
144th Annual
General Meeting
of Nestlé S.A.
Lausanne,
14 April 2011



Speeches

Peter Brabeck-Letmathe

Chairman of the Board

Paul Bulcke

Chief Executive Officer

Address by Mr Peter Brabeck-Letmathe

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Ladies and Gentlemen, Shareholders,

2010 was an extraordinary year for our Company in many respects:

- Your management and more than 280 000 employees around the world achieved excellent results in a challenging external environment.
- The Company posted a historical net profit of CHF 34.2 billion, which includes the disposal of the remaining part of Alcon.
- With 6.2% organic growth and a further improvement of the EBIT margin by 20 basis points to 14.8%, we delivered the “Nestlé model” for the fifteenth consecutive year.
- We announced the creation of the Nestlé Institute of Health Sciences and Nestlé Health Science SA.
- A 15.6% increase in the dividend to CHF 1.85 is proposed to this Meeting.

Our CEO, Mr Paul Bulcke, will present the operational results in more detail. After his speech, I will take the opportunity to talk about one of the topics you identified in our last shareholders’ survey in 2009 as a priority subject to be covered during the General Meeting: the governance model of our Company and, more specifically, the roles of the Chairman and the CEO as well as the way the Board of Directors works.

Ladies and Gentlemen, before handing over to Mr Bulcke, I would like to congratulate our management and our 280 000 employees who have made these results possible. Their commitment, professionalism, dynamism and creativity are at the heart of our Company’s success and I am sure that you, dear shareholders, will join me in expressing my gratitude and thanks to each and every one of them.

I would now like to invite Mr Paul Bulcke to present the 2010 results to you in more detail.

Presentation by Mr Paul Bulcke, Chief Executive Officer (see page 11).

Thank you, Paul.

Ladies and Gentlemen, shareholders,

In my address to you last year, I highlighted the relationships we have with our external stakeholders and I explained to you how, based on the Creation of Shared Value, Nestlé interacts with society at large. Today, I would like to focus on the way your Company functions internally. As I mentioned before, you identified in our shareholders' survey the topic of corporate governance as a priority subject, along with the roles of Chairman and CEO. I will therefore address these points today.

First of all, it is worth pointing out that Nestlé is recognised, for example by *IR Magazine* and the University of St. Gallen, as a leading company regarding Corporate Governance. And just recently, we have been distinguished by *World Finance Magazine* with a Corporate Governance award in recognition of Nestlé's efforts to establish a number of best practices in this area. As you will recall, in 2008 you approved the complete revision of the Company's Articles of Association with the aim of long-term, sustainable value creation. This objective was specifically added to the new Articles. We were also among the first companies to submit our annual Compensation Report to a consultative vote by our shareholders and we have established a continuous dialogue with our shareholders which enables us to adapt to the changing corporate governance framework.

All these measures help us ensure that our corporate governance model remains valid and respects the interests of our shareholders. I would nevertheless like to stress that, in addition to governance best practices, the proper functioning of a company such as ours largely depends on the values and sound judgment of all who work in the company, as well as on the level of trust that you, as shareholders, have in your Board of Directors and, through your Board, in the management. The values and principles summarised in the *Nestlé Management and Leadership Principles* and the *Nestlé Corporate Business Principles*, as well as their implementation in the context of our day-to-day activities, are even more important than complying with the latest regulations on corporate governance.

In accordance with Swiss law, the Board of Directors is not only a supervisory board, as is the case in Germany and, to some extent, also in the USA: it is an active governance body, responsible for the ultimate direction and control of the Company, its strategy and its organisation. Apart from the overall long-term strategy, it carries a significant number of inalienable duties set out in detail in Swiss law. These include the structure of the financial organisation, succession planning, the appointment and supervision of members of the Executive Board, the ultimate responsibility for compliance and risk management, and most

importantly, our corporate governance model and our relationships with you, our shareholders.

The Chairman leads the Board of Directors in the exercise of its non-transferable and inalienable duties, whereas the CEO holds the supreme executive authority in a company, subject to the powers and duties conferred on the Board of Directors, its Committees and its Chairman.

