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Speeches

Peter Brabeck-Letmathe

Chairman of the Board

Paul Bulcke

Chief Executive Officer

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Address by Mr Peter Brabeck-Letmathe

Ladies and Gentlemen, dear Shareholders,

A year ago I observed from this stage that we had entered an unprecedented period of volatility and uncertainty, and that it was extraordinarily difficult to foresee how the world of tomorrow would look. In effect, 2009 revealed itself to be a particularly challenging year – one of crisis but also of new opportunities – and it is against this backdrop that we must evaluate the performance of your Company.

The exceptional volatility of not only the economic but also the political environment has demanded extremely close attention from management:

- While pursuing its long-term strategy, it has also had to concentrate on short-term business results.
- It has had to be extremely rigorous in its management of working capital and investment spending.
- It has researched possibilities for operational improvements throughout the entire organisation, and
- It has rationalised and optimised the product portfolio. At the same time,
- It has gained access to new market opportunities by increasing investment in R&D and optimising marketing efficiency, as well as
- Expanding the product range with regard to both geographic scope and categories.

The results achieved by the management of your Company in this difficult context are more than respectable.

With organic growth of 4.1% in 2009, Nestlé significantly outperformed its peers. And profitability has improved once again, with the EBIT margin having increased by 40 basis points (in constant currencies) to 14.6%. It is thanks to these remarkable results that the Board of Directors is proposing to increase the dividend by 14.3%.

I would like to express my sincere congratulations to the management of Nestlé for this excellent performance and, Ladies and Gentlemen, I am sure that you will join me in thanking all of our 280,000 employees, to whom we owe these results. Their commitment, professionalism, energy, perseverance and creativity are at the heart of the success of our Company.

I would now like to invite Paul Bulcke, Chief Executive Officer, to present the 2009 results to you in greater detail.

Presentation of Mr Paul Bulcke, CEO (see page 11)

Thank you, Paul.

Ladies and Gentlemen,

The financial and economic crisis we are currently experiencing has consequences of both an economic and political nature at the global level, in Europe and in Switzerland. It is normal and right for us to search for the causes of this crisis. And it is understandable that, in view of the mistakes that have been made, the incompetence of certain company directors and the excesses that have been revealed, the political world feels forced to act – in Switzerland as elsewhere. But governments should avoid succumbing to the temptation to “ban” crises via the regulatory route and force companies into a regulatory straightjacket.

It is often the large, publicly listed enterprises that are made out by some to be a veritable public enemy: comparing these companies with SMEs – comparing listed companies against privately held ones – is erroneous and can lead to inappropriate decisions and poor regulation.

One of the great strengths of the Swiss economy lies in its rich and diverse structure, with SMEs alongside large enterprises like yours, with a diverse shareholder base comprising many small shareholders and, also, largely, pension funds.

Ladies and Gentlemen,

What is the significance of Switzerland for Nestlé? What is the significance of Nestlé for Switzerland?

Switzerland is important for us as a production and research location, and also as the home of our Group’s headquarters. The central decision-making and administrative bodies are here. Our Annual General Meeting is held here, at the Palais de Beaulieu in Lausanne. We have 12 factories in Switzerland (two-thirds of whose production is exported), as well as the Group’s main research centre and technology development centres that are so vital to our future. Over the last ten years we have invested over CHF 2.5 billion in this country, and Nestlé has almost

doubled its headcount in Switzerland. This is more than just lip service regarding our commitment to Switzerland as our place of domicile – these are the facts.

Ladies and Gentlemen, I say in all modesty that Nestlé is important for Switzerland, but let me also state clearly that Switzerland is important for Nestlé.

For us, Switzerland presents a unique advantage as a domicile due to its legal system. Recent surveys carried out among directors of Swiss and foreign companies reveal, for example, that legal security and the reliability of Swiss law are key factors in deciding to settle here. At the same time however, Switzerland no longer tops the list of the best locations in terms of tax; today there are other more attractive locations with regard to tax, even within Europe.

