



Nestlé

Good Food, Good Life

Annual Review 2015

Our business

Nestlé has grown from a company founded 150 years ago to a global leader in Nutrition, Health and Wellness.

Wherever you are in the world we have safe, nutritious products to help you care for yourself and your family. Our product portfolio has seven categories, offering you healthier and tastier choices at every stage of your life, at every time of the day.

Our growth has enabled us to help improve the lives of millions of people through the products and services we provide, and through employment, our supplier networks and the contribution we make to economies around the world.



Our commitments

Our 39 commitments in the *Nestlé in society* report guide all of us at Nestlé in our collective efforts to meet specific objectives.

For a company to prosper over the long term and create value for shareholders, it must create value for society at the same time. We call this Creating Shared Value. On the right is a selection of key achievements from each CSV focus area.

| | | | |
|--|---|--------------------|----------------------------------|
| | Nutrition, health and wellness | 192 billion | 8041 |
| Number of servings of fortified foods provided worldwide | Number of products renovated for nutrition or health considerations | | |
| | Rural development | 760 000 | 10 950 |
| Number of farmers supplying directly to Nestlé | Total number of Tier 1 suppliers audited from 2010–2015 | | |
| | Water | 41.2% | 7.7 million m³ |
| Cumulative reduction since 2005 of direct water withdrawals per tonne of product in every product category | Quantity of water in our operations either recycled or reused | | |
| | Environmental sustainability | 42.7% | 105 |
| Cumulative reduction since 2005 of greenhouse gas (GHG) emissions | Number of factories achieving zero waste for disposal | | |
| | Our people, human rights and compliance | 6049 | 34% |
| Number of work opportunities offered to young people by Nestlé in Europe | Percentage of women holding leadership roles | | |

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Nestlé in society
Creating Shared Value
and meeting our
commitments 2015



Corporate Governance Report 2015
Compensation Report 2015
Financial Statements 2015

Our performance

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

In 2015 we delivered profitable growth at the higher end of the industry in what is still a challenging environment. This profitable growth was on the back of consistent performances in previous years. On the right is a summary of the results we achieved during the year.

| | | |
|--|--|--|
| Group sales (in CHF) | Organic growth | Real internal growth |
| 88.8 billion | 4.2% | 2.2% |
| Trading operating profit (in CHF) | Trading operating profit margin | Trading operating profit margin |
| 13.4 billion | 15.1% | +10 basis points |
| | | Constant currencies |
| Earnings per share (in CHF) | Underlying earnings per share | |
| 2.90 | +6.5% | |
| | Constant currencies | |
| Operating cash flow (in CHF) | Free cash flow (in CHF) | |
| 14.3 billion | 9.9 billion | |
| 92.7% of net financial debt | | |
| Proposed dividend (in CHF) | Proposed dividend increase | |
| 2.25 | +2.3% | |

Letter to our shareholders

Dear fellow shareholder,

In 2015 we built on the consistent, sustainable performance of previous years, delivering growth in a difficult and volatile trading environment. Our 2015 performance was driven by the relevance of our Nutrition, Health and Wellness strategy, which represents our engine of value creation and which we continue to execute effectively.

We delivered organic growth of 4.2%, composed of real internal growth of 2.2% and pricing of 2.0%. Sales were CHF 88.8 billion, impacted by foreign exchange of -7.4%. The Group's trading operating profit was CHF 13.4 billion with a margin of 15.1%, down 20 basis points on a reported basis affected by the strong Swiss Franc, up 10 basis points in constant currencies. This performance was achieved while we again increased substantially our investment in brand support, digital, research and development, and our new nutrition and health platforms. Net profit was CHF 9.1 billion. The reduction of CHF 5.4 billion versus last year was mostly due to the one-off impact from the disposal in 2014 of part of the L'Oréal stake combined with the revaluation of the Galderma stake. There was also some effect from foreign exchange. Earnings per share at CHF 2.90 were down 36.1% for the same reasons. Underlying earnings per share in constant currencies increased by 6.5%. The Group's operating cash flow remained strong at CHF 14.3 billion and free cash flow was CHF 9.9 billion or 11.2% of sales. In view of this performance and the company's strong financial position, the Board is proposing a dividend of CHF 2.25 per share up from CHF 2.20 last year. During the year we completed a share buyback of CHF 8 billion. It is worth noting that since 1942 your company has never reduced the dividend paid to its shareholders. In fact, the dividend has increased every year since 1995.

Based on our solid and consistent record in delivering growth at the higher end of the industry, we are confident we can continue to deliver on our long-term commitment: organic growth of 5% to 6% with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency. There will be years when we exceed this ambition and years when we come close, but this is the profitable growth line we walk over time.

2016 marks the 150th anniversary of our company and we will celebrate 150 years of passion for Nutrition, Health and Wellness. Our founder Henri Nestlé's determination, commitment and pioneering spirit have inspired our people around the world to develop and apply scientific and nutritional know-how to enhance the quality of life of our consumers and those they care for. This passion for nutrition



Peter Brabeck-Letmathe, Chairman (left), and Paul Bulcke, Chief Executive Officer (right).

will continue to guide the development of our company in the future and will further strengthen our determination to bring Good Food, Good Life to billions of consumers around the world. It is with this conviction that we have made public commitments to further improve the nutritional profile of our products by reducing the amount of salt, sugar and saturated fats, and remove trans fats completely. Thanks to our unique global Research and Development capabilities, we are on track to meet these promises.

In addition, we are extending the boundaries of our business beyond our food and beverages portfolio to fully realise our Nutrition, Health and Wellness ambitions. In 2011 we created Nestlé Health Science to exploit the therapeutic role of nutrition with an innovative pipeline of products designed to make a major contribution to the health of different populations. Then, in 2014 we created Nestlé Skin Health which is helping people meet the needs of their skin at every stage of life's journey with products to protect, serve and enhance skin health. It is our size and our scale that allows us to invest heavily in these new areas that have the potential, over the long term, to offer great benefits to society.

For our business to prosper over the long term, we must deliver value to you, our shareholders, as well as to the communities in which we operate and to society as a whole. This is what we call Creating Shared Value. This is how we go about running and developing our business. This is how we build trust over time. Our full set of 39 public commitments provide the framework for our engagement with society.

We build trust by providing our consumers with products and services of the highest quality and safety. We build trust with every consumer contact we make as this is the basis of our future success, particularly as consumers and the public in a digital world enjoy full transparency on all aspects of the life of the company and are consequently more demanding. When trust is challenged, such as in India with *Maggi* or in the United States with *Beneful*, we act swiftly and decisively to deal with the issue. Maintaining the trust of consumers is a non-negotiable priority for our company.

In 2015 we continued our portfolio management, designed to ensure the right resource allocation and maximise the growth opportunities in every category. As part of this process we divested our Davigel frozen food business and announced our intention to build a strong player in the ice cream industry by setting up a joint venture with R&R Ice Cream, a leading European ice cream company. This and other developments were examined during the Board of Directors' annual strategy review. The Board also examined the company's R&D strategy and reviewed the

major acquisitions of the last few years as well as the company's business in China. Reflecting our belief in the importance of our people, the Board also considered our progress in diversity and gender balance. For the first time in 2015 we sought the approval of the Annual General Meeting for the compensation of the Board of Directors and the Executive Board as the new Swiss 'say on pay' law required. All the proposals were passed with large majorities. We believe the approach we have taken in this area is in line with both the law and with the spirit of the law.

During the year Nandu Nandkishore, Executive Vice President in charge of Zone Asia, Oceania and sub-Saharan Africa, took early retirement after a long and distinguished career with Nestlé. The Board of Directors appointed Wan Ling Martello to succeed him in that role and François-Xavier Roger to succeed her as Chief Financial Officer. Also José Lopez, Executive Vice President in charge of Operations, took a well-deserved retirement after 36 years of dedicated service to the Group. He was succeeded by Magdi Batato who was most recently the Market Head of Pakistan. We would like to thank Nandu, José and all of those who retired during the year for their contributions and extend our best wishes for a long and happy retirement.

As we embark on our next 150 years of passion for nutrition, we thank you, our shareholders, for your continued trust in Nestlé. Thanks to your support, our clear strategic direction, our balanced portfolio, strong innovation pipeline and commitment to quality and to building trust, we continue to prosper. We would like to thank all our 335 000 employees whose hard work, alignment behind our Nutrition, Health and Wellness strategy and commitment to Nestlé enable us to deliver on our promises. By fulfilling the expectations of consumers in meaningful ways each day, they ensure that your company continues to generate the profitable growth that you, our shareholders, rightfully expect.



Peter Brabeck-Letmathe
Chairman



Paul Bulcke
Chief Executive Officer



**We are the leading
Nutrition, Health and
Wellness company.**

**We enhance lives
with science-based
nutrition and health
solutions for all
stages of life, helping
consumers care
for themselves and
their families.**

The strategy

With our Nutrition, Health and Wellness strategy we support people who want to live a healthier lifestyle. Industry-leading research and development drives innovation and supports the constant renovation of our food and beverage portfolio. In addition, our researchers are exploring the role of nutritional therapies to maintain or improve health and investigating how we can help people look after their skin. By sharing our insights on global Nutrition, Health and Wellness challenges, by building partnerships and by engaging with policymakers, stakeholders and key opinion leaders we strive to have a positive impact on the societies in which we operate.

We empower people to make informed decisions when they choose what to eat. Through *Start Healthy Stay Healthy*, our interactive, science-based education programme, we help parents and caregivers provide their children with the nutrition they need in the crucial first 1000 days of life. Our United for Healthier Kids programme, takes this further, helping parents and caregivers establish healthier eating, drinking and lifestyle habits for children as they get older, and our Nestlé Healthy Kids programme is helping to





deliver a healthier lifestyle for children by teaching nutrition and encouraging physical activity.

We are on track to deliver on our commitments to reduce the amount of salt, sugar and saturated fats in our products and remove trans fats, while maintaining consumer preference. We are enhancing our portion guidance and improving our labelling, printing GDAs (Guideline Daily Amounts) on the front of packs, making it easier for people to read them.

In recent years we have reinforced and expanded our Nutrition, Health and Wellness strategy with the creation of Nestlé Health Science and Nestlé Skin Health. Nestlé Health Science is advancing the role of nutritional therapy to change the course of health for consumers, patients and for our partners in healthcare. With Nestlé Skin Health we are entering the field of specialised medical skin treatment by offering science-based solutions for the health of skin, hair and nails over the course of people's lives.

We strive to meet the fast-changing expectations of our consumers because like them, we care deeply about quality, food safety, the environment and sustainability. Responsible behaviour wherever we operate is at the very heart of what we do. It is our fundamental belief that for a company to prosper over the long term we need to create value for shareholders while at the same time creating value for society. We call this Creating Shared Value. Trusted leadership in Nutrition, Health and Wellness is our strategic ambition, Creating Shared Value is how we go about it. The inclusion of the *Nestlé in society* report, alongside this *Annual Review* and the *Financial Statements* in the *2015 Annual Report* package, reflects how Creating Shared Value is fully embedded into internal management processes and the way we do business.

The Nestlé Strategic Roadmap (illustrated opposite) is the compass that guides our organisation, driving internal alignment behind our goals. The roadmap shows how we deliver profitable growth, the competitive advantages that we leverage and the organisation we have chosen, in order to be effective and efficient. It is the framework that we use to establish priorities and drive execution.

In addition, we have set out six strategic priorities. Firstly, Make Choices: put resources behind the ideas, products and categories that help us on our journey to recognised Nutrition, Health and Wellness leadership, and to deliver sustained financial performance. Secondly, Grasp Opportunities: see the opportunity in change and trends, and translate them into concrete business opportunities. The third is Value What Consumers Value: all that we do should create value for consumers and drive out waste. Fourth, Engage with Stakeholders: we want to be trusted by all consumers and stakeholders as a genuine and responsible member of the community. Fifth, Embrace Digital: deepen the connection with consumers through the growing e-commerce channel and through real-time listening, engagement and dialogue. Sixth is Win through People and Teams: we need the right people with the right capabilities and effective leadership at all levels to engage, empower and enable everyone to give their best.