In Nestlé's case, the CEO, in his role as "Administrateur délégué", shares the responsibilities of the Board of Directors as he is also a Board member. The Board of Directors has consciously selected the model of the "Administrateur délégué" in order to ensure total alignment and to avoid any conflict between the Chairman and the CEO. And I am happy to report that here Paul and I are fully aligned.

The roles of Chairman and CEO, both appointed for a one-year term of office after each General Meeting are therefore defined by the Board of Directors and complement each other. In 2008, when we once again separated the responsibilities of Chairman and CEO, the Board of Directors decided to delegate all of the Company's operational powers to the CEO, with the exception of Alcon and also L'Oréal and its related joint ventures, the responsibility for which was assumed by the Chairman. The reason being that these two companies were regarded as financial investments and that they accounted for their actions to separate Boards of Directors without having any operational link with Nestlé.

The disposal of Alcon perfectly illustrates how our Board of Directors takes such important decisions.

The acquisition of Alcon in 1977 for USD 280 million was a decisive step towards the diversification of the Group whose future at the time was seen to take the form of a conglomerate carrying out its activities in the areas of food and beverages, hotels and restaurants, wine, and pharmaceutical and personal care products. It was not until the early 1980s, under the leadership of our current Honorary Chairman, Helmut Maucher, that Nestlé refocused its activities with a view to becoming the world's leading food and beverages company. And we have managed to achieve this.

From the very beginning, Alcon was run separately from Nestlé's main activities. For this reason, Alcon's CEO was not a member of Nestlé's Executive Board, but reported to one of its members on an ad personam basis. In order to allow Alcon to develop, Nestlé initially financed its research and development projects, then developed its internationalisation strategy and finally succeeded in advancing the company to the rank of world leader in ophthalmology.

Despite the company's strong growth, Alcon's valuation on the financial markets was far from satisfactory. Only ten years ago, it was valued at around USD 3 billion, a gross underestimation of its real value. It was then that your Board reflected on the way to obtain a fairer valuation of the company and decided to legally separate Alcon from Nestlé through an IPO on the New York Stock Exchange, putting 25% on the open market and retaining 75% as a financial investment. The result was an immediate re-evaluation of Alcon to more than USD 10 billion at the time, which was reflected in an increase in Nestlé's share price.

In the following years, during which your Chairman served as Vice Chairman on the Board of Alcon, it became increasingly obvious that Nestlé was no longer the right partner for Alcon, which no longer required financial support, but rather pharmaceutical research synergies. We consequently identified Novartis as a new partner for Alcon and negotiated a multi-stage divestiture, which was completed in 2010 with a final payment of around CHF 30 billion for Nestlé's remaining 52% stake. The total value of the sale of Alcon was therefore CHF 45 billion for Nestlé shareholders. Over the past few years, we have returned a total of CHF 34 billion to you, our shareholders, through our share buyback programme, making this non-operational acquisition one of the most attractive value creation stories in economic history.

Over the last two years, a recurring theme at Board meetings has been Nestlé's long-term strategy and how the Company should be shaped in the next 15 to 20 years.

Back in 2000, I presented an essay to the Board of Directors on how to create a wellbeing company, a holistic concept that would enable food and beverages to open doors into the area of wellness and include various aspects of personal care and specific segments of the pharmaceutical market.

In-depth discussions with the Board of Directors and external consultants led to the conclusion that this vision was too ambitious at that time and that Nestlé should concentrate on the first stage of the transformation process. The Board then asked the management to shape Nestlé from the world's leading food and beverages company into the world's leading nutrition, health and wellness group.

This fundamental reorientation has given Nestlé a new strategic direction and has paved the way towards sustainable growth. As we were the first company to publicly commit to this challenge, we have naturally assumed leadership of this new market, with our competitors following in our footsteps.

Nutrition, health and wellness have become the main drivers, not only for our renovation and innovation activities but also for our acquisitions, such as infant nutrition company, Gerber, and Novartis Medical Nutrition, among other highlights.

While your management was fully occupied delivering the Nestlé model year after year, the Board of Directors devoted much of its time to identifying new market opportunities.

