

Annual Review 2016



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Nestlé in society
Creating Shared Value
and meeting our
commitments 2016

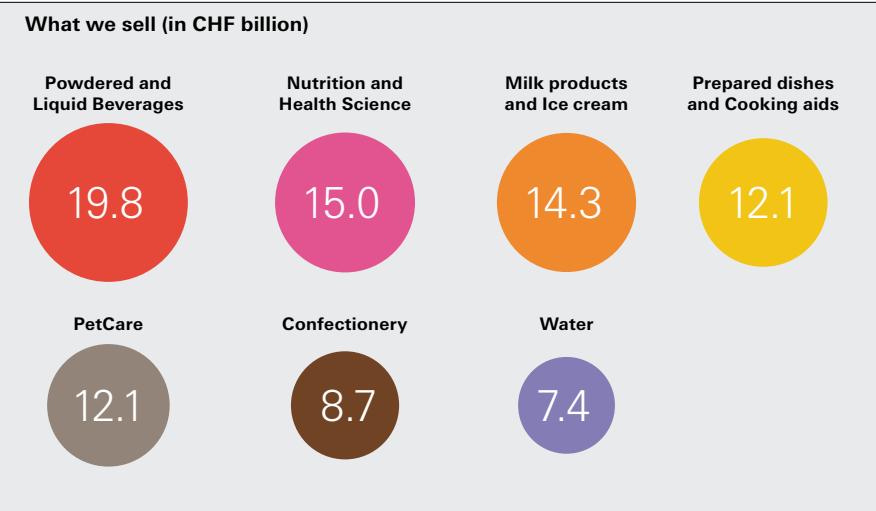


Corporate Governance Report 2016
Compensation Report 2016
Financial Statements 2016

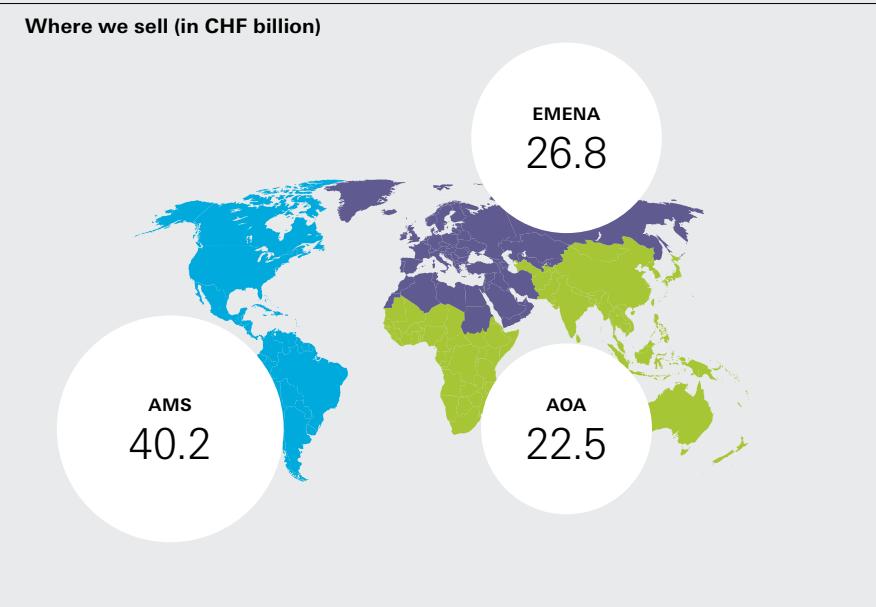
Our business

For 150 years, Nestlé has created products that enhance quality of life and contribute to a healthier future.

Across the globe we provide safe nutritious products for individuals and families. We have seven categories in our product portfolio, offering tastier and healthier choices for every life stage, at all times of the day.



Our continued growth has enabled us to help improve the lives of millions of people through the products and services we provide, creating value for both our business and the communities where we operate.



Number of employees	Number of countries we sell in
328 000	191
Total group salaries and social welfare expenses (in CHF)	Corporate taxes paid in 2016 (in CHF)
17 billion	3.4 billion

Our commitments

Our 42 commitments featured in the *Nestlé in society* report guide our collective efforts to meet specific objectives.

On the right is a selection of key achievements, illustrating the progress we have made across our Creating Shared Value focus areas.

	Nutrition, health and wellness	
8856	Renovated 8856 products for nutrition and health considerations	207 billion
		Delivered 207 billion micronutrient-fortified servings of foods and beverages
	Rural development	
129 million	Distributed 129 million coffee plantlets (cumulative since 2010) to farmers, against a target of 200 million by 2020	363 000
		Farmers trained through capacity-building programmes
	Water	
25%	Reduced our water withdrawal per tonne of product by 25% since 2010	3.7 million m ³
		Saved 3.7 million m ³ of water through 516 water-saving projects
	Environmental sustainability	
39%	Reduced our emissions per tonne of product by 39% (cumulative since 2006)	182
		Achieved zero waste for disposal at 182 sites (39% of total)
	Our people, human rights and compliance	
15 666	Trained 15 666 women in business and entrepreneurial skills	9573
		9573 employees trained on human rights across the FTSE4Good Countries of Concern

Our performance

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

Our 2016 growth was at the high end of the industry. We saw a solid trading operating profit margin improvement and our cash flow grew significantly. On the right is a summary of the results we achieved during the year.

Group sales (in CHF)	Organic growth	Real internal growth
89.5 billion	3.2%	2.4%
Trading operating profit (in CHF)	Trading operating profit margin	Trading operating profit margin
13.7 billion	15.3%	+30 basis points Constant currency
Earnings per share (in CHF)	Underlying earnings per share	Constant currency
2.76	+3.4%	
Operating cash flow (in CHF)	Free cash flow (in CHF)	
15.6 billion	10.1 billion	
112.0% of net financial debt		
Proposed dividend (in CHF)	Proposed dividend increase	
2.30	+2.2%	

Letter to our shareholders

Dear fellow shareholder,

2016 was an exceptional year in exceptional times. We reached a milestone, our 150th anniversary, a celebration of a century and a half of passion for nutrition and for quality. But this achievement comes as our industry is at a crossroads. Expectations of Nestlé are changing substantially as consumers embrace new trends, habits and lifestyles. We see a reshaping of the competitive environment. We are on the brink of a ‘fourth industrial revolution’; a transformation of society that will be unlike anything we have experienced before, presenting us with challenges but also great opportunities. We are responding by sharpening our focus and strengthening our efforts to create value. We are investing in science and innovation, and building new capabilities and platforms to secure our long-term prospects while at the same time delivering the sustainable, profitable growth you expect from us.

Organic growth was 3.2%, with real internal growth reaching a three-year high of 2.4%. Pricing was limited at 0.8%, with some improvement in the second half of the year. Sales increased by 0.8% to CHF 89.5 billion, with a foreign exchange impact of -1.6%. The Group’s trading operating profit was CHF 13.7 billion with a margin of 15.3%, up 20 basis points on a reported basis and up 30 basis points in constant currency. We achieved this margin improvement while increasing investment in brand support, digital marketing, Research and Development, and in the new nutrition and health platforms. Net profit of CHF 8.5 billion was impacted by several items, the largest being a one-off non-cash adjustment to deferred taxes. Reported earnings per share decreased by 4.8% to CHF 2.76 for the same reasons. Underlying earnings per share in constant currency increased by 3.4%. Operating cash flow improved by CHF 1.3 billion to CHF 15.6 billion. Free cash flow improved by CHF 200 million to CHF 10.1 billion or 11.3% of sales. Based on these results, the Board of Directors is proposing the 22nd consecutive dividend increase, underlining our commitment to continuity, up from CHF 2.25 last year to CHF 2.30 this year.

During the year we confirmed our Nutrition, Health and Wellness strategic direction with a newly articulated purpose that echoes the motivation of our founders: enhancing quality of life and contributing to a healthier future. Those who started our company were pioneers and entrepreneurs who were motivated by the needs of society and overcame the challenges they faced with expertise and determination. We share their values and their passion, passed down through the generations. Over the last 150 years your company has faced constant change. Today is no different. This is the moment to put in place measures to ensure Nestlé thrives in this new environment. So, in this anniversary year, we made choices and investments that will shape the future and ensure your company’s continuing success.



Paul Bulcke, Chief Executive Officer (left), and Peter Brabeck-Letmathe, Chairman (right).
As part of our 150 years celebration, the original site of Henri Nestlé's factory in our home town
of Vevey was refurbished and opened to the public as a discovery centre.

Henri Nestlé had a vision of a better world thanks to nutrition, an idea which is still pertinent today. Through innovation we can help people to live healthy and fulfilling lives. Innovation is our heritage, the foundation on which our brands are built, but also a key enabler of future success. The strength and depth of our Research and Development differentiates us from the competition, and helps us respond to the major changes we see in society. We are constantly acquiring a deeper understanding of nutritional science, and developing products and services with the potential to help people to live healthier lives and to address rising healthcare costs globally. One good example is our research collaboration with Samsung, which will explore the potential of nutrition science and digital sensor technology to provide new insights into healthy living. We continue to further extend the boundaries of our Nutrition, Health and Wellness strategy with Nestlé Health Science and Nestlé Skin Health. With their innovative pipelines of products designed to make a major contribution to the health needs of large parts of the population, they offer the promise of further growth and value creation.

We are well aware of how fundamentally digital is transforming society and for some time now we have been building the knowhow and talent to respond effectively and efficiently. Digital is changing not just how companies operate but also our relationships with partners, suppliers and the people who buy our products. It requires attention and investment to enable us to seize opportunities. Among others, we have enlarged our 'Silicon Valley Innovation Outpost' in San Francisco with staff drawn from the company's marketing and technology functions. During the year, we launched the Henri@Nestlé open innovation platform, enabling start-up entrepreneurs to work with Nestlé as collaborative partners on projects that matter both to the company and to the millions of people who buy our products. We are creating a digital-first culture. This bold ambition will shape the next 150 years of the company's progress.

We have always balanced investing for the long-term with delivering against our current financial commitments to drive growth in today's challenging trading environment. We have increased investment behind our brands and sustained it.

Our long-term commitment to operational excellence delivers savings that benefit both growth and margins. During the year, we committed to further structural savings beyond those delivered annually by our continuous improvement initiative *Nestlé Continuous Excellence*. Leveraging our size and scale offers further opportunities to maximise efficiency. Nestlé Business Excellence is driving efforts to simplify, standardise and share support functions, and as such to leverage our scale. Here too digital contributes: delivering new capacity or routes-to-market

without the need to construct ‘bricks and mortar’ infrastructure, or new possibilities to concentrate investment on projects that create more value. We continue to adapt our structure and organisation, finding the right balance between local focus and global scale to ensure we are best placed to exploit the fast-changing environment.