It is vital to preserve the advantages presented by the security and reliability of the legal system.

Secondly, I would like to mention the flexibility of the legal system. The proportion of thriving international enterprises that are based in Switzerland is well above average. The flexibility to be found here enables individual companies to find an organisational structure that is best suited to them and their shareholders with a view to creating added value over the long term.

The third factor worth mentioning is the sound division of responsibilities between shareholders, the Board of Directors and the Executive Board. This enables a well-informed Board of Directors acting in the long-term interests of shareholders to take strategic decisions for the company. Shareholders do not have the same level of information and are not subject to a fiduciary obligation towards the company. They are able to concentrate completely legitimately on their own individual interests, which are often oriented towards the short term. Unfortunately, the crisis has demonstrated clearly the possible consequences of such “short-termism”.

Legal security, the flexibility of the legal system and the sound division of responsibilities are thus among the most important factors in the choice of domicile. At the same time, these elements represent the three greatest weaknesses in the proposals for revision contained in the popular Minder initiative, for example. Without doubt, the adoption of these proposals would weaken Switzerland’s profile as a corporate domicile. The Board of Directors, as well as pension fund representatives, would be faced with a considerable degree of legal uncertainty, being permanently subject to the risk of prosecution. Companies would find themselves bound in a legal straightjacket that was by no means adapted to suit all public limited companies, or those listed on the stock

exchange. And the increase in shareholder rights, while well-intentioned, could – in the wrong hands – quickly prove extremely counterproductive.

This does not mean that a regulatory “dumbing down” is necessary. It should be recognised that Switzerland has in principle more than fulfilled its obligation with regard to corporate governance in recent years, and I am certain that the federal parliament and the Swiss population will ultimately find a reasonable solution.

Allow me to return again to our compensation system, to which two changes have been made. You will be once again participating today in an advisory vote on the Compensation Report. At the beginning of last year, we introduced a new Performance Share Unit Plan (PSUP) for the Executive Board, which rewards long-term performance. The value of these PSUs will be determined after a period of three years and paid out in the form of shares. As a measure of performance, we will be comparing our total shareholder return with those of the Dow Jones index of 600 food and beverage companies. Following this period, the individual concerned will receive between 50 and 200% of the initial allocation. This is our response to suggestions from some of you regarding the introduction of supplementary performance criteria, with a view to aligning our compensation system even more closely with our strategy and the interests of our shareholders.

Furthermore, in this year’s Compensation Report we have included supplementary data concerning the objectives and performance criteria of short-term variable compensation.

Ladies and Gentlemen,

Corporate social responsibility has returned to the centre of public debate in recent years, and the lessons of the recent financial crisis call for a radically new approach to the concept.

This has often been understood as a “moral” obligation, so to speak, to “give something back to society” and in a number of cases, this has been translated simply into donations to charitable organisations. Apparently, a company has a duty to do good in order to make amends for the allegedly negative impact of its activities.

This current interpretation of corporate social responsibility appears to be based on the hypothesis that the economy is by definition a negative force in society, and must demonstrate its ability to improve. But in striving constantly to prove that we really aren’t so bad after all, are our efforts not aimed more at limiting risk than at achieving high performance?

Please don't misunderstand me: Nestlé does not shy away from its obligations. It goes without saying that we respect local, national and international laws, standards and commercial regulations, in full and without exception. Naturally, we are committed to environmental sustainability and the judicious use of limited resources for the sake of future generations. Our internal standards are highly rigorous, and the environmental indicators that you find in our Annual Report speak for themselves. However, our understanding of "corporate social responsibility" goes beyond this.

Companies are recognising increasingly that, in order to thrive, they have to create value not only for shareholders but also for society as a whole. We call this approach "creating shared value". The creation of shared value is based on the conviction that, in order to ensure the long-term success of our company, we must simultaneously meet the needs of our main stakeholders, i.e. the expectations of our shareholders as well as the needs of our own employees and of local communities wherever we have a presence.

