, connecting more than 20 000 brand builders around the world. The brand building process benefits our consumer engagement with the intention to maximise our Return on Brand Building Investment. External research shows the effectiveness of our TV advertising copy has improved, and this was confirmed by the World Advertising Research Center where Nestlé is now ranked 3rd globally for its advertising effectiveness. ■

### The Nestlé House of Brand Building

- Know your Consumer Deeply
- Inspire with Brand Vision and Essence
- Delight with Product Experience
- Innovate Bigger Bolder Better
- Create Engaging Brand Experiences
- Win with Shoppers
- Plan and Execute Flawlessly



## Cooking chocolate

### Leading the way in digital

As undisputed leader of the French baking chocolate segment for more than 40 years, *Nestlé Dessert* wanted to develop its service platform in a modern way in order to drive engagement: from serving consumers to engaging with them. *Nestlé Dessert* created a digital platform combining website, Facebook and a mobile application to thread the branded assets (recipes, videos, utilities, shop locator, games, etc.) into the consumer's life. The *Nestlé Dessert* Facebook fanpage drove a very high number of new likes, achieving a level several times higher than average for French pages – in the top three among all fanpages in the food industry. The mobile app was downloaded 600 000 times, reaching almost 10% of French iPhone owners. ■



### Nestlé Waters

**Contrex** puts out the fire *Contrex*, the healthy water sold in more than 35 countries, enjoys a unique positioning as *My slimming partner*. The product's mineral characteristics, its thermal spring origins and its consistent communication have all contributed to this recognition. To show that slimming can be fun, *Contrex* has a new approach: *MaContrexpérience*, a campaign in traditional and digital media. It takes women on an energy-packed collective adventure. In 2012, *Contrex* invited fans to take part in saving "guys in distress" in a burning building and lose 2000 calories while doing a good deed and having fun. ■



### Digital communications

#### Accelerating digital

In 2012 we established the Digital Acceleration Team (DAT). Grounded on the three Nestlé pillars of digital excellence – listening, engaging, and inspiring – the programme serves as an internal lighthouse to drive digital innovation and integrate it fully into brand building and business operations. DAT members come from around the world to tackle transversal projects, support business units in community management, and benefit from world class training. They return to their home markets to transfer knowledge and transform local digital initiatives. The DAT workspace itself is a source of inspiration, with its open environment, multi-media lab and video studio, and 24/7 listening capabilities, intended to foster idea sharing and a more adaptive and real-time marketing approach. The model is already being reapplied in a number of our local markets. ■







### Nutrition education

#### The “Crecer Bien” national campaign

The nutrition education programme “Crecer Bien”, for children between the ages of three and eight implemented by Nestlé Perú, has been taken as the base for a national campaign to fight malnutrition with the sponsorship of the country’s First Lady and the Ministry of Education. This programme was implemented in 2008 throughout the poorest public schools of Lima, and has directly benefited 64 000 children. We united the top ten leading food and beverage companies in Peru and aim to expand this programme to 1 000 000 children in the next three years. ■



### Culinary nutrition

#### Family happiness

*Maggi* in France increased its value market share by leveraging a Big Idea – to re-invent daily cooking to enhance family happiness. The three pillars were TV (increase awareness); in-store (differentiate the brand from competitors); digital (provide services). An app was introduced with recipes, and a QR code on packaging directed consumers to a website. A chef, a journalist and a cameraman visited homes to see what problems people were having preparing daily meals, and the videos were posted online via Facebook. With an extra 1% market share, *Maggi* is widening the gap on competitors with its integrated approach. ■



### Nestlé Waters

#### A very Italian water

The distinctive spirit of *S. Pellegrino* can be appreciated on [www.finedininglovers.com](http://www.finedininglovers.com), a web platform with an e-zine, a blog and social networks for food enthusiasts to share with the whole world the real pleasure of the table that is so typically Italian. *S. Pellegrino* was recognised in 2012 by Confindustria (Italian private companies’ federation) as a major contributor to Italy’s positive reputation in the world. ■



### Nestlé Waters

**Perrier: at the leading edge**  
*Perrier* is recognised for its creativity, having built its reputation through campaigns that made advertising history. In 2010, *Perrier* created a web sensation that marked the beginning of a new era of innovation and interaction, starring the burlesque artiste Dita von Teese. Not neglecting traditional media, *Perrier* launched a new TV campaign in 2012 “the Drop”, which showcased brand values in terms of extreme refreshment. The long version of the commercial was designed for the web, to raise the visibility of the new ad campaign by giving internet users exclusive viewing. *Perrier* celebrates its 150th anniversary in 2013. ■

### Nespresso

**Innovation drives success**  
 Nespresso’s growth – double-digit in 2012 – was driven by a strong innovation pipeline, with five unique Limited Edition coffees, two new machines and new service offerings, resulting in greater convenience for Club Members, all capitalising on its unique direct-to-consumer model. Nespresso strengthened

its presence through geographic expansion and boutique openings in high-visibility locations all over the world. It invested in a third production centre in Romont, Switzerland. Nespresso demonstrated its commitment to value creation in coffee producing countries through its AAA Sustainable Quality Programme and by

reaching its recycling capacity commitment one year ahead of plan. All these initiatives and achievements combine to create a secure platform for continued growth. ■





# Unmatched geographic presence

Brands established for generations  
Investing for future generations

## Infant nutrition

### Mini-Milkies – small cup format in Europe

After the renovation of our baby-specific ambient dairy product range rich in calcium, magnesium and zinc to address healthy bone growth, we have launched a range of six flavours for babies under three years old in small cups. Mini-Milkies were launched

in nine European countries as a competitive offer to chilled dairy, consolidating our strong leadership in the region. Mexico is the first Latin American country to roll out the product in three flavours under the brand *iogolino*. Building on its calcium content, the range is leveraging the relevant strong bones claim. ■

## Start Healthy Stay Healthy

### Award for Indian campaign

Nestlé India's *Start Healthy Stay Healthy* campaign was honoured with an Order of Merit certificate in the Best Product Launch/Re-Launch category at The Promotion Marketing Awards of Asia at a ceremony held in Kuala Lumpur, Malaysia. Nestlé India launched a campaign jointly

with the Times of India in 2012 to promote healthy nutrition in the crucial first 1000 days of a baby's life, from conception to the 2nd birthday. ■





#### Dairy investment

##### Chile milk inauguration

In April 2012, the Chilean Ministers of Finance, Agriculture and Environment inaugurated a new milk factory, Nestlé Osorno, in the south of the country. The investment of USD 140 million was the largest in the Chilean dairy sector in the last 60 years. The new plant will generate 30 000 tonnes of value-added nutritional milk products for local consumption and export. Its facilities make this factory a leader in environmental sustainability. ■