With Alcon we learned and proved that by using an adequate corporate governance model, Nestlé was capable of successfully running a company at arm's length, and one that is strongly focused on research and development, supported by an extended scientific network and requiring specific sales and marketing skills that are radically different from those of a fast-moving consumer goods company. This institutional experience was particularly important for Nestlé, as it enabled us to broaden our business horizons.

In addition to this internal consideration, a second, external, aspect needs to be pointed out: the macroeconomic environment in which we live today.

At the basis of the current economic crisis is the huge amount of private sector debt and, most importantly, public sector debt. Public debt ratios, which comprise the explicit and implicit debt of governments all over the world, will continue to rise over the next few years. However, the fact that official public debt levels, especially in industrial countries, have increased dramatically over the last few years and are set to increase even more in the foreseeable future, has partially overshadowed the fact that these countries are facing much greater cost growth due to the ageing population and the associated pension and healthcare expenditure.

If we look at healthcare spending, we see that chronic diseases are becoming a serious issue that is increasingly important to solve. According to a report by PricewaterhouseCoopers, 3% of global GDP will be wiped out by 2015 through healthcare spending on chronic illnesses such as diabetes, cardiovascular disease and obesity. Today, there are already more than 1 billion people around the world that are defined as obese, of whom 300 million are morbidly obese, its most serious form. Chronic illnesses account for 60% of all deaths, with a 17% increase forecast over the next few years.

Healthcare costs in the US will rise from 15% to 29% of GDP, and the forecasts for emerging markets are not much different. By 2015, China is set to spend USD 500 billion, Russia USD 300 billion and India USD 200 billion on healthcare.

In light of these factors, it is becoming evident that our current healthcare system, which basically concentrates on treating sick people, is not sustainable and will need a radical rethink. We firmly believe that disease prevention must play a much bigger role. In this respect, personalized healthcare nutrition will become the first and most effective step towards an active prevention strategy as well as for promoting wellness.

When we positioned Nestlé as a future leader in the nutrition, health and wellness industry several years ago, it was a clear business decision. The aim was to enable our Nestlé “Good Food, Good Life” business to become a creative and important player in this field by constantly improving the nutritional quality of all our products through what we call our “60/40+ innovation/renovation process”. However, we now recognize that health economics, demographic change, advances in health sciences, the development of regulatory frameworks, and our understanding of nutritional health all provide a significant opportunity for a new industry positioned between food and pharmaceuticals: personalized health nutrition, which covers all these aspects, from prevention to treatment and, finally, nutritional products that change the course of illnesses.

This is why the Nestlé Board of Directors has set the goal of becoming the leader in this new sector through the creation of the Nestlé Institute of Health Sciences and the Nestlé Health Science company.

The overall objective of the Nestlé Institute of Health Sciences is to provide the scientific basis for personalized health nutrition. It will develop a molecular understanding of pathological processes which will allow us to inform and develop nutritional plans and products designed for disease prevention and promotion of a healthier lifestyle. Since we already have life science initiatives in place with the Ecole polytechnique fédérale de Lausanne (EPFL), including the Nestlé chairs on Energy Metabolism and on Brain Development and Plasticity, and the EPFL is home to one of the world’s most eminent life sciences centres, we considered it appropriate to set up our new research centre at the EPFL, thereby enabling the closest possible collaboration between the two institutions.

Nestlé Health Science, on the other hand, will use as its initial platform the existing Nestlé HealthCare Nutrition business, which generates a turnover of CHF 1.7 billion. It will develop new healthcare nutrition solutions, primarily for chronic diseases such as diabetes, Alzheimer’s, obesity and arteriosclerosis, which affect people all over the world. It will actively look for new opportunities through acquisitions, obtaining licenses and integrating start-ups, including those which have benefited from our venture capital funds.

Ladies and Gentlemen,
Shareholders,

I hope that these comments have shed some light on the question you raised in the shareholders' survey about how your Board of Directors works, and that you understand better the different roles and responsibilities of the Chairman and the CEO.