I had the opportunity to explain this fundamental principle of our business strategy for the first time at the last Annual General Meeting.

We at Nestlé have analysed our value chain and identified three key areas in which the interests of shareholders and society converge, and which therefore offer the greatest potential for the creation of shared value:

1. Water, 2. Rural development, 3. Nutrition. Each of these three areas is of existential importance for Nestlé and its activities. Let me offer a brief review:

Water: Water in sufficient quantities and of sufficient quality is essential to life and indispensable for the production of food and for our manufacturing processes.

The future availability of water is the greatest challenge to our sustainable growth. If current water-use trends continue, in agriculture in particular, vast expanses of agricultural land will become parched, resulting in the loss of cereal production between now and 2030 equivalent to the harvests of the US and India combined, for example.

There are solutions. Together with the World Bank, the WWF and other organisations and companies, we have invested a great deal of time and effort in developing concrete solutions aimed at preserving large aquifers that are under threat. It is not too late, but we have to act now. Nestlé's efforts give us the legitimacy to be a credible voice in this debate. We have reduced our water use in our own operations by 33% over the last ten years, while our production volumes have risen by 63%.

Here in the developed world we appear to be less interested in these long-term existential challenges than in the often ideological debate as to whether 5 litres of water for drinking and 20 litres for personal hygiene, are social or economic resources. What is more, what we are talking about is only 1% of total water extraction for human use. Without doubt, water is at once a social, an ecological and an economic resource. Water meets a fundamental human need, and every human being has the right to access to clean water in sufficient quantities for both their hydration and hygiene needs. Beyond these fundamental needs and in productive utilisation by the agricultural and industrial sectors, water is an economic or commercial resource which should be priced according to its value, a development that would result in the more responsible management of water resources.

Please allow me a further word about bottled water: yes, bottled water represents an important activity for Nestlé, and corresponds perfectly to our strategy of nutrition, health and wellness. The majority of the sites of our water springs have fountains at which visitors can help themselves free of charge. In reality, what we are selling is not the water itself but the services associated with bottling and transporting it to consumers in a desirable and stable quality. The controversy surrounding bottled water will persevere in certain countries and we will have to live with this, while continuing to patiently present our arguments. In the majority of the world, bottled water is often the only source of drinking water, and this is never called into question. In the debate surrounding the global water crisis, the role played by bottled water is an insignificant one, representing globally no more than 0.007% of the total volume of water extracted, and Nestlé's bottled water representing only 0.0009%.

Rural development: The wellbeing of farmers, rural communities, small enterprises and suppliers is vital to the future of our business. The majority of our 450 factories throughout the world are located in agricultural regions of developing countries, and have a significant influence on family incomes, the standard of living of local residents and the prosperity of the next generation.

Ladies and Gentlemen, every evening approximately 1 billion people throughout the world go to sleep hungry. Since the mid-1990s, the number of people suffering from malnutrition has increased by 200 million. Global food demand is increasing by the day, while the productivity of the agricultural sector by surface unit is on the decline. Every second there are two more people in the world to feed, while at the same time 0.2 hectares of cultivated land disappear, due primarily to urbanisation and erosion.

Nestlé finances one of the largest initiatives undertaken by the private sector aimed at improving agricultural productivity and fighting poverty in the agricultural sector. We provide free technical advice and assistance to 600,000 farmers throughout the world, a large number of whom are women. We help them by means of microcredits worth a total of over CHF 30 million per year, and we support a number of education projects targeting the rural population. These efforts are aimed at increasing harvests and improving the quality of crops and the incomes of farmers, while at the same time preserving precious natural resources. Nestlé, for its part, benefits from a more secure supply of better quality raw materials, which in turn results in finished products of greater value. This is what we call the creation of shared value.

Nutrition: Food and nutrition form the basis of our health and our activities, and as such are the “raison d’être” of your Company.

