

147th Annual
General Meeting
of Nestlé S.A.
Lausanne,
10 April 2014



Speeches

Peter Brabeck-Letmathe

Chairman of the Board

Paul Bulcke

Chief Executive Officer

Address by Mr. Peter Brabeck-Letmathe

Chairman of the Board

Translation of the original French text. Check against delivery.

Shareholders, Ladies and Gentlemen,

2013 was marked by significant changes in Nestlé's business environment, both in Switzerland and in numerous other countries in which your company is active. In Switzerland, amendments to company law have had a direct impact on your company. Difficulties experienced in the Middle East, Asia, Africa and Latin America have contributed to a general slowdown in growth rates in emerging markets, while in the developed markets growth has been anaemic at best.

Once again, and despite this challenging backdrop, Nestlé posted solid growth in all areas of activity, improving its margins and increasing its underlying earnings per share. Our CEO Paul Bulcke will present the operational performance of your company in more detail.

In line with our long-term policy of ensuring an attractive return for our shareholders, the Board of Directors is proposing a further dividend increase to CHF 2.15 per share.

I would like to pay tribute to the results achieved by our management team under the leadership of Paul Bulcke and through the hard work and dedication of the 333,000 Nestlé employees all over the world. I would like to thank them all on behalf of the Board of Directors and, I am sure, on behalf of every one of you.

I would now like to hand you over to Paul Bulcke.

Presentation by Mr. Paul Bulcke, Chief Executive Officer (see page 9).

Ladies and Gentlemen,

Our General Meeting today is the first to be held in accordance with the new Swiss legislation relating to corporate governance that came into force in 2014. You will see the effects of this new legislation throughout the course of this meeting, and I will return to the topic when we reach the corresponding agenda items.

You will notice first of all that the legal aspect will become more pronounced. With an agenda that now comprises 25 items for voting, we have been obliged to reorganise the meeting. It is important to bear in mind here that failure to comply with the rules of governance in Switzerland will in future be a criminal offence.

While we naturally respect the wishes of the Swiss legislators and will implement these changes, what concerns me today, in addition to the technical aspects, are the potential long-term effects.

The new legislation will have a significant impact on the governance of Swiss companies. Certain consequences were foreseeable, such as the increased influence of shareholders, also in relation to compensation, or the greater accountability of the Chairman and members of the Compensation Committee, who will in future be elected directly by shareholders.

Other consequences, however, were unintended, starting with the transfer of power from Boards of Directors with a strong Swiss presence to more international shareholders and proxy advisers. In our case, almost two-thirds of our shares with voting rights are held by persons who are domiciled outside Switzerland. Therefore, for most of the Swiss multinationals, the new legislation will mean a not insignificant transfer of power abroad.

What is more, the members of the Board of Directors will from now on be elected on an annual basis. This means that all Board members will be able to choose to step down, or all could be replaced at once, regardless of the year. As a result, the level of volatility will increase.

Besides, this transfer of power from the Board of Directors to shareholders and the annual elections will tend to favour a short-term perspective. Only the Board of Directors has a fiduciary obligation towards our company and is legally responsible for its long-term success. Shareholders are free to pursue their own interests, and to adopt a short-term vision in a way that suits them. They may even be competitors.

Nonetheless, we should not forget that Nestlé's success story, which stretches back almost 150 years, is based on solid, long-term commitment!

As a result, we are reinforcing our communication with all shareholders and other stakeholders who, like you, would like to ensure the continued success of our company. In our efforts to engage with our shareholders, we must guarantee an equal treatment of all the shareholders. With the new legislation, it is easy to imagine a situation in which the Chairman could be tempted to choose his undertakings in a way that secures the votes of major investors who are key to his re-election, while neglecting his commitment to the small shareholders.

Ladies and Gentlemen,

We have adapted our Articles of Association to the new legislation in a way that should avoid any unintended consequences as far as possible.