As I have said many times, I strongly believe in the separation of the roles of the Chairman and CEO. However, this will only work if the following four conditions are met:

1. The Chairman must understand the business and the markets within which the Company operates;
2. The Chairman must be able to present the Company to the outside world in a credible manner, based on his experience;
3. The Chairman must be able to carry out his duties for a period of five to ten years; and perhaps most importantly,
4. The personal relationship between the Chairman and CEO must be based on mutual respect and a shared understanding of their respective and complementary roles. In other words, the chemistry must be good and constructive.

Your Board can confirm that all these conditions are currently met at Nestlé. As the "Administrateur Délégué" and therefore a member of the Board, the CEO is the ideal bridge between the long-term strategic thinking of the Board of Directors and the daily operational management of the Company. Our strong, sustained results are proof of it.

Ladies and Gentlemen,

The Swiss legislation on public limited companies in force today has made this success possible thanks to its flexibility and the judicious division of responsibilities between the Board of Directors and shareholders. It is undoubtedly one of the main reasons why Switzerland is home to so many multinational companies in relation to the total population. If Switzerland gave up its liberal legislation on public limited companies, it would needlessly relinquish this sizeable advantage in international competition and lose one of the best

examples globally of legislation on public limited companies in exchange for legislation that sets up unusual solutions at international level and jeopardizes good corporate conduct. Allow me to give you two examples in this respect:

Good corporate conduct requires that the Board of Directors selects, appoints and monitors members of the Executive Board. If its ability to do so is curtailed, Swiss companies would no longer be able to hire managers without having to tell them that Executive Board members' salaries are still to be approved at the next General Meeting. And no one knows what would happen if a General Meeting refused to approve the pay for its Executive Board. This is precisely the reason why, in a vote we recently submitted to 1 500 of the largest, international institutional investors, three-quarters backed the advisory vote. These investors have clearly said that although they naturally want to be consulted, they neither want to nor can be involved in the conduct of the business. Only the advisory vote can achieve this important balance between participation and responsibility, while at the same time preventing companies from descending into chaos if there is a negative decision.

The second example relates to the risk of criminalisation of the economy. No reasonable company would base its headquarters or a new branch in a country where the Board of Directors and/or Executive Board were constantly exposed to the risk of criminal proceedings. Its competitors would in effect be given immense leverage to impose their demands through the threat or actual instigation of legal proceedings. Just imagine the effect it would have if the international media constantly reported on "criminal proceedings" against Swiss companies. It would certainly put a stop to the recent influx of foreign companies into Switzerland.

Ladies and Gentlemen,

The recent strategic decisions I have just described, which have been executed with rigour and discipline by your management, have set the way for your Company to achieve its ambition to be the world leader in nutrition, health and wellness. The creation of Nestlé Health Science and the Nestlé Institute of Health Sciences has opened the door to new developments in an industry still in its infancy but with undoubted potential. Further ahead, although your Board of Directors has already started to reflect on it, is the extremely important and complex issue of the future of our involvement in L'Oréal, which we will decide upon in 2014.

Nestlé has a great future, and I encourage you to be part of it as our shareholders. On behalf of the Board of Directors and myself, I would like to thank you for your loyalty and commitment to our Company.

Thank you for your attention.

Address by Mr Paul Bulcke

Check against delivery.

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

Today I have the pleasure of presenting our results for 2010 and briefly explaining our business strategy.

Ladies and Gentlemen, 2010 was another year full of challenges and showed yet again the complexity of the world we are living in. It is clear that we are living in a two-speed world. On the one hand, there are the developed markets where consumer demand is subdued and where governments are confronted with low GDP growth and high sovereign debt. On the other hand, we see the developing markets, demonstrating that many economies in Asia, Africa and Latin America are more robust and less dependent on the developed world than was previously thought. They are developing, and developing on their own terms, with their own priorities – and this is a new phenomenon.

There are also other factors such as political unrest, natural disasters and their consequences, and the pressure on commodity prices which have to be taken into account. These are just a few examples illustrating the turbulence and challenges of today's world.

