



Good Food, Good Life

139th Annual General Meeting of Nestlé S.A.
Lausanne, 6 April 2006

Address

Peter Brabeck-Letmathe

Chairman of the Board
and Chief Executive Officer

Ladies and Gentlemen, dear Shareholders,

Your Company looks back on an exceptional year. In February already, we were able to show the key figures illustrating the dynamic development and the solidity of Nestlé. With sales of 91 billion Swiss francs and an operational profit amounting to 12.9 percent of sales, Nestlé has once again been successful. We remained true to our commitment to continue creating sustainable value, while maintaining our long-term strategy. This is why the Board proposes a dividend with a significant increase of 12.5 percent. If you accept this proposal, Nestlé will in the coming days pay out 3.6 billion Swiss francs in the form of dividends. Together with the one billion Swiss francs spent in 2005 on the share buy-back for cancellation, the Company will have paid back 4.6 billion francs to its owners. More important yet, it will have done so without harming its future growth opportunities and it has maintained its extremely solid financial base.

I am of course happy to present such figures, but I have to say that they are essentially due to the efforts and the hard work of the 250 000 people who make up the staff of the Group. They have put their energy, their know-how and their determination at the service of the Company and they often had to face up to difficult circumstances to achieve that result. I am convinced that I am speaking in your name, as well as in the name of the Board, if I give my heartfelt thanks to all our people around the world.

Success did not come easily. Raw material prices, energy and packaging materials continued their rise in 2005 and it took the power of our brands and the quality of our products to make it possible for us to adapt our prices in order to at least partly compensate for these cost increases.

As for the rest, we have continued to defend, and even increase our market shares, to seize new opportunities through a constant process of innovation and renovation and we kept giving the necessary support to our brands.

This, Ladies and Gentlemen, allowed us once again to reach the objectives of what we call the Nestlé model, that is an organic growth of between 5 to 6 percent, combined with yet another margin improvement. From time to time people criticize us for being overly modest when fixing our objectives. Let us take a look. In 2005, we managed to reach an organic growth of 6.2 percent, while the food industry overall grew by about 2 percent. As for the margin improvement, it amounted to 0.2 percent reaching 12.9 percent of sales. Combined with the profit increase stemming from organic growth, the amount of the operational profit was one billion Swiss francs higher than the one reached last year.

Ladies and Gentlemen, the Nestlé model works, year after year. Let's take a look at the figures of the last ten years. On average, we have reached organic growth of 5.7 percent. True, foreign exchange variation played an important part in the volatility of our results in Swiss francs. However, over time, the negative effect of foreign exchange variations amounts to 1.4 percent only and corresponds fairly closely to the higher valuation of the Swiss franc, one of the most solid currency in the world.

Take another element which is very important. We have consciously given priority to internal growth. Acquisitions and divestments conducted over the past years fit a clearly defined and focused portfolio strategy, concentrating on activities that came to the foreground recently, such as ice-cream, water and pet food. Overall then, only 1 percent of our growth came from acquisitions, net of divestments. We shall however continue to pursue a policy of external growth, whenever it allows us to speed up or complete our existing activities.

We have made a commitment to you, the owners of the Company, to create value through long-term, sustainable and profitable growth. You see, Ladies and Gentlemen, that our operational profit in absolute figures has doubled in 10 years and that the sales margin has improved from 10.2 to 12.9 percent. The operational profit has thus benefited from the sales growth, from the efforts made in all activities, at all levels and in all areas to improve productivity, as well as from the strategic management of our business portfolio. The margin improvement is not spectacular in itself. But looking at the progress realized over the past 11 years,

one sees that it is a result that is sustainable and repeatable, which allows me to foresee an important potential for future improvements yet.

These are some of the elements which distinguish us from many of our competitors.

There is, however, another aspect, of a strategic nature, which allows us to maintain, even to extend, our leadership position in the food industry. We have opted for long-term growth, through a broad and varied range of products, through a virtually universal presence and through a great wealth of global, regional and local brands. Nestlé has thus accepted complexity, in order to ensure growth, and has created a solid base for the expansion that is yet to come. As you know, some of our competitors have made a different choice and have focused on a restricted portfolio and/or a limited geographic presence. By simplifying their operations in such a manner, they have certainly improved their operational margin in the short term. At the same time, however, they also eliminated their chances of growing in the long term and some of them have fallen victim to the consolidation process that is going on in our industry.

Nestlé has accepted the challenge of proving that a company can combine complexity and operational efficiency. This is all the more important as Nestlé is at an important crossroads, as it has been engaged, for a number of years now, in a fundamental transformation process.

Let us first take a look at the strategic aspect of this transformation. Nestlé today is the world's largest producer of food and beverage products. As any manufacturer of consumer

goods, we depend on demographic trends. It is a fact that demand changes as income and age of consumers vary. Nestlé is in the exceptionally lucky position to be able to respond to the needs of all categories of consumers all over the world. All of our consumers desire a longer, more productive life in better health. You, our shareholders, want an ever more substantive remuneration of your investment. This cannot be done unless we re-orient Nestlé in the direction of food and nutrition products which have a higher growth and profit potential. In a few years, we will therefore be the world's first nutrition, health and wellness company.

Simultaneously, and for many decades yet, we will continue supplying our traditional products to the numerous consumers in emerging and developing countries. These are young, active populations who need calories and proteins. Finally, we are intensifying our efforts to offer affordable products to people whose family income does not even reach 1000 US dollars. This requires specific measures on our part, such as the use of locally grown and produced raw materials and packaging, adapted product sizes, novel production and distribution channels. Naturally, these products are of top quality, with all the safety that Nestlé brands stand for.

