

The year in review 2013



Nestlé

Good Food, Good Life



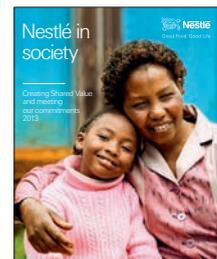
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Accompanying reports



Annual Report 2013



Nestlé in society
Creating Shared Value and
meeting our commitments 2013

All sections should be read in connection with the Consolidated Financial Statements of the Nestlé Group 2013. All 2012 figures have been restated following the accounting changes described in Note 1 – Accounting policies (page 89), and adjusted following the final valuation of the Wyeth Nutrition acquisition (page 140).

Nestlé in 2013 – some highlights

Nestlé Nutrition

+8.2%

organic growth;

Wyeth Nutrition
successfully integrated

PetCare

+6.8%

organic growth;

double-digit growth in
emerging markets



Nescafé Dolce Gusto

Present in

73 countries

new machines, new flavours

KitKat

No1 chocolate brand in Japan,
roll-out continues in Brazil

+8.9%

organic growth

Western Europe North America

both regions

grew real internal growth
in challenging environments

Africa

recorded

double-digit

organic growth



Nestlé Pure Life

double-digit

growth in emerging markets

India

Maggi

2-minute noodles bring
increased good taste, but
reduced salt, MSG and
trans fats to millions
of consumers

Dairy

near 30%

share of senior milks sector
in China

S.Pellegrino

dynamic

global growth



Nestlé in society

10

We have added 10 new commitments in nutrition, water, rural development, sustainability and compliance

7789

We renovated 7789 products for nutrition or health considerations

Policy changes

We have renewed our nutritional policies to drive the further reduction of salt, sugars, saturated fats and trans fats in our products

FTSE4Good

We remain the only infant formula manufacturer included in FTSE's responsible investment index, based on our performance in human rights, labour rights, responsible marketing of breast-milk substitutes and more

167 billion

We provided over 167 billion servings of fortified products

Leader

We were ranked number one by the charity Oxfam in its 2013 scorecard, Behind the Brands. The survey scored 10 food and beverage companies on their efforts to improve food security

-33%

We reduced overall water withdrawals per tonne of product by one-third since 2005

Top 3

In March 2013, we were ranked one of the top 3 global food and beverage manufacturers in the Access to Nutrition Index

300 000

We trained 300 000 farmers through capacity-building programmes

Number 1

We achieved leadership for our industry group in the Dow Jones Sustainability Index 2013, and achieved the maximum score in the CDP Climate Performance Leadership Index

66 594

We reduced 66 594 tonnes of packaging material, saving CHF 158 million

-7.4%

We achieved an absolute reduction in direct GHG emissions of 7.4% since 2005

Nestlé in 2013 – figures

Group sales

CHF 92.2 billion
+2.7%

Organic growth

4.6%

Real Internal Growth

3.1%

Trading operating profit

CHF 14.0 billion

Trading operating profit margin

15.2%
+20 basis points

Earnings per share

CHF 3.14

Underlying earnings per share

+11.0%
constant currencies

Operating cash flow

CHF 15.0 billion

Working capital improvement

+CHF 1.4 billion

Proposed dividend

CHF 2.15

Proposed dividend increase

+4.9%

Outlook

Last year was challenging and 2014 will likely be the same. We will continue to be disciplined in driving our performance in line with the Nestlé Model of profitable growth and resource efficiency. We therefore expect our 2014 performance to be similar

to last year and again weighted to the second half, outperforming the market, with growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

Group highlights



February

A survey by the Oxfam charity scored us No. 1 out of 10 food and beverage companies on their efforts to improve food security and sustainability. The scorecard says

that all companies need to improve, something we are working towards through our rural development framework.



March

The new Access to Nutrition Index, supported by the Bill and Melinda Gates Foundation and the Wellcome Trust, scored us 3rd among 25 global companies on how effectively we

provide consumers with access to nutritious products. The top three companies are separated by 0.2 on a 10-pt scale, with a large gap before the 4th company.



April

Nestlé Health Science acquired Pamlab, a US-based company that offers prescription, for the nutritional support of patients with specific medical conditions. Pamlab investigates nutritional science

and promotes evidence which can directly affect disease management for brain health (depression and memory loss) and metabolic conditions (peripheral neuropathy).



March

Our System Technology Centre opened in Orbe, Switzerland, to bring together the expertise behind the *Nestlé Nespresso*, *Nescafé Dolce Gusto* and *Nestlé BabyNes*

systems. The STC unites 120 experts from 25 countries to work on design, technology, packaging, engineering, electronics and robotics.



March

Nestlé research scientists in Switzerland in collaboration with Bologna University, Italy, discovered the metabolic clues for living longer and healthier. A study of nearly 400 volunteers, including centenarians,

described the metabolic phenotype of healthy human ageing and longevity. Further work is needed, but it is an exciting step in understanding the biological mechanisms of ageing.



May

We signed up to the Women's Empowerment Principles, a partnership initiative of UN Women and the UN Global Compact

which has seven steps that business can take to promote gender equality and empower women to participate fully in all levels of economic activity.



June

Perrier celebrated 150 years in 2013 with a pop art collection in homage to the brand's partnership

with Warhol in the 80s. Last year we produced more than a billion bottles, the first time in over 20 years.



October

Mapping nutritional gaps is helping us fight micronutrient deficiencies in the developing world. The nutritional landscaping shows there is need for micronutrients

including iodine, iron, zinc and vitamin A. The UN estimates two billion people suffer from micronutrient deficiencies – hidden hunger.



November

We launched Nestlé Needs YOUth in Athens, Greece, to offer 20 000 job opportunities for young people in Europe. We will offer jobs to 10 000 under the age of 30 and create

10 000 apprentice and traineeship positions by 2016. On top, we will mobilise our 60 000 suppliers to build up an Alliance for Youth and have a greater impact.



September

We achieved top rank in the Dow Jones Sustainability Index among food products companies, with a score double the industry average.

We also got the maximum score for the 2nd year in the CDP Climate Disclosure Indices.



October

The 5th Nestlé Creating Shared Value forum was opened by Juan Manuel Santos, Colombian President, in

Cartagena. More than 350 people took part and thousands followed the webcasts.



December

We were the first major company to publish a paper on our human rights impact in seven countries in the developing world

and what we are doing to address it. The paper was welcomed as a breakthrough by the Danish Institute of Human Rights.