#### Investing with coffee farmers

##### Re-starting the Haitian coffee industry

Nestlé is supporting an international development programme to help more than 10 000 smallholder coffee farmers in Haiti and regenerate the country's coffee industry. The programme will help coffee growers use more sustainable methods to improve the quantity and quality of

their crops. It will focus on strengthening their business skills as well as bean collection and processing, quality control, certification, and marketing. It will also reduce their costs. The programme was set up by the Multilateral Investment Fund of the Inter-American Development Bank in collaboration with the Agence Française de Développement. ■



**Competitive advantages**  
Unmatched geographic presence



**Infant Nutrition**

**Gerber milky pouches**  
In the USA, following the launch in 2010 of a large baby-specific dairy product range in cups, we launched the *Graduates Grabbers* range of ambient dairy in pouches to seize the growing business opportunity of pouches for

self-feeding. The launch is driving the growth of the baby – specific ambient dairy cups, where we have 100% market share. ■



**Dairy nutrition**

**Positive renovation**  
*Supligen*, a great tasting nutritious milk-based drink with a combination of vitamins, minerals and protein for nutrition and energy for an active lifestyle, is one of the main brands in the Caribbean. Its new slim aluminium can makes cold and on-the-go consumption easier and gives a more modern look and feel, whilst the new brand proposition better reflects the product's sustained energy benefit. Initial consumer response has been encouraging. The new, improved product is expanding into nearly 20 territories in the Caribbean and USA. ■



**Infant Nutrition**

**Added health**  
Two products have been spreading good nutrition throughout the world: *Nestlé NAN H.A.*, which is available in almost every country, was the first clinically proven hypo-allergenic infant formula for infants at risk of allergies. Another product, containing active culture, *Nestlé NAN* with Bifidus BL is also available throughout the world, and is for infants with depressed gut flora such as those born by caesarean section or undergoing antibiotic treatment. Both products celebrated significant anniversaries in 2012, 25 and 20 years respectively of bringing nutrition solutions. ■



**Soluble coffee systems**

**Nescafé Dolce Gusto expands in Germany**  
Nestlé is investing CHF 180 million in one of its fastest growing businesses in Europe, building a *Nescafé Dolce Gusto* factory in Germany, the largest market for the brand worldwide. *Nescafé Dolce Gusto* offers nearly 30 *Nescafé*, *Nesquik* and *Nestea* varieties. The factory in Schwerin will create 230 jobs. Our first factory, which opened in 2006 in Tutbury in the United Kingdom, is already running at full capacity, and we have invested GBP 110 million to triple production. ■



**Creating entrepreneurs**

**Nescafé helps build businesses in Africa**  
Nestlé Professional has launched a new programme to encourage entrepreneurship in Central and West Africa, the "My own business" initiative. It supports street-seller entrepreneurs creating their own businesses selling *Nescafé*. Vendors are supplied with a kit, which includes a coffee dispenser. They buy *Nescafé* products, hot water flasks, disposable cups and a branded vest and hat. They are trained in sales, management, hygiene, safety and quality. Each operator can recruit and employ further street-sellers. We have more than 1000 street-sellers in Burkina Faso, Côte d'Ivoire, Cameroon, Ghana, Nigeria and Senegal. More than 500 operators from other countries in Africa are expected to join by 2014. ■





#### Nescafé Plan

##### China plan given award

Nestlé is a strong supporter of the United Nations Global Compact; we incorporate its 10 principles in our “Nestlé Corporate Business Principles”. On 28 November 2012, at the first Annual Conference of the UN Global Compact Network China (GCNC), the *Nescafé Plan* in China was named a Best Practice to Promote Societal Development. The award was made by a joint panel of GCNC, China Enterprises Federation and relevant experts, as an initiative to recognise the enterprises and projects that have contributed most to leading and practising corporate social responsibility in China. ■



#### Popularly Positioned Products

##### Boat delivery launched in Bangladesh

Bangladesh, with a population of about 160 million and about 80% in rural areas, has particular distribution challenges. During the rainy season, almost 50% of the country could be flooded for up to six months. To win with customers as well as consumers, we embarked on an alternative route to market project, using a boat in the wetland area in the south-west of the country. Currently the boat supplies five new market places with a potential of 200 new outlets. ■