Nestlé has unique expertise in the area of nutrition, and we supply products throughout the world that are capable of compensating local nutritional deficiencies, also making them accessible to people on low incomes.

Our outstanding network of research locations and development centres spread across all continents forms the backbone of our nutritional expertise, one of the most recent examples being the R&D centre in Abidjan in the Ivory Coast. This centre focuses on transforming local raw materials and supporting the replanting of millions of cacao seedlings grown in our plant research laboratory. This will result in a significant improvement in the standard of living and an increase in the incomes of small cacao producers in the Ivory Coast, while Nestlé will secure its supply of an important raw material.

Ladies and Gentlemen,

New practice-based ideas are now needed in the area of corporate social responsibility. Just one year ago, we presented the concept of creating shared value to an international audience in New York, together with the United Nations Office for Partnerships and the Permanent Mission of Switzerland to the UN.

The openness with which the UN organisations, the NGOs and the experts welcomed our ideas and our actions fills me with optimism. Civil society is also increasingly motivated to enter into intelligent, rational and pragmatic dialogue with industry. No single enterprise can solve all the world’s problems by itself, but each and every company can, throughout its own value chain, exert a sustainable influence in a way that is aligned with the interests of shareholders, which is an equally important factor.

Ladies and Gentlemen,

On 4 January, Novartis exercised its purchase option to acquire Nestlé's remaining shareholding in the ophthalmology firm Alcon. The transaction is subject to regulatory approval, and should be finalised by the middle of this year. Nestlé purchased Alcon in 1977 for USD 280 million and from the beginning, supported the strengthening of R&D capacity at Alcon as well as the company's international expansion, which helped Alcon to establish a leading global position in the area of ophthalmology. Once the transaction has been finalised you, the shareholders, will have realised over USD 40 billion in cash, signifying an average annual yield of 17%.

We would like to thank the management of Alcon for its longstanding cooperation and commitment, which enabled the company to establish its current international scope and create considerable value for its shareholders. We wish them every success for the future.

Decisions regarding the future structure of Alcon will now be the full responsibility of the new majority shareholder, Novartis.

Nestlé's interest in L'Oréal, which it has held since 1974, has benefited both companies over the years. Nestlé has profited from the significant appreciation in the long-term value of its investment, and both companies have taken advantage of their collaboration in two successful joint ventures, Galderma and Laboratoires innéov.

The agreement that links Nestlé and L'Oréal is a public one, and although the clause providing for the non-transferability of our interest in L'Oréal expired on 29 April 2009, the agreement in its entirety remains unchanged until 2014.

The future of Nestlé's interest in L'Oréal is an important issue for the Group, one which your Board of Directors is examining with the greatest attention as part of our global strategy of nutrition, health and wellness. Nestlé will maintain its long-term strategic vision, in the best interests of its shareholders, and will, when appropriate, make its decisions in a way that is most conducive to the long-term success of your Company.

Ladies and Gentlemen,

Nestlé has a great future ahead of it, and I encourage you to be part of this future as our shareholders. Companies that benefit from such a broad portfolio of brands and activities are rare. Few enterprises enjoy such solid positions

throughout the world, particularly in the emerging markets, which in recent months have demonstrated the economic vigour and fierce determination to find their own path towards economic development and the prosperity of their communities. What is more, we are constantly seeing how important the concepts of health and nutrition have become for consumers. A vigorous and open research policy and an extremely solid financial situation enable us to look with confidence to the future.

This confidence is shared: Nestlé has just been chosen for the “Fortune’s List” of the world’s 50 Most Admired Companies, occupying first place in the “Consumer Food Products” category, and the prestigious publication Barron’s has recently named Nestlé Europe’s Most Respected Company.

Please allow me to add one final comment. Your Company, Ladies and Gentlemen, is a modern entity which, each and every day, makes use of the most state-of-the-art tools and methods available. This is an essential condition for our success. Alongside this modern approach, however, Nestlé remains faithful to the principles and values that some are quick to dismiss as old-fashioned but which have once again demonstrated their strength and significance in the crisis we are experiencing.