Our main objective has been to preserve the stability and the competitiveness of our company. The most important question posed by our shareholders throughout the world regarding the consequences of the Minder initiative has been whether we will remain competitive, and whether we will continue to be able to recruit the best talent. In order to do this, we need transparency and legal security. For the "say on pay" voting system on compensation, for example, our proposal of voting on a budget is the best in our view. Only this system will enable us to tell the management team that payment of both their base salary and their bonus for the coming year is guaranteed, providing that the corresponding performance is delivered. A retrospective vote on bonuses would, on the other hand, bring considerable uncertainty. But we will also continue to hold an advisory vote on the Compensation Report. If the Board of Directors were to abuse the trust of shareholders in relation to the vote on the budget, shareholders would have the possibility to reject the Compensation Report a posteriori in an advisory vote and to vote at the same time bindingly against the compensation budget of the following year. In this way, the General Meeting has the actual control of all the elements of the compensation of the Board of Directors and the Executive Board, and will be in the position to express itself three times on this subject. The first time when approving the budget, the second time when voting the compensation report, and the third time when approving the budget of the following year.

Our new Articles of Association will enable us to maintain the stability we need for our company to function and ensure our competitiveness. This stability is what has always been one of the greatest virtues of the Swiss legal system, and we would like to play our part in preserving it for the sake of the future success of this country and the companies based here.

To achieve this, we need the active support of all the shareholders who, like us, want the success of Nestlé over the long term, in accordance with the pledge that we have inscribed together in our Articles of Association: “Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.”

Ladies and Gentlemen,

Your company is one of the most international, or globalised, in existence. Its activities, its shareholders, its employees and its management are spread right across the world. And, even though the volume of sales generated in Switzerland accounts for less than 2% of the Group’s turnover, even though shareholders domiciled outside Switzerland hold two-thirds of the shares, Switzerland continues to play a significant and strategically important role in Nestlé’s operations. I would like to remind you that, over the last 10 years, we have invested nearly CHF 3.4 billion and have created 3,900 new jobs in this country. Every Nespresso capsule sold, no matter where in the world, has been produced in Switzerland, and a new production facility is currently being built in Romont, which will create a further 400 new jobs.

More than 60% of our spending on research is carried out here.

I would also like to add that Nestlé is focusing on Switzerland in its strategy for the future. The new company Nestlé Health Science S.A. has its headquarters in Vevey, while the new Nestlé Institute of Health Sciences is based on the campus of the École Polytechnique Fédérale de Lausanne (EPFL). The recently announced Nestlé Skin Health will develop around the international company Galderma S.A., with its headquarters in Lausanne. These long-term strategic decisions were taken primarily because of the confidence we have in this country: the security of its legal system, the quality of economic and social conditions, and its political stability.

In Switzerland, we employ staff from more than 90 countries, from factory workers to the world’s most renowned experts. We need to be able to recruit them and bring them here from everywhere, without restrictions or waiting times.

Almost 80% (in value) of our production in this country is exported abroad, primarily to the member states of the European Union. Barrier-free access to the European market is vital for our industrial activities in Switzerland, and for the jobs associated directly and indirectly with these activities.

In the past, the economic and governance model of Switzerland ensured levels of prosperity and stability that were envied throughout the world. However, recent political decisions, notably the referendum of 9 February on immigration, have led us into a period of uncertainty.

Naturally, we respect the decision of the Swiss population. Personally, I can well understand the emotions and real fears of many inhabitants of this country. I do not believe that the result of the ballot on 9 February was a vote against the bilateral agreements with the European Union or against the opening up of Switzerland, but rather a wake-up call that this openness was being abused, which had not been sufficiently recognised and tackled by politicians. I remain a fervent supporter of direct democracy, as the Swiss public has in the past succeeded very well in distinguishing between purely ideological issues and the real fundamental questions, and has made its decisions with great wisdom.

We will now closely follow the negotiations undertaken to translate the new article of the constitution into implementing legislation, and are confident that practicable solutions can be found. I must admit, however, some concern regarding the prospects for the Swiss economy over the medium term.

Ladies and Gentlemen,

2013 was also an important year in terms of the strategic development of your company. During the course of several meetings, your Board of Directors drafted and approved the broadening of the long-term strategic orientation of the Group. Its decision to do so was based on Nestlé's historical competences as a company of nutrition, health and wellness, founded in science and research.