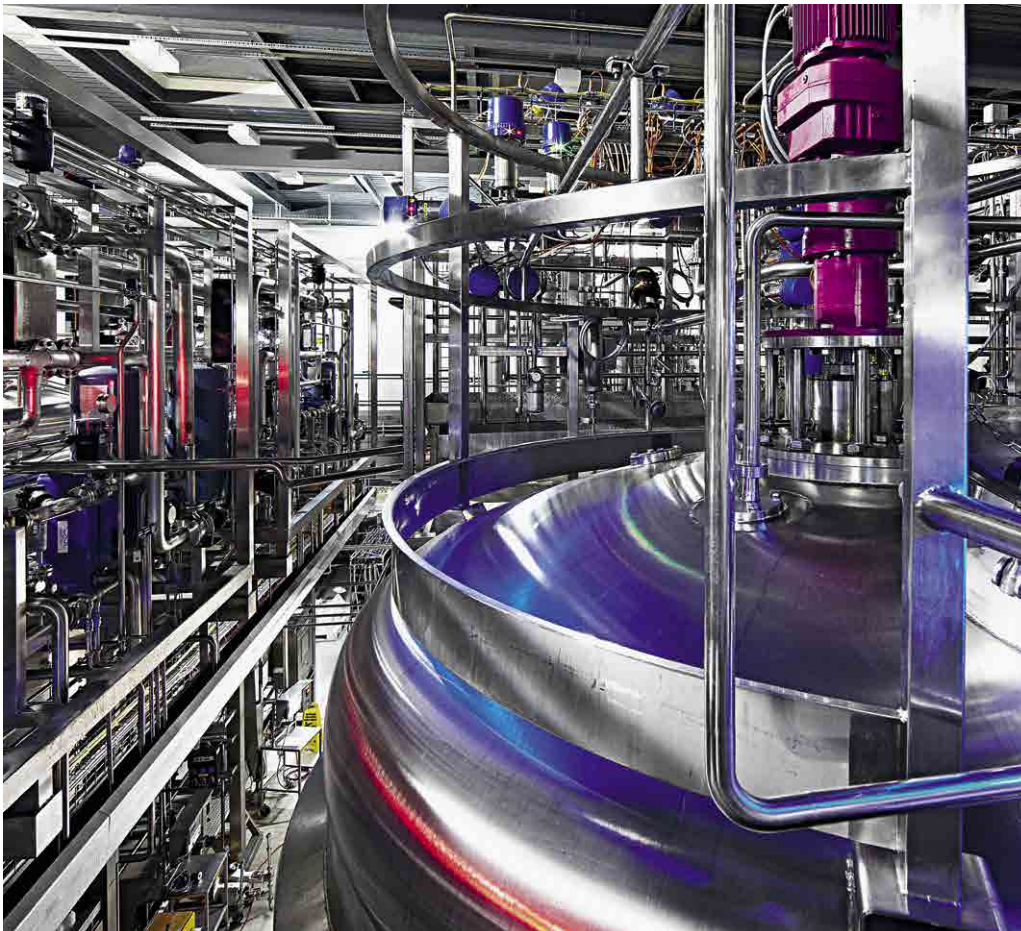




# Building for the future

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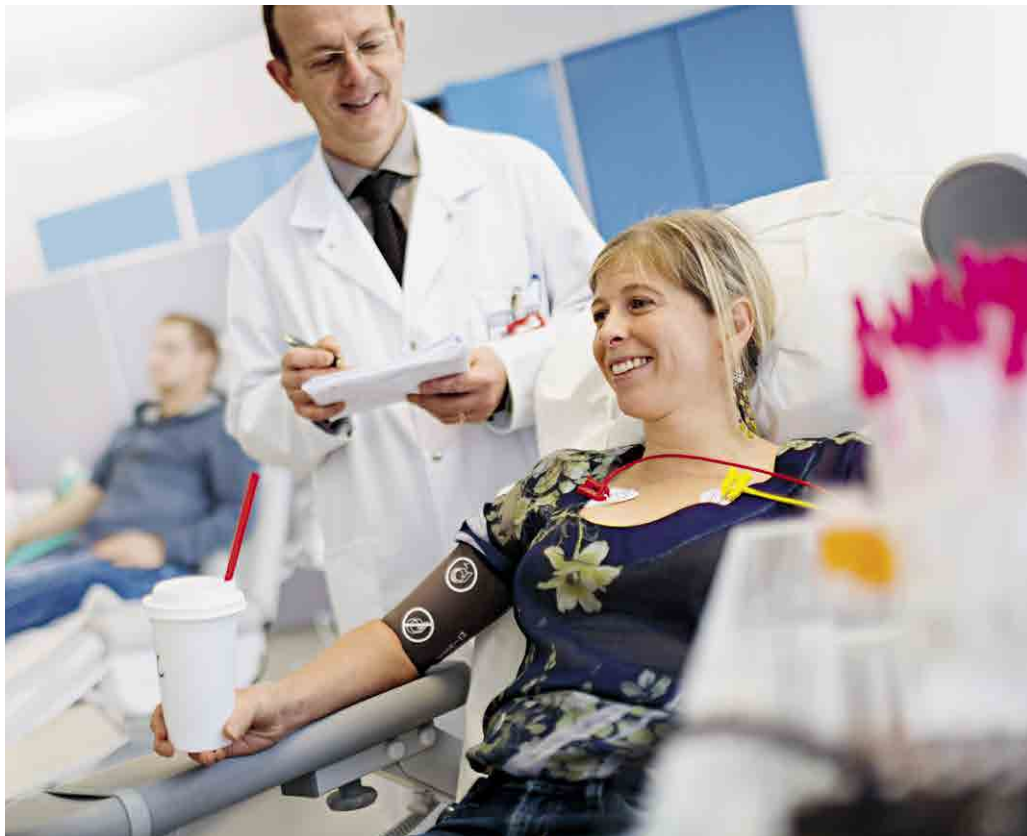
## Securing a rewarding future Enhancing capacities, capabilities and commitments



### Research and development

#### **Always newer**

Innovation is at the heart of Nestlé. Proprietary science and technologies, married to consumer understanding, give us a competitive advantage over local players. Changing consumer trends, tastes and habits, as well as the evolution of our business, mean that our R&D network is always evolving, our capabilities always growing. 2012 has seen the embedding of the newly-acquired specialised R&D unit in Prometheus; the inauguration of the Nestlé Institute of Health Sciences and the Clinical Development Unit in Switzerland; the expansion of our Chinese R&D organisation, with units in Dongguan and Xiamen, to support our new partnerships there; the inauguration of R&D India; the refurbishment of PTC York for chocolate; and the extension of PTC Konolfingen for the manufacture of materials for clinical studies. ■



## Research and development

### Researching the future

The Nestlé Research Centre near Lausanne, established 25 years ago, is at the heart of our rich research heritage. It is the world's largest private food and nutrition research institute with over 600 people representing a diverse range of scientific disciplines. The NRC focuses on four research programmes that underpin the scientific needs of its partners in the countries and categories, the Product Technology Centres and in our other R&D Centres: (1) the first 1000 days – metabolic health, immune competence and allergy reduction; (2) healthy aging – cardiovascular health, immune defence, mobility; (3) healthy pleasure – salt and sugar reduction, healthy lipids, other health-promoting ingredients; (4) sustainable nutrition – alternative protein, fortification, sustainability, public health and health economics. The centre's competences are: nutrition and health; food science and technology; food and consumer

interaction; quality and safety science; and analytical sciences.

For more information visit [www.research.nestle.com](http://www.research.nestle.com). ■





Nestlé people

**Attracting, developing and keeping the best**

Our people provide the talent, skills and diversity that give us our competitive advantage. They are the enablers for us to achieve our goal of being the trusted leader in Nutrition, Health and Wellness. For 2013, Human Resources' priorities include improved gender balance awareness, enhanced leadership capabilities, and managing dual careers so there are fewer barriers to moves and expatriation for Nestlé talent. Nestlé led the establishment of the International Dual Career Network in Geneva (helping partners find jobs), and this is being extended to other cities around the world. There is also a focus on performance management and effective reward and recognition by developing and implementing a Nestlé total reward system for improved attraction, retention and engagement of the best talent. ■



Nestlé people

**Winning talent**

The Nestlé Academy is a response to a number of issues facing Nestlé UK. There was an increasing turnover of high-potential people, with a potential impact on the pipeline for senior management positions, coupled with a manufacturing workforce, more than half of whom will retire in 15 years. Economic pressures mean that young people in the UK are looking at more flexible entry points into work and options to "earn while they learn". The Nestlé Academy recognised these challenges and the need for a different approach to the attraction, development and retention of the brightest and best for Nestlé. The Academy is developing a culture of lifelong learning across the organisation so that all employees can achieve their potential. After only eight months, the programme has moved Nestlé UK up 44 places in The Times list of graduate employers. Our aim is to become the UK employer of choice in the food and beverage industry. ■





#### Tradition and innovation

##### **Kit Kat: beyond breaks**

*Kit Kat* is a great example of how tradition can be married to innovation to drive growth. From the very beginning (in 1935), the idea of the “break” was an integral part of the brand communication, with the seminal slogan “*Have a break – have a Kit Kat*” coined in 1958. The brand has only ever had one communication partner. Together we have taken the brand from established markets to new markets (most recently to Brazil) and most especially into the digital age: in a world that seems to spin faster and faster, breaks are even more important today. ■



#### Infant Nutrition

##### **Gerber – forever young**

In 2013, the *Gerber* brand is 85 years old. Its longevity and the iconic *Gerber Baby*, have established the brand in the USA as the leader in early childhood nutrition amongst consumers and health care professionals. This success is due to the brand’s aim to nourish a healthier generation, with products, education, and services to ensure children start and stay healthy. *Gerber* always tries to remain relevant with 24/7/365 consumer services. Today, our investment in social media and mobile for increasingly tech-savvy mothers has improved our ability to attract and retain consumers: the *Gerber* Facebook page is ranked No1 in the category with around five million, highly engaged fans. *Gerber* is now creating a unique, personalised service ecosystem designed to form healthy behaviours. This will leverage a combination of digital and offline services to guide mothers through their child’s nutrition journey in the most simple, and impactful manner possible. ■







