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## Speech Peter Brabeck-Letmathe

Chairman of the Board of Directors of Nestlé S.A.

27.09.2010



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### Disclaimer

**This speech might not reflect absolutely all exact words spoken.**

*This speech 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.*

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### Introduction

Ladies and Gentlemen,

Welcome to an extraordinary press conference at an extraordinary place for an extraordinary reason.

This morning we are announcing two developments which will have a long term positive influence on the future of our group:

1. The creation of a "Nestlé Institute of Health Sciences".
2. The creation of a new 100% Nestlé subsidiary, the "Nestlé Health Science company", which will be a pioneer in a new industry that we are helping to shape in the space between a fast moving consumer goods company and a pharma company.

Let me put this into context.

Last month, we announced the final closing of the divestiture of Alcon for total proceeds of approximately CHF45 billion. This is an excellent example of how Nestlé has been able to create value for its shareholders.

But perhaps even more important is to point out why we have divested Alcon and what we have learned from our investment.

The decision to divest was taken after careful analysis of the strategic importance and the possibilities of further synergies between Nestlé and its wholly owned subsidiary, Alcon.

We realised that Nestlé, after having allowed Alcon to build a very strong R&D base and having supported the internationalisation of its business to the point where it became the world leader in its specific sector, could not add any more value to this company other than being a stabilizing shareholder.

From Nestlé's perspective, Alcon did not fit into our strategy to become the world's leading Nutrition, Health and Wellness company. So with no further synergies between the two groups apparent, we made the decision to divest this business, looking for a more strategically aligned growth pillar or partner for Alcon, optimising in a responsible manner the value of our investment for our shareholders.

What have we learned since our acquisition of Alcon in 1977 on the New York stock exchange for 280 million US dollars?

I think we have learned and proven that Nestlé has been able to run Alcon successfully at arm's length through good corporate governance. A business, which is highly research and development driven, depends on an extended scientific network and requires specific sales and marketing skills which are definitely different to a fast moving consumer goods company. This institutional learning has been very important for Nestlé, as it allows us to widen our business horizon.

The second point to focus on is the macro economic environment in which we are living today.

Underlying the current economic crisis are huge levels of private and above all public debt. Public debt ratios are set to continue to rise over the next few years and are composed of explicit and implicit indebtedness of governments in many parts of the world.

The fact that official public debt levels, especially in industrialised countries, have increased dramatically over the last few years and are set to rise for the foreseeable future has partially hidden the prospect of these countries facing a much bigger and growing future cost related to the ageing of their populations (pension and healthcare).

If we look at Health Care expenditure, we notice that chronic diseases are the most impactful and growing issue to be tackled.

By 2015, according to an analysis by PricewaterhouseCoopers, three per cent of the world's GDP would be lost as a consequence of chronic diseases – diabetes, cardiovascular, obesity, and so on.

Already today there are more than one billion obese people in the world, with 300 million of these suffering from *adipositas*, the extreme form of obesity.

Chronic diseases account for sixty per cent of all deaths with a further predicted acceleration of seventeen per cent over the coming years.

Health care costs in the US will rise from about fifteen per cent to twenty nine per cent of GDP and the forecast for the emerging markets is not much different. By 2015, China will spend US\$500 bn, Russia 300 bn and India 200 bn just on health care costs.

Taking everything into consideration, it becomes apparent that our actual health care system, which concentrates basically on treating sick people, is not sustainable and will have to be redesigned drastically.

It is our strong conviction that disease prevention will have to play a much bigger role and, in this sense, personalised health care nutrition will become the first and most efficient step in an active prevention policy and for wellness and wellbeing.

When we positioned Nestlé some years ago as a future leader in the health, nutrition and wellness industry, it was a clear business decision to allow 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 of our products through our 60/40+ innovation/renovation process.

However, we now recognise that health economics, demographics, advances in health science, the evolution of regulatory frameworks, and an understanding of nutritional health impact are all leading to a significant opportunity for a new industry located between food and pharma:

Personalized health science nutrition covers everything from prevention to therapeutic and, finally, disease modifying nutritional products.