The recent creation of Nestlé Health Science S.A. and the Nestlé Institute of Health Sciences has reinforced this strategic direction, with the aim of helping consumers to live a more healthy life through nutritional solutions, food and drink, as well as scientific products intended to improve quality of life. Our contact with consumers, however, has shown us that they are taking an increasingly holistic approach to health, one which extends beyond nutrition in the strictest sense.

In response to these increasing consumer needs, Nestlé is therefore expanding its activities to include the specialised area of medical skin care. Nestlé Skin Health S.A., the new world leader in its sector, will meet the growing demand with regard to skin health, and will be offering a wide range of innovative and scientifically proven products.

The company Galderma will function as the founding base of Nestlé Skin Health S.A. The 50% stake in Galderma held currently by L'Oréal will be purchased by Nestlé, an acquisition that is currently in the final phases of approval by various authorities, and Galderma will be integrated into the Nestlé Group as a wholly owned subsidiary with its own Board of Directors. Nestlé will thus acquire a new platform of considerable size for profitable growth. As we have already announced in detail, once the financial transaction is complete, Nestlé's stake in L'Oréal will be reduced to 23.29%, compared with 29.43% today. Naturally, this shareholding is on the one hand financial in nature, but – and I repeat – it is also strategic, with a long-term focus.

Ladies and Gentlemen,

As the world's leading consumer goods company, Nestlé must adapt continuously to new needs and new consumer demands. Today's consumers are not the same as those of the past. While this does not mean that there are no longer any great development opportunities to be found in food and beverages, if you want to secure a company's leadership over the long term, it is vital that you listen carefully to consumers and, where possible, anticipate future trends.

Listening to the consumer also means being responsive to the expectations of society as expressed through the media, NGOs, governments, etc. The private sector – and large enterprises such as ours in particular – are being called upon increasingly to contribute to finding solutions to all kinds of problems facing society today.

We have a duty to take up this challenge, and this is precisely what we are doing!

The first step towards social commitment is always to create transparency. Our efforts to be an open and transparent company have been recognised by a number of observers, including some highly critical ones, and Nestlé occupies first place in various important international rankings, as our CEO has mentioned.

Transparency goes hand in hand with clear and consistent communication. The annual report you hold in your hands again meets the most demanding requirements, i.e. A+ level of the Global Reporting Initiative.

Our commitment is expressed in concrete actions, often with partners in civil society, in areas in which we can really offer solutions, whether improved nutrition, rural development and responsible sourcing, efficient water use, environmental sustainability or respect for human rights.

Transparency and commitment!

Seven years ago now, we formulated the principle of the Creating Shared Value that guides us in our decisions and our actions. It is by creating value for society as a whole that we will ensure our company's long-term success. Ultimately, our prosperity depends on that of the communities that we serve and in which we operate.

Dear Shareholders,

Today Nestlé is the largest consumer goods company in terms of sales and market capitalisation, which puts us among the world's leading companies across all sectors.

The recent strategic decisions I have just described, which have been executed by your management in a rigorous and disciplined manner, have set your company on a clear path towards realising its aim and ambition to be the world leader in nutrition, health and wellness.

Nestlé has a great future ahead of it, and I encourage you to play an active part in this future 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. You, dear shareholders, are now more important than ever to Nestlé and its success in creating long-term shared value.

Thank you for your attention.

Address by Mr. Paul Bulcke

Chief Executive Officer

Translation of the original French text. Check against delivery.

Thank you, Peter,

Good afternoon Ladies and Gentlemen, dear Shareholders,

Each year is challenging in its own way, and this was certainly the case for 2013.

Indeed, it was in a difficult trading environment that our company delivered a solid set of numbers, with all geographies and all categories contributing. We again achieved growth in both emerging and developed markets.

Our total Group sales amounted to CHF 92.2 billion, with organic growth of 4.6%. Our trading operating profit was CHF 14 billion, with a margin of 15.2%, up 20 basis points. The Group delivered a net profit of CHF 10 billion and our earnings per share were CHF 3.14. Our operating cash flow continued to be strong at CHF 15 billion.

This is a strong performance in the current environment and a tribute to our 333,000 employees all around the world, many of whom have experienced the difficult challenges first hand. Their talent, their creativity, their discipline and their commitment are key to delivering our results. On behalf of all of you, I sincerely thank them.