It was in this environment that your Company achieved very good results. Our total Group sales amounted to around CHF 110 billion with organic growth of 6.2% and we registered a 20 basis point improvement in EBIT margin. The Group delivered an extraordinary net profit of CHF 34.2 billion, which includes the profit of CHF 24.5 billion from our disposal of Alcon. Our underlying earnings per share, at CHF 3.32, were up 7.4%, an increase of 10.3% in constant currency. Our operating cash flow was CHF 13.6 billion, down from the 2009 level, reflecting mainly a normalisation of our working capital after the significant reduction in 2009. Our return on invested capital was up 100 basis points, excluding goodwill.

Ladies and Gentlemen, we delivered another year of strong top and bottom line growth, outperforming the market in turbulent times. We grew in all categories and all geographies, gaining market share all over the world. During 2010, we increased investment in our brands, our operations, our R&D and our people. We continued to drive efficiency and effectiveness in both developed and emerging markets while at the same time accelerating innovation, serving well over a billion consumers a day across the world.

This solid performance was driven by our Company maintaining its strategic direction, as set out in the “Nestlé Roadmap”. This roadmap is valid now more than ever before and it is because each and every employee across the Group follows this roadmap that we have succeeded in creating a powerful, unified force behind our vision and strategy, which then translates into effective and coherent action.

Our roadmap stipulates clearly and directly what Nestlé wants to be as a company: as the leading nutrition, health and wellness company we enhance lives by offering tastier and healthier food and beverage choices at all stages of life and at any time of the day, helping consumers care for themselves and their families. This is the foundation of our promise of “Good Food, Good Life”, which puts nutrition at the heart of everything we do. Each of our product categories has a specific strategy to ensure that it can be the nutrition leader. To achieve this, we have introduced initiatives, such as 60/40+, which drives nutrition arguments in our food and beverage portfolio, while keeping or increasing taste preference in relation to our competitors’ products.

Our roadmap sets out the competitive advantages we wish to leverage. These advantages – our product and brand portfolio, our geographic presence, our R&D capabilities and, of course, our people – are even more relevant in these turbulent times.

Our roadmap also shows where our growth will come from – what we call our growth drivers. In 2010, we continued to invest in order to take even greater advantage of them: we increased distribution of Popularly Positioned Products (PPPs) and rolled out premium products in both emerging and developed countries. We maintained our focus on adding nutritional value to our products and expanding our reach in the out-of-home market.

Finally, our roadmap stipulates the organisation structure we have chosen to be effective and efficient – our operational pillars. In line with this, in 2010, we accelerated innovation – and this has contributed significantly to the year’s results – and increased our consumer-facing marketing spend. We continued to strive for operational excellence “from farm to fork” and exceeded our cost-savings target of CHF 1.5 billion. We improved our market leadership positions, with significant share gains in the majority of countries and segments, while at the same time strengthening our distribution.

The strong alignment of our 280 000 employees behind this roadmap allowed us to achieve these strong 2010 results, thus laying the foundations for a good performance in 2011.

Let me now briefly run through a few highlights of our 2010 performance, region by region.

In North America, we achieved a strong performance in categories such as confectionery, coffee and petcare, brought about by striving for constant innovation. Frozen prepared meals, however, particularly *Lean Cuisine*, continued to suffer from weak consumer demand in this category.

In the US, businesses related to specific consumer groups, such as *Nescafé Clásico* and ice cream brands aimed at the Hispanic community, also had a very successful year.

In Latin America, we achieved double-digit growth, with Brazil achieving strong growth for the second year in a row.

In Europe, despite a year of subdued consumer demand, we have seen good results across a majority of markets, improving our positions in all major countries in the Zone and in all major categories.

We owe a large part of our success to innovation, which demonstrates that it is still possible to generate growth in difficult geographical areas and in product categories where competition is fierce. *Nescafé Dolce Gusto*, the fastest-growing coffee system in Europe, is a good example of this, selling two million machines in 2010 and achieving sales of CHF 450 million. The European and global roll-out of *Nescafé Dolce Gusto* is ongoing.

Nescafé Green Blend coffee was another success story, as was the *Maggi Juicy Chicken* range of seasonings.

In France and Switzerland we launched an innovative and highly promising solution – the new *Special.T by Nestlé* system. This innovation, which combines exclusive technology with a selection of the world's finest teas, is also set to be launched in other countries.