The Board of Directors took steps to ensure Nestlé’s continuing success after the transition necessitated by our changing roles. Peter Brabeck-Letmathe steps down in April having reached the mandatory age of retirement after 12 years as Chairman and before that 11 years as Chief Executive Officer. Paul Bulcke resigned as Chief Executive Officer at the end of 2016 after more than 8 years in the role, after the Board put him forward for election as Chairman of Nestlé at the upcoming Annual General Meeting. The Board appointed Ulf Mark Schneider to succeed him as Chief Executive Officer, a role he took up on January 1st 2017. Mr. Schneider was formerly Chief Executive Officer of the Fresenius Group, a company that offers products and services for dialysis, hospitals and outpatient treatments. This concludes a process that the Board began more than two years ago to appoint a strong leadership team to deliver the company’s short-term and long-term performance goals.

In September, it was announced that Luis Cantarell, Executive Vice President and Head of Zone EMENA, would retire at the end of the year after a long and distinguished career with the Group. Luis was one of the architects of the company’s Nutrition, Health and Wellness strategy and his contribution to its success cannot be overstated. The Board of Directors appointed Marco Settembri, Executive Vice President and Head of Nestlé Waters, to succeed him. Maurizio Patarnello, Market Head of Nestlé Russia and the Eurasia region, was appointed Deputy Executive Vice President and Head of Nestlé Waters. The Board also decided to change the business structure for Nestlé Professional from a globally managed business to a regionally managed business supported by a Nestlé Professional Strategic Business Unit from January 1st 2017. As a result of these changes, the Head of Nestlé Professional, Martial Rolland, left the Executive Board to become Market Head in the Russia and Eurasia region. We would like to thank Luis and all of those who retired in 2016 for their contribution to Nestlé’s success over the years and extend our best wishes to them as they begin this next chapter of their lives.

During the year, in addition to the succession planning, the Board reviewed the Nespresso business, Nestlé Nutrition and Nestlé Health Science. It examined our talent development strategy and appraised the company’s portfolio management and the performance of the acquisitions of recent years. The Board also reviewed how we track the external image of the company and travelled to China in order to better understand the dynamics of our second largest market.

In 2016, Nestlé partnered with R&R, a leading ice cream company based in the UK, to create Froneri, a new ice cream, frozen food and chilled dairy business in 22 countries across the globe. Building on each company's achievements, Froneri brings together decades of business and manufacturing expertise to create a new global player in the ice cream industry.

In this fast-changing world it is more important than ever that Nestlé is consistent, reliable and respected, in order to build trust. The consistency of our purpose: enhancing quality of life and contributing to a healthier future, has led us to act throughout our history as a responsible member of society. We strongly believe that the private sector is more than just an engine for economic growth and job creation. We are part of the fabric of society with its challenges and opportunities. As a global company we can make a substantial, positive impact in society, and inspire and work with others to achieve even more. Creating Shared Value describes what this means in practice; creating value for our shareholders with projects or business opportunities that at the same time benefit the communities in which we operate, and furthermore, society as a whole. This Creating Shared Value approach to doing business was started at Nestlé ten years ago. We are heartened to see others in our industry and beyond embracing the concept of shared value today.

A good example of our determination to make a difference is the *Nestlé Global Youth Initiative* which we started in Europe three years ago. During 2016, we pledged to offer to under-30 year olds thousands of jobs, apprenticeships and traineeships in each of our three geographical Zones over the coming years, on top of those already created. We believe that through these efforts to promote readiness-to-work we can make a significant contribution towards addressing the social cost of youth unemployment. Through the 'Alliance for YOuth', which Nestlé founded, we are creating an even bigger impact, working with more than two hundred partner companies to provide training and jobs.

Each day we touch billions of lives worldwide, from the individuals and families who enjoy our products, to the communities where we live and work, and the natural environment upon which we all depend. Our 42 public commitments provide the framework for our efforts in these areas, and our progress towards meeting them is detailed in the *Nestlé in society* report published alongside this *Annual Review*. They are fully aligned with the United Nations' 17 Sustainable Development Goals (SDG's) which set out a vision for ending poverty, hunger and inequality, and protecting the earth's natural resources. The SDG's help to guide our actions around a common agenda: an agenda to create a better world that we fully endorse and actively contribute to.

For 150 years we have adhered to a set of values rooted in respect: respect for ourselves, for others, for diversity and for the future. All of us at Nestlé live these values with passion, determination and discipline. They have withstood the test of time. They are integral to our success. It is our respect for future generations that compels us to act with responsibility and courage, even when times are difficult. So while we continue to take care of the short term, we are building and investing for the long term. We are well aware of the intensely competitive context in which we are operating today and are taking the steps necessary to further develop and strengthen your company. We are investing in the capabilities we need, the know-how and the talent to continue to create value for you, our shareholders. This is the approach which we have followed successfully for 150 years.

We would like to thank our 328 000 employees for their commitment to Nestlé. It is their hard work, alignment behind our strategy and dedication that enables us to deliver on our promises. We also want to thank you, our shareholders, for your continuing support, your confidence and above all for your trust. Rest assured that our passion for nutrition, health and wellness, and our passion for quality will continue to generate the sustainable, profitable returns you rightfully expect from us.



Peter Brabeck-Letmathe
Chairman



Paul Bulcke
Chief Executive Officer



**Nestlé.
Enhancing quality of life
and contributing
to a healthier future.**



The strategy

Nutrition plays a profound role in everyone's life. Our strategy focuses on delivering distinct benefits to people through the food and beverages, products and services we provide. Over 150 years we have built a successful business by understanding and anticipating the needs of society, and continuously adapting ourselves to seize the opportunities presented to us.

The fast-evolving needs and expectations of society today reconfirm the validity of our Nutrition, Health and Wellness strategy. The world is at an inflection point. The speed, intensity and the breadth of change is unprecedented. Digital disruption is reshaping our industry, our relationships with our suppliers and retailers, and with the people who buy our brands. Advances in science and technology are opening up new opportunities for us to play a role in addressing the challenges society faces. In a world where hundreds of millions of people are under-nourished, malnourished or over-weight we are well positioned to help contribute solutions.

Through our brands, our products and the services we offer, we are helping and inspiring people to live healthier lives. We are building, sharing and applying nutrition knowledge, and empowering people to make informed decisions about what they eat and what they feed their families. Our *Start Healthy Stay Healthy* programme helps parents and caregivers provide their children with the best start in life. In partnership with other stakeholders, our *United for Healthier Kids* programme helps establish healthier eating, drinking and lifestyle habits, and





the *Nestlé Healthy Kids Programme* is teaching nutrition and encouraging physical activity.

We want our products to be the healthiest and the tastiest choices in each and every category we compete in. We use quality ingredients people know and trust, adding nutrients where appropriate. We are substantially reducing sugar, saturated fat and salt. By communicating clearly about the contribution each product makes to a healthy diet, we are helping people make informed decisions about what to eat and drink.

Our new nutrition and health platforms, Nestlé Health Science and Nestlé Skin Health, allow us to apply the knowledge we have developed with the most advanced Research and Development network in the industry. They enable us to develop products and services that meet specific needs of different parts of the population, to help address issues the world faces, for example rising healthcare costs.

By keeping ourselves relevant in this fast-changing world, we can deliver industry-leading growth. We work with agility, creativity and discipline, constantly innovating and renovating our portfolio. Our Research and Development capability ensures we maintain our leading positions in the categories we compete in, driving growth throughout the portfolio. The innovation is broad-based across all categories, brands and markets. It comes in many forms – from blockbusters like *Nespresso*, to renovating products to keep them fresh and relevant as we have done with brands like *Nescafé* and *Nescafé Dolce Gusto*, *Nido*, *Milo* and *Maggi*.

Digital innovation is a strong competitive advantage and a cornerstone of the company's future development. For some time now we have been creating a digital-first culture that enables us to manage and to benefit from the disruption digital is bringing. As the 'fourth industrial revolution' takes hold, we are confident that we can capitalise on the efficiencies and the opportunities digital brings.

The Nestlé Strategic Roadmap guides us in these turbulent times. The glue is our purpose and values, and our culture. The roadmap says what we want to be as a company, what we want to leverage as competitive advantages to fuel growth, where we want to grow and how we will

do that efficiently, effectively and responsibly. It drives internal alignment behind our goals.

It is more important than ever to ensure that resources are dedicated to the right projects, maximising the effectiveness of what we spend. We have a strong cost control culture. Through *Nestlé Continuous Excellence* we continuously improve our operations and deliver savings. With Nestlé Business Excellence we simplify, standardise and share. This is creating back-office efficiencies, helping us to leverage our size and scale to deliver competitive advantage, and unlocking resources. These are the fuel for growth, brand support, Research and Development, innovation and renovation.

We challenge ourselves continuously to look for new opportunities and for areas where we can make a contribution to the issues society faces. This creates shared value for the communities where we operate and for our shareholders. We are contributing to society while growing our business. Trust is fundamental to our success. Trust helps deliver growth, creating shared value for our shareholders and for society. Quality and compliance underpin that trust, and are the best way to ensure the long-term success of our business.

Our strategy helps achieve our purpose: enhancing quality of life and contributing to a healthier future. Nestlé is always anticipating and adapting to the changing world, guided by our purpose and our values, as we have since the company started 150 years ago. Our purpose defines why the world is a better place with Nestlé, better for those who enjoy our products and services, and for those who are affected by our business. It is the inspiration for each and every one of us in the company. It aligns our actions and creates a common language. It is the compass for our decisions and for everything we do. It helps ensure we remain a 'long-term' company delivering with 'short-term' intensity, investing for future success while ensuring that we meet the needs of the billions of people we touch every day, and the expectations of our shareholders.

Operational pillars



The highlights

Ever since Nestlé was founded we have provided quality products and services that help shape a better world. Henri Nestlé created an infant cereal that saved the life of a child. We share his belief that through innovation we can enable healthier and happier lives. We share his passion for creating the tastiest and healthiest products, building, sharing and applying our nutritional knowledge, enhancing quality of life and contributing to a healthier future.





Nestlé business portfolio

At Nestlé we offer products and services for all stages of life, every moment of the day, helping people care for themselves and their families. Our portfolio includes over 2000 brands from global icons like Nescafé to local favourites like Ninho.

Nestlé Health Science



Nestlé Skin Health



Nestlé Nutrition



Milk products
and Ice cream



Powdered and
Liquid Beverages



Prepared dishes
and Cooking aids



PetCare



Confectionery



Water



Nestlé Health Science

Nestlé Health Science aims to advance the therapeutic role of nutrition in health management for consumers and healthcare professionals. Its portfolio focuses on addressing key health issues, from food allergies in infants to healthy aging.

Nestlé Health Science produces almost a billion science-based nutritional solutions per year across its portfolio. Its Consumer Care range is designed for people who want to live active lives but struggle to get the right nutrition.