It is for that reason that the Nestlé Board of Directors has crafted a vision to achieve leadership in this new space through the creation of the “Nestlé Institute of Health Sciences” and the “Nestlé Health Science company”.

The overall goal of the “Nestlé Institute of Health Sciences” is to ensure the scientific base for personalised health science nutrition by developing a molecular understanding of disease processes with which to inform and design nutrition plans and products for individual prevention and maintenance of a healthier life.

As we already have in place life science initiatives with the EPFL including the Nestlé Chair on “Energy Metabolism” and the Nestlé Chair on “Brain Development and Plasticity”, and EPFL having evolved into one of the world’s eminent life science centres, we felt it appropriate that we establish our new research center on the premises of EPFL, facilitating greater collaboration between the two institutions.

The Nestlé Health Science company, on the other hand, will use, as its initial platform, the existing Nestlé Health Care Nutrition business representing CHF1.6 bn of turnover and will explore and deliver new health care nutrition solutions, principally for chronic medical conditions and diseases that affect people all over the world such as diabetes, Alzheimer’s, obesity and arteriosclerosis.

It will actively look for additional opportunities, especially in the area of “Modifying Disease Nutrition”, through acquisition, in licensing and integration of start-up companies, including those which have already prospered through the involvement of our Venture Capital Funds.

The Nestlé Institute of Health Sciences will become a part of Nestlé’s R&D network.

The head of this new Institute will be Emmanuel (Ed) Baetge, former Chief Scientific Officer of ViaCyte, a biotech company based in San Diego. According to the Forbes Magazine, in his current role he may be closer than anyone else to finding a cure for Type 1 diabetes, and he is considered to be today one of the world’s leading scientists in biomedical research and deeply convinced of the potential of targeted health care nutrition as a platform for personalised nutrition prevention.

Ed Baetge will report to our Chief Technology Officer, Werner Bauer, and a Steering Committee composed initially of the following persons:

Peter Brabeck-Letmathe

Chairman of the Board of Directors of Nestlé S.A.

Paul Bulcke	CEO of Nestlé S.A.
Luis Cantarell	Designated President and CEO of Nestlé Health Science S.A.
Werner Bauer	Chief Technology Officer, Nestlé S.A.
Emmanuel E. Baetge	Designated Head of the Nestlé Institute of Health Sciences
Patrick Aebischer	Head of EPFL
Nandu Nandkishore	Nestlé Deputy Executive Vice President in charge of Nestlé Nutrition
Peter van Bladeren	Head of Nestlé Research Centre

The Nestlé Health Science S.A. will be a 100% owned subsidiary of Nestlé S.A. with a separate Board of Directors initially comprising the following individuals:

Peter Brabeck-Letmathe	Chairman of the Board of Directors, Nestlé S.A.
Paul Bulcke	CEO, Nestlé S.A.
Luis Cantarell	Designated President and CEO, Nestlé Health Science S.A.
Werner Bauer	Chief Technology Officer, Nestlé S.A.
Jim Singh	Chief Financial Officer, Nestlé S.A.
Hermann Wirz	Head of Group Accounting and Reporting, Nestlé S.A.
Emmanuel E. Baetge	Designated Head of Nestlé Institute of Health Sciences
Patrick Aebischer	Head of EPFL
Gunnart Weikert	Chairman of Inventages Venture Capital Investments Inc.

While I will assume the Chairmanship of the Board of Directors, Paul Bulcke will be appointed *Administrateur délégué* with full operational responsibility, having the President/CEO, Luis Cantarell, reporting to him.

Luis Cantarell will run this company at arm's length from the Nestlé GFGL operations, responsible to the Board of Directors through its Administrateur Délégué.

The two new organisations will be operational as of January 1, 2011.

I am now going to hand over to Paul Bulcke to give you his perspective - Paul

[End]