As we strive to become a more agile and higher-performing organisation we ensure that we embed our strong culture and values across all our operating companies, especially those that are newly acquired, all within the framework of compliance which governs all that we do. We take a long-term view, framed in a robust set of principles and values that are based on respect: respect for people, respect for future generations, respect for the environment and respect for the diverse world we live in.

Operational pillars

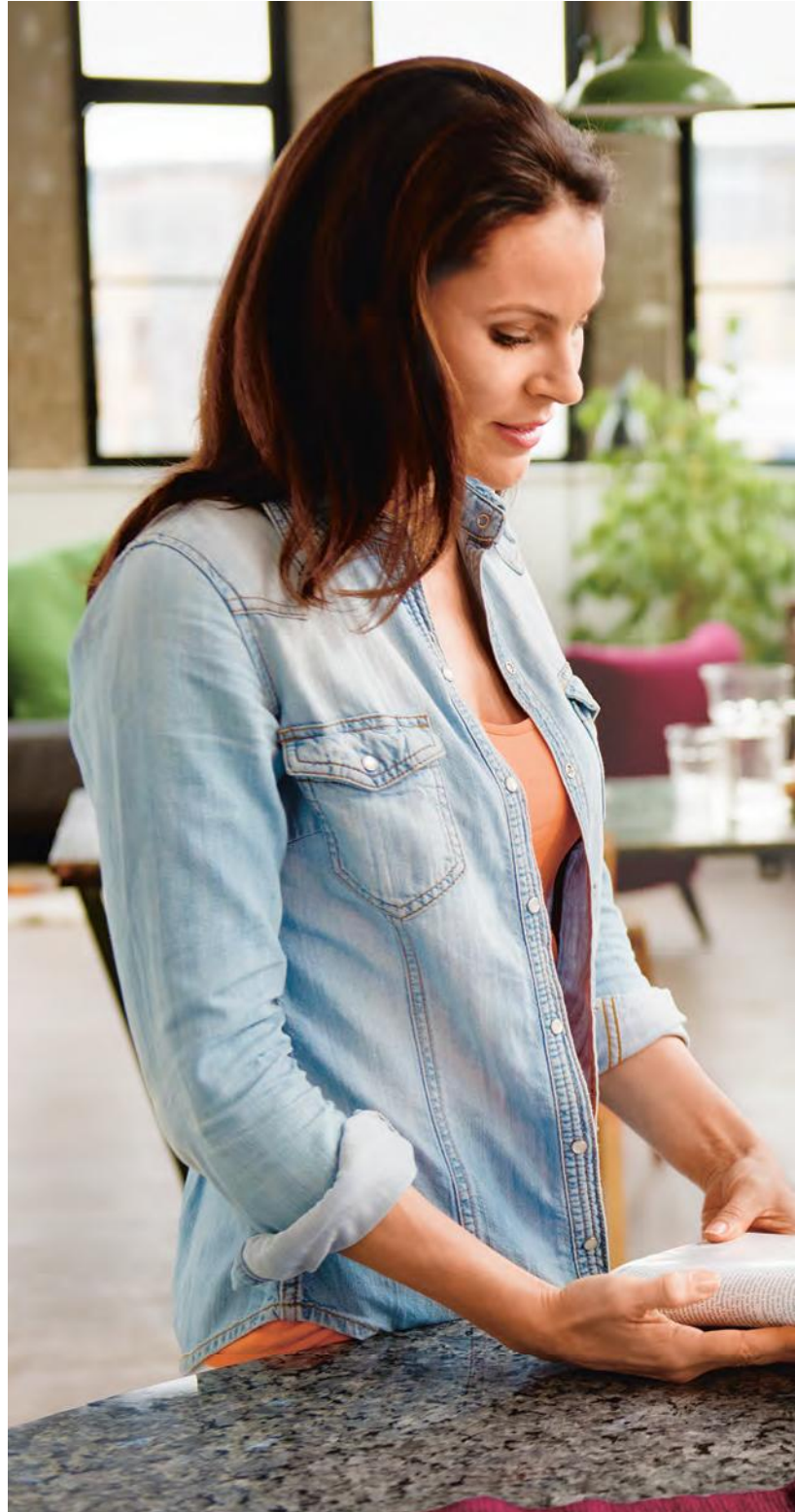
Growth drivers



The highlights

'Good Food, Good Life' is the commitment we make every day, in every part of the world. We have more than 2000 brands in our portfolio, from global icons to local favourites. We help people live more enjoyable, healthier lives, leveraging 150 years of passion for nutrition to bring them products and services they can trust.

On the following pages we highlight the innovation and renovation of our portfolio over the past year. We begin with the two newest parts of our business. Nestlé Health Science champions the role of nutritional therapies that have proven clinical benefits. Nestlé Skin Health offers science-based solutions to care for the skin, hair and nails. These businesses build on the strong foundations of our food and beverage business, and in the following pages we also highlight the new ways we are engaging with consumers in these areas. In 2015 we reported sales of CHF 88.8 billion. We report our sales numbers by category, and the review of the food and beverage portfolio follows the same approach.





Nestlé Health Science

Nestlé Health Science was created with the bold ambition to seize opportunities in nutritional science and focus on advancing the role of nutritional therapy to change the course of health management for consumers and patients, and in the minds and practices of healthcare providers. It is supported by the Nestlé Institute of Health Sciences which researches how nutrition can empower people to improve and maintain their health.

Nestlé Health Science's portfolio is focused on helping to address key challenges our society faces: how to age healthily, how to maintain brain health and gastrointestinal health, and how to support those born with inborn errors of metabolism. Its business is organised into three main areas.

Consumer Care covers products people pay for themselves in a pharmacy, a retail outlet or via websites. In North America, the main brand is *Boost*, intended for consumers who want to live physically and mentally active lives but who struggle to get the right amount of nutrition. Two new additions to the range, *Boost Compact* and *Boost Calorie Smart 100 calories*, were launched during the year in the US. In Europe, the *Meritene* range of products, which addresses various health challenges from bone, muscle and joint health to helping to reduce tiredness and fatigue, was rolled out to new countries.



40

high-potential projects give NHS a strong innovation pipeline

Medical Nutrition is Nestlé Health Science's largest business and covers products recommended by healthcare professionals and mainly reimbursed by insurers or served in institutions. One key focus area is acute care with a range of nutritional solutions for critically-ill people and for older people suffering from disease-related malnutrition



Boost products can be a mini meal or a between-meal snack. They contain high-quality protein and 26 vitamins and minerals, including calcium and vitamin D.

or swallowing difficulties. Another key focus area is food allergy and intolerances. One range of products, *Althéra*, *Alfaré* and *Alfamino*, can be used to provide nutrition for infants who are allergic to cow's milk protein. Another, *Vitaflo*, provides 'diets for life' for those suffering from inborn errors of metabolism who require specialised nutrition to survive and grow.

Novel Therapeutic Nutrition is a business in the making, focused on gastrointestinal health and brain health. One area of focus is inflammatory bowel disease where the standard treatment involves either drug therapy or surgery. The company is developing two new nutritional therapies that can be used as an 'add-on' to standard drug treatment, developed as medical foods.

Nestlé Health Science benefits from a strong innovation pipeline with forty high-potential projects on the way. As part of the Nestlé Group it can leverage Nestlé's route to market, innovation capabilities and unrivalled Research and Development network. A new Nestlé Product Technology Centre will be established in New Jersey, United States, dedicated to accelerating innovation in Nestlé Health Science's three main business areas.

The company also has a strong external innovation network, allowing it to exploit the best scientific and technological know-how. It has invested in the most advanced microbiome technology company, Seres Therapeutics, and in Lipid Therapeutics, a company developing a novel therapy to address ulcerative colitis. It has also expanded its venture capital partnership with Flagship Ventures which helps launch transformative start-ups in therapeutics and health technologies.



Breastfeeding is best for babies, but for those who are fed with infant formula, Nestlé Health Science has a hypoallergenic range for the dietary management of cow's milk allergy.



Nestlé Skin Health

Nestlé Skin Health's mission is to enhance the quality of life by delivering science-based solutions for the health of skin, hair and nails. Nestlé Skin Health conducts ground-breaking research to provide both the healthcare community and the consumer with an ongoing progression of innovative technologies and products to protect, serve and enhance skin health.

The skin, our largest organ, protects us from harmful environmental factors, acts as an envelope for the body and can influence the way we interact with the world. Other people look at our skin and it shapes their perception of who we are. We look at our skin and it influences our view of ourselves and our sense of well-being.

Today, as people live longer, their needs and expectations are changing. We all want to look and feel good, and to play an active role in society. To do this best, our skin needs to overcome the challenges of time as it ages. Nestlé Skin Health's innovative products and solutions strive to protect, nourish and enhance healthy skin and, when needed, treat, correct and restore compromised skin.

Some three thousand skin diseases have been identified, more than for any other organ of the body. Galderma is the Medical Solutions business of Nestlé Skin Health and works closely with the healthcare community to ensure it has a clear understanding of patients' needs and can respond effectively.

In acne, for example, Galderma can deliver drugs like *Epiduo*, the number one topical prescription drug treatment for acne worldwide. Galderma is committed to partnering with physicians to provide new and effective options while, where the market allows, increasing access to treatment by offering self-medication solutions available in pharmacies. This approach offers healthcare professionals a range of products that they can prescribe or recommend with total confidence.

We are witnessing a significant shift in the mainstream perception of well-being. These trends are driving strong growth in the Aesthetic



European Union approval was granted early in the year for *Soolantra*, a novel solution to treat lesions of rosacea, further reinforcing the portfolio.

and Corrective dermatology category and Galderma is well-positioned to meet this demand. Our portfolio consists of medical products used for minimally and non-invasive procedures to restore and enhance the appearance of the skin, administered by a qualified healthcare professional. Our *Restylane* product, the leader in its category, was launched nearly twenty years ago.

Based on leading consumer brands such as our *Cetaphil* range of skincare products and our *Daylong* sun protection line, the newly formed Consumer Skin Health business aims to bring science-based innovation to the broader market, leveraging the company's insights and scientific expertise. Healthcare needs will evolve and change as the global population of people over-60 is predicted to grow to 1 billion by 2020, and this will impact the demands on and the role of healthcare professionals. As a response to this challenge, Nestlé Skin Health has launched several key initiatives to help contribute towards research, education and the development of solutions for life-long health.



Cetaphil Baby is a range of products that are hypoallergenic and formulated to protect and nourish the delicate skin of infants and young children.



Nestlé Skin Health



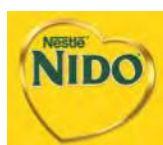
Nestlé Food and Beverage

We enhance lives by offering tastier and healthier food and beverage choices for all stages of life and at any time of the day, helping consumers care for themselves and their families. Our food and beverage portfolio is the core of our business, the essence of our strategy. The portfolio is wider than any other in the food industry and offers everything from Popularly Positioned Products for consumers on low incomes to premium products and services for those who want an indulgent moment of pleasure.

Powdered and Liquid Beverages



Milk products and Ice cream



Prepared dishes
and cooking aids



Nestlé Nutrition



PetCare



Confectionery



Water



Powdered and Liquid Beverages

| | |
|---------------------------------|-------------------|
| Sales | CHF 19.2 billion |
| Organic growth | +5.4% |
| Real internal growth | +3.1% |
| Trading operating profit margin | 21.3% |
| Trading operating profit margin | -180 basis points |

Nestlé is the global leader in coffee, uniquely positioned with two strong brands *Nescafé* and *Nespresso*, offering consumers a complete range of products, systems and services across all channels. This is a category we have built and shaped over many years and which we will continue to shape in the future. *Nescafé* is the world's favourite coffee brand. One fifth of the 30 000 cups of coffee served each second around the world today are cups of *Nescafé*. Meanwhile, our premium coffee brand *Nespresso* has redefined and revolutionised the way people enjoy espresso coffee and continues to grow globally, capitalising on the significant development of the portioned coffee segment.