#### Nestlé in society

##### Meeting our commitments

We have published a number of commitments in the accompanying *Nestlé in society* report relating to our three Creating Shared Value (CSV) priority areas – nutrition, water and rural development – as well as environmental sustainability and compliance. Sharing our policies and commitments year-on-year or over the medium to longer-term should help us progress systematically. Commitments also help us assess our progress and, most importantly, share it with stakeholders. They also provide stakeholders with a means to hold us accountable for both our achievements and shortcomings. We welcome this level of transparency, which actually incentivises us to deliver the continuous improvement in our performance that matters so much to us. All of our commitments are built upon the “Nestlé Corporate Business Principles”. Those related

to CSV are continuously refined through engagement with our stakeholders and our CSV Advisory Board. ■

#### Nestlé people

##### Developing the Nestlé way

At retirement, the average Nestlé executive has 28 years of service. This loyalty comes above all from a fulfilling job in a company that adheres to publicly communicated guidelines such as our “Nestlé Corporate Business Principles” and the “Nestlé Management and Leadership Principles”, among others (more info: [www.nestle.com](http://www.nestle.com)). Career development is also an important factor. In this, Nestlé applies a 70-20-10 approach: 70% is learning at work (on the job), 20% is through mentoring and working relationships, and 10% is through formal training. Most formal training is given by Nestlé staff – we find that people who have real experience often make the best teachers. ■

# Financial review



# 2012 Business review

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## Sales by geography

Europe

CHF 26 billion

2.4%

organic growth

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Americas

CHF 41 billion

5.9%

organic growth

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Asia, Oceania and Africa

CHF 25 billion

10.3%

organic growth

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## Emerging Markets

CHF 39 billion

43%

of Group sales

11.0%

organic growth

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## Developed Markets

CHF 53 billion

57%

of Group sales

2.5%

organic growth

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## Billionaire brands

7%

organic growth

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## Popularly Positioned Products

11%

organic growth

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## Strategic Highlights

Enhancing Nutrition, Health  
and Wellness capabilities

Wyeth Nutrition  
Nestlé Institute of Health Sciences

R&D Centres opened in China,  
India, Singapore and Switzerland

# Leading positions in dynamic categories

In millions of CHF	2011	2012			RIG (%)	OG (%)
<b>Powdered and Liquid Beverages</b>						
Soluble coffee	9217	9946		49.6%		
Other	8987	10092		50.4%		
Total sales	18204	20038		100.0%	+6.0%	+8.9%
Trading operating profit	4129	4502		22.5%		
<b>Water</b>						
Total sales	6526	7178			+4.9%	+6.4%
Trading operating profit	520	636		8.9%		
<b>Milk products and Ice cream</b>						
Milk products	10974	12988		70.0%		
Ice cream	4456	4573		24.6%		
Other	976	1003		5.4%		
Total sales	16406	18564		100.0%	+1.2%	+5.7%
Trading operating profit	2251	2799		15.1%		
<b>Nutrition and HealthCare</b>						
Total sales	9744	10726			+3.7%	+6.7%
Trading operating profit	1820	1958		18.3%		
<b>Prepared dishes and cooking aids</b>						
Frozen and chilled	8046	8045		55.7%		
Culinary and other	5887	6387		44.3%		
Total sales	13933	14432		100.0%	-0.2%	+1.4%
Trading operating profit	2016	2041		14.1%		
<b>Confectionery</b>						
Chocolate	7102	7524		72.1%		
Sugar confectionery	866	1310		12.5%		
Biscuits	1097	1604		15.4%		
Total sales	9065	10438		100.0%	+2.8%	+4.8%
Trading operating profit	1524	1782		17.1%		
<b>PetCare</b>						
Total sales	9764	10810			+4.0%	+7.0%
Trading operating profit	2008	2206		20.4%		
<b>Associated companies</b>						
Nestlé's share of results	866	1060				



# Overview

This section should be read in connection with the 2012 Consolidated Financial Statements.

## Introduction

In 2012 we delivered on our commitment: a good, broad-based performance building upon the profitable growth achieved consistently over previous years. All our businesses, both in developed and in emerging markets contributed. Our Nutrition, Health and Wellness agenda continued to bring enhanced benefits for consumers, greater brand differentiation in the market place and increased value for shareholders. With creativity and innovation, our people laid the foundations for future growth. We increased the support behind our brands. We further strengthened our global R&D network with new facilities in India and China. We developed new capabilities for Nestlé Health Science and acquired Wyeth Nutrition. We invested responsibly and sustainably, expanding our manufacturing footprint, while continuing to reduce the environmental impact of our business.

## Group results

Nestlé's reported sales were up CHF 8.6 billion, or 10.2%, to CHF 92.2 billion. Organic growth was 5.9%, building on the strong growth of recent years, and was composed of 3.1% real internal growth and 2.8% pricing. After years of adverse impact, foreign exchange added 1.7% to sales, and acquisitions, net of divestitures, a further 2.6%.

The Group's trading operating profit was CHF 14.0 billion, up CHF 1.5 billion or 11.8%. The trading operating profit margin was 15.2%, up 20 basis points, +10 basis points in constant currencies.

The cost of goods sold fell by 30 basis points and distribution costs were down 20 basis points. Nestlé Continuous Excellence delivered efficiencies of over CHF 1.5 billion, building on savings in previous years.

## Employees by geographic area

	2011	2012
Europe*	28.9%	28.4%
Americas	33.7%	33.2%
Asia, Oceania and Africa	37.4%	38.4%
Total	100.0%	100.0%

\* 10 184 employees in Switzerland in 2012.

## Employees by activity

In thousands

	2011	2012
Factories	171	180
Administration and sales	157	159
Total	328	339

## Factories by geographic area

Nestlé has operations in 194 countries around the world, and 468 factories in 86 countries. Six were acquired during the year and 3 divested.