The Medical Nutrition range helps address a wide range of health conditions from paediatric allergies to inborn errors of metabolism, from obesity to malnutrition amongst older people. Novel Therapeutic Nutrition is investing, through partnerships, in the development of nutritional therapies, aiming to bring forward clinically proven innovations in brain and gastrointestinal health, supported by diagnostics solutions.

As more infants are recognised to be intolerant to cow's milk, Nestlé Health Science has developed a comprehensive range of formulas for infants with Cow's Milk Protein Allergy (CMPA). These include *Alfamino*, *Althéra* and *Alfaré*. To complement the range, it has also developed an awareness tool to help doctors recognise the allergies earlier and invested in the development of a patch-test to diagnose CMPA.

As part of our commitment to advance the therapeutic role of nutrition, Nestlé Health Science provides nutritional solutions for healthy aging. The product ranges include *Boost* in North America, Mexico and Asia; *Meritene* in Europe; *Nutren Senior* in Brazil, and *Sustagen* in Australia and New Zealand. With digestive sensitivities becoming increasingly common, Nestlé Health Science launched *ProNourish*, the first nutritional drink of its kind for people suffering from digestive sensitivities. An online resource hub (www.lowfodmapcentral.com) provides information, dietary advice and recipes.



ProNourish is a low FODMAP* nutritional drink for people with digestive discomfort, like irritable bowel syndrome.

* FODMAP = Fermentable Oligosaccharides, Disaccharides, Monosaccharides And Polyols

Nestlé Skin Health

Nestlé Skin Health seeks to enhance people's quality of life by providing science-based products that meet their need for healthy skin, hair and nails over the course of their lives.

Nestlé Skin Health provides prescription drugs, aesthetic and corrective solutions, and consumer skin health products. These include innovative components from moisturisers to sunscreen, medical aesthetic procedures to medicines used to treat serious conditions such as skin cancer.

2016 was a year of expansion, with new product launches and the roll-out of flagship brands. Nestlé Skin Health announced a global licensing agreement with a new partner, Chugai, for *Nemolizumab*, a new treatment being developed for atopic dermatitis. *Epiduo Forte* acne treatment was given a 'Positive Opinion' by 16 European regulatory agencies and, in the US, *Differin Gel* became the only over-the-counter product with a prescription-strength retinoid, giving people access to this acne treatment without a doctor's prescription. In creating The Proactiv Company, Nestlé Skin Health placed its expertise in skin health behind one of the world's leading non-prescription acne brands, *Proactiv*.

Skin health research and innovation is at the core of the business. The newly established New York flagship Skin Health Investigation, Education and Longevity Development (SHIELD) centre is leading the way. Nestlé Skin Health is working to promote skin health education and advance key health issues, like aging or the rise of antimicrobial resistance. Promoting good skin health, it also announced an exclusive global sun-care partnership with the men's professional tennis body, the ATP, for the *Daylong* brand.



Nestlé Skin Health's science-based innovation and expertise will support the further growth of *Proactiv*, one of the world's leading non-prescription acne brands.

Nestlé Nutrition

Sales	CHF 10.3 billion
Organic growth	+1.5%
Real internal growth	+0.9%
Trading operating profit margin	22.7%
Trading operating profit margin	+10 basis points

Good nutrition in the first 1000 days from conception through pregnancy and up to a child's second birthday has a profound impact on long-term growth and development, providing a unique window of opportunity to set the foundation for a healthy future. We support and promote breastfeeding as it is the best start a baby can have in life. In cases when breastfeeding is not possible due to medical or physical conditions, infant formula is the only breast-milk substitute recognised by the World Health Organisation. Nestlé Nutrition provides high-quality, innovative, science-proven nutrition for mothers and infants to help them start healthy and stay healthy during the critical first 1000 days. We are committed to the highest standards of responsible marketing of breast-milk substitutes.

We provide a wide range of infant formulas and complementary foods such as infant cereals, meals and drinks, and growing-up milks. Our *BabyNes* system, now available in five 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.

Our products contain high-quality, carefully selected ingredients fortified with nutrients to meet the specific needs of infants and young children.



NAN Optipro infant formula contains superior protein quality in lower quantity that supports optimal growth of infants and is available in more than 100 countries.



NaturNes is an ideal healthy snacking option for small children on-the-go, with a range of organic offerings.



Cerelac is a highly-nutritious infant food, full of nutrients to complement breastmilk or formula when it is no longer sufficient to satisfy baby's needs after 6 months.

Milk products and Ice cream

Sales	CHF 14.3 billion
Organic growth	+1.6%
Real internal growth	+0.5%
Trading operating profit margin	18.4%
Trading operating profit margin	+150 basis points

Dairy is a key contributor to delivering our Nutrition, Health and Wellness promise. We leverage our scientific and nutritional expertise to provide individuals and families with dairy products to support healthy diets for all stages of life, from early childhood to old age. Our wide portfolio offers a range of formats from nutritionally-enhanced milk products to dairy treats.

Our range of children's milks provides the energy, protein and micronutrients children need. Growth in the category is led by our heritage brand *Milo*. Innovation this year included a new *Milo to Go* ready-to-drink, as well as the *Milo* Champions pack to help families inspire health and fitness throughout their child's life.

Responding to a growing need for products for specific dietary needs, *Nido/Ninho* low lactose powders and ready-to-drink bottles were launched in Brazil, and *Carnation* low lactose evaporated milk in Mexico. In Brazil, *Nesfit* introduced two new low-calorie rice-based smoothies for people seeking non-dairy options.

For people on low incomes we continue to provide affordable dairy ranges. These micronutrient fortified products, including *Nestlé Bear Brand*, *NutriRindes* and *Ideal*, provide extra vitamins and minerals to help meet the nutritional requirements of children in developing countries.

In the ice cream category, our premium range *Mövenpick* continued to grow in Europe. Its signature sticks are made of 100% natural ingredients, including full cream and Swiss chocolate. With demand growing from Chinese consumers for more ice cream products, a new brand *ChenZen* meaning 'Real' was also launched in 2016.



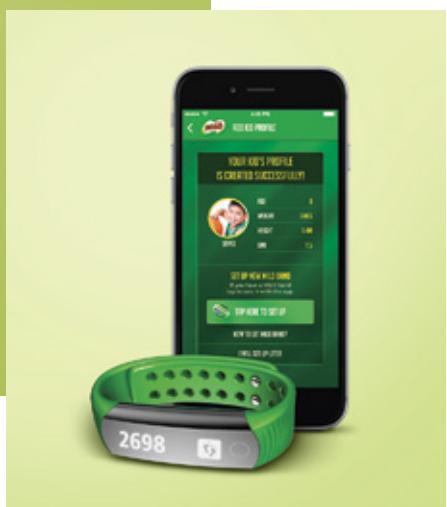
Mövenpick sticks are available in 3 flavours, including Vanilla Dream with Caramel. They contain 100% natural ingredients, including Swiss cream, vanilla seeds and Swiss chocolate.



Nido powders are fortified with vitamins and minerals to help provide vital micronutrients that children need.



Our ready-to-drink *Milo* is a healthy and portable option. It contains 50% of the daily recommended calcium intake and is fortified with 8 vitamins and minerals.



The *Milo* Champions pack offers kids a fun way to track their activity while giving parents detailed information on their child's nutritional intake and activity levels.

Powdered and Liquid Beverages

Sales	CHF 19.8 billion
Organic growth	+4.6%
Real internal growth	+3.7%
Trading operating profit margin	20.8%
Trading operating profit margin	-50 basis points

Nestlé, the world's largest coffee producer, is uniquely positioned in the world with our brands *Nescafé* and *Nespresso* offering a complete range of products, systems and services across all channels. Both brands continue their pioneering efforts in coffee sustainability, working directly with coffee farmers through the *Nescafé Plan* and the *Nespresso Positive Cup* programmes.

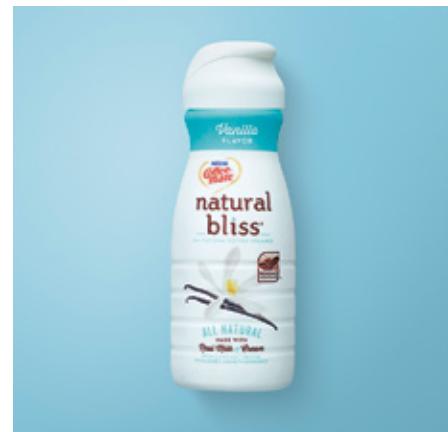
Nescafé is the world's favourite coffee brand, with close to half a billion cups served daily. Recent innovations included the global roll-out of *Nescafé Original* double filter, fuller flavor delivered through a breakthrough in coffee technology, further expansion of the *Nescafé to Go* refreshing ready-to-drink portfolio of cold coffees, and *Nescafé Blend&Brew* range of single-serve coffee mixes. *Nescafé Dolce Gusto*, now available in over 80 countries, continued to strengthen its appeal to younger consumers through successful digital campaigns and adverts featuring musician will.i.am.

In its 30th year of innovation and growth, Nespresso continued to expand the global network of Nespresso boutiques. Following a successful United States launch, we made the *VertuoLine* system, delivering exceptional long-cup coffee, available in Europe. Several Grands Crus coffees were launched including limited edition *Cafecito de Cuba*, the first Cuban product to be sold in the USA since the 1960s, and *Suluja ti South Sudan* – launches exemplifying our commitment to helping social and economic redevelopment in challenging markets.

Nestlé *Coffee Mate* continues to grow by expanding the *natural bliss* range with exciting new flavours. All Nestlé *Coffee Mate* *natural bliss* products contain simple, all-natural ingredients and, as consumers seek more plant-based solutions, two new varieties were launched, Almond milk and Coconut milk.



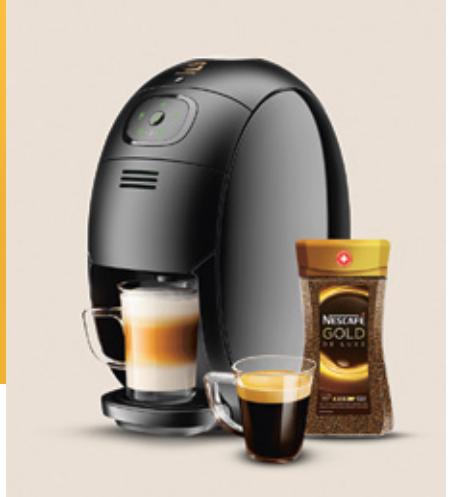
Nespresso's Limited Edition *Cafecito de Cuba* was the first Cuban coffee to be sold in the US for over 50 years.



The *natural bliss* range comes in 6 flavours including Vanilla and Sweet Cream. All *natural bliss* products are made with just a few simple ingredients.