The *Nescafé* 'REDvolution' continues to build brand equity for the *Nescafé* brand, aligning and enhancing the brand communication in every market with the brand line '*It all starts with a Nescafé*'. The growth is supported by the global success of the *Nescafé Dolce Gusto* system (now in 84 countries around the world) and the beverage business of Nestlé Professional which serves the out-of-home industry. A new manufacturing facility making *Nescafé Dolce Gusto* capsules has opened in the south east of Brazil, the first outside of Europe, underscoring Nestlé's confidence in the coffee market across Latin America. Nespresso inaugurated a new factory in Switzerland during the year to satisfy growing world demand for its capsules and support its expansion plan in North America where its *VertuoLine* system is pioneering a new segment of highest-quality, long-cup, freshly-brewed coffee.

Worldwide demand for coffee continues to grow, and our coffee businesses are focused on ensuring that sustainably-sourced, good-quality supplies are available so that everyone, everywhere can enjoy a great cup of coffee. The



Nespresso's *Suluja ti South Sudan* is the first coffee exported from the world's newest nation, after a four year effort to revive production there.

 6000
cups of *Nescafé* coffee
are served around
the world each second

Nescafé Plan, a global initiative bringing together Nestlé's commitments and activities that support responsible farming, production and supply of coffee celebrated its five year anniversary during 2015. The *Nespresso* brand's strong commitment to sourcing the highest-quality coffee in the world is evident in its project to revive the coffee industry in South Sudan. The first exports from the new nation, the result of a partnership with local farmers and a non-profit organisation, TechnoServe, led to the creation of a new Limited Edition addition to *Nespresso*'s Grand Cru range.

Consumer demand continues to evolve with younger consumers in particular looking for greater variety and sophistication based on their out-of-home experience in coffee shops or bars. *Nescafé* is responding with innovations like the new flagship coffee houses *Nescafé Harajuku* in Tokyo and *Nescafé Itaewon* in Seoul that offer interactive displays and new coffee creations inspired by the local trendsetting communities. In the Austrian city of Vienna, *Nespresso* has opened the first *Nespresso Café*, combining a premium coffee shop and takeaway service with the *Nespresso Cube* that uses robotic technology to prepare an order from the Grand Crus or Limited Edition range in a matter of seconds.

Innovation is helping to drive demand for the creamer brand *Coffee-mate* with the all-natural variety of *Natural Bliss*, and *Coffee-mate 2GO*, a conveniently sized portable creamer for out-of-home usage. The creamer category had dipped slightly during the recession in the United States but has since made a strong comeback with more consumers opting for flavoured creamers than ever before. Meanwhile, the advanced technology of Nestlé's premium-portioned capsule tea system *Special.T*, along with its range of more than 30 varieties of tea and herbal tea, are now available in Japan and seven European countries. *Special.T* was the company's third major innovation in capsule beverage systems after *Nespresso* and *Nescafé Dolce Gusto*. The system offers a selection of fine teas sourced from the top 1% of the world's tea farms.

More information about how *Nespresso*'s AAA Sustainable Quality Program and also the *Nescafé* Plan help farmers can be found on page 25 of the *Nestlé in society* report.



Nescafé Koumibaisen is a super premium range of coffee rejuvenated in 2015 with freshly brewed aroma and taste to appeal to drinkers who prefer 'roast and ground' coffee.



Coffee-mate 2GO, a portable creamer that does not need refrigeration, is an opportunity to align the brand with the 'always on-the-go' attitude of millennials.

Milk products and Ice cream

| | |
|---------------------------------|-------------------|
| Sales | CHF 14.6 billion |
| Organic growth | +1.7% |
| Real internal growth | +1.3% |
| Trading operating profit margin | 16.9% |
| Trading operating profit margin | +180 basis points |

Across the globe, Nestlé's heritage dairy brands, which are often children's first experience of a Nestlé product, represent a strong foundation for the company's continued growth. Dairy products are considered to be essential for good health in many cultures. At Nestlé, we leverage the best of our science and product expertise to provide families with both nutritionally enriched milk products and delicious dairy treats. Today, we offer dairy products to support healthy diets at all stages of life, from early childhood to old age.

While our dairy products have many natural nutritional benefits, such as provision of calcium, sometimes they need to do more. At Nestlé, we are proud to offer affordable dairy products that also help to address local micronutrient deficiencies, particularly in developing countries. Milk is naturally rich in calcium and a good carrier of micronutrient fortification, making it a viable, long-term way to deliver more nutrition to large segments of the population.



590 million

bottles of *Nestlé Milo Nutri G* will be produced each year by our new factory in Malaysia

The Nestlé range of children's milk brands has been developed to offer the energy, protein and micronutrients needed by growing children. To make these products accessible for lower-income groups, Nestlé makes these milks available in affordable formats. These products are also fortified with iron, zinc, vitamin A and other micronutrients as appropriate for the micronutrient deficiencies prevalent in each



One glass of *Nido Golden Start* has all the essential breakfast nutrients needed to prepare children for an active day at school.

area. *Nido Golden Start* was launched in Mexico to coincide with the start of the back-to-school season. Each glass contains milk, cereals and fruit, and provides proteins, calcium, vitamin C and fibre. It is designed for children who skip breakfast because they are in a rush, estimated to be one in five of the school age population in the country.

Another innovation with strong Nutrition, Health and Wellness credentials, *Nestlé Milo Nutri G*, is a blend of four whole grains (oats, barley, brown rice and wheat) with malt, milk and cocoa in a ready-to-drink format newly launched in Malaysia. It is aimed at young adults who want the convenience of a ready-to-drink product and the *Nestlé Milo* taste they grew up with, and who recognise the health benefits of whole grain. In Brazil this year we launched new *Nesfit* non-dairy beverages, including a whole grain rice and whole grain oat drink designed to be drunk plain or added to breakfast cereals. The range included an instant oatmeal, rich in whole grain and fibre, helping those watching their weight to stay motivated.

We offer the best-tasting ice cream products and continually improve the nutritional profile and benefits of our range. We build upon the wholesome milk at the heart of ice cream, to offer healthier options for you and your family. In addition, we have enhanced our nutritional labelling, portion size recommendations and the availability of smaller pack options. Our *Outshine* range, available in North America, has been expanded to include a 100% yoghurt bar, and in Europe we launched the *Mövenpick 100% Natural* stick ice cream during the year. We continue to work to ensure that our ice cream products are produced, packaged and distributed in ways that are environmentally sustainable.

More information about our commitment to encourage consumption of whole grains can be found on page 18 of the *Nestlé in society* report.



Extrême ice creams are particularly popular in France, and combine different flavours, textures and colours to provide people with an indulgent, sophisticated treat.



Delicious ready-to-drink peanut milk from our joint-venture Yinlu is popular in China and suitable for those who are lactose intolerant.

Prepared dishes and cooking aids

| | |
|---------------------------------|------------------|
| Sales | CHF 12.6 billion |
| Organic growth | +0.1% |
| Real internal growth | -1.3% |
| Trading operating profit margin | 13.7% |
| Trading operating profit margin | +40 basis points |

Our food portfolio offers products that form the core of healthy and nutritious meals. By making food tastier, more balanced and easier to prepare, we help improve eating habits and contribute to an enjoyable, healthy lifestyle. We continue to improve our products, enhance nutritional information and portion guidance. We want to empower consumers to make the right informed choices on food and nutrition, and constantly evolve our packaging and digital support for our brands to help achieve this. We are focused on deepening this engagement with consumers to ensure we can better serve their needs.

Through innovation and renovation we are enhancing the ability of our brands to contribute to a healthy diet, while ensuring they are relevant to the changing demands of consumers. In the United States, *Lean Cuisine* has reintroduced itself as a modern eating brand. No longer focused on diet, the brand has evolved to reflect a shift in the way Americans, primarily women, are eating and shopping. The *Lean Cuisine* brand relaunched with ten new recipes within the *Lean Cuisine Marketplace* range, all offering modern benefits such as organic ingredients, gluten-free, high-protein options, no-preservative options, and products with no GMOs.

Meanwhile, the new *Stouffer's Fit Kitchen* range is primarily aimed at men, after research showed that many didn't feel there were enough nutritious and satisfying meals in the frozen food aisle. Six varieties, each offering 25 or more grams of protein, complex carbohydrates and vegetables, were successfully introduced in the summer.

In Europe, the new *Rustipani* warm bread small meal from *Wagner* is baked in a traditional rustic oven with two variants, a naturally matured sourdough and a dark oven rye flour bread. The pizza meets the Nestlé Nutritional Foundation



Stouffer's Fit Kitchen frozen meals offer big flavours and at least 25 g of protein in each serving. The range is primarily aimed at male consumers.



10
new recipes were
introduced in the
Lean Cuisine
Marketplace range

criteria, based on nutrition science and public health dietary recommendations from bodies such as the World Health Organization and the Institute of Medicine. The *Rustipani* is topped with high-quality ingredients such as smoked cheese, marinated tomatoes, ham and asparagus.

Innovation and renovation are key to success across our food portfolio and drive growth across the category. *Maggi Tender* cooking papers seasoned with herbs and spices such as coriander, muscat, black pepper and oregano, enable consumers to flavour meat in the pan, keeping it tender without adding any oil. The product has been rolled out across our European markets and in Latin America.

We are leveraging what we call the 'Kitchen Cupboard' approach, renovating our portfolio with the aim of increasing the use of ingredients consumers recognise and are familiar with such as spices and herbs, while accelerating the removal of artificial additives. This is an important pillar of our efforts to build trust with the people who buy our products, providing transparency of what the product is made from with information that is easy to read and understand.

We recognise we have a role to play in addressing the problems of under-nutrition, as well as certain non-communicable diseases. In emerging markets, fortified products like *Maggi* soups and bouillon cubes are contributing to efforts to counter the effects of micronutrient deficiencies in iron and iodine. In Central America, consumers use *Maggi* chicken noodle soups as a base to cook tasty and balanced meals. *Maggi* has renovated the entire range and each serving now provides 15% of the recommended daily amount of iron, is low in fat and made without artificial preservatives. We are also helping to address problems caused by over-nutrition like obesity. Throughout our portfolio we are helping families to improve their diets by reducing the amount of salt, sugar and saturated fats in our products and removing trans fats.

More information about micronutrient fortification can be found on page 16 of the *Nestlé in society* report.



Maggi bouillon cubes and tablets fortified with iron can play an important role in addressing micronutrient deficiencies in emerging markets.



The Nestlé Professional *Chef* range has been created by chefs for chefs, saving them time and the cost of making the dishes from scratch.

Nestlé Nutrition

| | |
|---------------------------------|-------------------|
| Sales | CHF 10.5 billion |
| Organic growth | +3.1% |
| Real internal growth | +1.4% |
| Trading operating profit margin | 22.6% |
| Trading operating profit margin | +110 basis points |

Our nutrition business is dedicated to providing high-quality, innovative, science-based nutrition for mothers and infants, helping to nurture healthier generations. Good nutrition and the right feeding practices during the first 1000 days of life, from conception to a child's second birthday, are crucial for a child's health, growth and development. Establishing the right feeding practices in early childhood also supports the establishment of good eating habits.



25 countries have *Start Healthy Stay Healthy*, our science-based education programme for parents

We promote and support breastfeeding which is the best start a baby can have in life. Where breastfeeding is not possible, we provide breast-milk substitutes. We have also developed science-based nutritional solutions for infants with specific medical needs, who are unable to absorb, digest or metabolise standard infant formulas and are at risk of death or abnormal development if left without access to the right nutrition support. In addition, we provide a range of complementary foods such as growing-up milks, infant cereals and meals and drinks. These products contain carefully selected high-quality ingredients and are fortified with nutrients to meet the specific needs of infants and young children. Our *BabyNes* system, now available in four countries, is the first advanced nutrition system for infants and toddlers that offers age-specific, single-serve formulas for children up to the age of three years.



Appropriate protein supply in early life can shape long-term health outcomes. Nestlé Nutrition's *NAN Optipro* offers protein composition and concentration closer to the gold standard of breast milk.



Wyeth Nutrition's *illumina* brand helps to enhance infants' absorption of key nutrients and supports their immune function.

PetCare

To encourage good nutrition in the first 1000 days, we seek to support mothers through our extensive range of educational materials and information. *Start Healthy Stay Healthy*, our interactive, science-based education programme designed to help parents and caregivers provide nutritionally and developmentally adequate nutrition in the crucial first 1000 days of life, has now been rolled out to 25 countries.