Our business context

Perspective for change

How to describe the environment in which we have been operating these last few years? Turbulent, challenging, unpredictable? Fast-changing, uncertain, dynamic?

Many of the world's economies have been impacted by the global economic slowdown. At the same time, populations have benefited from fundamental, irreversible changes driven by new technologies, by increased transparency and faster, less controlled communication. And populations have found their own voices, often inspired, encouraged or mobilised by digital communication.

Economic challenges and opportunities

The business environment is characterised by greater volatility, whether of currencies, of raw materials, or of sentiment. There are beacons of hope, as the middle class grows in emerging economies and millions of people at all income levels strive for a better life. There are pits of despair, especially in the developed world where economic crises, rising unemployment, rising taxes and retrenchment of government spending linked to austerity programmes have combined to engender a feeling of insecurity.

The fact that the emerging markets are actually emerging is bringing opportunities as incomes rise and consumers have more choice. But there are challenges too as local and regional competitors spring up with their own cost structures, financial objectives and standards of behaviour and communication. This requires that we challenge our established norms, rethink our business models and find new ways to differentiate our products and provide value to our consumers.

There has been a renewed focus on health: positively, as people become more and more aware of their own ability to influence their health through better diets and lifestyles; but also less positively, as governments face up to the reality of ageing populations and the likelihood of unmanageable healthcare costs. The challenge of non-communicable diseases is particularly great; not just obesity and its attendant problems, but all conditions in which bad or wrong nutrition plays a part.

Technological challenges and opportunities

Technology is changing behaviour, whether in populations, governments, opinion leaders, consumers, companies, or even within families. Technology is creating more choice, more openness and more speed. It is giving voice to more people, more democratically. It is creating new businesses, new ways of doing business, new opportunities to reach consumers. It is fostering a closer level of engagement between brands and consumers, and is creating an increased ability for consumers to hold brand owners to account. Our brands are part of that engagement and we understand our accountability and welcome the demands that this makes on our behaviour, our quality levels and on the relationships with our business partners.

Not so New Reality

In past years, we have described this environment as the New Reality. Today, it is no longer new, but it is certainly the reality in which we will be operating for some time to come. Many of today's challenges are also opportunities. For example, the shift of wealth creation from the West to the East or the ability of consumers anywhere to link up with consumers anywhere else to discuss, praise or criticise a brand. The opportunity is for a global company to be part of that shift, part of that discussion.

How can Nestlé do this?

By being aligned globally behind a clear set of priorities. We have pulled these priorities together in our 'Roadmap', reproduced on the facing page. In the next section, we have looked at each aspect of this roadmap and have discussed its importance in the context of the challenges outlined on this page and faced by our consumers and us today and in the years to come.

The Nestlé Roadmap to Good Food, Good Life

Operational pillars

Growth drivers



Competitive advantages



Leadership in **Nutrition, Health and Wellness** means enhancing the quality of consumers' lives by offering tastier and healthier food and beverage choices to consumers at every consumption occasion; it means responding to specific nutritional needs through Nestlé Nutrition, and it means pioneering ways to address chronic medical conditions through nutrition at Nestlé Health Science.

Nutrition, Health and Wellness throughout Nestlé

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2



1 Maggi interaction in Sri Lanka (top), spreading the NHW word to consumers in an open-air market setting.

2 The *Nutritional Compass* bringing additional information to consumers, including the consumer services telephone number for even more knowledge if needed.

3 Leading the healthy hydration journey, *Nestlé Pure Life* contributes to making next generation healthier by offering an affordable, quality water brand to families.

Working together with healthcare professionals and stakeholders, we aim to be part of the solution to help families improve their Nutrition, Health and Wellness (NHW). The first step to doing this is best taste as this will ensure that the family chooses our product over a competitor's. The second is to combine best taste with best nutritional value.

Our extensive research and development helps us to do this on a continual basis. We are reducing sugar, salt, saturated fats and trans fats, and adding wholegrain and vegetables wherever possible. We are increasing the nutritional content of our affordable food ranges to ensure that high-quality food reaches families on modest incomes. And we are doing this whilst committing to achieving taste preference with our consumers.

Worldwide, the World Health Organization estimates (2011) that 265 million children under five are affected by severe malnutrition. The cost of managing people at risk of disease- or age-related malnutrition in Europe is estimated at CHF 210 billion. At the same time, some 43 million children under five are overweight or obese. This is part of the 1.4 billion people globally who are overweight.

We continue driving reductions of sugar and salt in our products – in 2013 we set further ambitions with updated policies on sugar and salt, as well as saturated fat and partially-hydrogenated oils. 93% of our products display the *Nestlé Nutritional Compass* to guide consumers into making healthier choices. We are also rolling out guideline daily amount references and portion guidance on packs worldwide.

We fortify Nestlé foods, particularly our Popularly Positioned Products, targeted at low-income consumers, with micronutrients: we provide more than 150 billion micronutrient-fortified servings per year, contributing to the solution to malnutrition.

We educate mothers, caregivers and healthcare professionals about the importance of good nutrition in the crucial first 1000 days (from conception to the second birthday). We support exclusive breastfeeding during the first six months after birth and apply WHO standards or our own (whichever are stricter) in each of our markets.



Leveraging our almost 150 years of expertise in Infant Nutrition we offer proven solutions to meet the specific nutritional needs of pregnant women and babies. We provide the most nutritionally advanced formulas when breastfeeding is not possible. We provide nutritionally appropriate foods for babies to meet their needs when complementary foods need to be introduced to their diets.

Our intention is to enable everyone to have a healthy start to life and to stay healthy. Of course, people do get ill, and we have nutritional therapies designed to provide clinical benefits and health economic advantages. These address dietary needs related to illnesses, disease and the challenges of different life stages, from paediatric to ageing. We are involved in advancing pioneering biomedical knowledge and technologies to understand the relationship between food, lifestyle, genetics and the metabolism of individuals. This is supporting our efforts to further develop our nutritional solutions for increasingly prevalent chronic conditions, such as cognitive decline, gastrointestinal and metabolic disorders. ■

1 Exercises to promote bone health at a rehabilitation hospital in Osaka, Japan, a supplement to the health benefits of our products rich in protein, vitamin D and calcium for elderly patients (top). Lower pictures: R&D in the pursuit of NHW.