Nescafé Gold Barista blends pure Arabica coffee with finely ground beans. It offers exciting innovation in the premium category for the quality-conscious consumer.



The Nescafé Gold Blend Barista system offers full-bodied coffee with crema or layered cappuccinos and lattes with fresh milk or creamer at the touch of a button.

Prepared dishes and Cooking aids

Sales	CHF 12.1 billion
Organic growth	+2.7%
Real internal growth	+2.0%
Trading operating profit margin	15.0%
Trading operating profit margin	+130 basis points

Our portfolio offers a range of products that are part of healthy and nutritious meals for families and individuals. By making food tastier and more balanced, we help people lead happier and healthier lives. We empower consumers to make informed food choices, ensuring our packaging and communication provides clear nutritional information and portion guidance.

We continue to drive growth through portfolio renovation, increasing the use of ingredients people know and trust while simplifying labels. This is a key part of our efforts to provide tastier and healthier products while responding to changing consumer demands.

In the United States *Stouffer's* and *Lean Cuisine* are leaders in the frozen food category. *Lean Cuisine Marketplace* range offers organic ingredients along with gluten-free, high-protein, and no-preservative options. Our *Stouffer's FitKitchen* range offers great taste and features 25g or more of healthy protein, garden vegetables and complex carbohydrates.

In Europe, consumers are demanding a wide range of products for alternative diets. We introduced both gluten free pizza and a range of vegetarian products under the *Garden Gourmet*, *Herta & Buitoni* brands.

We recognise the role that we can play in tackling under-nutrition in developing markets. Fortified products like *Maggi* bouillon cubes and soups help reduce the effects of micronutrient deficiencies by providing iron and iodine. These efforts helped Nestlé become the #1 food company in *Fortune* magazine's list of 'Companies that Change the World' in 2016.



The *Garden Gourmet* range of alternative proteins, and our organic and vegetarian ranges appeal to those seeking to reduce the amount of animal protein they consume.



Lean Cuisine is a leading brand in healthy eating, delivering great tasting recipes balanced with modern health benefits.



Maggi noodles was re-launched successfully in India, regaining its position as the leading noodle brand in the country.

PetCare

Sales	CHF 12.1 billion
Organic growth	+5.3%
Real internal growth	+4.4%
Trading operating profit margin	21.0%
Trading operating profit margin	+20 basis points

Our commitment to nutrition, health and wellness extends to our PetCare range too. The Nestlé Purina portfolio includes some of the world's best known brands of dog and cat foods. PetCare is a driver of growth worldwide for Nestlé, and continues to grow with the addition of a new premium brand, *Merrick Backcountry*.

We are ensuring the best nutrition for pets and focusing on product innovation in response to consumer desire for simpler ingredients. The *Beneful* line of dry dog food has been renovated with new recipes to support dogs' overall health, while we brought new flavour combinations of *Friskies Cat Concoctions* wet cat food to the market.

To support dogs' overall health, we also launched *Purina Dentalife*, a new range of snacks which clean dogs' teeth while providing them a treat. The range gives Purina a strong position in the fast-developing pet oral care market.

Felix cat food continued expanding internationally this year, growing successfully in Australia and launching in Japan. The *Felix* range includes both wet and dry products including the popular *Felix 'As Good As It Looks'* line of wet cat food. Production of *Felix* was expanded in Europe, with the enlargement of a factory in Hungary, including more efficient, sustainable technology. The newly expanded facility will be Nestlé's largest pet food production centre in Europe when it is completed in 2017.

In Europe, Purina also announced a new set of commitments to help improve the health and well-being of pets, people and the environment. The 10 'Purina in Society' commitments are the first of their kind by a petcare company.



Felix became a worldwide brand with its introduction in Asia, along with expanded production in Europe.



Purina Dentalife was launched to deliver oral care solutions for dogs and position Purina as a leader in the growing oral care segment.



Merrick Backcountry is an all-natural, grain-free ancestral diet with added proteins for dogs and cats. Each Backcountry recipe is a combination of protein-rich, grain-free kibble with whole pieces of raw, freeze-dried meat, fish, or poultry.

Confectionery

Sales	CHF 8.7 billion
Organic growth	+1.8%
Real internal growth	-0.5%
Trading operating profit margin	13.7%
Trading operating profit margin	-30 basis points

KitKat, the world's third largest chocolate brand, continues to perform well. In 2016, to reinforce the brand's iconic status, whilst responding to consumers' demands for personalised, interactive experiences, we opened *KitKat Chocolatory* boutiques in key cities including Melbourne and Kuala Lumpur. This is a concept which was first launched in Japan in 2014 and which offers people the opportunity to build their own personalised *KitKat* from a range of over 10,000 possible combinations. New boutiques will continue to open globally in 2017. *KitKat* also became the first global confectionery brand sourced 100% from certified sustainable cocoa under our *Nestlé Cocoa Plan*.

Our premium Swiss chocolate brand *Cailler* was launched internationally, focusing on China and the US. We also made a significant investment behind *Baci Perugina* to drive the international expansion of this famous Italian premium chocolate brand. In Europe, the successful launch of *Les Recettes de l'Atelier* chocolate tablets was expanded to new markets and complemented in France with a dark chocolate range.

At Nestlé, recognising that confectionery is a treat, we are committed to offering the tastiest and healthiest choices so people can feel better about enjoying their treat. In 2016, one example of making this ambition a reality was the improvement we made to the recipes of our brands for children, particularly *Passatempo* and *Baton* in Brazil, and *Milkybar* in the UK, increasing their milk content and reducing added sugar. In Australia, we reduced sugar and increased the amount of wholegrain in *Uncle Tobys* cereal bars, while a new range based on nuts and whole oats was successfully introduced. This focus on providing tastier and healthier treats will continue in 2017, including *KitKat*.



The *KitKat Chocolatory Moleson* is exclusive to *KitKat Chocolatory* boutiques in Japan, and features a luxury combination of cranberries and almonds.



Uncle Tobys became the largest range of muesli bars in Australia to receive a 4 'health star' rating. The range has 50% more wholegrains, and 40% less sugar in the yoghurt bars.



Les Recettes de l'Atelier is a range of chocolates made with artisanal spirit. With 8 flavour combinations, including blueberry with almond and hazelnut, it features whole nuts and chunks of fruit combined with strong, smooth chocolate.



Cailler chocolate has been produced in Switzerland since 1819. It is made in the foothills of the Swiss Alps, using milk from local farms, sustainable cocoa and select ingredients.

Water

Sales	CHF 7.4 billion
Organic growth	+5.0%
Real internal growth	+5.0%
Trading operating profit margin	12.2%
Trading operating profit margin	+100 basis points

Nestlé Waters is core to the company's Nutrition, Health and Wellness strategy with 52 water brands in its portfolio, including the world's largest bottled water brand, *Nestlé Pure Life*, delivering quality, healthy hydration for individuals and families.

In 2016, our premium international brand *Perrier* completely reviewed its visual identity. It expanded its 'Extraordinaire' communications strategy, creating its first campaign dedicated to a new *Perrier* mineral water with a touch of flavour. The brand continued its long-standing sponsorship of the French Open tennis tournament. Our other premium international brand, the Italian mineral water *S.Pellegrino*, supported the development of new talent in gastronomy with its competition 'S.Pellegrino Young Chef 2016'. Its new consumer and digital activation 'Itineraries of Taste' associated the brand with the best of food, fashion and lifestyle.

In North America, bottled water is set for the first time to outsell carbonated soft drinks by the end of the year. *Poland Spring* is leading the bottled spring water market, with *Nestlé Pure Life* and other brands actively contributing to this strong category growth. We are developing new e-commerce capabilities like the *ReadyRefresh* platform, offering people the convenience of home and office deliveries for their water and beverage purchases.

Nestlé promotes sustainable water practices throughout its operations. For Nestlé Waters, this starts at the source with engagement activities with local communities to ensure the sustainability of our shared public water resources. In 2016, a dedicated engagement programme was launched to ensure good relations and measure sentiment in our communities. Nestlé Waters strives also to operate the most efficient bottling plants. These 'smart factories' aim to reduce water and energy

consumption. Around the world several sites have been either opened or renovated in 2016, including one in the Italian town of Castrocielo. This new *Nestlé Vera Natura* bottling plant has zero greenhouse gas emissions thanks to a combination of solar panels, LED lighting, heat recapture and recycling technologies.



The spring from which *Perrier* water is sourced has a unique balance of minerals and effervescence. This combination has made the *Perrier* brand the world leader of natural sparkling mineral water.



Nestlé Pure Life celebrated the company's 150 years with an anniversary logo. It is the world's largest bottled water brand, available in over 40 countries across 5 continents.

From a source in the Italian Alps, S.Pellegrino is a 100% natural sparkling mineral water. It combines a perfectly balanced salinity and acidity with effervescent bubbles.

150 years

Our 150th anniversary celebrations were an opportunity to honour the vision of our founders: a better world through nutrition. That passion for nutrition is echoed today in the efforts of our employees, working with our partners, to create products and services that enhance quality of life and contribute to a healthier future.





We should not underestimate what it takes to grow a business for 150 years. Our longevity is due in part to the fact that we have always clearly understood and anticipated the needs of society. We have combined this with the ability to adapt and to deliver products and services that respond to those needs, and also with our passion for quality. This approach has enabled us to grow continuously while creating shared value for our shareholders and for society.

Henri Nestlé understood that good health is linked with good nutrition. Products like his farine lactée, the infant cereal that saved the life of a child, or *Maggi*, developed for consumers who had moved to cities from the countryside, were the result of that ability to innovate to meet the needs of the communities in which we operated. Today, innovation is still one of the pillars on which this company is built.

In June, in the presence of the President of the Swiss Confederation, Johann Schneider-Ammann, we inaugurated *nest* in our hometown of Vevey. *nest* is a place where visitors can discover our history, our work, our creativity and our ideas for the future. It tells the story of the 328 000 employees we are today, and of those who came before.

Sitting on the site where Henri Nestlé built his first factory and offices, *nest* showcases the extraordinary expansion of his early entrepreneurial efforts into the company we are today. It highlights Nestlé's capacity to invent and innovate, and to adapt to the changing world. It underlines the importance of science and investment in Research and Development as we define our future. Passion is at the heart of *nest*. It is the true face of Nestlé. It shows how over the years our people have delivered our success. Our values, based on respect, have ensured we can deliver 150 years of growth. Our shared history can be found there and it offers a view of the future too, laying out how we will help address the challenges the world faces.

Sharing our knowledge on diet and nutrition has always been part of our vision. This is why for more than 30 years Nestlé has supported the Alimentarium, the world's first food-themed interactive space, also in Vevey. It plays an important role in society: promoting a better



Nestlé China launched a 6 month e-commerce and marketing campaign with Alibaba featuring over 150 products from around the world, many of which were available to Chinese consumers for the first time.