On behalf of myself and the Board of Directors, I would like to thank you Ladies and Gentlemen for your loyalty and commitment to our company.

Thank you for your attention.

Address by Mr Paul Bulcke

Thank you, Peter, and good afternoon, Ladies and Gentlemen.

Today I have the pleasure of presenting our results for 2009 and briefly explaining our business strategy.

Despite the unprecedented economic turbulence of 2009, we remained faithful to our defined strategic direction and succeeded in achieving good results. Our total sales amounted to CHF 107.6 billion, and our organic growth of 4.1% was higher than the industry average. The Group's EBIT margin rose by 30 basis points, or 40 basis points in constant currencies.

Our net profit for 2009 stood at 9.7% of sales, an increase of 170 basis points compared to 2008, excluding the proceeds of CHF 9.2 billion from the sale of a 24.85% stake in Alcon. The underlying earnings per share of CHF 3.09 represent an increase of 16.3% in constant currencies. The excellent performance of operating cash flow, our significant reduction in working capital and the optimisation of capital expenditure contributed to a 146% increase in free cash flow.

With regard to our CHF 25 billion share buyback programme launched in 2007, this will be completed with the purchase of CHF 5 billion of shares during 2010. Complementing this, we plan to purchase an additional CHF 5 billion of shares which form part of a second share buy-back programme that your Board of Directors approved in February for a total value of CHF 10 billion. Our balance sheet enables us to undertake this buy-back while maintaining our benchmark credit rating and leaving ourselves room for manoeuvre.

Ladies and Gentlemen, your Company achieved an extremely solid performance once again in 2009, combining organic growth with an improvement in our margin. We recorded these strong results in all regions and across the categories, and I would like to emphasise that this performance comes on top of the very positive results already achieved in 2008.

On a regional basis, despite the unfavourable situation in North America, our growth in 2009 exceeded that of 2008, and we were able to increase our EBIT margin. This performance is due above all to constant innovation, which has helped secure the positive evolution of our portfolio towards value-for-money products, as well as those with high added value.

It is through innovation, for example, that our *Gerber Graduates* brand offers even healthier and more nutritious solutions for young children. Despite the falling birth rate in the US, this brand achieved a growth rate of above 7% in 2009.

With our petcare products from *Nestlé Purina*, innovations have continued to generate growth, with new launches such as the premium *Chef Michael's* range creating considerable momentum in the North American market.

In Latin America, Brazil recorded double-digit organic growth, and good performances were also achieved in Mexico and the rest of the region.

In Europe, where the economic environment is one of the world's most challenging, we succeeded in defending both our positions and our margins, and our growth accelerated during the course of the year. We achieved this growth without becoming involved in a price war that would serve only to generate volume over the short term, and destroy significant value over the long term.

In the European region, we improved efficiency, provided additional marketing support for our brands and continued to develop new concepts aimed at improving the day-to-day lives of our consumers.

One of these new concepts is *Nescafé Dolce Gusto*, an exceptional success story in every respect, which illustrates perfectly how innovation can inject new momentum into our soluble coffee activities in general. *Nescafé Dolce Gusto* has demonstrated our capacity to act quickly, with the product being launched in a total of 24 markets within the space of just two years. Annual sales already exceeded CHF 300 million last year, and we will be launching *Nescafé Dolce Gusto* in other European markets and on other continents in 2010.

Let us now move on to the Asia, Oceania and Africa region, where we have stepped up our investments in support of our brands as well as in our distribution network. Here, our real internal growth was higher in 2009 than in 2008, and we also continued to increase our EBIT margin. All markets achieved good results, with Africa, China, India, the Philippines and Indonesia performing particularly well.

Today, emerging markets account for sales of around CHF 35 billion for Nestlé – approximately 32% of the Group's current total. We expect this proportion to increase to 45% over the coming decade.