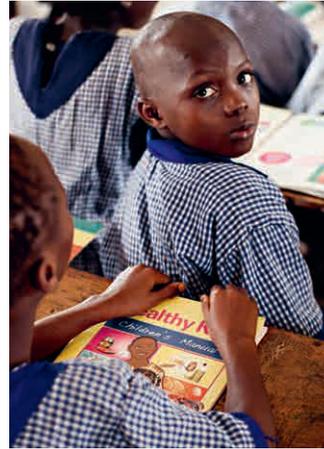
2 Scenes from the Nestlé Global Healthy Kids Programme: in Europe at the Nestlé HQ in Vevey, Switzerland (top left), Nigeria, Indonesia and Ecuador (main picture).

1



THE NESTLÉ HEALTHY KIDS GLOBAL PROGRAMME PROMOTES A HEALTHY LIFESTYLE AMONG CHILDREN

2



In the Nestlé Healthy Kids Global Programme we partner with more than 250 NGOs, governments, nutrition institutes and sports federations.

We have programmes in 68 countries and reached 6.9 million children in 2013. We have made specific commitments in our 2012 and 2013 *Nestlé in society* Report for which we can be held accountable. ■





We created our **Popularly Positioned Products** for emerging consumers with low incomes, bringing them our nutritional know-how, our brand promise and quality, as well as the extra plus – such as fortification against nutritional deficiencies.

One example is *Maggi* in our Central and West Africa Region. It demonstrates how we can bring our consumers affordable Nutrition, Health and Wellness benefits at the same time as bringing economic benefits to all those involved in our supply chain, including hundreds of thousands of small farmers.

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1 A key to the effectiveness of the nutritional benefits of our PPP products in the CWAR and other regions is their widespread availability in small shops and kiosks, easily accessible to local consumers.

2 *Maggi* single-serving cubes with consumer information showing the added nutritional benefits.

3 *Maggi* on the road in Côte d'Ivoire, reaching out to consumers with the nutritional benefits message. Middle row, centre and right: *Maggi* production in Nigeria for the local Market.

4 Farmer instruction: training women cassava farmers in Côte d'Ivoire to get the best harvests to provide local ingredients for the CWAR region.

Maggi bringing benefits

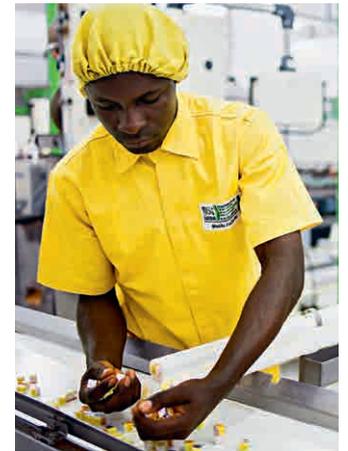
We sell 100 million *Maggi* cubes a day in CWAR. Each is a small contribution to beating malnutrition and micronutrient deficiencies in iron and iodine. The success of *Maggi* in the region has also enabled us to build communication initiatives focused on health and nutrition, such as the *Maggi* cooking caravans and the *Maggi Star Kitchen* programmes. These help families to improve their diets, by demonstrating for example the importance of iron and iodine, and cooking healthy by reducing salt. The participants are probably not aware that they represent just one link in a chain of benefits. This starts with local raw material sourcing; cassava from Côte d'Ivoire is used instead of imported corn starch, for example. The farmers are trained and helped with high-yield cassava varieties: the programme began with 100 women from four villages and today reaches about 4000 farmers (mostly women).

The chain of benefits continues in the Agbara and Douala factories, where water consumption and waste are minimised. Drinking water is distributed to communities near the factories (5000 litres / community / day at the Douala factory). Our distribution network ensures availability of our products when and where they are needed, again at the lowest possible cost and greatest possible efficiency. And this gets to the heart of what a PPP is. It is not just a product, but it is a business model designed from start to finish to get the best possible products to our consumers at the most affordable price, and bringing health and economic benefits from farm to fork. Many other products are fortified with micronutrients such as vitamin A and zinc to fight against deficiencies. Other PPPs sold in CWAR include *Nutripak* 14 g (pack of *Nido Essentia*, fortified milk sold in small, accessible servings), *Maggi* bouillons (cubes 4 g, tablet 10 g with various recipes), *Milo* 15 g sachet, *Ideal Value Creamer*, *Nescafé Classic* in single serving 2 g sachets, and *Cerelac* 50 g. ■



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4





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. We highlight *Nescafé Milano Lounge*.

1



1 Attention to detail from the chef, attention to NHW from Nestlé Professional in the preparation of all products.

2 The *Nescafé Milano Lounge* machine, bringing NHW information to the point of sale for consumers.

The barista solution

Nescafé Milano Lounge was launched in Britain in early 2013 as part of an international roll-out. It delivers a range of premium speciality drinks for shops and offices, made to genuine barista class from premium ingredients.

The solution provides customers with a range of 400 varieties of hot and cold beverages. Consumers can customise their preferred beverage through an interactive touch screen.

The touch screen includes a nutrition tab so the consumer can see the calories, protein,

fats and carbohydrates in their drink, and can make a personal selection, adjusting the coffee strength, the amount of milk, skimmed or semi-skimmed, and cup size.

This is an example of how even in a coffee machine, we include Nutrition, Health and Wellness (NHW) in our OOH strategy.

It goes much further when we help chefs design menus, or when we prepare products for restaurants from the best, healthiest ingredients. ■



2



When consumers want an indulgent moment of pleasure, an everyday reward, they turn to premium food and drinks. 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 and they are willing to pay a bit more for the pleasure.

1



1 A selection of Nestlé dairy products with improved performance – *Nestlé ActiCol*, *Nestlé Nesquik*, which provides the best nutritional complement to milk, *Ange* for bone health (bottom left) and *JianXin Double Care* heart and bone health.

Dairy-based Nutrition, Health & Wellness propositions

Meeting consumers' desire for indulgence is just one successful premiumisation strategy; another is to meet consumers' needs for enhanced nutrition from everyday food and drink.

Adult health problems, such as high cholesterol and heart and bone health, are common across different continents. In China, where it has long been understood that the best treatment of disease is to prevent illness, and that food is the first medicine, dairy-based nutrition, addressing such conditions, is growing fast. We have a near 30% share of the senior milks sector. Our brands include *YiYang* protein powder with probiotic, for increased resistance and vitality, *Ange* for bone health, *JianXin Double Care* heart and bone health.

Outside China, *Nestlé ActiCol*, which is clinically proven to lower cholesterol, is being rolled out. It is already available in Brazil, Chile and Malaysia in powder, liquid milk and yoghurt formats.