Nestlé Brazil celebrated the anniversary through sport, including a volleyball tournament featuring '150 years' commemorative uniforms.



Employees of Nestlé Portugal celebrated by forming a giant 150 on the lawn of the company's headquarters.



Asia, Oceania and sub-Saharan Africa Zone Head Wan Ling Martello and Alibaba Group CEO Daniel Zhang came together for the launch of Nestlé China's unique e-commerce campaign celebrating the Swiss roots of the company.

understanding of nutrition. The Alimentarium aims to be a worldwide reference for food and nutrition, combining exploration, digital interactive learning and expertise. In 2016, it was transformed into a fully interactive online and offline experience, meaning its doors are always open, its contents always accessible. Its evolution into a centre of competence and learning about nutrition with a strong digital presence was marked at a ceremony in June, also as part of our anniversary celebrations. In our 150th year, the Alimentarium is a space which can satisfy the growing public curiosity about food, the role it plays in the health of our bodies and at the centre of our communities and social interactions.

Today, we are present in so many countries across the world. This global footprint gave us the opportunity to mark the anniversary in many different places with the people who buy our products and services, and to thank our employees whose hard work and commitment to our company deliver our success.

For example, in the United States of America, Nestlé's biggest market, we underlined our commitment to society. The company organised our largest ever single day of community service in the USA, honouring the 120 hometowns across the country where you will find a Nestlé business. During the event, around 6000 employees worked with non-profit organisations, building on Nestlé USA's partnership with the Boys and Girls Clubs of America's National Fitness Challenge.

In China, the company's second biggest market, we shared our passion for nutrition with millions of people in a unique e-commerce event. The 'Superbrand Day' emphasised the Swiss roots of the company and also our determination, through digital, to find new ways to connect with the people who want to buy our products. In Belgium, at an event in Brussels, we reinforced our commitment to Europe at a conference that brought together more than 400 external stakeholders. These included Euro-parliamentarians, officials from the European Commission, non-governmental organisations and industry representatives.

There were also a number of events around the world celebrating the important contribution from our employees to the company's continuing



Nestlé inaugurated its new discovery centre, *nest*, on the site of founder Henri Nestlé's original factory in Vevey, Switzerland. Designed by architect David Linford, the modernist design incorporates parts of the original structure into the new building.



CEO Paul Bulcke (L) and Chairman Peter Brabeck-Letmathe (R) welcomed the President of the Swiss Confederation, Johann Schneider-Ammann, (C) at the opening of *nest* in June.



11 500 employees from across Switzerland
were invited to celebrate 150 years of passion
for nutrition on June 24th.



CEO Paul Bulcke and Chairman Peter Brabeck-Letmathe welcomed employees from around Switzerland to the 150th celebrations in Lausanne.

growth. In Switzerland, in addition to the events highlighted above, we held a party in Lausanne. It was the first time the company's 11 500 employees from around the country were invited to come together in one place. We also brought the global Nestlé family closer together with a social media campaign encouraging employees around the world to share their pride in working for Nestlé. The initiative, the first of its kind in our company on a global scale, reflects our determination to encourage our people to act as ambassadors for the company, as we work together to deliver future success.

This anniversary was not only a moment to celebrate our past, but also a chance to look to the future, and what we are doing to shape the next 150 years of our company. One of our core values is respect for the future, and this year was a good opportunity to consider how we will continue to care for future generations.

We live in times of immense challenge, unprecedented change and extraordinary possibility. The world has changed considerably in the last century and a half, and will continue to do so. We are well-positioned to continue to deliver sustainable growth because we constantly adapt, innovate and change. Our success is based upon our ability to continuously reinvent ourselves and our determination to seize opportunities to help address the challenges the world faces.



Nestlé's discovery centre *nest* offers visitors an immersive discovery of the company's past, present and future.



For the celebration, the company produced a new edition of the official history of Nestlé. It includes the historical development of 20 key brands within the Nestlé family.



The newly refurbished Alimentarium Museum of Food was inaugurated by CEO Paul Bulcke (L) and Chairman Peter Brabeck-Letmathe (R) in Nestlé's home town, Vevey.



The Musée Jenisch in Vevey welcomed a special exhibition of the Nestlé Art Collection, featuring works by both international and local Swiss artists.



At the inauguration of the Alimentarium Museum of Food, Chairman Peter Brabeck-Letmathe highlighted the importance of nutrition in supporting an active, healthy lifestyle.

Financial review

Key figures (consolidated)

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

2015 2016

Results

Sales	88 785	89 469
Trading operating profit	13 382	13 693
as % of sales	15.1%	15.3%
Profit for the year attributable to shareholders of the parent (Net profit)	9 066	8 531
as % of sales	10.2%	9.5%

Balance sheet and Cash flow statement

Equity attributable to shareholders of the parent	62 338	64 590
Net financial debt	15 425	13 913
Ratio of net financial debt to equity (gearing)	24.7%	21.5%
Operating cash flow	14 302	15 582
as % of net financial debt	92.7%	112.0%
Free cash flow ^(a)	9 945	10 108
Capital expenditure	3 872	4 010
as % of sales	4.4%	4.5%

Data per share

Weighted average number of shares outstanding (in millions of units)	3 129	3 091
Basic earnings per share	CHF 2.90	2.76
Underlying earnings per share ^(b)	CHF 3.31	3.40
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF 2.25	2.30

Market capitalisation, end December

Number of employees (in thousands)	335	328
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(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 2015	Total CHF 2016	Total USD 2015	Total USD 2016	Total EUR 2015	Total EUR 2016
Sales	88 785	89 469	92 143	90 796	83 153	82 055
Trading operating profit	13 382	13 693	13 889	13 896	12 533	12 558
Profit for the year attributable to shareholders of the parent (Net profit)	9 066	8 531	9 409	8 658	8 491	7 824
Equity attributable to shareholders of the parent	62 338	64 590	63 012	63 156	57 651	60 075
Market capitalisation, end December	229 947	226 310	232 434	221 287	212 658	210 490

Data per share

Basic earnings per share	2.90	2.76	3.01	2.80	2.72	2.53
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(c) Income statement figures translated at weighted average annual rate; Balance sheet figures at year-end rate.

Group overview

Introduction

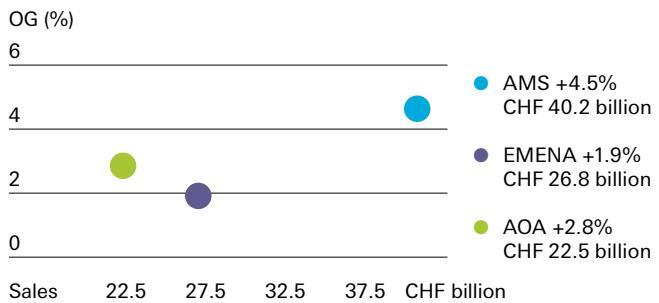
Our 2016 organic growth was at the high end of the industry but at the lower end of our expectations. We saw a solid trading operating profit margin improvement and our cash flow grew significantly. In 2017, we expect organic growth between 2% and 4%. In order to drive future profitability, we plan to increase restructuring costs considerably in 2017. As a result, the trading operating profit margin in constant currency is expected to be stable. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

Sales by geographic areas

	Differences 2016/2015 (in %)		
	in CHF	in local currency	in CHF millions
By principal markets			
United States	+ 5.6%	+ 3.2%	26 704
Greater China Region	- 7.4%	- 4.4%	6 536
France	- 7.6%	- 9.5%	4 478
Brazil	+ 5.0%	+ 6.5%	4 120
Germany	- 1.9%	- 3.9%	2 874
Philippines	+ 3.6%	+ 5.7%	2 741
United Kingdom	- 9.3%	+ 0.4%	2 725
Mexico	- 5.6%	+ 8.7%	2 596
Canada	+ 2.5%	+ 3.5%	1 893
Italy	- 0.3%	- 2.4%	1 861
Japan	+ 21.3%	+ 6.8%	1 747
Spain	+ 1.3%	- 0.8%	1 690
Australia	+ 1.3%	- 0.8%	1 519
Switzerland	- 4.8%	- 4.8%	1 475
Russia	+ 5.2%	+ 11.9%	1 400
Rest of the world	- 0.1%	(a)	25 110
Total	+ 0.8%	(a)	89 469

(a) Not applicable.

Geographic sales and organic growth



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

Broad-based growth

	Group	EMENA	AMS	AOA	Developed Markets	Emerging Markets
Sales (in billions of CHF)	89.5	26.8	40.2	22.5	52.1	37.4
Real internal growth (RIG) %	+ 2.4%	+ 2.4%	+ 2.0%	+ 3.0%	+ 2.3%	+ 2.4%
Pricing %	+ 0.8%	- 0.5%	+ 2.5%	- 0.2%	- 0.6%	+ 2.9%
Organic Growth (OG) %	+ 3.2%	+ 1.9%	+ 4.5%	+ 2.8%	+ 1.7%	+ 5.3%

Group results

In 2016, sales increased by 0.8% to CHF 89.5 billion, with a foreign exchange impact of -1.6%. Acquisitions net of divestitures reduced sales by 0.8%. Organic growth was 3.2%, with real internal growth reaching a three-year high of 2.4%. Pricing was limited at 0.8%, with some improvement in the second half of the year and we expect pricing to improve further for the full year 2017. Organic and real internal growth were broad-based, highlighting the strength and resilience of our diversified portfolio. Innovation supported volume growth, with 30% of sales coming from products introduced or renovated in the last 3 years. E-commerce accounted for 5% of sales, up 18% year-on-year.

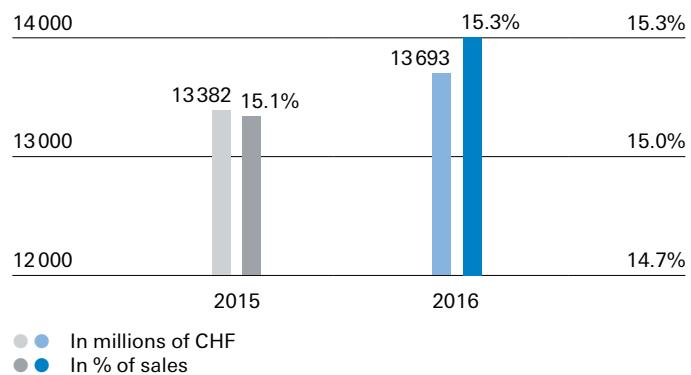
Trading operating profit

Trading operating profit was CHF 13.7 billion with a margin of 15.3%, up 20 basis points on a reported basis and up 30 basis points in constant currency. We achieved this margin improvement while increasing investment in brand support, digital marketing, Research and Development, and in the new nutrition and health platforms. Consumer-facing marketing spend increased by 6.3% in constant currency. Restructuring costs doubled to CHF 300 million in 2016 to support structural cost-saving initiatives.