We market our breast-milk substitutes in line with the aims of the World Health Organization's International Code of Marketing of Breast-milk Substitutes as implemented by governments. Our marketing standards are the strictest in the industry. We are the only breast-milk substitute manufacturer to be included in the FTSE4Good responsible investment index. We implemented the new global *Nestlé Maternity Protection Policy* which is one of the most progressive programmes of its kind in the industry. This policy gives employees a minimum of 14 weeks paid maternity leave and the right to extend their maternity leave up to six months. It also includes flexible working arrangements and guaranteed access to breastfeeding rooms during working hours in all sites with more than 50 employees. Nestlé currently has more than 190 breastfeeding rooms across its global working facilities.

More information about our commitment to market breast-milk substitutes responsibly can be found on page 21 of the *Nestlé in society* report.

| | |
|---------------------------------|-------------------|
| Sales | CHF 11.5 billion |
| Organic growth | +5.9% |
| Real internal growth | +3.5% |
| Trading operating profit margin | 20.8% |
| Trading operating profit margin | +100 basis points |

Petcare is a strong growth driver for Nestlé around the world. With a portfolio of many of the world's most popular and trusted dog and cat food brands, Nestlé Purina is committed to enriching the lives of pets and the people who love them.



500+

nutritionists, scientists, veterinarians and animal behaviourists worked on the renovation and innovation of the Nestlé Purina portfolio

In 2015, Purina introduced ground-breaking nutritional advances and product innovations. The successful US launch of *Purina Pro Plan Bright Mind* for adult dogs aged 7+ leveraged the company's breakthrough research findings that a diet containing medium-chain triglycerides (MCTs) from enhanced botanical oils can help promote healthy aging and healthy cognition in senior dogs. In Europe, the *Purina Pro Plan* brand renovated formulas targeted to the changing nutritional needs of dogs in different life-stages, from building a growing puppy's natural defences to helping adult dogs maintain a healthy weight.

Our focus on product innovation can also help strengthen the bond between people and their pets. *Friskies*, a global brand of cat food and treats, in the US launched *Friskies Pull 'n Play*, the first ever tender, edible strings for cats, as a new way for pet owners to treat and play with their cats. The treat may be fed alone or in conjunction with Wobbert, a wobbly cat toy that can accommodate two treats at once.

Globally, Nestlé Purina employs 500+ world-class nutritionists, behaviorists, veterinarians, immunologists and other pet

experts who are working to improve the lives of pets. Nestlé Purina manufacturing facilities around the globe meet or exceed all regulatory requirements and use comprehensive food safety programs to ensure every Purina product meets our high standards for safety and quality.

Nestlé Purina promotes responsible pet care, humane education and strengthening the bond between people and their pets. In Italy, an educational programme promoted in schools helps children learn the basics of pet care and nutrition through a kit distributed to teachers that includes contributions from veterinarians and other experts. Petfinder, Nestlé Purina's searchable web database of pets in need of adoption, has helped over 24 million find homes so far. Guided by our passion for pets, we are committed to using our scale to support shelter pets, creating tools and resources to help them find new homes. In 2015, Nestlé Purina donated more than USD 8 million to pet-related causes and community organizations and civic groups across the Americas.

Nestlé Purina is constantly working on opportunities to improve our environmental performance through designing smarter and more efficient systems. We work throughout our supply chain to ensure our high-quality ingredients are sourced responsibly. As a manufacturer, we are focused on reducing solid waste and greenhouse gas emissions and improving the efficiency of the water and energy used at our facilities around the world.



Purina Beyond dog food provides healthy nutrition using only high-quality natural ingredients, so owners can be sure they are making the right choice for their pets.

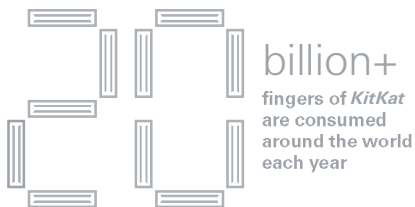


Nestlé Purina science and expertise underpins *Purina Pro Plan*, a super-premium pet food range that delivers optimal nutrition for dogs and cats.

Confectionery

| | |
|---------------------------------|------------------|
| Sales | CHF 8.9 billion |
| Organic growth | +6.2% |
| Real internal growth | +1.8% |
| Trading operating profit margin | 14.0% |
| Trading operating profit margin | +20 basis points |

Nestlé's involvement with chocolate goes back to François-Louis Cailler who started to make chocolate in Switzerland in 1819. Today *Cailler* is Switzerland's oldest chocolate brand. Through various acquisitions, including Cailler in 1929, and more recently in 1988 with the purchase of the UK company Rowntree, Nestlé has become one of the world's largest chocolate and confectionery producers. Chocolate is a highly attractive category for Nestlé with growth increasingly fuelled by premiumisation. Around the globe it is the number one snack of choice and there is high potential for emerging market growth where the habit of chocolate consumption is starting to grow.



With *KitKat*, Nestlé has a strong global player driving performance in both emerging and developed markets. *KitKat* will become the first global confectionery brand sourced from 100 percent certified sustainable cocoa, starting early in 2016. The brand already uses sustainably sourced cocoa, accredited by independent third-party bodies, in products sold in certain markets, but this new announcement extends the practice worldwide, including the United States.

An essential element of Nestlé's desire to enhance people's lives is our commitment to deliver healthier options which help you feel better about enjoying a treat, for example by using



Nestlé announced its entry into the dynamic global super-premium chocolate category with *Cailler*, a Swiss brand that is almost 200 years old.



KitKat is the world's third biggest chocolate brand. More than 20 billion fingers of *KitKat* are consumed around the world each year.

Water

natural ingredients, removing artificial colours and flavours, and making it easier to understand how many portions there are in a product through clearer information on the packaging. A year ago we committed to stop marketing confectionery to children under the age of 12 years and this is recognised in the updated and strengthened *Nestlé Marketing Communication to Children Policy* which came into effect at the end of 2015.

Our confectionery brands are using partnerships with major tech firms like Google and Amazon to help build new relationships with consumers. *KitKat* worked closely with Google to launch a new global digital campaign to help consumers find the top trending YouTube videos on their mobile phones while having a *KitKat* break. When Nestlé began the transformation of the Swiss chocolate brand *Cailler* into a new global super-premium chocolate brand, it chose Amazon as its primary retailer. *Cailler* is still produced at 'Maison Cailler', the original factory in the Swiss town of Broc, using milk from local farms and high-quality cocoa from the *Nestlé Cocoa Plan*. The new products can be bought through Amazon in the US, UK, China and Germany. They are also sold in travel retail outlets in major airports in Geneva, Zurich, Dubai and Singapore.

| | |
|---------------------------------|------------------|
| Sales | CHF 7.1 billion |
| Organic growth | +7.0% |
| Real internal growth | +7.0% |
| Trading operating profit margin | 11.2% |
| Trading operating profit margin | +90 basis points |

Bottled water is a healthy, convenient way to stay hydrated. Nestlé Waters contributes to consumers' healthy hydration with its global brand *Nestlé Pure Life*, local water brands in different countries and premium international mineral waters *S.Pellegrino* and *Perrier*. A key component of Nestlé's Nutrition, Health and Wellness strategy, water is also a growing category, particularly in developed markets as more consumers switch to water from carbonated sugary drinks. More than half Nestlé Waters' sales are in North America where bottled water is on track to become the top selling beverage by the end of the decade. There is also good growth in emerging markets, helped by growing urbanisation and the rise of the middle class in many parts of the world.



Nestlé Waters has a portfolio of 52 brands, enabling constant innovation to meet the different expectations of consumers all over the globe. The company is the world's number one bottled water company by value and *Nestlé Pure Life* is the largest bottled water brand in the world. We make every effort to offer healthy bottled water that tastes good. Because quality is the foundation of what we do, consumers can ensure they are hydrated every day in complete confidence, using our bottled water.

Water is a precious resource. At Nestlé Waters, responsible water management does not stop

More information about our commitment on responsible marketing communication to children can be found on page 21 of the *Nestlé in society* report.

at being best-in-class within the walls of our factories, but extends to collective actions with other water stakeholders to ensure the long-term stability of shared watersheds. Since its creation the company has striven to be best in class in terms of protecting water sources and reducing the environmental impact of its activities. In the United States, investments in conservation measures in the state of California during the year are projected to save 55 million gallons (208000 cubic metres) of water annually, a reduction of nearly 8%. In Switzerland, Nestlé Waters has built an agricultural biogas facility to provide renewable energy for the plant where its local brand *Henniez* is bottled. At the same time, the company continues to optimise its packaging and recycling efforts, so as to reduce the environmental impact of its business. Nestlé Waters reduced packaging weight per litre produced by 14% between 2009 and 2014.

Nestlé has pledged to adopt sustainable water practices in areas where we operate, source our goods and where our suppliers, employees and consumers live. For example, in Pakistan Nestlé has established seven clean drinking water facilities near its facilities: the latest was inaugurated next to the Nestlé Waters Sheikhpura factory. It is estimated that at least 5000 people living in the area will have access to drinking water each day from the facility.

More information about our commitments on water stewardship can be found on page 28 of the *Nestlé in society* report.



The new *S. Pellegrino Magnum*, a champagne-style bottle, has been successfully introduced in various markets around the world.



Sold in more than 40 countries, *Nestlé Pure Life* is a great-tasting water that is filtered and enhanced with minerals to provide healthy hydration for the whole family.

The future

Our changing environment creates new challenges, for Nestlé and for society. The United Nations estimates there will be 9.6 billion people in the world by 2050, 70% of whom will live in urban areas. We believe we have a strong contribution to make as the world looks for ways to feed its growing population.

Even as competition for land, water and energy increases, the scale of the population growth predicted means the world will need to find enough sufficiently nutritious food to feed an additional 2.3 billion people over the next 35 years. In addition, provision has to be made for the 800 million people who do not have access to adequate nutrition today. That is approximately one in nine of the global population.

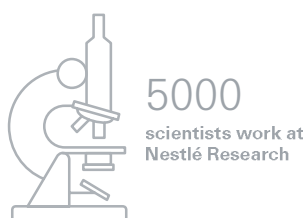
Business has a role to play in both mitigating these issues and adapting our global food system. Companies like ours create value for consumers and the societies in which they live. Processing food enables us to deliver food to the consumer wherever they are in the world. These are products they can trust, manufactured to the highest specifications and completely safe. Our researchers deliver innovation we can apply throughout the value chain to the sourcing of ingredients, to manufacturing, packaging and distribution, and to offer consumers new types of product or service, or benefits through our brands.

We are driving advances in agricultural practices and biotechnology to help to secure the food supply, from developing new preservation technology to contributing to better food safety. We are improving our ability to produce more with less environmental impact, reducing carbon emissions, water consumption and waste.





We are helping smallholders develop sustainable farming practices. At the same time, we are setting ourselves tough challenges to overcome. What ingredients can we use with less environmental impact? How can we accelerate the usage of plant proteins and reduce our reliance on animal proteins which require more resources to produce? How can we further expand our use of micronutrient fortification? How can we contribute to the fight against non-communicable diseases?



For instance, today obesity is becoming a global problem. There are twice as many obese people in developing countries as in developed ones. We have a role to play in helping to address this. We are renovating our portfolio to reduce the amount of sugar, salt and saturated fats, and remove trans fats from our products, and have committed ourselves publicly to targets which allow people to follow our progress. Material science has the potential to offer a much greater contribution to this effort in the years ahead. For example, much of the reduction today is achieved through renovation of a product recipe by replacing sugar with healthier ingredients. Our researchers are working on new approaches to make these reductions even greater.

We have the strongest Research and Development network in the food industry with more than 5000 scientists and researchers working across the world. We recognise the potential to multiply this effort through collaboration with the best in each scientific field, from universities to biotech companies to start-ups. We are working with partners in new areas like epigenetics: the science of how eating behaviours and other environmental factors can affect your genes, your health and that of your offspring, and for

future generations. The jointly-funded public-private partnership we have with an international alliance of researchers known as the EpiGen Consortium is the largest of its kind. The collaboration is helping us to better develop our understanding of the influence of nutrition and genetics at the beginning of life. It will enable us to create products that have a proven, positive impact on the health of mothers and their children. We are already patenting breakthrough discoveries so that we can build products and portfolios on a strong foundation. We publish more scientific papers, and these are cited more often, than any other company in the food and beverage industry.