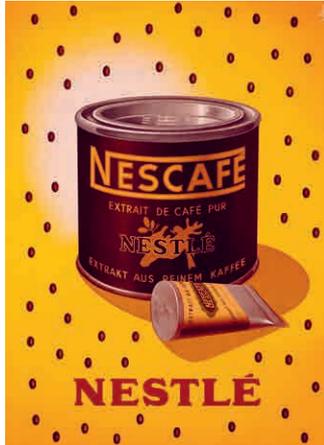
Nestlé Nesquik, with its bunny, is known as a fun brand, but its mission is to help parents encourage their children to drink more milk, so they benefit from the additional goodness that *Nestlé Nesquik* brings. A key challenge for our R&D team has been to protect the delicious *Nestlé Nesquik* flavour whilst reducing sugar and to look at how to further enhance the product's nutritional qualities. Late in 2013, *Nestlé Nesquik* was relaunched in Europe with 10% less sugar and fortified with *Optistart*. *Optistart* is a new branded active benefit containing vitamins and minerals to complement milk and provide an optimal mix of nutrients to support growth and development. The launch started in France and covered most of Europe by the end 2013. The Middle East and North and Latin America will follow during 2014. ■



Unmatched
product
and brand
portfolio

Our product and brand portfolio ranges from global icons to local favourites. There is perhaps no other brand that encompasses this so well as the world's favourite coffee brand – *Nescafé*.

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1 *Nescafé* marked 75 years in 2013 with a celebration of its heritage, traditions, and continuous innovation.

2 The *Nescafé Dolce Gusto* system – a recent innovation built on the brand's tradition and strengths.

It all starts with a *Nescafé*...

Nescafé was launched in Switzerland in 1938, as an innovative and technical solution to a genuine need, an oversupply of green coffee in Brazil. And innovation has been at the core of the *Nescafé* story ever since. It has evolved into the world's largest coffee brand, available in almost every country, with a consumer sales value of over CHF 10 billion. It is hard to imagine, but about 5500 cups of *Nescafé* are drunk every second of every day.

Our innovation takes two forms. The first is that which is visible to consumers. Examples include being the first to launch a soluble coffee-based cappuccino and latte macchiato, the systems breakthrough with *Nescafé Dolce Gusto*, and marketing *Nescafé 3 in 1* to help take *Nescafé* into countries that had no tradition of drinking coffee. Innovation has taken *Nescafé* into new segments, like *Nescafé Smoovlatte* in China, which opened up the ready-to-drink segment in the country.

Consumers are perhaps not even aware of the second facet of our innovation, though you benefit from it with every cup; technical innovation. The focus is to improve the quality and taste of *Nescafé* so we can build on long-standing favourites such as *Nescafé Gold* and *Nescafé Original*. This incorporates leading edge technical development in our factories, but also groundbreaking work with coffee plantlets in our R&D centre in Tours, to create higher yielding, disease tolerant plants to distribute in farming communities.

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Our suppliers and the quality of their crops are fundamental to the success of *Nescafé*. Crop quality can vary, but every time a consumer opens a jar of *Nescafé*, it must bring the exact same taste and pleasure. The *Nescafé* Plan begins with farmers; through our network of agronomists and our global partner the Rainforest Alliance Inc., we work with them to improve the quality and quantity of green coffee around the world. We buy directly from farmers or their associations, and our commitment to responsible sourcing continues through production, packaging, transport and even consumption – see more in our *Nestlé in society* report. ■



1 Pictures from the hinterland of *Nescafé*: working the plants in Colombia and Thailand (bottom right). The black-and-white picture (top right) shows *Nescafé* reaching the heights. It accompanied the first successful Everest expedition in 1953.

2 To celebrate 75 years, *Nescafé* has completely refreshed its identity: the redvolution has begun.

Nescafé has had a life that would be the envy of many. Just two of its adventures were joining the first successful expedition to climb Mount Everest and accompanying astronauts to the moon. Now, it is celebrating its 75th birthday with that same sense of adventure by totally refreshing its identity and its relationship with its consumers. That relationship is as immediate and engaging as its consumers: positive, engaged and open-minded people who are determined to get the most out of every moment. ■

THE **NESCAFÉ** REDVOLUTION HAS
BEGUN... KEEP AN EYE OPEN FOR
THE NEW RED ACCENT ON THE
NESCAFÉ BRANDMARK

2





Our global Innovation, Technology, Research and Development capacity supports our product and brand portfolio with clear priorities. We focus on driving innovation and renovation that is relevant and attractive for consumers and that advances our leadership in Nutrition, Health and Wellness.

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1 R&D in frozen and chilled foods in Solon, USA (top); plant R&D in Abidjan, Côte d'Ivoire.

2 Laboratory work at the R&D centre in Abidjan, Côte d'Ivoire.

3 The System Technology Centre in Orbe, Switzerland, opened in 2013 – machine and capsule technologies.

Research and development capabilities

Our global R&D network of 34 R&D facilities was further strengthened in 2013 with investment in centres in Solon, USA (frozen and chilled foods), Orbe, Switzerland (System Technology Centre), Singapore (coffee mix expertise) and Abidjan, Côte d'Ivoire (experimental farm for plant science research).

We organise our science and technology in building blocks of knowledge that we combine in different ways to deliver innovative solutions for the benefit of our consumers. Systems are a good example. In 2013, we opened our System Technology Centre where we use building blocks from *Nespresso* and other systems to develop proprietary new solutions, like *Nescafé Alegria* and *Nescafé Milano Lounge*.

Leadership in Nutrition, Health and Wellness

We strive to promote health and find solutions to nutrition and health issues, including malnutrition, obesity and ageing related challenges. In 2013, our fundamental research produced more than 500 patents and scientific publications, including the identification of biomarkers for obesity related diseases, as well as important supporting clinical results related to low protein and hypoallergenic infant formulas. Many publications resulted from our growing collaborations with academic partners and institutions, and we were proud to receive the Shokumon Award from Tokyo University, acknowledging our continued support for their research and education programmes.

Taste

Our scientific and technological capabilities must always serve consumer needs and reducing sugar, salt and saturated fat, without compromising on taste, is a key part of our activities. We aim to develop balanced and pleasurable products for our consumers and their families – from *Nestlé Nesquik*, with reduced sugar and micronutrient fortification, to *Maggi So Tender*, to promote healthier cooking options.