Moving now to Zone Asia, Oceania and Africa where we achieved very strong results in 2010. Our growth in the developing markets in this region was double digit. This is important, as we aim to significantly increase the contribution of emerging markets to the Group's sales.

In many countries in this Zone, we see the full benefit of our competitive advantages: our long-standing presence, giving us an in-depth understanding of these countries and the specific needs of their consumers; our brand and product portfolio to which local consumers have become strongly attached over the

years; our people, who know and fully understand the countries, the consumers and their habits; and our R&D, which helps to develop products to suit local consumers' tastes and nutritional needs.

An important part of our strategy in this Zone is our Popularly Positioned Products – our famous PPP concept.

To build the platforms for future growth, we have considerably increased our investments in Zone AOA and are deepening our distribution, with the aim of supplying an additional one million retail outlets by the end of 2012. All these initiatives will keep us ahead of the game in the years to come.

Ladies and Gentlemen, this brings me to the end of my review of 2010 and I trust you will agree with me that this year has been a success for our Company.

As we look to the challenges of 2011 and beyond, my message today is that our Company is well positioned and has the right mechanisms in place to respond to the challenges and needs which lie ahead, be they political, economic or social. Our Company has excellent growth potential as long as we continue to take full advantage of the many new and varied opportunities in both emerging and developed markets. To do this, we must remain close to our consumers' existing and evolving needs, developing new ideas, products and growth channels with creativity and originality.

One of the most important challenges this year is raw materials, given the current strong volatility that started in the second half of last year and which we are not expecting to go away any time soon.

We recognise that pricing can only be the last possible answer to volatile raw material costs, and that is why we are adopting a comprehensive and multi-step approach. Firstly, with our Procurement Strategy and Management: as a company, it is vital to see the underlying long-term price trend and to manage it. At the same time, we need to continue investing in long-term initiatives such as our milk districts, the *Cocoa Plan*, which was launched in 2009, and the *Nescafé Plan*, launched last year. By working directly with farmers, both of these plans will contribute to increase crop yields, environmental sustainability and incomes for cocoa and coffee farmers, thereby guaranteeing the long-term supply of high-quality raw materials. The second aspect of our approach is the innovation and renovation of our products, enabling us to upgrade them and create value. The third and final element involves reducing costs by implementing additional efficiency programmes across the whole company, and extending our *Nestlé Continuous Excellence* initiative beyond operational activities and throughout the entire organisation.

Initiatives such as *Nestlé Continuous Excellence* also have a positive impact on the environment. Between 2000 and 2010, for example, although we increased our production by 73%, we reduced our water consumption by 61%, energy consumption by 44% and greenhouse gas emissions by 51% per tonne of manufactured product. Without compromising product quality, packaging material savings from 1991 to 2010 amounted to more than 517 000 tonnes, representing savings of CHF 870 million worldwide.

Dear Shareholders, while our food and beverage business – which we call our Good Food, Good Life activities – generated sales of more than CHF 100 billion in 2010, last year we took an important step to extend and strengthen our nutrition and health ambitions. We have targeted a new opportunity in the field of health sciences, given the changing demographics, increasing health costs and a better understanding of the impact of nutrition on health. This new field has quite different dynamics from our traditional Food and Beverage activities. That is why we created the Nestlé Health Science company, along with a separate science and R&D capability, the Nestlé Institute of Health Sciences. We are convinced that Nestlé has a unique set of capabilities and competences to play, in the not so distant future, a pioneering role in this new and promising opportunity.

Ladies and Gentlemen, I can confidently say that we are starting 2011 with continued momentum and are well placed to face the challenges ahead and pursue growth while improving margins. All of this in the spirit of creating shared value, which is the way we do business. We firmly believe that companies are only sustainable and successful over the long term if they create value for their shareholders and for the societies in which they operate.

I would like to conclude by paying tribute to our 280 000 employees. It is thanks to their talent, commitment, dedication and energy that your Company continues to be so successful. This success is based on the fact that each and every one of us shares and pursues a common goal: to continue to make Nestlé the world's leading nutrition, health and wellness company, trusted by all stakeholders.

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

Thank you for your attention.

Peter



Nestlé

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