We use both nutritional and consumer insights throughout our business to identify the right Nutrition, Health and Wellness innovations that could evolve into platforms for future growth. So-called 'millennial' consumers in particular are more interested in artisanal and natural options focusing on new health trends like products that are free of genetically modified ingredients, organic or gluten-free. They want quick, ready-to-eat solutions and guidance on servings and portions to complement busy lifestyles. Meal occasions are fragmenting and snacking is becoming more popular. Family structures are changing as single-parenting becomes more widespread in many societies and more people live alone. In addition, there is a growing gap between how people want to feel and what they actually achieve through their daily activity. Increasingly they value balance and look for meals that offer positive health benefits. Our Nutrition, Health and Wellness strategy ensures we are well-positioned to meet these needs. We can expect consumers living longer, more active and healthier lives to generate new opportunities for our businesses and brands.

Another area of focus is the 'internet of things', the growing ability for devices in our lives to share data. This offers a company like ours opportunities to develop new products or systems that will allow people to personalise the nutrition they receive more closely than ever before. The challenge is finding ways to harness all the data produced, for example, by a sensor you wear to work out how many calories you



BabyNes is a smart nutrition system that caregivers can use to prepare formula, using capsules tailored to a baby's specific developmental needs.



With people living longer lives, Nestlé Health Science is investing in research to develop nutritional solutions that support healthy and active aging.



Nestlé's United for Healthier Kids initiative unites schools, businesses, government and civil society to help caregivers raise healthier children.



Nestlé's R&D centre in Abidjan is developing better methods of cocoa plant propagation in partnership with the World Cocoa Foundation and the Côte d'Ivoire government.

have used in a day, to help you plan your next meal in order to replace those calories and get the nutrients you need while not over-eating. The opportunities presented by digital are immense, and will grow in the years ahead, making it more important than ever that we have the right people with the right capabilities at Nestlé to enable us to exploit them.

Our people and the way we work together as a team are critical if we are to achieve our targets. We recognise the importance of strengthening our global talent pipeline, while also playing a role to ensure that young people in the societies where we operate have the right skills to find employment with us, with our suppliers and throughout the industry. Our Global Youth Initiative is helping us develop the next generation of Nestlé leaders, filling the skills gap left by the retirements of the 'baby boomer' generation. Almost a fifth of our workforce is over the age of 50.



So far in Europe we have hired more than 11 000 people as part of the Nestlé European Youth Employment Initiative and created more than 6000 apprenticeships and trainee positions. We have mobilised close to 200 business partners, creating an 'Alliance for YOUth'. In the Americas, the Global Youth Initiative has now been launched in all markets with the aim of offering 24 000 job opportunities and 7000 apprenticeship, internship or traineeship opportunities across the Americas by 2018. And in Asia, Oceania and sub-Saharan Africa, our markets are partnering with governments and others to build capabilities and generate opportunities for young people. We continue to focus on developing strong leadership throughout the company as well as further improving the diversity and gender balance of our talent pool

and teams. Here too we have made public commitments and publish data so that people can see our progress towards achieving our goals.

We are confident about the future. We have demonstrated through our 150 years of existence that we are able to anticipate consumers' needs and this has been a key enabler of our success. Although the challenges faced by society are not to be underestimated, we believe we will be able to make a strong contribution, creating value for our shareholders and for the societies in which we operate. Many of the 17 new Sustainable Development Goals announced by the United Nations during the year match directly our own Creating Shared Value focus on nutrition, water and rural development. We are part of the solution to these societal challenges, and ready to play our part.

More information about our commitments to improve gender balance and diversity can be found on page 39 of the *Nestlé in society* report.



The Digital Acceleration Team (DAT) brings together future leaders from across Nestlé to build brands, innovate and engage with consumers in an increasingly digitally connected world.



The Nestlé Milo Champions Band and app give parents personalised information on their child's nutritional intake and physical activity, to help them lead healthier lives.



A new global partnership with Amazon to drive e-commerce began with the launch of historic Swiss super-premium chocolate brand Cailler in the US, China, UK and Germany.



Nestlé Japan is pioneering a new consumer engagement model using the robot 'Pepper' – which responds to human emotions – to sell Nescafé products.

Financial review

Key figures (consolidated)

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

| | 2015 | 2014 |
|---|----------|---------|
| Results | | |
| Sales | 88 785 | 91 612 |
| Trading operating profit | 13 382 | 14 019 |
| as % of sales | 15.1% | 15.3% |
| Profit for the year attributable to shareholders of the parent (Net profit) | 9 066 | 14 456 |
| as % of sales | 10.2% | 15.8% |
| Balance sheet and Cash flow statement | | |
| Equity attributable to shareholders of the parent | 62 338 | 70 130 |
| Net financial debt | 15 425 | 12 325 |
| Ratio of net financial debt to equity (gearing) | 24.7% | 17.6% |
| Operating cash flow | 14 302 | 14 700 |
| as % of net financial debt | 92.7% | 119.3% |
| Free cash flow ^(a) | 9 945 | 14 137 |
| Capital expenditure | 3 872 | 3 914 |
| as % of sales | 4.4% | 4.3% |
| Data per share | | |
| Weighted average number of shares outstanding (in millions of units) | 3 129 | 3 188 |
| Basic earnings per share | CHF 2.90 | 4.54 |
| Underlying earnings per share ^(b) | CHF 3.31 | 3.44 |
| Dividend as proposed by the Board of Directors of Nestlé S.A. | CHF 2.25 | 2.20 |
| Market capitalisation, end December | | |
| | 229 947 | 231 136 |
| Number of employees (in thousands) | | |
| | 335 | 339 |

(a) Operating cash flow less capital expenditure, expenditure on intangible assets, investments (net of divestments) in associates and joint ventures, and other investing cash flows.

(b) 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.

Principal key figures ^(c) (illustrative) in CHF, USD, EUR

| In millions (except for data per share) | Total CHF | | Total USD | | Total EUR | |
|---|-----------|---------|-----------|---------|-----------|---------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Sales | 88 785 | 91 612 | 92 143 | 99 961 | 83 153 | 75 431 |
| Trading operating profit | 13 382 | 14 019 | 13 889 | 15 296 | 12 533 | 11 543 |
| Profit for the year attributable to shareholders of the parent (Net profit) | 9 066 | 14 456 | 9 409 | 15 774 | 8 491 | 11 903 |
| Equity attributable to shareholders of the parent | 62 338 | 70 130 | 63 012 | 70 863 | 57 651 | 58 307 |
| Market capitalisation, end December | 229 947 | 231 136 | 232 434 | 233 553 | 212 658 | 192 170 |
| Data per share | | | | | | |
| Basic earnings per share | 2.90 | 4.54 | 3.01 | 4.95 | 2.72 | 3.74 |

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

Group overview

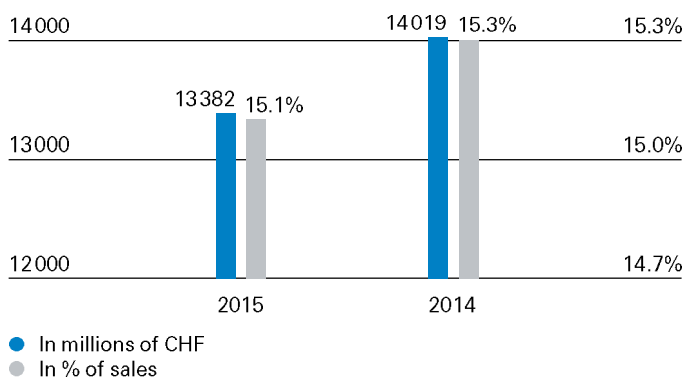
Introduction

In 2015 we delivered profitable growth at the higher end of the industry in what is still a challenging environment. This profitable growth was on the back of consistent performances in previous years. Our organic growth of 4.2% was supported by increased momentum in real internal growth combined with continued margin improvement. Additionally, we grew or maintained market share in the majority of our categories and markets.

At the same time, we continued to invest for the future with increased support behind our brands and further development of our new platforms in nutrition and health as well as e-commerce. We kept up the focus on portfolio management, turning around our frozen food business in the United States, disposing of non-core businesses and forging a new partnership to create a leading player in ice cream.

Our free cash flow generation was again at the top end of the food industry at 11.2% of sales, as a result of our focus on margins with discipline in capital expenditure and working capital.

Trading operating profit



Operating segments: trading operating profit

In % of sales

| | |
|---------------------------------|------|
| Zone EMENA | 15.7 |
| Zone AMS | 19.4 |
| Zone AOA | 18.4 |
| Nestlé Waters | 10.8 |
| Nestlé Nutrition | 22.6 |
| Other businesses ^(a) | 15.7 |

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

Following the changes in management responsibilities as from 1 January 2015, Zone Europe has been renamed Zone Europe, Middle East and North Africa (EMENA) and now includes the Maghreb, the Middle East, the North East Africa region, Turkey and Israel, which were formerly included in Zone Asia, Oceania and Africa. Zone Asia, Oceania and Africa has been renamed Zone Asia, Oceania and sub-Saharan Africa (AOA). Nestlé Nutrition now includes Growing-Up Milks business formerly included in the geographic Zones. Finally, Other businesses now includes the Bübchen business, formerly included in Nestlé Nutrition. Information by product has been modified following the main transfer of Growing-Up Milks business in Milk products and Ice cream to Nutrition and Health Science. 2014 comparative information has been restated.

Group results

In 2015 Nestlé's organic growth was 4.2%, composed of 2.2% real internal growth and 2.0% pricing. Sales were CHF 88.8 billion, with a foreign exchange impact of -7.4%. Acquisitions, net of divestitures, added 0.1% to sales. Organic growth was broad-based across geographies and categories, 5.8% in the Americas (AMS), 3.5% in Europe, Middle East and North Africa (EMENA) and 1.9% in Asia, Oceania and sub-Saharan Africa (AOA). Real internal growth was also broad-based, 2.4% in AMS, 2.8% in EMENA and 1.2% in AOA.

We demonstrated our continued strength in developed markets with organic growth of 1.9% and in emerging markets with 7.0%. We increased or maintained market share in the majority of our categories and markets.

Trading operating profit

Trading operating profit was CHF 13.4 billion, with a margin of 15.1%, down 20 basis points on a reported basis affected by the strong Swiss Franc, up 10 basis points in constant currencies. We delivered this margin improvement while increasing substantially our investment in brand support, digital, research and development, and in our new nutrition and health platforms, and at the same time absorbing the cost of exceptional events like *Maggi* noodles in India.

Net profit

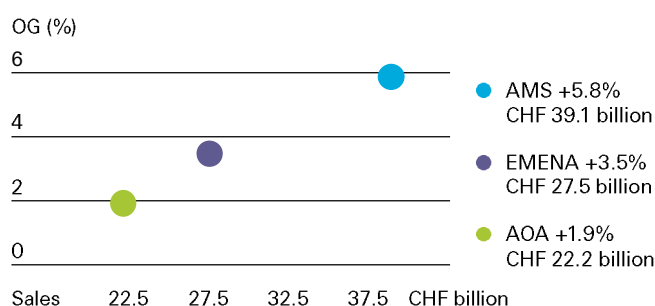
Net profit was CHF 9.1 billion. The reduction of CHF 5.4 billion versus last year was mostly due to the one-off impact from the disposal in 2014 of part of the L'Oréal stake combined with the revaluation of the Galderma stake. There was also some effect from foreign exchange. Reported earnings per share at CHF 2.90 were down by 36.1%, for the same reasons. Underlying earnings per share in constant currencies were up 6.5%.

Sales by geographic areas

| | Differences 2015/2014 (in %) | | in CHF millions |
|----------------------|------------------------------|-------------------|-----------------|
| | in CHF | in local currency | |
| By principal markets | | | 2015 |
| United States | +7.7% | +2.4% | 25 293 |
| Greater China Region | +6.4% | +3.2% | 7 060 |
| France | -12.0% | +0.1% | 4 848 |
| Brazil | -23.3% | +2.9% | 3 925 |
| United Kingdom | +0.6% | +3.0% | 3 006 |
| Germany | -12.3% | -0.2% | 2 929 |
| Mexico | -7.1% | +5.3% | 2 749 |
| Philippines | +6.2% | +3.6% | 2 645 |
| Italy | -11.4% | +0.8% | 1 867 |
| Canada | -5.9% | +3.8% | 1 847 |
| Spain | -10.1% | +2.2% | 1 668 |
| Switzerland | -1.0% | -1.0% | 1 549 |
| Australia | -7.6% | +5.5% | 1 498 |
| Japan | -3.5% | +4.3% | 1 440 |
| Russia | -23.1% | +16.3% | 1 330 |
| Rest of the world | -6.1% | (a) | 25 131 |
| Total | -3.1% | (a) | 88 785 |

(a) Not applicable.