Food Safety

Behind every Nestlé product is a team of scientists dedicated to earning consumers' trust with safe products. To stay at the forefront in food safety, we opened the most advanced laboratories of their kind in the industry to study food-borne pathogens. Research here will be of great benefit for Nestlé, the wider scientific community and, ultimately, for our consumers.

In summary – one R&D for one journey: to be the leading Nutrition, Health and Wellness Company. ■

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Unmatched
geographic
presence

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. India, where we have been present since the beginning of the 20th century, is just one example.

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1 Nestlé in India: from milk collection to one of the many consumer outlets in the country, Nestlé continues to share the country's destiny.

Nestlé in India Celebrating a century

While some companies have rushed recently to the high-growth, newly-industrialising countries in the hope of exploiting the growing purchasing power of a huge and expanding middle-class, we have grown along with the countries. In India, for example, we have had trading contacts since 1912. We have been present through India's times as a British colony, through independence, and we fully intend to share India's future.

Nestlé India was first listed on the stock exchanges in 1968. Today it is one of the most respected companies in the country. It has eight factories that have increased capacities or are planning to increase capacities in most product categories, employs more than 7000 people, and is supported with a research and development centre. Over the years, all through the journey, we have provided products with global excellence to suit the changing lifestyles and to provide nutrition, health and wellness to Indian consumers. In 2012, we celebrated a century of Nestlé India – one of a number of countries where we have been established as a company for more than 100 years. Our first headquarters were in present-day Kolkata.

In 1961, the headquarters moved to Delhi; the same year, our first production unit started commercial production at Moga, Punjab. Progress in Moga required the introduction of Nestlé's Agricultural Services to educate, advise

and help farmers in a variety of aspects. From increasing the milk yield of their cows through improved dairy farming methods, to irrigation, scientific crop management practices and helping with the procurement of bank loans.

Nestlé's consistent work with the farmers has developed the milk industry in the region which is now flourishing. In 1961, on our first day of collection, we collected 511 kg of milk from 180 farmers. Today, we touch the lives of more than 110000 milk farmers, and collect more than 300 million kg of high-quality milk each year, to the benefit of our consumers, the farmers and of course Nestlé. This enables us to ensure quality milk and nutrition for our consumers whilst our direct sourcing benefits the farming community. This sourcing of high-quality milk is also integral to our infant nutrition business, which is the market leader in India. Our key brands in India include *Nestlé NAN*, *Cerelac*, *Nescafé*, *Maggi*, *Milkybar*, *KitKat*, *Milkmaid* and *Nestea*, as well as dairy products such as *Nestlé Milk*, *Nestlé Slim Milk*, *Nestlé Dahi* and *Nestlé Jeera Raita* (yoghurt-based condiments). Much of our raw materials are locally sourced, and almost all our sales are manufactured locally. ■

People,
culture, values
and attitude

Our people are every day building on our culture, values and attitude that date back nearly 150 years, and they are a major competitive advantage. The Nestlé culture, with its natural openness to and respect for diversity, binds our people together all over the world with a shared set of behaviours and values into a single way of doing business.

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People and respect, at Nestlé India (top) and at the Product Technology Centre in Orbe, Switzerland, during a guided visit for staff from other Nestlé Markets.

People, culture, values and attitude – based on respect above all

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 unwavering determination to deliver our goals, while creating value for society as a whole.

In Nestlé, respect is the basis for everything we do. Respect for the people, communities and cultures where we operate has been the cornerstone of our business and has driven our decision making ever since we began. In many countries today, where we have been present for many generations, we are considered a local company and our brands are perceived as local. These relationships, both between our company and its local communities, and our brands and their consumers, are of great value, as food choices and taste, traditions and culture are all local.

This sense of belonging has never been taken for granted. We have always endeavoured to use our development and capabilities not just for our own benefit but also to create value for everyone in the value chain, from farmer to consumer, and to bring broader economic benefits to the regions where we are present. We know that by doing this we will create more value for ourselves, and set in place a potential virtuous circle of shared value creation.

Respect for others allows us to take the long-term view. We respect laws; we are strict in our compliance with laws and norms where we operate. Respecting others means of course that we respect consumers as well as ourselves. We have a respect for traditions and the past; this is a foundation on which we build for the future, based on respect for future generations, which is a central part of sustainability.

We have a rigorous recruitment process to ensure that we pick people not just with the right capabilities, but also the right values and attitude to spend many years with us, evolving and learning, teaching and mentoring, and bringing value to the organisation. That process is governed by respect – without restriction.

We further understand that respect is given to others as a matter of course, not something to be earned, whether in our personal or business lives and activities. Respect is recognising that other opinions exist and are often valid, even if we may differ. ■



KitKat – a model of consumer engagement

1

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.

The opportunities and methods of communication have changed dramatically in recent years. Look no further than digital media and social networks, but the fundamentals of good communication remain the same: to be engaging and to listen, to be a part of consumers' lives in a way which is relevant, respectful and refreshing. *KitKat* is just one example of a brand that continues to take advantage of the new opportunities to build loyalty and drive growth.

2013 was another exceptional year for the iconic *KitKat* brand, one of the biggest confectionery brands in the world. Its continued high growth reflects its ability to delight consumers globally and to satisfy their desire for a lighter chocolate bar, whilst encouraging them to have a break. The growth also reflects the success *KitKat* has enjoyed in breaking into emerging markets including, since 2012, an extremely successful launch in Brazil, where the brand continues to build critical mass.

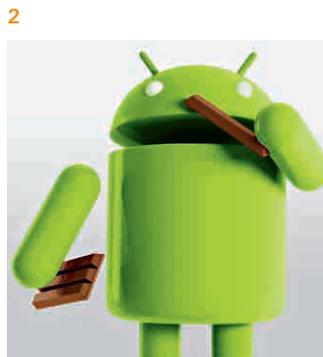
Digital is a key component of the *KitKat* integrated consumer engagement platform, and it has a vibrant relationship with its consumers, demonstrated by over 20 million highly engaged Facebook fans around the world. The global response to the unique partnership with Google, which saw the launch of the Android *KitKat* mobile operating system, created a fervour of activity. The brands trended on Twitter, generating three billion impressions. There were over 12 million views of a video celebrating the official naming, as well as one million people visiting www.kitkat.com. In Brazil a fun and surprising digital media campaign helped double Facebook fans, whilst in India an innovative mobile app, linking digital and traditional media, drove record engagement in the market.