Net profit

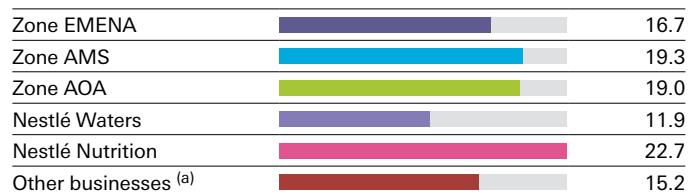
Net profit of CHF 8.5 billion was impacted by several items, the largest one being a one-off non-cash adjustment to deferred taxes. Reported earnings per share decreased by 4.8% to CHF 2.76, for the same reasons. Underlying earnings per share in constant currency increased by 3.4%.

Trading operating profit



Operating segments: trading operating profit

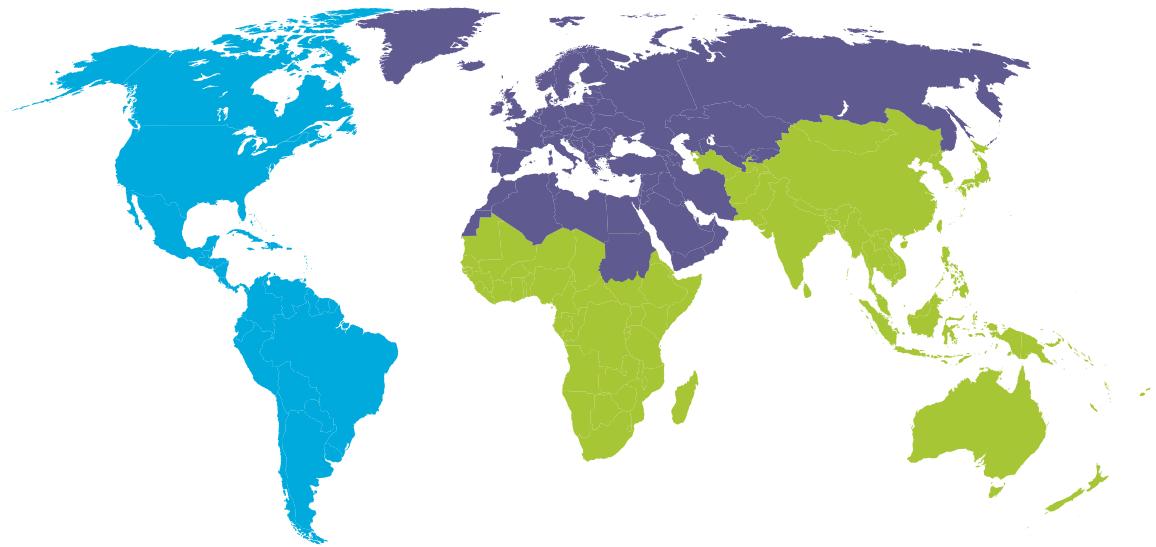
In % of sales



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

	Sales by geographic area	Employees by geographic area	Factories by geographic area
AMS	44.9% (2015: 44.1%)	33.2% (2015: 32.5%)	158 (2015: 161)
EMENA ^(a)	30.0% (2015: 30.9%)	33.2% (2015: 34.7%)	151 (2015: 166)
AOA	25.1% (2015: 25.0%)	33.6% (2015: 32.8%)	109 (2015: 109)

(a) 10 046 employees in Switzerland in 2016.



Employees by activity

In thousands

		2015	2016
Factories		170	168
Administration and sales		165	160
Total		335	328

Cash flow and working capital

Operating cash flow improved by CHF 1.3 billion to CHF 15.6 billion (17.4% of sales) due in part to the reduction of working capital. Free cash flow improved by CHF 200 million to CHF 10.1 billion (11.3% of sales). This demonstrates our ability to generate strong cash flow consistently even in a challenging foreign exchange environment. Average working capital decreased by 190 basis points from 4.7% to 2.8% of sales (average of last five quarters).

Financial position

The Group's net debt decreased from CHF 15.4 billion to CHF 13.9 billion in 2016. Our strong free cash flow of CHF 10.1 billion more than offset the payment of the dividend of CHF 6.9 billion.

Return on invested capital

The Group's return on invested capital including goodwill and intangible assets improved by 30 basis points to 11.2%. Return on invested capital before goodwill and intangible assets improved by 180 basis points to 31.7%.

Dividend

The Board of Directors is proposing a dividend of CHF 2.30 per share, up from CHF 2.25 last year.

Outlook

In 2017, we expect organic growth between 2% and 4%. In order to drive future profitability, we plan to increase restructuring costs considerably in 2017. As a result, the trading operating profit margin in constant currency is expected to be stable. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

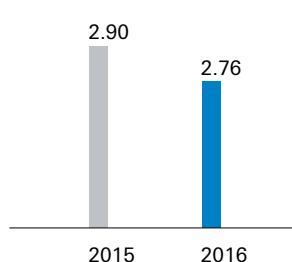
Evolution of the Nestlé S.A. share in 2016

in CHF



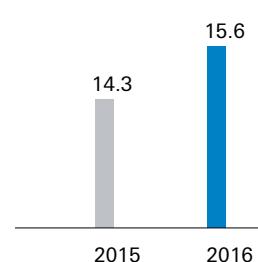
Earnings per share

in CHF



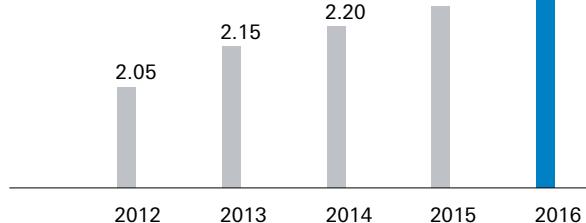
Operating cash flow

in billions of CHF



Dividend per share

in CHF



Product category and operating segment review

Leading positions in dynamic categories

In millions of CHF

	2015	2016	Proportion of total sales (%)	RIG (%)	OG (%)
Powdered and Liquid Beverages					
Soluble coffee / coffee systems	8 880	9 072	45.8%		
Other	10 365	10 720	54.2%		
Total sales	19 245	19 792	100.0%	+3.7%	+4.6%
Trading operating profit	4 100	4 111	20.8%		
Water					
Total sales	7 112	7 414		+5.0%	+5.0%
Trading operating profit	796	906	12.2%		
Milk products and Ice cream					
Milk products	10 686	10 540	73.5%		
Ice cream	3 951	3 791	26.5%		
Total sales	14 637	14 331	100.0%	+0.5%	+1.6%
Trading operating profit	2 471	2 640	18.4%		
Nutrition and Health Science					
Total sales	14 854	15 038		+1.6%	+2.0%
Trading operating profit	2 909	2 775	18.5%		
Prepared dishes and cooking aids					
Frozen and chilled	6 984	6 512	53.6%		
Culinary and other	5 595	5 636	46.4%		
Total sales	12 579	12 148	100.0%	+2.0%	+2.7%
Trading operating profit	1 724	1 817	15.0%		
Confectionery					
Chocolate	6 365	6 267	72.2%		
Sugar confectionery	1 130	1 111	12.8%		
Biscuits	1 375	1 301	15.0%		
Total sales	8 870	8 679	100.0%	-0.5%	+1.8%
Trading operating profit	1 246	1 190	13.7%		
PetCare					
Total sales	11 488	12 067		+4.4%	+5.3%
Trading operating profit	2 386	2 535	21.0%		

Zone Americas (AMS)

Sales	CHF 26.4 billion
Organic growth	+4.2%
Real internal growth	+1.3%
Trading operating profit margin	19.3%
Trading operating profit margin	-10 basis points

The Zone reported good and consistent organic growth.

In North America growth accelerated year-on-year. In PetCare, innovation supported good growth across the cat food range. In dog food, the premium portfolio performed well as *Merrick*, *Purina ONE* and *Pro Plan* all delivered double-digit growth. *Beneful* stabilised as there was progress in restaging the brand. *Coffee Mate* sustained good momentum through innovations such as 64 oz. and new flavours in *natural bliss*. *Lean Cuisine* and *Stouffer's Fit Kitchen* delivered strong organic growth supported by new line extensions. The performance of Confectionery in the US was disappointing, impacted by the competitive environment and low growth in the mainstream chocolate market.

In Latin America strong organic growth was led by price increases following currency depreciation, as real internal growth slowed. In

Brazil, we had high single-digit organic growth. Significant price increases at the end of the first half of the year impacted volumes in the short term. *Nescafé Dolce Gusto* and *KitKat* continued to grow in double digits. In Mexico, there was another year of good growth, which was broad-based across dairy, coffee creamers, soluble coffee, *Nescafé Dolce Gusto* and chocolate. PetCare continued to deliver strong growth across the region.

The trading operating profit margin decreased by 10 basis points, due to an increase in restructuring costs. The profitability improved in North America, but Latin America was largely affected by high cost inflation caused by currency depreciation and commodity prices.

Zone AMS

In millions of CHF

	2015	2016	Proportion of total sales (%)	RIG (%)	OG (%)
United States and Canada	17 187	17 974	68.2%		
Latin America and Caribbean	8 657	8 382	31.8%		
 Powdered and Liquid Beverages	 2 860	 2 771	 10.4%		
Milk products and Ice cream	6 609	6 764	25.7%		
Prepared dishes and cooking aids	4 833	4 922	18.7%		
Confectionery	3 454	3 340	12.7%		
PetCare	8 088	8 559	32.5%		
Total sales	25 844	26 356	100.0%	+ 1.3%	+ 4.2%
 Trading operating profit	 5 021	 5 074	 19.3%		
Capital expenditure	1 038	1 030	3.9%		

Zone Europe, Middle East and North Africa (EMENA)

Sales	CHF 16.2 billion
Organic growth	+ 2.0%
Real internal growth	+ 2.7%
Trading operating profit margin	16.7%
Trading operating profit margin	+ 100 basis points

The Zone delivered strong real internal growth, accelerating for a fourth consecutive year and gaining market share, showing the ability to innovate.

In Western Europe, positive organic growth was due to solid real internal growth. Pricing was negative, affected by sustained low commodity prices, trade pressure and intense competition. PetCare, *Nescafé* and pizza continued to be the key sources of growth across most markets. In Germany and France, we had solid real internal growth, while there was good organic and real internal growth in Southern Europe. In the UK, on the other hand, it was a particularly challenging year with both volume and pricing declining slightly.

Central and Eastern Europe continued to deliver strong organic growth on the basis of good real internal growth and positive pricing. In Russia, we achieved double-digit organic

growth with positive real internal growth. This included strong growth in *Nescafé* soluble coffee, especially *Barista*. Russia was Nestlé's strongest performing market in PetCare globally, led by *Felix* cat food. Inflation in Russia and Ukraine drove positive pricing in the region, whilst all other markets experienced deflationary pricing.