	2011	2012
Europe	152	153
Americas	171	171
Asia, Oceania and Africa	138	144
Total	461	468



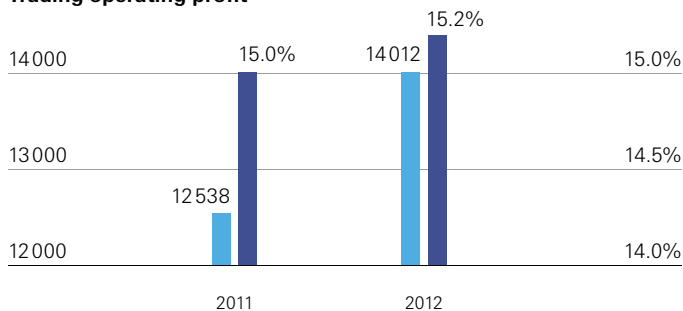
## Principal key figures\* (illustrative) in CHF, USD, EUR

In millions (except per share data)

	Total CHF 2011	Total CHF 2012	Total USD 2011	Total USD 2012	Total EUR 2011	Total EUR 2012
Sales	83 642	92 186	94 340	98 279	67 840	76 488
Trading operating profit	12 538	14 012	14 142	14 938	10 170	11 626
Profit for the period attributable to shareholders of the parent (Net profit)	9 487	10 611	10 700	11 313	7 694	8 804
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	56 797	60 947	60 419	66 620	46 685	50 489
Market capitalisation, end December	171 287	190 038	182 211	207 726	140 790	157 428
<b>Per share</b>						
Total basic earnings per share	2.97	3.33	3.35	3.55	2.41	2.76

\* Income statement figures translated at weighted average annual rate;  
Balance sheet figures at year-end rate.

### Trading operating profit



- In millions of CHF
- In % of sales

### Operating segments: trading operating profit

In % of sales

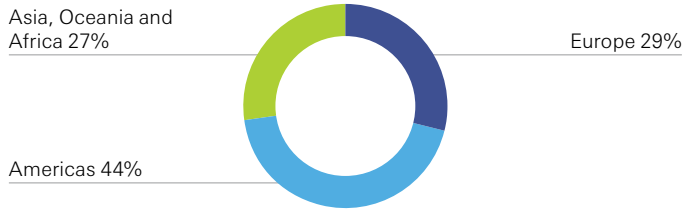
Zone Europe	15.7
Zone Americas	18.6
Zone Asia, Oceania and Africa	19.0
Nestlé Waters	8.9
Nestlé Nutrition	19.2
Other <sup>(a)</sup>	17.2

(a) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.

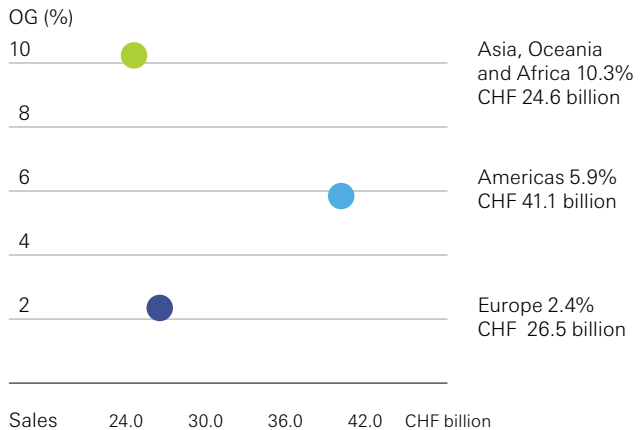


**Geographic sales**

as % of total sales



**Geographic sales and organic growth**



Each region includes sales of the Zones, Nestlé Waters, Nestlé Nutrition, Nestlé Professional, Nestlé Health Science, Nespresso, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.

We increased the marketing support behind our brands bringing total marketing costs up by 30 basis points. Consumer facing spend rose about 8% in constant currencies.

Administrative costs were up by 20 basis points, following last year's drop of 80 basis points caused by the restructuring of pension plans in 2011.

Net profit was up CHF 1.1 billion to CHF 10.6 billion, and earnings per share were up 12.2% reported to CHF 3.33. Underlying earnings per share in constant currencies were up 7.5%.

We increased operating cash flow by CHF 5.6 billion to CHF 15.8 billion, reflecting primarily a substantial improvement in our working capital.

**Business review**

The Nestlé group's growth was broad-based across all categories and geographies, with 5.9% organic growth in the Americas, 2.4% in Europe and 10.3% in Asia, Oceania and Africa.

In spite of the challenging trading environment in the developed world our innovation in products, systems and routes to market delivered organic growth of 2.5%. In emerging markets we grew 11.0%, achieving sales of CHF 39.3 billion.

We took further steps to enhance our position as the trusted leader in Nutrition, Health and Wellness. We continued to reformulate products to make them healthier and tastier. We leveraged our research and development capabilities to deliver good nutrition and develop solutions to help people manage diet-related illnesses. We continued to build partnerships with organisations active in the fight against non-communicable diseases. We acquired Wyeth Nutrition and a number of new capabilities for Nestlé Health Science. We inaugurated the Nestlé Institute of Health Sciences, added two new R&D units in China, a new R&D centre in India and opened a global centre for clinical trials in Switzerland.





## Sales by geographic areas

	Differences 2012/2011 (in %)		in CHF millions
	in CHF	in local currency	
By principal markets			2012
USA	+10.1%	+4.1%	23712
France	+1.0%	+3.3%	5691
Brazil	-0.5%	+9.8%	5348
Greater China Region	+106.3%	+91.4%	5158
Germany	-2.0%	+0.2%	3270
Mexico	+9.6%	+9.4%	3246
United Kingdom	+9.7%	+4.8%	2935
Italy	-2.4%	-0.1%	2219
Canada	+5.0%	-0.5%	2182
Australia	+2.2%	-4.0%	2151
Philippines	+12.3%	+3.5%	2079
Spain	-3.8%	-1.5%	1922
Japan	+6.8%	+2.5%	1846
Russia	+8.4%	+7.9%	1823
Switzerland	+1.0%	+1.0%	1518
Rest of the World	+11.0%	(a)	27086
By continent			
Europe	+1.6%	(a)	26529
USA + Canada	+9.6%	(a)	25894
Asia	+28.0%	(a)	18604
Latin America + Caribbean	+9.2%	(a)	15218
Africa	+13.5%	(a)	3332
Oceania	+4.5%	(a)	2609
Total	+10.2%	(a)	92186

(a) Not applicable.

 **ONE**

 **Beneful**

**Herta**

**MÖVENPICK**

**the Skinny Cow**

**Buitoni**

**Nestlé  
La Laitière**

**Nestlé  
Nesfruta**



### Zone Americas

Sales of CHF 28.9 billion, 5.2% organic growth, 0.6% real internal growth; 18.6% trading operating profit margin, +20 basis points.

The Zone grew in both North America and Latin America.

In North America we focused on increasing the value perception of our frozen food business, with improved recipes and nutritional profiles, a new promotional strategy and communication, whilst also prioritising the higher value segments within ice cream. The result has been generally improving share trends across our categories. Frozen was helped by innovations including *DiGiorno Italian Favorites* and *Lean Cuisine Salad Additions*. Ice cream grew in the higher value areas, super-premium and snacks, reflecting our strategy to optimise the category mix. Another innovation, *Häagen-Dazs Gelato*, was launched successfully. The coffee and creamers businesses performed well in categories that are enjoying good growth. The *Coffee-mate* liquid range, including *Natural Bliss*, was the highlight in creamers, whilst *Nescafé Clásico* was the growth driver in soluble coffee. Petcare continued to grow volume and improve shares, with line extensions and launches. *Friskies Tasty Treasures* for cats and *Beneful Fiesta* for dogs were among a number of strong performers.