1 *KitKat* welcomed the launch of the Google Android mobile operating system with special editions and events.

2 The Android Robot took a *KitKat* break, while in Brazil (right) there was an opportunity to win 1000 Android tablet PCs. Everything was designed to reinforce the consumer's pleasure with *KitKat* and the break.

3 2013 was another great year for *KitKat*, our iconic confectionery brand – Have a Break, Have a *KitKat*.



2





Digital is also being leveraged for Creating Shared Value: for example, *KitKat* two finger in the UK has a QR code on the packaging with additional information about the *Nestlé Cocoa Plan*.

The *KitKat* global development is characterised by a focus on getting the fundamentals right: great product quality and freshness, excellence in distribution and at point of sale, but also by an ability to adapt to different consumer needs or preferences. These might be the flavoured *KitKat* in Japan, green tea amongst them, which have helped make it the No1 brand in the Market.

In all this, *KitKat* provides a clear example of how a 79 year old brand can remain young and relevant by continually keeping consumer engagement at the heart of its existence. ■

1 The presence of *KitKat* is well-established in digital and is accessible to consumers everywhere with mobile devices which bring the nutrition and pleasure message in an appropriate form: tablet, mini tablet and smart phone.

2 The *Nestlé Cocoa Plan* plays an integral part in the life of *KitKat* – as well as for other Nestlé confectionery brands, of course – supporting cocoa farmers as here in Ecuador. In 2013, we bought more than 16 000 tonnes of cocoa under the auspices of the plan – 15% of the total cocoa we use. Two finger *KitKat* available in Britain have full details of the plan and its scope.

1



2



DIGITAL IS A KEY COMPONENT OF THE KITKAT INTEGRATED PLATFORM, IT HAS A VIBRANT RELATIONSHIP WITH ITS CONSUMERS

Personalised *KitKat* is available in Japan via a website (www.chocollabo.com); it is a favourite for weddings, with the picture of the married couple as a souvenir for guests, as a memento of schooldays or a university class, or to mark the birth of a new addition to a family. ■





We must 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, safest, highest-quality products on our customers' shelves. Nestlé Continuous Excellence, enabled by GLOBE, is our approach to **operational efficiency**, with its objectives of eliminating waste and errors, increasing efficiency and effectiveness, and improving quality and safety in all operations.

1



1 Efficiency being planned-in at a meeting at the *Nescafé* factory in Dongguan, China.

2 Attention to detail in the field at the Mossel Bay dairy factory in South Africa (top left); testing milk at the Lagos de Moreno ice cream factory in Mexico; and a production line conversation at the dairy factory in Osorno, Chile. The end result is consumer delight, here a young person enjoying *Nestlé Nespray* in Sri Lanka (main picture).

Efficiency in all operations

Operational efficiency at Nestlé starts at the farms that supply our raw materials and runs along our value chain to how we supply our products and brands and engage with our consumers. As populations grow and standards of living improve, Nestlé's manufacturing volumes increase every year. Our aim, simply, is to produce more with less – less water, less energy, less waste, less complexity, less cost per tonne of product – but to the same or an even higher quality. We can use our expertise to help farmers become leaner, optimising their irrigation and use of water and fertilizer. We can help them to achieve the virtuous circle that combines a sustainable living with an ability to invest in improving the quality and yield of their crops so that their incomes further increase. It means working with our partners on optimal distribution methods and routing.

It requires enhancing our own capabilities and skillsets to create a lean mind-set in our factories and activities, and achieving zero waste. It means reducing packaging and working with our customers to achieve on-time, in-full service levels and optimised on-shelf merchandising. It also means excellence in sales and marketing. Operational efficiency is much, much more than just well-run factories. It touches every part of our business. It is an up- and downstream integrated value chain that creates benefit for all who participate in it. ■





Whenever,
wherever,
however

It is not enough, 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 them. This might be in traditional retail, it might be in e-commerce. Or it might be even more innovative, such as these two examples, at different ends of the coffee spectrum, one in Europe, the other in Africa.

1



2



1
The innovative *Nespresso Cube* at Barcelona airport, Spain – especially for returning travellers.

2
Interior view of the *Nespresso Boutique* in San Francisco, USA.

Nespresso on demand

Travellers through Barcelona airport are among the first to be able to use a unique retail concept, the *Nespresso Cube*, an innovative automated boutique. It offers *Nespresso's* Grands Crus or Limited Edition coffees within seconds. The Cube arose out of engagement with the *Nespresso Club Members*: the new experience fits their lifestyles, and the system will allow *Nespresso* to expand into new premium locations. The cube contains 25000 capsules in 2500 sleeves, and the system can process an order of 10 sleeves in 20 seconds, all visible through a window. *Club Members* can buy using their *Nespresso Club* card, other consumers with credit cards. *Nespresso* has 320 retail boutiques worldwide, which are at the heart of the brand's strategy, supported by the consumer relationship centres, the on-line boutiques at www.nespresso.com, and now also by the *Nespresso Cube*. ■

Nestlé Professional launched the MYOWBU (My Own Business) initiative in Central and West Africa in 2012. The idea was to make *Nescafé* available within arm's reach to consumers out of home – and in the streets of cities – by training entrepreneurs to treat street selling as their own business. MYOWBU quickly expanded from the original countries of Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Nigeria and Senegal to South Africa, Angola, Mozambique, Kenya, Zambia, Democratic Republic of Congo, as well as the Maghreb region. The programme has created 3768 jobs and has sold 70 million cups of *Nescafé*, bringing a refreshing cup of coffee to a whole new type of consumer. ■





Innovation and renovation

1

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 focus on on-going renewal to keep our consumers excited about our brands. This is just as true for their pets as it is for themselves; one perfect example is *Fancy Feast/Gourmet/Mon Petit* available in the United States, Europe and Japan respectively.



1 Three examples of Nestlé Purina PetCare’s innovative premium products in the wet catfood segment: *Elegant Medleys*, *Gourmet-Perle* (bottom left) and *Mon Petit*.

2 A satisfied pet owner and her equally satisfied pet.

Innovating and renovating in the wet catfood segment

Nestlé Purina PetCare is well-positioned in the fast-growing super premium segment. Its innovation and renovation has been driven by deep understanding of consumer and customer insights, proprietary technology and also identification of trends important to pet owners: starting with health and wellness for their pets, then convenience, indulgence and ‘humanisation’. This journey of innovation and renovation began in 1980, when *Fancy Feast* was introduced in a single-serving can – consumers did not want opened multi-serve cans in their refrigerators next to human food. New concepts continued the momentum over the years: restaurant inspired *Elegant Medleys* (USA), with vegetables, rice and tomatoes, *Gourmet-Perle* (Europe), with the look of grilled meat, and *Mon Petit* soups concept (Japan), with pieces of fish and garnishes.