Business remained resilient in the Middle East and North Africa with positive organic growth, but the unstable environment and deflationary pressure slowed momentum. Events in Iraq, Yemen, Libya and Syria continued to have an effect. There was also deflationary pressure on dairy in the region. In Turkey, *Nescafé* and Confectionery drove double-digit growth. The North Africa market also did well.

The trading operating profit margin improved by 100 basis points even as restructuring costs and marketing investment increased. Profitability improved across most categories as a result of premiumisation, volume leverage, efficiency savings and favourable input costs. Portfolio management also contributed positively with the creation of the Froneri joint venture in ice cream.

Zone EMEA

In millions of CHF

	2015	2016	Proportion of total sales (%)	RIG (%)	OG (%)
Western	11 022	10 828			
Eastern and Central	2 629	2 704			
Middle East and North Africa	2 752	2 717			
Powdered and Liquid Beverages	4 366	4 477			
Milk products and Ice cream	2 171	1 992			
Prepared dishes and cooking aids	3 853	3 757			
Confectionery	3 124	3 043			
PetCare	2 889	2 980			
Total sales	16 403	16 249	100.0%	+ 2.7%	+ 2.0%
Trading operating profit	2 572	2 712			
Capital expenditure	710	738			

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

Sales	CHF 14.5 billion
Organic growth	+3.2%
Real internal growth	+2.9%
Trading operating profit margin	19.0%
Trading operating profit margin	+ 60 basis points

The Zone saw real internal growth and organic growth gain increasing momentum throughout the year, with market shares recovering and almost all markets contributing.

The Zone's emerging markets had a good year overall with growth accelerating in most businesses. *Yinlu* was the main exception, decreasing the Zone's organic growth by 260 basis points. In China, the double-digit decline of *Yinlu* affected overall growth. Several initiatives to turn around the business are in place and stabilisation is expected in 2017. Dairy (excluding *Yinlu*) and Confectionery grew positively and *Nescafé* performed well. South East Asia was strong with double-digit growth in Vietnam and Indonesia, especially from dairy and *Milo*. The Philippines also performed well with high single-digit growth, particularly due to *Bear Brand* in dairy. There was good growth in sub-Saharan Africa. Real internal growth remained positive despite price increases to offset currency depreciation. There

was double-digit growth in Central and West Africa (including Ghana, Côte d'Ivoire and Nigeria) and in Equatorial Africa (including Angola), with *Maggi* and *Nido* doing well. Our business in India grew strongly despite some disruptive impact from demonetisation at the end of the year. *Maggi* noodles continued to regain market share. Confectionery also did well with *KitKat*. There was also strong growth in Pakistan from dairy, ready-to-drink and other categories.

In the developed markets there was good growth in Japan and solid real internal growth in Oceania. Japan's organic growth was above the Zone and Group averages, balanced evenly between real internal growth and pricing. This was based on innovation and premiumisation across *Nescafé* and *KitKat*. In Oceania, there was solid real internal growth in line with the Group, which was largely offset by continuing deflationary pressure.

The Zone improved its trading operating profit margin by 60 basis points while also increasing marketing investment. Positive gross margin development was helped by favourable input costs, particularly in dairy, as well as cost efficiencies and improved volumes and product mix. The effect of an increase in restructuring spend was more than offset by lower one-off costs related to *Maggi* in India.

Zone AOA

In millions of CHF

	2015	2016	Proportion of total sales (%)	RIG (%)	OG (%)
ASEAN markets	4 260	4 492	31.0%		
Oceania and Japan	2 494	2 726	18.8%		
Other Asian markets	5 692	5 464	37.7%		
Sub-Saharan Africa	1 892	1 811	12.5%		
Powdered and Liquid Beverages	4 979	5 223	36.0%		
Milk products and Ice cream	4 932	4 710	32.5%		
Prepared dishes and cooking aids	1 969	2 052	14.2%		
Confectionery	1 947	1 980	13.7%		
PetCare	511	528	3.6%		
Total sales	14 338	14 493	100.0%	+2.9%	+3.2%
Trading operating profit	2 632	2 756	19.0%		
Capital expenditure	482	512	3.5%		

Nestlé Waters

Sales	CHF 7.9 billion
Organic growth	+ 4.5%
Real internal growth	+ 4.5%
Trading operating profit margin	11.9%
Trading operating profit margin	+ 110 basis points

Nestlé Waters maintained its good organic growth momentum based on real internal growth. Pricing remained flat.

In the US, international premium brands saw another year of dynamic growth and there were contributions above the Group and Nestlé Waters averages from regional brands *Poland Spring*, *Ice Mountain* and *Deer Park*. The shutdown of a factory in Texas following a tornado in April had a negative impact. In Europe, the majority of markets maintained growth after 2015 had been a strong year due to the heatwave. There were good contributions from the UK, Spain and Germany. Of the other markets, South East Asia, Mexico and North Africa did well.

Further strong growth came from the international premium sparkling brands *Perrier* and *S.Pellegrino*, which grew twice as fast as the mainstream portfolio.

The flagship international brand *Nestlé Pure Life* made a good contribution, with organic growth above the Nestlé Waters average.

There was a strong trading operating profit margin improvement of 110 basis points while marketing investment also increased. This was possible due to a combination of volume growth, positive product mix through premiumisation, operational cost efficiencies and favourable input costs.

Nestlé Waters

In millions of CHF

	2015	2016	Proportion of total sales (%)	RIG (%)	OG (%)
Europe	1 949	1 966	24.8%		
United States and Canada	4 131	4 385	55.3%		
Other regions	1 545	1 575	19.9%		
Total sales	7 625	7 926	100.0%	+ 4.5%	+ 4.5%
Trading operating profit	825	946	11.9%		
Capital expenditure	432	496	6.3%		

Nestlé Nutrition

Sales	CHF 10.3 billion
Organic growth	+ 1.5%
Real internal growth	+ 0.9%
Trading operating profit margin	22.7%
Trading operating profit margin	+ 10 basis points

Nestlé Nutrition grew in the context of changed category dynamics, particularly in China, and deflationary pressure owing to sustained low milk prices.

Market dynamics in China were weak ahead of the implementation of new regulation, resulting in adjustments of trade inventory levels in both mainland China and Hong Kong. Low dairy prices and intense competition had an impact on pricing, particularly in the premium segment. At the same time, *illumia* had another strong year of growth, gaining share to become the leading brand in its category in China. We also strengthened our capabilities in e-commerce, winning market share in this important channel.

Growth in the US was slow during the year. We started to renovate the *Gerber* brand and made improvements to product packaging and recipes, including many organic offerings. Latin America saw strong momentum led by innovations such as

Mucilon Iron Plus cereals in Brazil and *NAN Optipro* in Mexico. Growth in South East Asia was also solid with the Philippines doing well.

The improvement in trading operating profit margin was broad-based across infant formula, as well as baby food, due to sustained low dairy prices. At the same time, marketing investment behind brands increased.

Nestlé Nutrition

In millions of CHF

	2015	2016	Proportion of total sales (%)	RIG (%)	OG (%)
EMENA	2 062	1 978	19.2%		
AMS	3 688	3 751	36.3%		
AOA	4 711	4 597	44.5%		
Total sales	10 461	10 326	100.0%	+ 0.9%	+ 1.5%
Trading operating profit	2 361	2 342	22.7%		
Capital expenditure	489	414	4.0%		

Other businesses

Sales	CHF 14.1 billion
Organic growth	+3.7%
Real internal growth	+3.4%
Trading operating profit margin	15.2%
Trading operating profit margin	-50 basis points

Nestlé Professional continued to grow, led by mid-single-digit growth in emerging markets with strong growth in Russia and Mexico, and solid growth in China. The US also had good organic growth while business in Canada and Western Europe declined. As from 2017, Nestlé Professional is integrated into the Zones due to increasing demand for more customised products and services on a local and regional basis.

Nespresso continued to grow in its 30th year. The US and Canada saw strong momentum from the continued success of the *VertuoLine* system. Sales in France also benefitted from the launch of *VertuoLine* at the end of the year. The UK saw strong acceleration following brand investment and the launch of a subscription model. In Asia, both China and Korea performed well.

Nestlé Health Science maintained a good pace of growth. Consumer Care was once again the key source of growth including the *Boost* range

of products, *Carnation Breakfast Essentials* and, in Europe, *Meritene*. Medical Nutrition benefitted from strong contributions from the allergy portfolio (especially in China), *Vitaflor* and oral nutritional supplements in key markets.

Nestlé Skin Health performed well in consumer care. However, we adjusted inventory levels in the trade at the end of the year. Increased competition and pressure from generics affected the US prescription business.

The trading operating profit margin of this segment was impacted by Nestlé Skin Health. Adjustment of trade inventories and higher restructuring and litigation costs affected profitability. Nestlé Health Science also absorbed higher restructuring costs. Nestlé Professional and Nespresso both improved their profitability, helped by favourable input costs.

Other businesses ^(a)

In millions of CHF

	2015	2016	RIG (%)	OG (%)
Total sales	14 114	14 119	+3.4%	+3.7%
Trading operating profit	2 221	2 144	15.2%	
Capital expenditure	518	619	4.4%	

(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 and ensure the achievement of Nestlé's long-term goals.

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 resulting in the aggregation of individual assessments by all Markets and Globally Managed Businesses. Additionally, Nestlé engages with external stakeholders to better understand the issues that are of most concern to them. For each issue, the materiality matrix (included in the *Nestlé in society* report) rates the degree of stakeholder concern and potential business impact. These different risk mappings allow the Group to make sound decisions on the future operations of the company.

Risk assessments are the responsibility of line management; this applies equally to a business, a market or a function, and any mitigating actions identified in the assessments are the responsibility of the individual line management. If Group-level intervention is required, responsibility for mitigating actions will generally be determined by the Executive Board.

The results of the Group ERM are presented annually to the Executive Board, half-yearly to the Audit Committee, and reported annually to the Board of Directors.

The factors identified below are considered the most relevant for our business and performance. Many of the long-term mitigation strategies are expanded on in our *Nestlé in society* report.

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 to ensure high-quality products and prevention of health risks arising from handling, preparation and storage throughout the value chain.

The success of the Nestlé Group depends on its ability to anticipate consumer preferences and to offer high-quality, competitive, relevant and innovative products. Our Nutrition, Health and Wellness strategy aims to enhance people's lives at all stages through industry-leading research and development to drive innovation and the continuous improvement of our portfolio.

The food and beverage industry is faced with the global challenge of increasing obesity. The Group has long-term objectives to apply scientific and nutritional know-how to enhance nutrition, health and wellness, contributing to healthier eating, drinking and lifestyle habits, as well as accessibility of safe and affordable food.