In Latin America where we have continued to see generally positive trends, we drove innovation through regional roll-outs under our well-established brands. In Brazil, most categories grew double-digit. Highlights included the successful launches of *Kit Kat* and peelable ice cream, as well as the continuing good performance of *Nescafé Dolce Gusto*. In Mexico, coffee helped drive growth, from Popularly Positioned Products to *Nescafé Dolce Gusto*. The other regions contributed positively. Petcare grew double-digit across Latin America.

The Zone's trading operating profit margin increased 20 basis points due to necessary pricing actions and consistent discipline in cost savings.

### Zone Europe

Sales of CHF 15.4 billion, 1.8% organic growth, 1.1% real internal growth; 15.7% trading operating profit margin, +10 basis points.

The Zone grew in both Western and Central/Eastern Europe, demonstrating that even in a challenging trading environment, there are opportunities to achieve above-market growth and share gains.

We continued to grow in Western Europe, maintaining momentum from last year. This growth, fuelled by a strong innovation pipeline combined with a rigorous approach to efficiencies, is enabling the Zone to increase both its brand investment and margin. This should enable us to maintain our growth momentum in 2013. In Greece and Spain trading conditions were extremely tough but we were able to deliver growth. We also grew well in Great Britain where we made real progress in the fast-growing online, convenience and discounter channels. In France we gained market share in most categories. Across the Zone, *Nescafé Dolce Gusto* continued to be a key growth engine and *Maggi* also performed well in many markets. The performance of petcare, another key growth driver, was driven by the premium category, in particular *Felix*, *Gourmet*, *Proplan* and *Purina ONE*.

In Central Europe and Eastern Europe we have enhanced our competitive position in coffee and petcare, with increased local manufacturing and distribution capabilities. There was continued improving momentum in Russia, with *Nescafé*, ice cream and chocolate all contributing good real internal growth. The other parts of the region also performed well.

The Zone's trading operating profit margin increased 10 basis points, reflecting volume growth and good cost management, and was achieved whilst increasing brand investment. This improvement built on the 230 basis points improvement in 2011.

lean  
cuisine



## Zone Americas

In millions of CHF	2011	2012		RIG (%)	OG (%)
USA and Canada	15560	16808		58.1%	
Latin America and Caribbean	11196	12119		41.9%	
Powdered and Liquid Beverages	3309	3603		12.5%	
Milk products and Ice cream	7828	8313		28.7%	
Prepared dishes and cooking aids	5172	5408		18.7%	
Confectionery	3994	4286		14.8%	
PetCare	6453	7317		25.3%	
<b>Total sales</b>	<b>26756</b>	<b>28927</b>		<b>100.0%</b>	<b>+0.6%</b> <b>+5.2%</b>
Trading operating profit	4922	5380		18.6%	
Capital expenditure	1102	1088		3.8%	

## Zone Europe

In millions of CHF	2011	2012		RIG (%)	OG (%)
Western	12397	12483		81.1%	
Eastern and Central	2846	2902		18.9%	
Powdered and Liquid Beverages	3878	4052		26.3%	
Milk products and Ice cream	1651	1609		10.5%	
Prepared dishes and cooking aids	4069	3934		25.6%	
Confectionery	3016	3023		19.6%	
PetCare	2629	2767		18.0%	
<b>Total sales</b>	<b>15243</b>	<b>15385</b>		<b>100.0%</b>	<b>+1.1%</b> <b>+1.8%</b>
Trading operating profit	2372	2417		15.7%	
Capital expenditure	871	1019		6.6%	



### Zone Asia, Oceania and Africa

Sales of CHF 18.9 billion, 8.4% organic growth, 5.9% real internal growth; 19.0% trading operating profit margin, +10 basis points.

The Zone grew in the developed markets and in the emerging markets where we continued to focus on increasing distribution and rolling out Popularly Positioned Products with strong nutritional profiles. We also invested in new manufacturing facilities in different markets including China, India, the Philippines, South Africa, Angola and Vietnam.

Amongst emerging markets, we achieved double-digit growth in Africa, China, the Middle East and Indonesia. There were strong contributions from powdered beverages, predominantly *Milo*, and culinary, mainly *Maggi*, as well as chocolate, ice cream and ready-to-drink beverages. Innovations included *Maggi Magic Meals*, *Milo High Fibre* and *Nestlé Esquimo Mummy*.

Japan was the strongest performer amongst the developed markets, with *Nescafé Dolce Gusto* and *Kit Kat* both highlights. *Kit Kat* became the number one brand in the chocolate category.

The Zone's trading operating profit margin rose by 10 basis points.

### Nestlé Waters

Sales of CHF 7.2 billion, 6.4% organic growth, 4.9% real internal growth; 8.9% trading operating profit margin, +90 basis points.

Nestlé Waters continued to perform well, further strengthening its positions in developed markets in North America and Europe and increasing the scale of its operations in emerging markets. It was helped by strong sales of premium brands, *S. Pellegrino* and *Perrier*. *Nestlé Pure Life* reinforced its leading position globally with strong double-digit top line, confirming healthy hydration as core to the bottled water category growth.

In North America, regional brands including *Poland Spring*, *Ice Mountain* and *Zephyrhills* benefited from growth in the category. The "Home & Office" business also performed well.

In Europe, good performances in France and Great Britain compensated for the subdued environment in Southern Europe.

Emerging markets grew dynamically, with double-digit growth in Turkey, Egypt, Mexico and Thailand, amongst others.

The Nestlé Waters trading operating profit margin increased due to the division's growth and a high level of efficiencies in manufacturing, procurement and distribution.



## Zone Asia, Oceania and Africa

In millions of CHF	2011	2012		RIG (%)	OG (%)
Oceania and Japan	3465	3550		18.8%	
Other Asian markets	7150	10035		53.0%	
Africa and Middle East	4676	5327		28.2%	
Powdered and Liquid Beverages	5371	6038		31.9%	
Milk products and Ice cream	5097	6675		35.3%	
Prepared dishes and cooking aids	2448	2741		14.5%	
Confectionery	1693	2732		14.5%	
PetCare	682	726		3.8%	
<b>Total sales</b>	<b>15291</b>	<b>18912</b>		<b>100.0%</b>	<b>+5.9%</b>
Trading operating profit	2892	3587		19.0%	
Capital expenditure	1142	1556		8.2%	

## Nestlé Waters

In millions of CHF	2011	2012		RIG (%)	OG (%)
Europe	2438	2210		30.8%	
USA and Canada	3239	3690		51.4%	
Other regions	843	1274		17.8%	
<b>Total sales</b>	<b>6520</b>	<b>7174</b>		<b>100.0%</b>	<b>+4.9%</b>
Trading operating profit	520	636		8.9%	
Capital expenditure	407	407		5.7%	





### Nestlé Nutrition

Sales of CHF 7.9 billion, 6.7% organic growth, 3.0% real internal growth; 19.2% trading operating profit margin, –80 basis points.