Recently, new humanisation trends around real ingredients have emerged. Nestlé Purina PetCare has met those with more innovation, notably with *Fancy Feast Appetizers* (2009), one of the first brands to deliver chunks of premium fish in a delicate sauce for the US market. Also with *Gourmet Fisherman’s Delights* (2013) in Europe, which is a proprietary and sustainable wet cat food with premium ingredients for maximum health and wellness.

Innovation has also touched packaging with, for example, the move from cans to more convenient, lighter easy to open pouches. ■

2



Building for the future

Our history stretches back nearly 150 years, and our story has been characterised from the earliest days by a forward thinking, even pioneering approach. In part this was because our home country, Switzerland, is relatively small and did not provide the scale of opportunity that our predecessors were looking for. But rather than just move into neighbouring countries, they also went further afield to countries which, even more than 100 years after our arrival, are still considered emerging. This needed particular skills and capabilities. Our pioneering approach was also scientific, as we created new products, and even new categories, soluble coffee among them.

Today, we continue to evolve and lay foundations for long-term growth. We continue to invest in our people and in the changing capabilities that we need. We continue to pioneer new products and categories. The most recent example is Nestlé Health Science and the Nestlé Institute of Health Sciences, which were established in response to our belief that there is a role for nutrition to play in addressing chronic medical conditions.

Nestlé Health Science, created in 2011, offers nutritional solutions for people with specific dietary needs related to illnesses, disease states or the special challenges of different life stages. The Nestlé Institute of Health Sciences (also founded in 2011) does biomedical research to better understand human health and ageing as influenced by metabolism, genetics and environment; it develops science-based nutritional solutions to address chronic medical conditions.

The two companies work very closely with our research and development network, the largest in the food and beverage industry. We have 5000 people working in R&D. Last year, we spent CHF 1.5 billion. We have 34 R&D facilities. In May 2013, we opened the most advanced laboratories in the industry to study food-borne pathogens that are harmful to health. The new labs are at the Nestlé Research Centre near Lausanne, Switzerland.

1



1

Smartflex (top) is the first ready-to-use, aseptically-filled, collapsible tube feeding bottle with an innovative cap on the market; it is unbreakable, easy to store, very convenient to handle and manipulate for the nurses. This is a major benefit for customers, while offering increased safety. It can be used for enteral and oral feeding. The design of the label enables both patient and caregiver to know how much is left in the bottle.

2

A member of staff at the Nestlé R&D Centre in Abidjan, Côte d'Ivoire.



In April 2013, Nestlé Health Science acquired Pamlab, a US-based company that offers medical foods, by prescription, for the nutritional support of patients with specific medical conditions. Pamlab investigates nutritional science and promotes evidence which can directly affect disease management for brain health (depression and memory loss) and metabolic conditions (peripheral neuropathy). Also in April, Nutrition Science Partners, a 50/50 joint venture between NHSc and Chi-Med began enrolling patients for a treatment for mild-to-moderate ulcerative colitis.

Science-based nutritional solutions

Nutritional solutions play a key role in improving outcomes: *Impact*, a global product, is a clinically proven specialised immunonutritional substance (for oral and enteral use) for surgical and trauma patients. *Impact* has been proven in numerous randomised clinical trials and meta-analyses to reduce post-operative complications, infections, and length of hospital stay in patients undergoing major surgery. Clinical studies showed that the use of *Impact* by patients undergoing elective gastrointestinal cancer surgery reduced post-surgical infections by 36% and cut the average length of hospital stays by 2.6 days. In Switzerland, for example, this supports cost savings of CHF 1638 to CHF 2488 per patient.

Meritene, available in key European markets, is an oral nutritional supplement with proteins, vitamins and minerals for adults needing special nutritional support due to ageing, illness or lack of appetite which could lead to malnutrition. The nutritional value of *Meritene* has proven popular with patients. In Spain, for example, in a survey conducted during 2008, almost 70% of successive consumption sales were derived from patient-driven choices. We interpret this as a high degree of customer satisfaction with the product.

Vitaflor, a company founded 15 years ago and that we acquired in 2010, addresses the needs of patients with genetic disorders (inborn errors of metabolism) that affect how food is processed in the body. They are infrequent but persist into adulthood and represent a significant proportion of genetic disorders detected in newborns. The most common of these disorders is Phenylketonuria (quite rare – 1:10 000). These patients lack an enzyme needed to properly metabolise protein, which – if not addressed – can damage organ development and lead to severe mental retardation. Screening of newborns with a simple blood or urine test can detect the disease and it can be addressed with a special diet.

***Meritene*, an oral nutritional supplement available in Europe. Its value has been recognised in a medical publication.**



TODAY, NOTHING HAS CHANGED. WE CONTINUE TO LAY FOUNDATIONS FOR LONG-TERM GROWTH

1



1
Angela Merkel, German Chancellor, joins Paul Bulcke, Nestlé CEO, for a cup of coffee after laying the foundation stone for a new *Nescafé Dolce Gusto* factory in Germany.

2
More coffee in evidence at the opening of the *Nescafé* factory in Shandong province, China. This time, Paul Bulcke is joined by Nandu Nandkishore (left), EVP for Asia, Oceania, Africa and the Middle East, as well as Roland Decorvet, Chairman and CEO of Nestlé Greater China (right) and other members of staff.

2



Capital investments

The year was another one in which capital investment ran at a relatively high level. That level will come down in 2014. We expanded capacities both in developed and emerging markets to position ourselves well for the opportunities that lie ahead.

One of our biggest investments was the *Nescafé Dolce Gusto* Factory in Germany. Angela Merkel, German Chancellor, joined Paul Bulcke to mark our CHF 270 million investment. It is designed to process 60 tonnes of coffee daily and produce approximately two billion capsules a year – 450 new jobs are due to be created. Also in Germany, we extended our *Wagner* factory. Pizzas made there include reduced fat, wholegrain, lactose-free and organic varieties, produced without flavourings or additives.

