Letter to our shareholders

Good Food, Good Life

Dear fellow shareholder,

The year in review has seen significant changes in our business environment, both at home in Switzerland and in many other countries where your company is active. Switzerland has seen changes in corporate law that directly impact your company. Challenges in the Middle East, Asia, Africa and Latin America have contributed to a general slowdown in the emerging markets' growth rates. The developed markets, meanwhile, have continued to experience anaemic growth, at best. The results that we have achieved in this environment, therefore, are a tribute to our 333 000 employees, many of whom have experienced these difficult challenges first hand.

Sales were CHF 92.2 billion, with organic growth of 4.6%, incorporating real internal growth of 3.1% and pricing of 1.5%. After some years of inflation, raw material costs were subdued in 2013, and our commitment to delivering the right value propositions to our consumers resulted in a low level of pricing: our relatively strong real internal growth, considering the environment, suggests that we succeeded against market. The trading operating profit was CHF 14.0 billion and the margin increased by 20 basis points to 15.2%. This performance was achieved whilst at the same time increasing our brand support. The net profit was CHF 10.0 billion and earnings per share were CHF 3.14. Underlying earnings per share were up 11.0% in constant currencies. Operating cash flow was CHF 15.0 billion. In view of this performance and the company's strong financial position, the board is recommending a dividend per share of CHF 2.15, up 4.9% from CHF 2.05 last year.

The results in 2013 showed our determination to grow your company profitably and sustainably, allowing us to deliver over time the Nestlé Model of organic growth of 5–6% together with improvements in our trading operating profit margin and earnings per share in constant currencies and in our capital efficiency. Indeed, our average organic growth has been 6.1% over the last ten years, during which time we also consistently improved our operating profit margin. This performance reflects a focus both on our shorter-term performance – seeking to grow faster than our markets – and on the longer-term – making the right decisions to ensure sustainable profitable growth into the future.

Each year is a challenge in its own way, and 2013 was no different. A more difficult trading environment required an intense focus on ensuring we maintained our edge in the market. In 2013, guided by our strategic roadmap, we considered how we could work smarter to deliver greater value for consumers and for you, our fellow shareholders. We wanted to ensure we were agile enough to maximise the opportunities presented by today's fast-changing environment.

The roadmap has aligned our people, wherever they are in the world, whatever activity they work in, behind a set of firm priorities which help us deliver our promise to be the leader in Nutrition, Health and Wellness.

The intrinsic value of our nutrition agenda will increase as populations expand, healthcare challenges increase and related costs multiply. Our leadership brings responsibility, including to be at the cutting edge of science and to use our know-how to contribute to solutions on problems ranging from malnutrition to obesity. It also means taking business risks by pioneering new opportunities, knowing that some may not work. Equally, it means being sufficiently present in consumers' lives to be able to make a difference.

We also need to make the right choices. For example, whilst we see an exciting future role for personalised nutrition in managing chronic illness, we decided that our personalised weight management business, Jenny Craig, would be better served by different ownership and have divested it. Making the right choices enables us to put our best people and resources behind our best opportunities. We can focus investment more precisely, move faster and be more agile and responsive, all of which are critical to winning in today's more complex, more competitive world.

We will be able to be faster and more responsive by moving from managing complexity to mastering it. By doing so, we will be able to leverage our size to create further scale benefits and increased competitive advantage. One advantage that scale gives us is the ability to keep one eye on the longer-term, even as we navigate through shorter-term challenges. That means continuing to invest aggressively in capacities, capabilities, in R&D and our brands. In fact, 2013 saw investment in all these areas at levels that are among the highest in our history and in the industry. The opportunity for us now is to exploit that

Peter Brabeck-Letmathe
Chairman

Paul Bulcke
Chief Executive Officer

investment: to do more with what we have; to further leverage our assets, our scale and our capabilities by working smarter. This will result in lower capital investment and a further reduction in structural costs. The benefits will be evident already in 2014, with a significant decrease in capital investment, compared to 2013.

The Board's priorities included reviews of our global business portfolio in the context of our Nutrition, Health and Wellness strategy, of our past capital investments and our future needs, and of gender balance and diversity at Nestlé. Additionally, the Board of Directors spent considerable time analyzing and discussing the long-term strategic direction of your company and elaborated an enlarged vision of its strategy for the future. Our long-term strategic direction is to be the leader in Nutrition, Health and Wellness. We expanded the boundaries of nutrition with the creation of Nestlé Health Science in 2011. We are now expanding the foundation of health and wellness, with our announcement on 11th February 2014 of the acquisition of the 50% of Galderma that we did not already own, into the field of specialised medical skin treatments by setting up Nestlé Skin Health S.A.