2012 was a good year for infant nutrition, particularly in emerging markets, including the BRICs and Africa, with double-digit growth in both formula and cereals. It also achieved growth in developed markets, despite low birth rates, with good performances in particular in France and the US, where it gained share. Innovations included the continued global roll-out of anti-colic formula, *Gerber* pouches and shelf-stable infant yoghurts in the US. The acquisition of Wyeth Nutrition, completed in November, will enhance materially our position and capabilities in key emerging markets, and improve the growth profile of our nutrition business.

Weight Management continued to under-perform. Performance Nutrition grew its distribution, aligned with its focus on its core consumers, and released a renovated *PowerBar ProteinPlus*.

Nestlé Nutrition's trading operating profit margin was impacted by Weight Management and transition and integration costs for Wyeth Nutrition.

### Other

Sales of CHF 13.9 billion, 8.7% organic growth, 6.5% real internal growth, 17.2% trading operating profit margin, +40 basis points.

Nestlé Professional achieved growth in the developed markets and double-digit growth in the emerging markets, with both food and beverages contributing. The beverages business enjoyed good overall growth, driven by double-digit growth in system solutions, where sales are now at CHF 1 billion for the first time. *Nescafé Alegria* is now in over 60 markets, whilst *Nescafé Milano* is in more than 30 and expanding. The food business also contributed solid growth, driven by innovation in sweet and savoury flavour solutions, and close customer collaboration.

Nespresso again delivered a strong performance with double-digit growth. The company continued to reinforce its position in Europe and expanded its presence at an accelerated pace in Asia Pacific and the Americas. Innovations included five new Grand Cru coffees and two new machines, *Maestria* and *U*. The boutique network saw 52 new openings to pass 300 locations in 48 countries, and new services were launched for Nespresso Club Members. Nespresso sourced more than two-thirds of its green coffee through its unique *AAA Sustainable Quality* Programme and reached its 75% recycling capacity commitment one year ahead of plan.

Nestlé Health Science continued to build its pipeline and capabilities through an investment in Accera and the creation of a joint venture with Chi-Med group, called Nutrition Science Partners. We inaugurated the Nestlé Institute of Health Sciences. The product portfolio performed well despite a challenging environment in some markets in southern Europe, affected by changes to reimbursement arrangements. Aging Medical Care and Critical Care and Surgery both benefited from product innovations and roll-outs.

Our joint ventures are also included in "Other", but they are discussed separately below.

## Nestlé Nutrition

In millions of CHF	2011	2012		RIG (%)	OG (%)
Europe	1525	1537		19.6%	
Americas	3577	3805		48.4%	
Asia, Oceania and Africa	2131	2516		32.0%	
Total sales	7233	7858		100.0%	+3.0%
Trading operating profit	1443	1511		19.2%	
Capital expenditure	477	426		5.4%	

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

In millions of CHF	2011	2012		RIG (%)	OG (%)
Total sales	12599	13930		+6.5%	+8.7%
Trading operating profit	2119	2393		17.2%	
Capital expenditure	537	638		4.6%	

(a) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.



**Joint Ventures**

Nestlé has established a number of joint ventures over the years, both in food and beverages and in pharmaceutical activities, the latter with L'Oréal.

The Food and Beverage Joint Ventures are Cereal Partners Worldwide (CPW), with General Mills, Beverage Partners Worldwide (BPW), with The Coca-Cola Company, and Dairy Partners of America (DPA), with Fonterra.

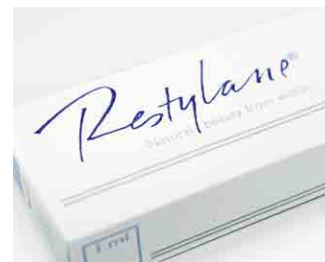
CPW enjoyed double-digit growth in emerging markets, share gains, and further enhanced its position with new capacity coming on stream in Brazil, South Africa and Malaysia. This strong growth compensated the weak category dynamics in developed markets. Innovations, ready to go global in 2013, were focused around improving the range's nutritional credentials, such as reduced sugar and salt, increases in calcium, and making wholegrain the main ingredient of their recipes.

In January, the partners in BPW announced a restructuring of BPW to focus on markets in Europe and Canada. This was successfully completed during the year. BPW delivered solid results, achieving double-digit growth in Russia and France, and good growth in Germany and Canada. This performance was supported by the launch of new product variants in most markets, including ready-to-drink teas with low calorie formulations.

DPA was created in 2003 to develop a sustainable and competitive supply of milk to Fonterra and Nestlé, and to leverage both partners' respective businesses in Latin America.

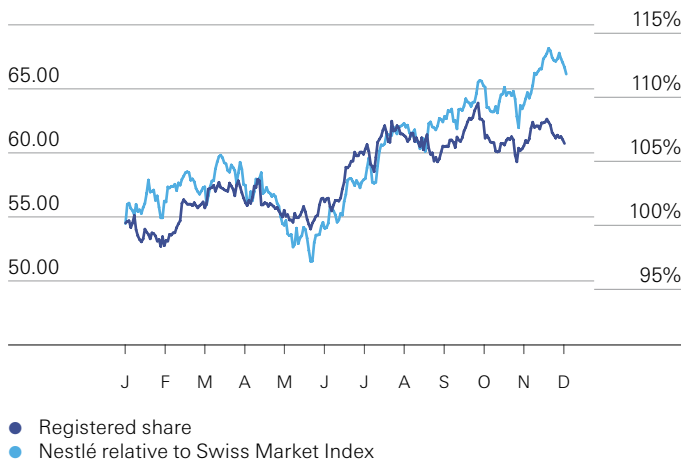
Galderma reinforced its position as a leader in the global dermatology market. The over-the-counter and aesthetic and corrective dermatology businesses delivered double-digit growth, while the strong growth of strategic brands in the prescription business was partially off-set by generic competition to mature products. Galderma continued to drive innovation, with 57 patents filed in 2012.

10 years after its creation, Laboratoires innéov is the European leader in beauty nutritional supplements, with a wide range of products targeting skin and hair. 2012 saw product and channel innovation: the launch of Cellular Anti-Ageing, a new generation antioxidant with an exclusive polyphenol, born from joint research by Nestlé and L'Oréal; and a new retail channel with the launch of the first e-store of the brand in France.