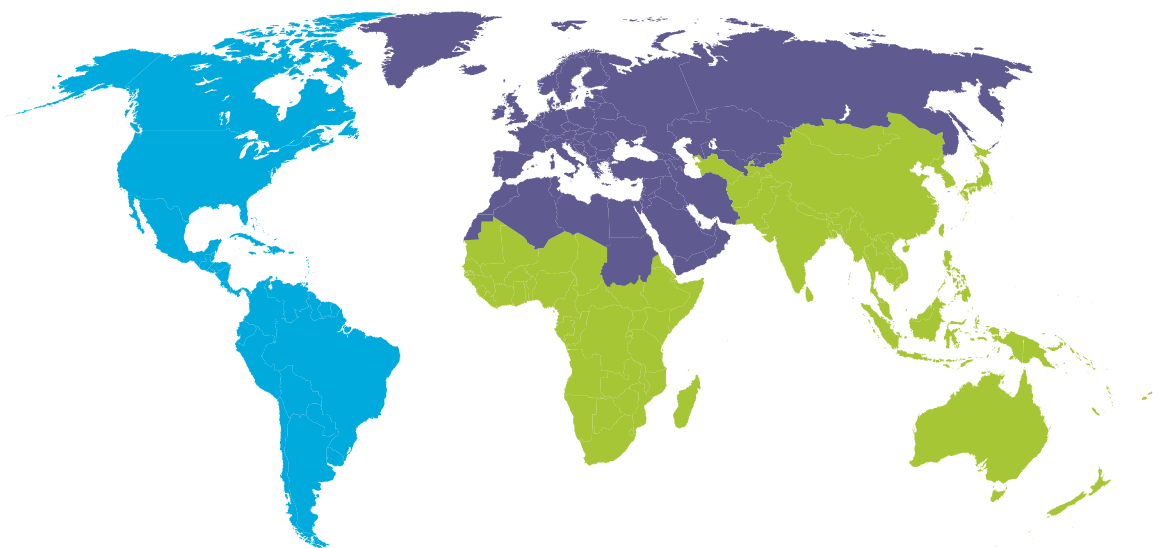
Geographic sales and organic growth



Each region includes sales of the corresponding Zones as well as Nestlé Waters, Nestlé Nutrition, Nespresso, Nestlé Professional, Nestlé Health Science and Nestlé Skin Health.

| | Sales by geographic area | Employees by geographic area | Factories by geographic area |
|----------------------|--------------------------|------------------------------|------------------------------|
| AMS | 44.1% (2014: 43.0%) | 32.5% (2014: 32.7%) | 161 (2014: 163) |
| EMENA ^(a) | 30.9% (2014*: 32.5%) | 34.7% (2014*: 34.6%) | 166 (2014*: 170) |
| AOA | 25.0% (2014*: 24.5%) | 32.8% (2014*: 32.7%) | 109 (2014*: 109) |

* 2014 figures have been restated – see note on page 40.
(a) 10885 employees in Switzerland in 2015.



Employees by activity

In thousands

| | 2015 | 2014 |
|--------------------------|------------|------------|
| Factories | 170 | 175 |
| Administration and sales | 165 | 164 |
| Total | 335 | 339 |

Cash flow / Working capital

The Group's operating cash flow remained strong at CHF 14.3 billion and free cash flow was CHF 9.9 billion or 11.2% of sales. This was the result of our focus on margins and our discipline in capital expenditure and working capital, and shows Nestlé's capability to deliver very strong cash flow despite the challenging foreign exchange environment. The average total working capital has improved by 60 basis points from 5.3% of sales to 4.7%.

Financial position

The Group's net debt was in line with historic levels, increasing from CHF 12.3 billion to CHF 15.4 billion, driven by our completion of the share buy-back, an investment of CHF 6.5 billion in 2015. Our strong free cash flow during the year at CHF 9.9 billion more than offset the payment of dividends of CHF 6.9 billion.

Return on invested capital

The Group's return on invested capital was 10.9% including goodwill and intangible assets, up 10 basis points and it was 29.9% excluding goodwill and intangible assets, down 50 basis points, impacted by unfavourable foreign exchange.

Dividend

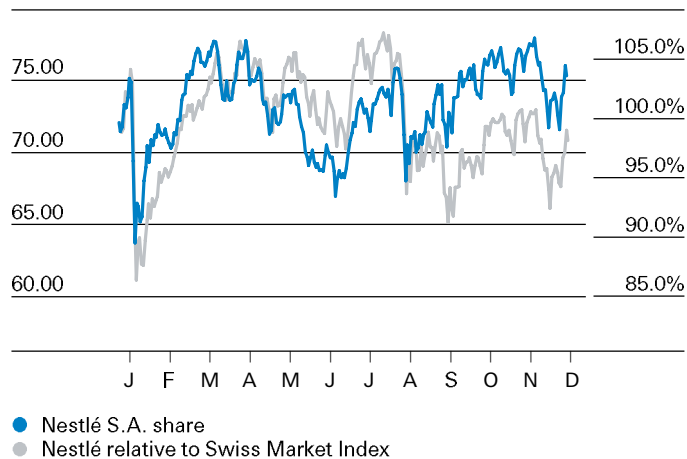
The Board of Directors is proposing a dividend of CHF 2.25 per share, up from CHF 2.20 in 2014.

Outlook

We anticipate that our trading environment in 2016 will be similar to previous years with even softer pricing. As such we expect to deliver organic growth in line with 2015, with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency.

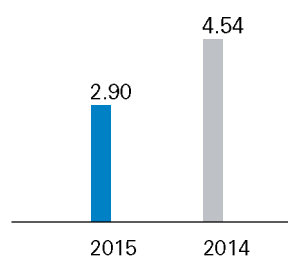
Evolution of the Nestlé S.A. share in 2015

in CHF



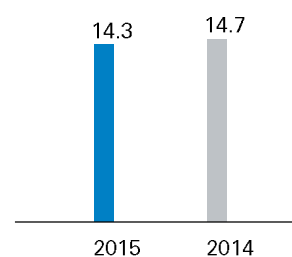
Earnings per share

in CHF



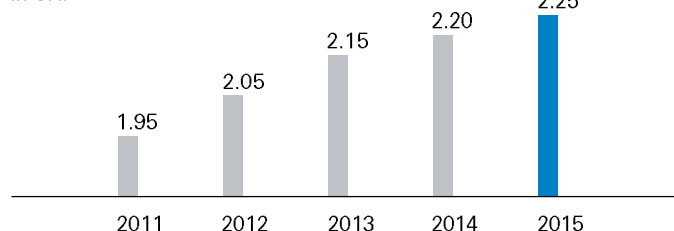
Operating cash flow

in billions of CHF



Dividend per share





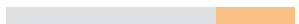


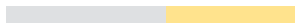



in CHF



Product category and operating segment review

Leading positions in dynamic categories

In millions of CHF

| | 2014* | 2015 | Proportion of total sales (%) | RIG (%) | OG (%) |
|---|---------------|---------------|---|--------------|--------------|
| Powdered and Liquid Beverages | | | | | |
| Soluble coffee / coffee systems | 9 328 | 8 880 |  46.1% | | |
| Other | 10 974 | 10 365 |  53.9% | | |
| Total sales | 20 302 | 19 245 | 100.0% | +3.1% | +5.4% |
| Trading operating profit | 4 685 | 4 100 | 21.3% | | |
| Water | | | | | |
| Total sales | 6 875 | 7 112 |  100.0% | +7.0% | +7.0% |
| Trading operating profit | 710 | 796 | 11.2% | | |
| Milk products and Ice cream | | | | | |
| Milk products | 11 073 | 10 686 |  73.0% | | |
| Ice cream | 4 117 | 3 951 |  27.0% | | |
| Total sales | 15 190 | 14 637 | 100.0% | +1.3% | +1.7% |
| Trading operating profit | 2 295 | 2 471 | 16.9% | | |
| Nutrition and Health Science | | | | | |
| Total sales | 14 605 | 14 854 |  100.0% | +2.3% | +4.4% |
| Trading operating profit | 3 136 | 2 909 | 19.6% | | |
| Prepared dishes and cooking aids | | | | | |
| Frozen and chilled | 7 302 | 6 984 |  55.5% | | |
| Culinary and other | 6 230 | 5 595 |  44.5% | | |
| Total sales | 13 532 | 12 579 | 100.0% | -1.3% | +0.1% |
| Trading operating profit | 1 801 | 1 724 | 13.7% | | |
| Confectionery | | | | | |
| Chocolate | 7 053 | 6 365 |  71.8% | | |
| Sugar confectionery | 1 148 | 1 130 |  12.7% | | |
| Biscuits | 1 568 | 1 375 |  15.5% | | |
| Total sales | 9 769 | 8 870 | 100.0% | +1.8% | +6.2% |
| Trading operating profit | 1 344 | 1 246 | 14.0% | | |
| PetCare | | | | | |
| Total sales | 11 339 | 11 488 |  100.0% | +3.5% | +5.9% |
| Trading operating profit | 2 246 | 2 386 | 20.8% | | |

* 2014 figures have been restated – see note on page 40.

Zone Americas (AMS)

| | |
|---------------------------------|------------------|
| Sales | CHF 25.8 billion |
| Organic growth | +5.5% |
| Real internal growth | +1.6% |
| Trading operating profit margin | 19.4% |
| Trading operating profit margin | +80 basis points |

Growth in the Zone picked up momentum through the year and market shares grew broadly in both North and Latin America.


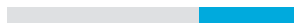
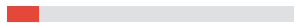
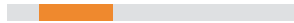

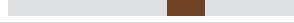


In North America growth accelerated, led by the turnaround in the frozen meals business. Sales of the new ranges of *Lean Cuisine* and *Stouffer's* were strong, supported by positive consumption trends. Pizza's positive momentum also accelerated, driven by innovation. In ice cream, *Häagen-Dazs* and snacks continued to drive growth with new product launches. *Coffee-mate* maintained its good momentum through constant innovation and renovation of flavours and packaging as well as new distribution. Petcare in North America continued to grow with strong performances from *Fancy Feast*, *Purina One* and cat litter. Increased brand support is helping the recovery of *Beneful*.

In Latin America we saw good performances in many countries in spite of the volatile environment. In Brazil, our business achieved positive organic and real internal growth despite the challenging, recessionary environment. *Nescafé* soluble coffee and *Nescafé Dolce Gusto*, *KitKat* and *Nesfit* were the growth drivers. Mexico delivered good growth across the entire portfolio, helped by strong performances in creamers, *Nescafé Dolce Gusto*, *Nescafé* soluble coffee and ambient culinary. Other highlights were Chile, driven by ice cream and biscuits, Colombia with ambient culinary, Peru with *Nescafé*, and the Plata Region and Ecuador with growth across their portfolios. Petcare continued its very good growth momentum across Latin America, benefiting from expanded capacity in Argentina and Mexico.

We increased investment in consumer facing marketing support while improving the trading operating profit margin thanks to a favourable product mix, operational efficiencies, lower input costs and low restructuring and litigation costs.

Zone AMS

In millions of CHF

| | 2014* | 2015 | Proportion of total sales (%) | RIG (%) | OG (%) |
|----------------------------------|---------------|---------------|---|--------------|--------------|
| United States and Canada | 16 396 | 17 187 |  66.5% | | |
| Latin America and Caribbean | 10 229 | 8 657 |  33.5% | | |
| Powdered and Liquid Beverages | 3 190 | 2 860 |  11.1% | | |
| Milk products and Ice cream | 7 025 | 6 609 |  25.6% | | |
| Prepared dishes and cooking aids | 4 744 | 4 833 |  18.7% | | |
| Confectionery | 3 972 | 3 454 |  13.3% | | |
| PetCare | 7 694 | 8 088 |  31.3% | | |
| Total sales | 26 625 | 25 844 |  100.0% | +1.6% | +5.5% |
| Trading operating profit | 4 940 | 5 021 | | 19.4% | |
| Capital expenditure | 1 027 | 1 038 | | 4.0% | |

* 2014 figures have been restated – see note on page 40.