But what makes us so confident? Developing countries are progressing, and progressing fast! We anticipate that a billion new consumers will obtain access to our products over the next ten years. Our strong presence in these countries is not only due to our historical presence – over a hundred years in many cases – but is also explained by our proximity to consumers who are highly familiar with our products and our brands. Naturally, we strive constantly to innovate and to increase our capacities in these markets.

Ladies and Gentlemen, whenever your Company achieves success throughout the world, it is thanks to the talent, dedication and commitment of its 280,000 employees. This success is based on the fact that each and every one of us shares and pursues a common, clear and coherent strategy that enables us to combine discipline and the ability to act quickly.

Our roadmap stipulates clearly and directly what Nestlé wants to be as a company, the competitive advantages we aim to exploit, the strengths we would like to demonstrate, the way in which we can accelerate our growth and the organisation we have chosen to be efficient and profitable.

What is our ambition? Through our vast portfolio of products – which offer good taste and pleasure as part of a healthy and balanced lifestyle – we aim to be the global leader in nutrition, health and wellness.

And how do we set ourselves apart from the competition? First of all, through the diversity of our product portfolio and the strength of our brands. These elements enable us to be present in the day-to-day life of our consumers, from morning to evening and at every stage in their lives. What's more, thanks to our research and development capacities, we are continuously updating our products and constantly launching innovations. And, thanks to our global presence, we have an unmatched ability to reach consumers in every corner of the world. But our main competitive advantage, the one on which all the others are based, comprises our employees, our values and our culture.

What are the growth drivers that we have identified? They are, firstly, our quality products, which can form part of a healthy lifestyle and provide nutritional solutions in response to specific consumer requirements. Secondly, they are our products that meet the needs of new consumers in developing countries. Our third growth driver comprises products and services in connection with out-of-home catering, which has great potential and is increasing continuously. And, fourthly, we are aiming for growth via products with high added value, such as *Nespresso* and *Mövenpick*.

How do we organise ourselves in order to maintain our speed, efficiency and profitability? By developing our consumer insight and focusing our product innovations and updates on consumer needs. By continuously improving our operational efficiency and eliminating waste. By ensuring that our products are available wherever and whenever consumers expect them. And finally – and very importantly – by constantly improving our communication with consumers.

Our roadmap also stipulates how we are to act towards society, on both a corporate and a personal level. In order to ensure long-term success, all our activities must link up with society in a positive and meaningful way. In doing this, we concentrate on those areas where we can really make a difference, notably nutrition, the rational use of water and in the fundamental area of rural development. This is what we call Creating Shared Value.

With each and every employee of the Group following this roadmap, we have succeeded in creating a powerful, unified force behind our vision and strategy, which translates into clear and coherent action.

Ladies and Gentlemen, our motto is “Good Food, Good Life”. These words reflect the very essence of Nestlé and its commitment to providing everyone – every day and everywhere – with delicious, nutritious and high-quality products.

We strongly believe that food must, first and foremost, be pleasurable, which is why we offer our consumers delicious products which provide nutritional value and form part of a healthy lifestyle.

Furthermore, we believe that our consumers must be able to benefit from a wide selection of different products in order to ensure a balanced diet.

Finally, consumers must be in a position to make an informed choice. By means of transparency and through the nutritional information and advice we provide, we help consumers to make such choices when it comes to their diet.

We are convinced that these three dimensions – pleasure, balance and understanding – contribute to promoting a healthy lifestyle and personal wellbeing. This is what we mean by “Good Food, Good Life”.

In this regard, Nestlé enjoys a unique position. No other company can make claim to such an extensive, varied and diverse range of food and beverage products and brands.

Ladies and Gentlemen, in conclusion, allow me to say that it is our obligation to fulfil the promise associated with our “Good Food, Good Life” motto in each and every one of our actions, and in doing so to drive our company towards new successes, year after year.

On this note, Ladies and Gentlemen, I will hand you back to our Chairman.

Thank you.

Peter.



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