The biggest priority, however, was to understand what the significant changes in the Swiss legislative framework for corporates would mean for your company, including the so-called Minder Initiative, voted into law in March 2013. The Board's aim was to keep your company as competitive as possible. Here are a few of the changes:

Each member of the Board of Directors will be re-elected on an annual basis. Previously, the Board had a staggered election process over three years, which provided a certain degree of stability. The yearly direct election of the Members of the Compensation Committee and the transfer of compensation approvals to the Annual General Meeting (AGM) also changes the dynamic between the Board and our shareholders.

The Chairman will now be elected annually by shareholders, no longer appointed by the Board. The Chairman will therefore have to dedicate more time to shareholder relations and to shorter-term issues, in addition to devoting his energies to the longer-term strategy and priorities, and to ensuring the sustainability of the business, as his role demands.

One of the tenets of the Minder Initiative was that it would empower shareholders. While about one-third of our shareholders are Swiss, about two-thirds are international, including European, American and Asian pension funds, investment trusts and sovereign wealth funds. We encourage all of them to vote at our AGM: a well-run company has shareholders who choose to be owners for the long term because they support the management and its strategy. Those shareholders will usually vote in support of the Board. It is probable, however, that shareholders will increasingly manage their additional voting responsibilities by delegating their voting decisions to international proxy advisors.

Together with the invitation to the Annual General Meeting you will find a Report of the Board explaining the revision of our Articles of Association. This aims to meet both the requirements of the unique new Swiss law and of international best corporate governance and compensation practices.

The new governance framework will have a significant impact on our AGM. There will be more proposals to be voted on. Compliance with the new law will be at the forefront of the meeting since non-compliance can result in severe criminal punishment, which is unique in the world. The role of the Board, the corporate body with fiduciary responsibility for your company's long-term development, has been weakened. The AGM has been given increased power. We therefore encourage all of you to vote, and so exercise your increased authority and assume your increased responsibility. By doing so, you will help preserve our tradition of being long-term focused and you will help us deliver our Creating Shared Value goals, which you previously enshrined in our Articles of Association and which have served us so well for almost 150 years.

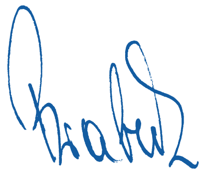
There were changes to the Executive Board in 2013. Werner Bauer, Chief Technology Officer retired and was replaced by Stefan Catsicas. John Harris also retired and was replaced as head of Nestlé Waters by Marco Settembri. Martial Rolland took over responsibility for Nestlé Professional from Marc Caira who decided to take early retirement. The Board thanks Werner, John and Marc for the contributions over the many years they were with Nestlé. Peter Vogt became Head of Human Resources, following Jean-Marc Duvoisin's move to Nestlé Nespresso.

A company's actions should be consequent to its beliefs. We believe that our ability to win is due in no small part to our people, whom we consider a competitive advantage. People are the oxygen of an organisation, providing its creativity, dynamism and drive, and they become part of its culture and spirit as they are trained, progress, mentor and finally lead others. We have launched an initiative in Europe, pledging to create 20 000 positions for young people by 2016, and we are encouraging our 60 000 suppliers to join us. This is just one example of the role of Nestlé in Society to create shared value by ensuring that our activities, investments and know-how benefit not just Nestlé but also our stakeholders and the communities where we are present. It is fundamental that a company such as Nestlé plays a positive role in society. Indeed, we believe we will create long-term value for our shareholders only if we respect and connect positively with society at large. This is what we call 'Creating Shared Value'. Nestlé in Society is discussed in the accompanying reports, and we have also highlighted the increasing external recognition that we are receiving in this area.

Last year was challenging and 2014 will likely be the same. We will continue to be disciplined in driving our performance in line with the Nestlé Model of profitable growth and resource efficiency. We therefore expect our 2014 performance to be similar to last year and again weighted to the second half, outperforming the market, with growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

As we said, our people are our strength and competitive advantage, and we would like to thank everyone at Nestlé for their great efforts in contributing to another year of progress for the Group. Wherever you are in the world, whatever challenges you have been facing, your commitment has been unwavering.

On behalf of our Board of Directors we would finally like to thank our shareholders for their loyalty to our Company. We hope to count on your continued support.



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