Zone Europe, Middle East and North Africa (EMENA)

| | |
|---------------------------------|------------------|
| Sales | CHF 16.4 billion |
| Organic growth | +3.7% |
| Real internal growth | +2.5% |
| Trading operating profit margin | 15.7% |
| Trading operating profit margin | +50 basis points |

The Zone continued to outperform the markets in its main categories with positive contributions from all geographies, with good evolution of market shares despite the economic and political volatility.

The exceptional performance relative to the environment in Western Europe was driven by successful innovation and renovation. Petcare continued to deliver growth across the region with *Felix* and *Purina One* dry cat food. *Nescafé Dolce Gusto* and frozen pizza with the *Wagner* and *Buitoni* brands were the other growth drivers. Culinary was impacted by the competitive retail environment and softness in the category. Overall France, Germany and Benelux were the highlights, and Spain accelerated.

Solid growth in Central and Eastern Europe was driven by Russia, Ukraine and Poland.






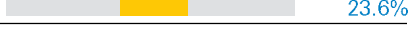



Petcare, *Nescafé Dolce Gusto*, *Nescafé* soluble coffee and confectionery all delivered very good growth across the region, leveraging strong market positions. Despite the difficult business context, Russia had a good year with positive growth and market share gains, especially in premium coffee.

In the Middle East and North Africa there was a solid performance despite the unstable environment. There was good growth in *Nescafé* soluble coffee, confectionery and petcare, that was partially offset by softer trading in ambient dairy. Saudi Arabia, Kuwait, Qatar and Iran contributed to an overall solid performance. *Nescafé* soluble coffee and chocolate drove the strong growth in Turkey. The difficult conditions in Yemen, Libya and Syria had an impact.

The trading operating profit margin improvement was the result of careful pricing and significant cost reductions which were partly reinvested in promotional and marketing activities to generate future growth.

Zone EMENA

In millions of CHF

| | 2014* | 2015 | Proportion of total sales (%) | RIG (%) | OG (%) |
|----------------------------------|---------------|---------------|---|--------------|--------------|
| Western Europe | 12 087 | 11 022 |  67.2% | | |
| Eastern and Central Europe | 3 088 | 2 629 |  16.0% | | |
| Middle East and North Africa | 2 790 | 2 752 |  16.8% | | |
| Powdered and Liquid Beverages | 4 700 | 4 366 |  26.6% | | |
| Milk products and Ice cream | 2 356 | 2 171 |  13.2% | | |
| Prepared dishes and cooking aids | 4 382 | 3 853 |  23.6% | | |
| Confectionery | 3 446 | 3 124 |  19.0% | | |
| PetCare | 3 081 | 2 889 |  17.6% | | |
| Total sales | 17 965 | 16 403 |  100.0% | +2.5% | +3.7% |
| Trading operating profit | 2 735 | 2 572 | | 15.7% | |
| Capital expenditure | 840 | 710 | | 4.3% | |

* 2014 figures have been restated – see note on page 40.

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

| | |
|---------------------------------|------------------|
| Sales | CHF 14.3 billion |
| Organic growth | +0.5% |
| Real internal growth | -0.1% |
| Trading operating profit margin | 18.4% |
| Trading operating profit margin | -80 basis points |

The Zone's performance was seriously impacted by the *Maggi* noodles issue in India.

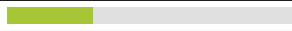



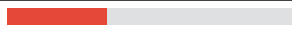





The emerging markets improved gradually, with China showing increased momentum towards the end of the year. In China, our reinvestment in *Nescafé* soluble coffee and *Nescafé* ready-to-drink products led the growth together with *Totole* in culinary and *Shark* wafers in confectionery. *Hsu Fu Chi* delivered a solid performance in a very difficult economic environment. *Yinlu* improved but needs more time. In India, we halted production and sales of *Maggi* noodles for five months while we dealt with allegations made against the product. We began the return to the market in November. Vietnam and Indonesia were the highlights among the other Asian markets. Sub-Saharan Africa delivered solid growth despite the pressure from lower oil prices in several countries. South Africa performed well.

The developed markets had another good year with growth across most categories. In Japan, the main growth drivers in beverages were *Nescafé Dolce Gusto* and the barista machine for *Nescafé* soluble coffee. *KitKat* remained the highlight in confectionery, driven by innovation in novel flavours and formats. Growth in Oceania was driven by confectionery, mainly *KitKat*, and by *Nescafé* soluble coffee and *Nescafé Dolce Gusto*. Also, there were benefits from improved management of trade terms.

The Zone's trading operating profit margin remained strong and accretive to the Group, despite the withdrawal and destruction costs of noodles product in India. The evolution in favourable input costs enabled increased investment in consumer facing marketing support.

Zone AOA

In millions of CHF

| | 2014* | 2015 | Proportion of total sales (%) | RIG (%) | OG (%) |
|----------------------------------|---------------|---------------|---|--------------|--------------|
| ASEAN markets | 4 239 | 4 260 |  29.7% | | |
| Oceania and Japan | 2 713 | 2 494 |  17.4% | | |
| Other Asian markets | 5 761 | 5 692 |  39.7% | | |
| Sub-Saharan Africa | 2 079 | 1 892 |  13.2% | | |
| Powdered and Liquid Beverages | 5 059 | 4 979 |  34.7% | | |
| Milk products and Ice cream | 4 957 | 4 932 |  34.4% | | |
| Prepared dishes and cooking aids | 2 244 | 1 969 |  13.7% | | |
| Confectionery | 1 969 | 1 947 |  13.6% | | |
| PetCare | 563 | 511 |  3.6% | | |
| Total sales | 14 792 | 14 338 |  100.0% | -0.1% | +0.5% |
| Trading operating profit | 2 834 | 2 632 | | 18.4% | |
| Capital expenditure | 586 | 482 | | 3.4% | |

* 2014 figures have been restated – see note on page 40.

Nestlé Waters

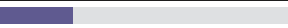

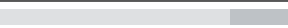

| | |
|---------------------------------|-------------------|
| Sales | CHF 7.6 billion |
| Organic growth | +6.7% |
| Real internal growth | +6.7% |
| Trading operating profit margin | 10.8% |
| Trading operating profit margin | +110 basis points |

Nestlé Waters delivered good broad-based organic and real internal growth in all geographies, driven by category dynamics and innovation. There was a strong performance for our flagship brand for healthy hydration, *Nestlé Pure Life*. The premium international brands *Perrier* and *S. Pellegrino* continued their good growth momentum, creating additional value in the category. Complementing these performances, our strong local brands also contributed good growth, especially *Poland Spring* in the United States, *Buxton* in the United Kingdom, *Erikli* in Turkey, and *Sta. María* in Mexico.

The improvement in the trading operating profit margin was due to a combination of volume growth, continuous cost improvement and lower input costs that also allowed for increased investment behind our brands.

Nestlé Waters

In millions of CHF

| | 2014 | 2015 | Proportion of total sales (%) | RIG (%) | OG (%) |
|--------------------------|--------------|--------------|---|--------------|--------------|
| Europe | 2 190 | 1 949 |  25.5% | | |
| United States and Canada | 3 780 | 4 131 |  54.2% | | |
| Other regions | 1 420 | 1 545 |  20.3% | | |
| Total sales | 7 390 | 7 625 |  100.0% | +6.7% | +6.7% |
| Trading operating profit | 714 | 825 | 10.8% | | |
| Capital expenditure | 308 | 432 | 5.7% | | |

Nestlé Nutrition





| | |
|---------------------------------|-------------------|
| Sales | CHF 10.5 billion |
| Organic growth | +3.1% |
| Real internal growth | +1.4% |
| Trading operating profit margin | 22.6% |
| Trading operating profit margin | +110 basis points |

The increase in trading operating profit margin was driven by strict control of fixed costs, lower input costs, the results of portfolio management and lower impairment charges. At the same time, there was increased investment behind our brands.

Nestlé Nutrition's solid organic growth was supported by an increased real internal growth momentum during the year. Infant formula including growing-up milks, delivered good growth. Wyeth Infant Nutrition remained the key driver with its premium brand *illumina*. There was a positive contribution from the emerging markets, in particular China and Mexico. In the developed markets, Spain and Germany were the highlights, helped by successful innovation in *NAN*. Baby food delivered broad-based growth. Infant cereals performed well, with share gains in particular in Latin America and the United States. Tough comparisons and softer pricing due to lower input costs and moderating category growth across Asia had an impact.

Nestlé Nutrition

In millions of CHF

| | 2014* | 2015 | Proportion of total sales (%) | RIG (%) | OG (%) |
|--------------------------|---------------|---------------|--|--------------|--------------|
| EMENA | 2 366 | 2 062 |  19.7% | | |
| AMS | 3 975 | 3 688 |  35.3% | | |
| AOA | 4 574 | 4 711 |  45.0% | | |
| Total sales | 10 915 | 10 461 |  100.0% | +1.4% | +3.1% |
| Trading operating profit | 2 343 | 2 361 | | 22.6% | |
| Capital expenditure | 393 | 489 | | 4.7% | |

* 2014 figures have been restated – see note on page 40.

Other businesses

| | |
|---------------------------------|-------------------|
| Sales | CHF 14.1 billion |
| Organic growth | +5.3% |
| Real internal growth | +3.7% |
| Trading operating profit margin | 15.7% |
| Trading operating profit margin | -330 basis points |

The growth for Nestlé Professional was driven by emerging markets, particularly Turkey, the Middle East Region, Russia, Mexico, the South Asia Region and China. Western Europe continued to face challenges in the out-of-home environment. The strategic growth drivers, beverage solutions and savoury flavours, continued to perform well. The divestment of *Davigel* was completed in November.

Nespresso delivered solid growth in all regions in 2015, affirming its strong position in European markets and continued to build momentum in Asia and the Americas. In the USA, sales of the recently launched *VertuoLine* system accelerated on the back of the new varieties of machine and Grands Crus, and the new communication campaign. Global growth was supported by innovations and significant investments in the coffee, machine and service pipeline, as well as in sustainability activities, brand awareness and geographic expansion in new and existing markets.

Nestlé Health Science reported good growth, driven by strong performances in Europe, AOA, and in the USA. Consumer Care was the growth engine, driven by *Boost* and *Carnation Breakfast Essentials* and the continuing roll-out of the *Meritene* range in Europe. Medical Nutrition saw

good growth, notably from the allergy portfolio (*Alfaré*, *Althéra*, *Alfamino*) across all geographies and particularly in China. Growth was also supported by *Vitaflo*'s geographic expansion and the continuing roll-out of the product range. Novel Therapeutic Nutrition made strategic investments in Seres Therapeutics, a leading microbiome therapeutics company, while generic competition impacted *Lotronex*.

Nestlé Skin Health delivered good growth. There were very good results in Aesthetic & Corrective, driven by *Restylane* and *Azzalure*, and in Self-medication, driven by *Cetaphil* cleansers and moisturisers, the acne treatment *Benzac* and by continued roll-out of line extensions. The Prescription business successfully launched the rosacea treatment *Soolantra* and the higher strength acne drug *Epiduo Forte*, but faced pressure from some generic entrants in the US and in Europe. There was an impact from the business' decision to take a more conservative approach to its prescription rebate policy in the US which required a one-off charge in the third quarter.

The trading operating profit margin of the Other businesses was impacted by the rebate adjustments in Nestlé Skin Health, the effect of the strong Swiss Franc on Nespresso and the generic competition on *Lotronex*. These impacts overshadow good underlying profit improvement across the businesses.

Other businesses ^(a)

In millions of CHF

| | 2014* | 2015 | RIG (%) | OG (%) |
|--------------------------|--------|--------|---------|--------|
| Total sales | 13 925 | 14 114 | +3.7% | +5.3% |
| Trading operating profit | 2 651 | 2 221 | 15.7% | |
| Capital expenditure | 573 | 518 | 3.7% | |

* 2014 figures have been restated – see note on page 40.