Other factory investments in Europe included a *Maggi* factory in Vladimir, Russia, and a new Nestlé Purina PetCare factory and distribution centre near Wrocław. It will be our 10th factory in Poland and create 200 jobs. We are extending the Davigel factory in Noyal-Pontivy, France, as we further develop nutritionally balanced meals for hospital patients.

We opened two new factories in China, with a combined investment of about CHF 500 million: one for *Nescafé* in Shandong Province and one for Yinlu Foods in Anhui Province. This demonstrates our confidence in the Chinese market and our commitment to the country and its consumers.

Also in Asia, we announced a ready-to-drink beverage factory in Malaysia for brands such as *Nescafé*, *Milo* and *Nestlé Low Fat Milk*, and inaugurated a *Nescafé* factory in Vietnam. We opened a coffee centre of excellence in the Philippines aimed at improving the quantity and quality of the coffee crop in a country where demand outstrips supply. It is designed as a one-stop facility to give farmers access to the best of our coffee farming technology and training.

In the Americas, we began the expansion of a dairy factory in San Francisco de Marcóris, Dominican Republic, and announced an investment in R&D facilities in Solon, USA, aimed at delivering innovations in frozen and chilled products.

There was little M&A activity in 2013. We sold Jenny Craig, having decided that it would fare better under different ownership. Nestlé Purina PetCare bought www.petfinder.com, the leading online site for pet adoption in the USA. Petfinder has helped find homes for 23 million pets and is visited by more than 100 million pet-lovers each year.

People – our future

The future of our company depends on people, especially young people. In Europe, as an example of our world-wide commitment to this belief, we launched the Nestlé needs YOUth Initiative with a conference in Athens, Greece, in November. The scheme will offer jobs to 10 000 people under the age of 30 in Europe and create 10 000 apprentice positions and traineeships by 2016. We have pledged to create 20 000 positions for young people across Europe over the next three years. One in four young people in Europe does not have a job.

In 2011, we founded the International Dual Career Network Association. It is growing in an impressive way: there are now more than 60 international company members, with eight network locations across Europe, Latin America and the United States. In 2014, the network will expand into Asia. To date, more than 100 spouses of mobile employees have found a job either with or through the support of member companies. This enables people to move, who would not do so if their spouse could not work.

In traineeship vacancies, we want to attract a diverse candidate base. Our employer brand proposition is as an approachable and human company that recruits our future leaders on the basis of merit and qualifications while searching for the best cultural fit.

In the United Kingdom, we saw that a large number of Chinese students were graduating from its universities, predominantly in London. This represents a rich pool of talent that we have begun attracting back to work for Nestlé

Greater China Region; one demonstration of collaboration between our Markets and a unified approach to identifying talent and creating talent pipelines.

Still in Asia, our ASEAN region Market heads are running a programme to accelerate talent development. Designed as a complement to the existing international talent development programme, the STAR programme facilitates and accelerates training and assignments between China, Indochina, Indonesia, Malaysia, Singapore and the Philippines, taking advantage of a regional synergy to identify, promote and develop local talent for the region.



Rapt attention: two participants at a training course at the Nestlé training centre Rive-Reine, Switzerland.



R&D and science-based nutritional solutions

34
The orange dots mark the locations of our 34 global R&D facilities.

- 1**
In April 2013, Nestlé Health Science was strengthened by the acquisition of Pamlab, based in Louisiana, USA.
- 2**
In June 2013, we announced a significant investment in our R&D facility in Solon, USA, aimed at innovation in frozen and chilled products.

Capital investments

- 1**
In July 2013, we opened the expansion of a milk factory in the Dominican Republic. Its main product will be *Nestlé Carnation* evaporated milk.
- 2**
A new *Nescafé Dolce Gusto* factory was begun in Germany, an investment of CHF 270 million.
- 3**
Nestlé Purina PetCare announced a new factory in Wroclaw, Poland, which will be built at a cost of CHF 93 million and create 200 jobs.
- 4**
In July 2013, a new *Maggi* factory was opened in Vladimir, Russia. An investment of CHF 73 million. It will produce about 30000 tonnes of *Maggi* products a year.
- 5**
In China, we opened two new factories, at a combined investment of CHF 500 million. One, for *Nescafé*, was in Shandong province, and the other was in Anhui province for Yinlu Foods.
- 6**
We inaugurated a new CHF 230 million *Nescafé* factory in Dong Nai province in Vietnam.

Partnerships

Nestlé is a big company, but not so big that we think we can do everything ourselves. We partner with companies that bring added benefits to our pursuit of excellence, either geographically or with product expertise. The following are our main partnerships and joint ventures:

We have had a stake in L'Oréal for nearly 40 years – since 1974. Until the beginning of 2014, we had a 29.7% holding. On 11th February, 2014, we announced the sale of 8% of our shareholding in L'Oréal back to the company. This was partly to finance the acquisition from L'Oréal of the 50% of Galderma, the dermatological company, that we did not already own. We will set up a new enterprise, Nestlé Skin Health S.A.

We also have a 50/50 stake in Laboratoires innéov, another joint venture we set up with L'Oréal to produce concentrated nutritional beauty supplements.

Cereal Partners Worldwide is a 50/50 joint venture with General Mills, which produces and sells ready-to-eat breakfast cereals outside the USA and Canada (General Mills sells inside the two countries). CPW has been building on its commitment to make whole grains the main ingredient of its products and to reduce both salt and sugar.

Beverage Partners Worldwide is a 50/50 joint venture with Coca-Cola, based on the ready-to-drink tea sector. BPW focuses on Europe and Canada.

In China, our two newest partnerships are with Hsu Fu Chi in confectionery and the Yinlu Foods Group in foods, specifically peanut milk and rice porridge, (both 60% owned by Nestlé).

Osem (63.7% owned by Nestlé) markets our products in Israel.

We set up Dairy Partners Americas to combine our abilities in the dairy market in Latin America with those of Fonterra.

Lactalis Nestlé Produits Frais is a fresh dairy product joint venture with Lactalis Group (40% owned by Nestlé).

Nutrition Science Partners Limited is a 50/50 joint venture between Nestlé Health Science and the pharmaceutical and healthcare group Chi-Med. NSP has been established to research, develop, manufacture and market innovative nutritional and medicinal botanically-derived products with access to one of the world's leading Traditional Chinese Medicine libraries.

We also have partnerships in research and development. These range from traditional partnerships with suppliers, universities and others with specific know-how, to the creation of our own venture funds, set up to invest in early stage technologies and companies that have relevance to our Nutrition, Health and Wellness strategy.



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