Ladies and Gentlemen,

The results in 2013 showed our determination to grow your company profitably and sustainably, even in an environment of slower growth, to deliver the Nestlé Model of average organic growth of 5-6% together with improvements in our trading operating profit margin and earnings per share in constant currencies and in our capital efficiency. Indeed, our average organic growth has been 6.1% over the last ten years,

The actions we took last year reflect Nestlé's focus on both our shorter term performance – seeking to grow faster than the market – and the longer term – making the right decisions to ensure sustainable and profitable growth into the future.

Thanks to our roadmap, our employees, wherever they are in the world, are aligned behind our strategic direction to be the recognised leading nutrition, health and wellness company, trusted by all stakeholders.

In 2013, in line with this strategic roadmap, we increased our brand support, we accelerated our innovation and ensured our pricing was sensitive to consumer needs. These proactive efforts and our determination to grow Nestlé have enabled us to outperform the market again in 2013.

But in a world that is changing so fast, this is not enough. It requires an intense focus on ensuring we maintain our competitiveness in the market, on ensuring we continue to grow strongly into the future. That is why we identified a set of priorities which are driving concrete actions in many areas of our business and why we have taken firm decisions which will increase Nestlé's competitiveness for the long term.

First of all, we are looking at our product and brand portfolio and analysing it through a sharper, stricter lens. We are making choices about where we want to invest, where we want to improve and the areas we want to divest.

With regard to investments, we have implemented several acceleration plans for instance for Nespresso, Nescafé Dolce Gusto and petcare.

On the other hand, we decided that our personalised weight management business Jenny Craig, and our performance nutrition Powerbar, would be better served by different ownership, so we have divested them.

Making such choices enables us to put our people and resources behind our best opportunities. We can focus investment more precisely, move faster and be more agile and responsive. This results in a product portfolio which is stronger and more profitable.

Secondly, we are increasing discipline in our resource allocation in general, and in capital more specifically. In 2013, we invested in capacities, capabilities, R&D and brands at levels that are not only among the highest in our history, but also in the industry. The opportunity for us now is to exploit that investment: to do more with less; to further leverage our assets, our scale and our capabilities. This will result in lower capital investments and more efficient structures.

Finally, we are looking at how we can work smarter and more efficiently to deliver greater value for consumers and for you, our shareholders. Nestlé's size and global presence give us many advantages. We now have to really exploit this and create further scale benefits and increase competitive advantage.

These are the types of actions we are taking to ensure we continuously reinforce our Group and continue to deliver strong results over time.

And then, there is how we go about our business. We fundamentally believe that our activities should have a positive impact on society, every day, everywhere, that they should create shared value. To prosper, we have to take a long-term view, framed in a robust set of principles and values that are based on respect: respect for people and diversity, respect for the environment, and respect for the world we live in.

Our approach is increasingly better understood and recognised externally. Nestlé is for instance included in the FTSE4Good Index, holds the number one spot in Oxfam's Behind the Brands scorecard and is for the first time the leading food products company in the Dow Jones Sustainability Index. These are recognitions to be proud of, that motivate us to continue our efforts to be an exemplary corporate citizen. We will continue to measure and identify the ways we connect with society at large and be sensitive to what is expected from us.

Ladies and Gentlemen,

Nestlé's ambition is to enhance the quality of consumer's life through nutrition, health and wellness. Our approach, based on permanent innovation through science and R&D, is clearly reflected in our offer of day-to-day food and beverages.

We reinforced this strategy by extending the boundaries of nutrition with Nestlé Health Science. And now, with the setting up of Nestlé Skin Health, we are extending the boundaries of health and wellness into the field of specialised medical skin treatment.

These are important steps for our Group and offer us other interesting growth platforms for the future. Our Chairman will elaborate on this later.

Ladies and Gentlemen,

I can confidently say that Nestlé is ready to face the headwinds which await us in 2014 and the years after, and to grasp the many possibilities this changing world is offering.

Our company has the right mindset and structures. We have the right action plans in place to deliver solid results in the short term and in the long term. And above all, Nestlé has the right people. 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.

On this note, I hand you back to our Chairman.

Thank you for your attention.



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