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

Principal risks and uncertainties

Group Risk Management

The Nestlé Group Enterprise Risk Management Framework (ERM) is designed to identify, communicate, and mitigate risks in order to minimise their potential impact on the Group. Nestlé has adopted a dual approach in identifying and assessing risks. A top-down assessment is performed at Group level once a year to create a good understanding of the company's mega-risks, to allocate ownership to drive specific actions around them and take any relevant steps to address them. A bottom-up assessment occurs in parallel and focuses on the global risk portfolio in the businesses/corporate functions. It involves the aggregation of individual assessments by the Zones, Globally Managed Businesses and all markets. It is intended to provide a high-level risk mapping and allows Group Management to make sound decisions on the future operations of the company and ensure that any risk growing in importance within the organisation is captured and addressed in Nestlé's ERM agenda. Nestlé engages with external stakeholders to better understand issues that are of most concern to them with the aim of assessing any potential gaps between internal and external perception of risks and their impact on reputation. Recommendations from stakeholders are reported on in the *Nestlé in society* report along with the issues stakeholders consider to be material to the company.

An annual compliance risk assessment is performed in the Group Compliance Committee. 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.

Factors affecting results

Nestlé's reputation is based on consumers' trust. Any major event triggered by a serious

food safety or other compliance issue could have a negative effect on Nestlé's reputation or brand image. The Group has policies, processes, controls and regular monitoring (dedicated dashboard with relevant KPIs) 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 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 macroeconomic environment (shift in production patterns, biofuels, excessive trading, etc.), resulting in input price volatilities and/or capacity constraints, could potentially impact Nestlé's financial results. The Group has policies, processes, controls and regular monitoring in place to (if ever possible) anticipate such events and adequately mitigate against them.

In particular, Nestlé manages risks and opportunities related to climate change and water resources proactively given the impact it may have on agriculture and food production systems. Details of the Group's climate change and water strategies are available in Nestlé's response to the CDP Climate Change and Water Investor Information Requests and also in the *Nestlé in society* report.

The Group's liquidities/liabilities (currency fluctuation, interest rate, derivatives, and/or hedging, pension funding obligations/retirement benefits, banking/commercial credit, and cost of capital, etc.) 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

Corporate Governance and Compliance

Corporate Governance

Our approach to Corporate Governance is built upon a set of strong principles and values set by the Board of Directors for our management and employees. Our Board also provides our long-term strategy and appropriate oversight. It establishes the appropriate tone at the top; oversees management and long-term performance; reviews financial planning and audit process; ensures risk oversight and compliance; sets compensation and performance goals; and manages director nomination, evaluation and succession planning. It oversees our economic, social and environmental sustainability.

But good Corporate Governance is not an end in itself. It is a means to create market confidence and helps focus on the long term. Therefore, Nestlé has adopted best practices in governance including an intense dialogue with our shareholders in our roadshows, investor meetings, shareholder surveys, analyst and engagement calls, Chairman's Roundtables and bilateral meetings. We actively engage with the providers of capital and other stakeholders to ensure our sustainable long-term growth.

Our Chairman's and Corporate Governance Committee liaises between the Chairman and the full Board, acts as a consultant body to the Chairman and CEO, and regularly reviews aspects of our Governance. It also advises on financial matters.

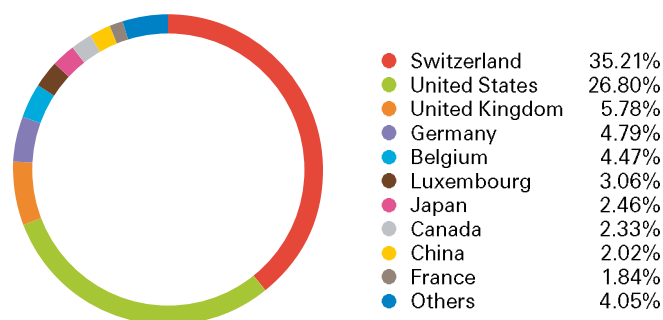
Our Nomination Committee ensures our managerial sustainability and oversees the long-term succession planning of the Board, its independence and self-evaluation. It ensures an appropriately wide net is cast on key successions.

Our Compensation Committee sets our remuneration principles and prepares the proposals for remuneration. In 2015, we implemented the new Swiss 'say on pay' law both in letter and in spirit. Our proposals were adopted with large majorities of our shareholders. Our *Compensation Report* explains our compensation system and pay-outs. It is submitted annually to an advisory vote of our shareholders.

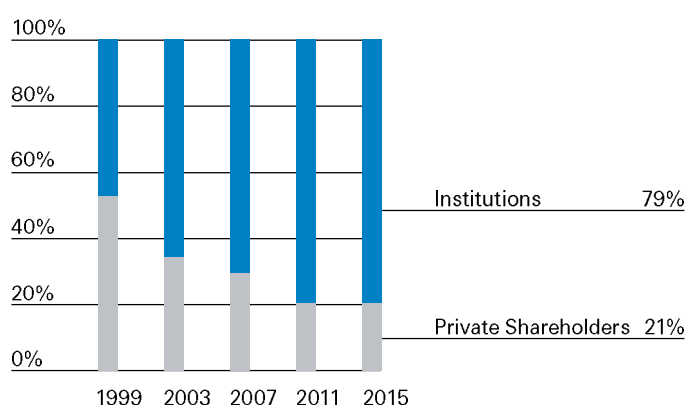
Our Audit Committee oversees internal and external audit, financial reporting, compliance and risk management, and paid special attention to cyberlaw and quality this year.

Our *Annual Report* includes both our financial and nonfinancial commitments. It gives insights into how material issues affect our financial performance and how our long-term strategy relates to our ability to create value. We recognize that this is central to our business model and gives us our license to operate. For our company to be successful over the long term and create value for shareholders, we must also create value for society.

Share capital distribution by geography



Share capital by investor type, long-term evolution ^(a)



(a) Percentage derived from total number of registered shares. Registered shares represent 57.6% of the total share capital. Statistics are rounded, as at 31.12.2015.

Board of Directors of Nestlé S.A.

Helmut O. Maucher
Honorary Chairman

David P. Frick
Secretary to the Board

KPMG SA Geneva branch⁽¹⁾
Independent auditors

Board of Directors of Nestlé S.A. at 31 December 2015

Peter Brabeck-Letmathe^(1, 2, 4)
Chairman

Paul Bulcke^(1, 2)

Chief Executive Officer

Andreas Koopmann^(1, 2, 3, 4)

Vice Chairman

Chairman, Georg Fischer AG

Beat Hess^(1, 2)

Former Group Legal Director,
Royal Dutch Shell plc.

Renato Fassbind^(1, 2, 5)

Vice Chairman, Swiss Re AG

Daniel Borel^(1, 3)

Co-founder, Logitech

International S.A.

Steven G. Hoch^(1, 4)

Partner, Brown Advisory, LLC

Naina Lal Kidwai^(1, 5)

Former Chairperson, HSBC

Group of Companies in India

Jean-Pierre Roth^(1, 3)

Chairman, Geneva Cantonal Bank

Ann M. Veneman^(1, 4)

Former Executive Director,

UNICEF, and Secretary, U.S.

Department of Agriculture

Henri de Castries^(1, b)

Chairman and CEO, AXA

Eva Cheng^(1, b)

Former Chairwoman and CEO,

Amway China & Southeast Asia

Ruth K. Oniang'o⁽¹⁾

Professor of Food Science

and Nutrition

Patrick Aebischer⁽¹⁾

President of the Swiss

Federal Institute of

Technology Lausanne (EPFL)



Peter Brabeck-Letmathe



Paul Bulcke

(1) Term expires on the date of the Annual General Meeting 2016.

(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 2015*.



Andreas Koopmann



Beat Hess



Renato Fassbind



Daniel Borel



Steven G. Hoch



Naina Lal Kidwai



Jean-Pierre Roth



Ann M. Veneman



Henri de Castries



Eva Cheng



Ruth K. Oniang'o



Patrick Aebischer

Executive Board of Nestlé S.A.

Executive Board of Nestlé S.A. at 31 December 2015

- 1 Paul Bulcke**
Chief Executive Officer
 - 2 Luis Cantarell**
EVP, Europe, Middle East,
North Africa
 - 3 Laurent Freixe**
EVP, United States of
America, Canada, Latin
America, Caribbean
 - 4 Chris Johnson**
EVP, Nestlé Business
Excellence
 - 5 Patrice Bula**
EVP, Strategic Business Units,
Marketing and Sales
 - 6 Wan Ling Martello**
EVP, Asia, Oceania,
sub-Saharan Africa
 - 7 Stefan Catsicas**
EVP, Innovation Technology,
Research and Development
 - 8 Marco Settembri**
EVP, Nestlé Waters
 - 9 François-Xavier Roger**
EVP, Chief Financial Officer
 - 10 Magdi Batato**
EVP, Operations
 - 11 Peter Vogt**
Deputy EVP,
Human Resources
 - 12 Martial Rolland**
Deputy EVP,
Nestlé Professional
 - 13 Heiko Schipper**
Deputy EVP,
Nestlé Nutrition
 - 14 David P. Frick**
SVP, Corporate Governance,
Compliance and Corporate
Services
- Yves Philippe Bloch**
Corporate Secretary



EVP: Executive Vice President
SVP: Senior Vice President

For further information on the
Executive Board, please refer to the
Corporate Governance Report 2015.



Compliance

Quality and trust is the very foundation on which we build our business. It includes our behaviour as a responsible company. Compliance at Nestlé includes following applicable laws and our own commitments in our principles and policies. Compliance helps us build trust, with our employees, as well as with our shareholders and our other stakeholders. This is what makes our efforts value adding and sustainable.

Our *Corporate Business Principles*, our *Management and Leadership Principles* and our *Code of Business Conduct* include our commitments to integrity. But we recognize that compliance is not a matter of ever more detailed policies and checklists. We cannot regulate honesty, but we are convinced that people know what honesty is. We aim to provide guidance to our people to do the 'right' thing even in situations which are not specifically regulated.

We provide the necessary training in our Management School in Rive-Reine, at in-person trainings in the Markets, as well as through our e-learning tools. We monitor compliance through our corporate functions, our internal audit function and our external auditors. Through our CARE programme, which relies on independent external auditors, we regularly assess specific aspects of our compliance.

Our Integrity Reporting System and our 'Tell Us' system allow us to address complaints from employees and external stakeholders. In 2015, 250 CARE audits were conducted and gaps addressed. 1400 complaints from employees and 370 complaints from suppliers and other third parties were investigated and remedial action taken.

While Compliance remains a leadership responsibility, management is supported by our dedicated Corporate Compliance function and all functions engaged in our holistic, risk and principles based compliance programme. Our Compliance Committee defines the framework, facilitates coordination and provides guidance and best practices. Market Compliance Officers and committees ensure a consistent approach across the Group and help identify local compliance priorities.

In 2015, we reemphasized the role of our Market Heads to focus on increasing

interactions with key stakeholders and taking care of the Group's interests as custodians of Nestlé's compliance and reputation across all businesses in a Market. Specific focus areas of the Corporate Compliance programme included the roll-out of our enhanced anti-corruption programme; emphasis on execution and efficiency of compliance processes and tools; renovated training tools for Code of Conduct, anti-corruption, security and anti-bribery; and improved internal and external communication.

Our efforts were recognized by the joint best industry score for Compliance in this year's Dow Jones Sustainability Index.

Shareholder information

Stock exchange listing

At 31 December 2015, Nestlé S.A. shares are listed on the SIX Swiss Exchange, Zurich (ISIN code: CH0038863350). American Depositary Receipts (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank, N.A., New York.

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

www.nestle.com

7 April 2016

149th Annual General Meeting,
Beaulieu Lausanne,
Lausanne (Switzerland)

8 April 2016

Last trading day with entitlement to dividend

11 April 2016

Ex-dividend date

13 April 2016

Payment of the dividend

14 April 2016

2016 First quarter sales figures

18 August 2016

2016 Half-yearly Results

20 October 2016

2016 Nine months sales figures

16 February 2017

2016 Full Year Results

6 April 2017

150th 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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