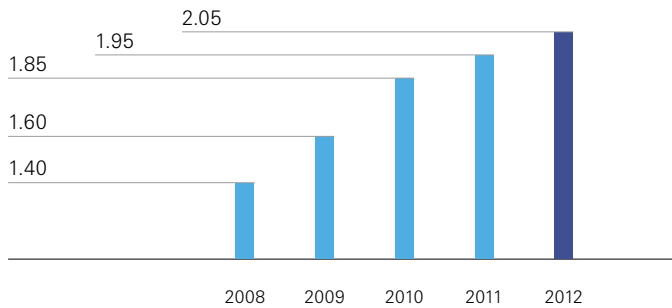
## Evolution of the Nestlé registered share in 2012

In CHF



## Dividend per share

In CHF



## Net profit and earnings per share

Net profit was up CHF 1.1 billion to CHF 10.6 billion, and earnings per share were up 12.2% reported to CHF 3.33. Underlying earnings per share in constant currencies were up 7.5%. The underlying tax rate was 27.2%, compared to 27.1% in 2011. The share of results of associates was CHF 1.1 billion, compared to CHF 0.9 billion in 2011.

## Cash flow

We increased operating cash flow by CHF 5.6 billion to CHF 15.8 billion, reflecting primarily a substantial improvement in our working capital.

## Financial position

Despite the strong operating cash flow, the Group's financial net debt increased from CHF 14.3 billion to CHF 18.2 billion, with the dividend of CHF 6.2 billion, capital expenditure of CHF 5.4 billion, and the CHF 10.8 billion acquisition of Wyeth Nutrition being the main contributors.

## Return on invested capital

The Group's return on invested capital was 14.1% including goodwill and 30.2% excluding goodwill.

## Dividend

The board is proposing a dividend of CHF 2.05 per share, up from CHF 1.95 in 2011.

## Positive 2013 outlook

The environment looks to be every bit as challenging in 2013 as it was in 2012. But 2013 will again provide opportunities to leverage our competitive advantages, deliver on our growth opportunities and benefit from our drive for continuous improvement across the Group. We expect, therefore, to deliver the Nestlé Model once again in 2013: organic growth between 5% and 6% together with an improved trading operating profit margin and underlying earnings per share in constant currency, as well as improvement in our capital efficiency.



# Principal risks and uncertainties

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## 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. A “Top-Down” assessment occurs annually and focuses on the Group’s global risk portfolio. It involves the aggregation of individual assessments by the Zones, Globally Managed Businesses and all markets. It is intended to provide a high-level mapping of Group risk and allows Group Management 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 and to the Audit Committee, and conclusions reported to the Board of Directors. For the first time, Nestlé used the outcome of stakeholder meetings to better understand potential gaps between internal and external perception of risks and their impact on reputation.

## 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 and controls in place to prevent such events.

The success of the Nestlé group depends on its ability to anticipate consumer preferences and to offer high-quality, appealing products. The Group’s business is subject to some seasonality, and adverse weather conditions may impact the Group’s sales.

The food industry as a whole is faced with the global challenge of increasing obesity. The Group makes all its products available in a range of sizes and varieties designed to meet all needs and all occasions.

Nestlé is dependent on the sustainable supply of a number of raw materials, packaging materials and services/utilities. Any major event triggered by natural hazards (drought, flood, etc.), change in macro-economic

environment (shift in production patterns, “biofuels”, excessive trading), resulting in input price volatilities and/or capacity constraints, could potentially impact Nestlé’s financial results. The Group has policies, processes and controls in place to mitigate against such events.

The Group’s liquidities/liabilities (currency fluctuation, interest rate, derivatives, and/or hedging, pension funding obligations/retirement benefits, banking/commercial credit, cost of capital) could be impacted by any major event in the financial markets. Again, Nestlé has the appropriate risk mitigation measures in place.

Nestlé is dependent on sustainable manufacturing/supply of finished goods for all product categories. A major event 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 and impact Nestlé’s financial results. Business continuity plans are established and regularly maintained in order to mitigate against such an event.

The Group depends on accurate, timely information and numerical data from key software applications, without disruption, to enable day-to-day decision making.

The Group is subject to environmental regimes applying in all countries where it operates and has put 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.

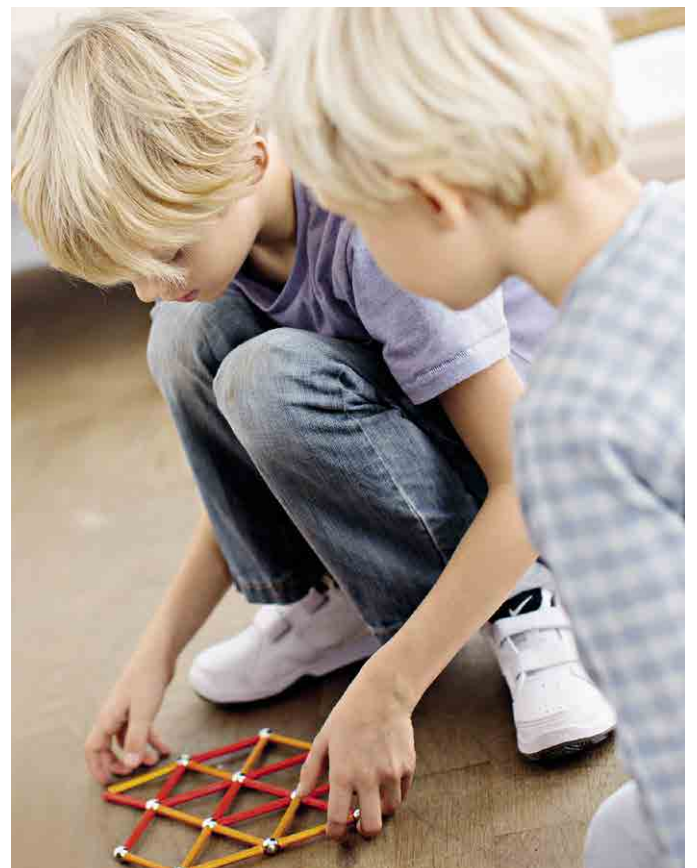
Nestlé is subject to health and safety regimes in all countries where it operates and has procedures in place to comply with legislation concerning the protection of the health and welfare of employees and contractors.

Our Group companies are party to a variety of legal proceedings arising out of the normal course of business. The relevant companies believe that there are valid defences for the claims, and such companies intend to defend any such litigation.

Nestlé has factories in 86 countries and its products are sold in 194 countries around the world. Security, political instability, legal & regulatory, fiscal, macroeconomic, foreign trade, labour and/or infrastructure risks could potentially impact Nestlé’s ability to do business in a country or region.

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Events such as an infectious disease 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's wide geographical and product category spreads represent a natural hedge.





# Shareholder information

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## Stock exchange listing

At 31 December 2012, Nestlé S.A. shares are listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

## Registered Offices

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As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact:  
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The *Nestlé Annual Report*, the *Corporate Governance Report* and the *Financial Statements* are 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.

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

## Important dates

11 April 2013  
146th Annual General Meeting, "Beaulieu Lausanne",  
Lausanne (Switzerland)

12 April 2013  
Last trading day with entitlement to dividend

15 April 2013  
Ex dividend date

18 April 2013  
Payment of the dividend

18 April 2013  
2013 First quarter sales figures

8 August 2013  
2013 Half-yearly Results

17 October 2013  
2013 Nine months sales figures

13 February 2014  
2013 Full Year Results

10 April 2014  
147th 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.

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