Nestlé is dependent on the sustainable supply of a number of raw and packaging materials. Longer-term changes in weather patterns; water shortages; shift in production patterns; economic and social inequality in supply chains, etc. could result in capacity constraints, as well as reputational damage. The Group has long-term commitments to promote better agricultural practices, support rural development in line with local priorities, and address supply chain issues from gender inequality to deforestation. Progress against these commitments is monitored to ensure positive social and environmental impacts along with delivering our own growth strategy.

Nestlé is reliant on the procurement of materials, manufacturing and supply of finished goods for all product categories. A major event impacting input prices, or in one of Nestlé's key plants, at a key supplier, contract manufacturer, co-packer, and/or warehouse facility could potentially lead to a supply disruption. Active price risk management on key commodities and business continuity plans are established and regularly maintained in order to mitigate against such events.

Changing customer relationships and landscape may inhibit our growth if we fail to maintain strong engagements or adapt to changing customer needs. Our strategy is to maintain and develop strong relationships with customers across the world to help them win in their respective prioritized categories where we operate. Nestlé manages risks related to climate change and water resources. Our long-term commitments and strategies on climate change and water are

available in Nestlé’s response to the CDP Climate Change report and Water questionnaires also in the *Nestlé in society* report.

The Group is subject to environmental regimes applying in all countries where it operates and has controls in place to comply with legislation concerning the protection of the environment, including the use of natural resources, release of air emissions and waste water, and the generation, storage, handling, transportation, treatment and disposal of waste materials.

Nestlé is subject to health and safety regimes in all countries where it operates. Nestlé has procedures in place to comply with legislation concerning the protection of the health and welfare of employees and contractors, as well as long-term initiatives to promote safe and healthy employee behaviours.

The ability to attract and retain skilled, talented employees is critical to achieving our strategy. Our initiatives and processes aim to sustain a high-performance culture, supported by a total awards approach and people development that emphasises diversity, innovation and growth.

The Group depends on accurate, timely data along with increasing integration of digital solutions, services and models, both internal and external. Disruption impacting the reliability, security and privacy of the data, as well as the IT infrastructure, is a threat. Contingency plans along with policies and controls are in place aiming to protect and ensure compliance on both infrastructure and data.

The Group’s liquidities/liabilities (currency, interest rate, hedging, cost of capital, pension obligations/retirement benefits, banking/commercial credit, etc.) could be impacted by any major event in the financial markets. Nestlé has the appropriate risk mitigation measures in place with strong governance to actively manage exposures and long-term asset and liability outlook.

Nestlé has factories in 86 countries and sales in 191 countries. Security, political instability, legal and regulatory, fiscal, macroeconomic, foreign trade, labour and/or infrastructure risks could potentially impact Nestlé’s ability to do business in a country or region. Major events caused by natural hazards (such as flood, drought, infectious disease, etc.) could also impact the Group’s ability

to operate. Any of these events could lead to a supply disruption and impact Nestlé’s financial results. Regular monitoring and ad hoc business continuity plans are established in order to mitigate against such events. The Group-wide geographical and product category spreads represents a tremendous natural hedge.

Factories

Corporate Governance and Compliance

Corporate Governance

Our Board of Directors sets our long-term strategy and provides oversight on the basis of strong principles and an appropriate tone from the top. It ensures the long-term success of our company based on a clear strategy and good corporate governance. Its focus on corporate culture helps us align the interests between our business, our wider stakeholders and society.

In 2016, our Board of Directors announced its succession plans for the Chairman and the CEO. The proposed solution will help ensure the long-term strategic direction of the company set by the Board of Directors and concludes a process that the Board had started two years ago.

Also in 2016, we created a new Nomination and Sustainability Committee. This Committee prepares the succession planning of the Board and periodically reviews other measures which ensure our company's sustainability and how its long-term strategy relates to our ability to create shared value.

Nestlé's purpose is enhancing quality of life and contributing to a healthier future. Beyond a strong focus on board composition, structure and processes, our Board ensures that the company's purpose and its values, strategies and business model are aligned. Performance management and rewards are consistent with this approach.

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 all aspects of our Governance. It also advises on financial matters.

Our Compensation Committee sets our remuneration principles and prepares the proposals for remuneration to the Board and the AGM. Our *Compensation Report* is submitted annually to an advisory vote of our shareholders. In 2016, all proposals received strong support.

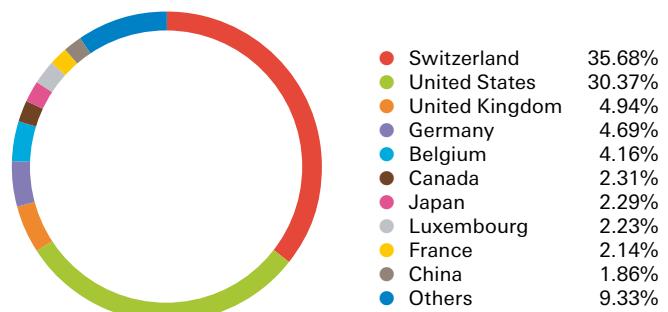
Our Audit Committee oversees internal and external audit, financial reporting, compliance and risk management.

Our strategy, as set by the Board and enshrined by our shareholders in our Articles of Association, aims for long-term, sustainable value creation. Transparency and reporting on a wide range of financial and non-financial commitments ensure our accountability. Through our Chairman's

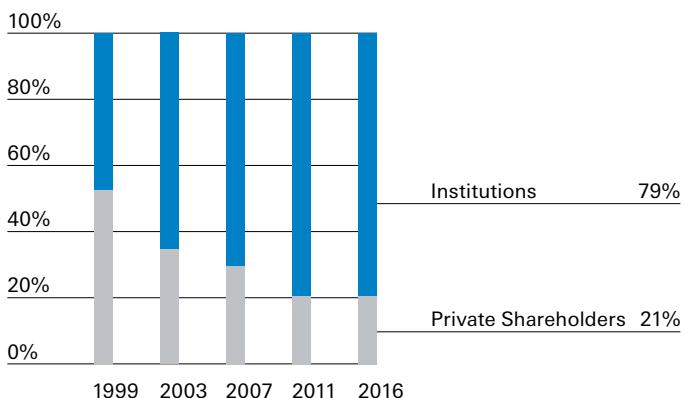
Roundtables, roadshows, investor meetings, analyst and engagement calls, as well as stakeholder convenings, we actively engage with the providers of capital and other stakeholders to ensure our sustainable long-term growth.

We recognize that 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 58.73% of the total share capital.
Statistics are rounded, as at 31.12.2016.

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 2016**

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, 3)
Chairman, LafargeHolcim Ltd
Former Group Legal Director,
Royal Dutch Shell plc.
Renato Fassbind^(1, 2, 5)
Vice Chairman, Swiss Re AG
Steven G. Hoch^(1, 4)
Partner, Brown Advisory, LLC
Naïna 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, 5)
Former Chairman and CEO, AXA
Eva Cheng^(1, 5)
Former Chairwoman and CEO,
Amway China & Southeast Asia
Ruth K. Oniang'o⁽¹⁾
Professor of Food Science
and Nutrition
Patrick Aebscher^(1, 3)
President of the Swiss
Federal Institute of
Technology Lausanne (EPFL)



Peter Brabeck-Letmathe



Paul Bulcke



Andreas Koopmann

(1) Term expires on the date of the Annual General Meeting 2017.
(2) Chairman's and Corporate Governance Committee.
(3) Compensation Committee.
(4) Nomination and Sustainability Committee.
(5) Audit Committee.

For further information on the Board of Directors, please refer to the *Corporate Governance Report 2016*.



Beat Hess



Renato Fassbind



Steven G. Hoch



Naïna 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 2016

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



Ulf Mark Schneider CEO as of 1 January 2017.



EVP: Executive Vice President
SVP: Senior Vice President

For further information on the
Executive Board, please refer to the
Corporate Governance Report 2016.



Compliance

We are driven by purpose and guided by values. Integrity, personal responsibility and fairness are important aspects of the respect that we have for ourselves. Mutual trust, quality and living up to our own commitments form the base for our respect for others. Compliance at Nestlé includes not only following applicable laws but also our own principles and values. It helps us build trust with our employees, as well as with our shareholders and our other stakeholders.

Strong governance and compliance underpin our company's culture, which reflects our values and drives the right behaviors. Our Board oversees and promotes good practices throughout the company. Risk and control functions are appropriately empowered to assess and reinforce our culture and values effectively.

Our *Corporate Business Principles* and our *Code of Business Conduct* include our commitments to integrity. This Code includes our three golden rules: to avoid any conduct that could damage Nestlé or its reputation; to act legally and honestly; and to put the company's interests ahead of personal interests. We thereby aim to provide guidance to our people to do the 'right' thing even in situations which are not specifically regulated.

Through our CARE program, which relies on independent external auditors, we regularly assess specific aspects of our compliance. We provide the necessary training in our internal Management School, 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.

Our Integrity Reporting System and our 'Tell Us' system allow us to address complaints from employees and external stakeholders. In 2016, 235 CARE audits were conducted and gaps addressed. 1650 complaints from employees and 642 complaints from suppliers and other third parties were investigated and remedial action taken.

Line management is supported by our dedicated Corporate Compliance function, which provides guidance and best practices, and all functions engaged in our holistic, risk and principles based compliance program. Our Compliance Committee defines the framework

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 2016, we assessed the consistency of our Compliance program in all Markets through our local Compliance Committees on the basis of Market compliance maturity profiles. Specific focus areas included further enhancing our compliance culture and grievance mechanisms and our anti-corruption policy framework. An annual compliance risk assessment was performed in the Group Compliance Committee.

Our efforts were recognized by the renewed joint best industry score for Compliance in the 2016 Dow Jones Sustainability Index.

Shareholder information

Stock exchange listing

At 31 December 2016, Nestlé S.A. shares are listed on the SIX Swiss Exchange, Zurich (ISIN code: CH0038863350). American Depository Receipts (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank, N.A., New York.

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Nestlé S.A. (Share Transfer Office)
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Investor Relations
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As to information concerning the share register (registrations, transfers, dividends, etc.), please contact:
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fax +41 (0)41 785 20 24
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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

6 April 2017

150th Annual General Meeting,
Beaulieu Lausanne,
Lausanne (Switzerland)

7 April 2017

Last trading day with entitlement to dividend

10 April 2017

Ex-dividend date

12 April 2017

Payment of the dividend

20 April 2017

2017 First quarter sales figures

27 July 2017

2017 Half-yearly Results

19 October 2017

2017 Nine months sales figures

15 February 2018

2017 Full Year Results

12 April 2018

151st 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.

This *Annual Report* is published in German, English and French. The English version is binding for the content of the *Annual Report of Nestlé S.A.*

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Nestec Ltd., Corporate Identity & Design, with Gavillet & Cie

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Interlinks Image with
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