Ladies and Gentlemen, none of these ambitious undertakings could succeed without a well-performing research system, oriented toward nutrition. Our basic Research Center in Lausanne plays a central role in our efforts.

The visible elements of our strategy are progressively put in place. Since the beginning of this year, Nestlé Nutrition is managed worldwide as an autonomous business unit. The Wellness Unit at the center is operational and fosters well-

ness initiatives across the entire of Nestlé's product range. You will, by the way, have an opportunity in the course of this meeting to hear its manager, Mrs. Christiane Kühne, talk about her activities. Finally, we have decided to create a growth Fund which will allow us to take promising ideas in their first stage of industrialization and bring them up to a level allowing for their integration in the Group's business. This fund, which is managed outside of the regular Group structure, complements our Life Ventures fund, created several years ago, which concentrates essentially on research and on the development of scientific projects.

Our transformation has a second dimension, a more structural one. We are defining, for each and every activity, the management structure most appropriate for its specific needs. Furthermore, we are creating more and more shared service functions at higher levels. Thus we have constituted one treasury unit for the whole of Europe, simplifying and lightening the structures and financial activities in these markets.

In other words, we are breaking up the Nestlé supertanker into a flotilla of flexible, rapid and maneuverable units. These are directed from an admiral's ship and supplied by a common logistics freighter. Clearly, we want to benefit from the advantages that the size of the Group delivers, but we want to avoid the multiplication of tasks and the inevitable duplication that ensues from it. We have therefore put to use an instrument that allows us to steer the fleet strategically, while allowing the captains enough flexibility and autonomy so they can successfully conduct their business. This approach allows us to maintain decentralization where it is needed. For we continue to believe that there is no such

thing as a global consumer. To succeed, it is vital to adapt to the regional, even local tastes and preferences and Nestlé will remain attentive to its consumers the world over. On the other hand, upstream, in all the activities that the consumer is not aware of, we want to take advantage of the economies of scale and seize the opportunity to have the Group benefit from its size and its universal presence. The tool which allows us to realize that intention is GLOBE, our initiative which stands for Global Business Excellence. It is a vast project, that consists in adopting the best business processes across the entire Group, in updating and standardizing our data and finally, in putting in place a common information technology system.

This strategic and operational transformation process has started quite some years ago. It will be largely achieved before the Shareholder Meeting of April 2008. By then, the time will have come to propose to the Board a new person who will take over operational responsibility for the Group.

Ladies and Gentlemen, any organism intent on survival has to constantly adapt to its environment. Nestlé is no exception. In the very important area of corporate governance, 2005 saw a number of important changes at the level of the Board, such as the election of two Vice-Chairmen with clearly defined tasks. Simultaneously, the creation of several committees and a more precise definition of their functioning have proven their usefulness. We further foresee to broaden the role of the Remuneration Committee which is chaired by Mr. Peter Böckli. We intend to charge it additionally with identifying possible candidates who could join the Board in the future. This task was until now assumed by the Chairman's and the Corporate Governance Commit-

tee. The newly constituted Remuneration and Nomination Committee will in addition be reinforced by the presence of Mr. Daniel Borel.

We have adopted a responsible and pragmatic approach which is also applied in the area of executive compensation. This policy is approved by the Board and defined by the Compensation Committee which comprises only outsiders and personalities that enjoy total independence. It is a system that takes into account factors such as enterprise value, growth and profitability objectives, achieving personal objectives, importance of the individual task in the overall perspective and so on. The Board believes that the system satisfies criteria such as competitiveness, attractiveness and retention of managers, while remaining reasonable and responsible. In brief, compensation encompasses a basic cash remuneration, combined with a yearly bonus based on very concrete objectives, as well as on a long-term incentive premium, strictly aligned on the share value and therefore on the interests of the shareholders. I want to remind you also that the system is applied identically – but with percentages differing according to hierarchical level – to all members of the Management Conference, the Market Heads, the Members of the Executive Board as well as to the Chief Executive Officer. Finally, Nestlé does not have any golden parachutes and its pension system applies to everyone. As for the CEO, he is named each year by the Board for a period of one year without any other contractual arrangements.

The Board therefore feels confident that Nestlé fulfills all your expectations with regard to corporate governance. It has also taken note of the wish of a number of shareholders to bring our Articles of Association up-to-date. This desire

is understandable and the Board shares it. But, Ladies and Gentlemen, dear shareholders, this is a decision that is reserved for the Annual General Meeting, that means, for you, and the Board can only put itself at your disposal to help put in place this revision.

Without going into detail on the proposal which will be submitted to you in a few moments, let me briefly describe the context of the revision which has become necessary. It is a fact that circumstances have changed, that the legal environment is not the same anymore and that a different composition and national origin of our shareholders has created different expectations.

The situation is complicated by the fact that more than one third of our shares do not have voting rights, as many shareholders have chosen not to be registered. The existence of so many “dispo”-shares makes it impossible to try and revise our Articles of Association in the normal way, as it has now become simply impossible to bring together two thirds of the capital in an annual general meeting. That, however, is the quorum required by our Articles to change them.

It is up to you, therefore, Ladies and Gentlemen, to overcome that difficulty by giving a mandate to your Board to submit to you an up-to-date version of the Articles and to explain what procedure should be adopted to pass this revision. Only you can do that. And I am certain that you share the Board’s opinion that it is not exactly good for a Company to face such a locked-in situation. It is true that the solution we propose today could well be contested in court and no one can say how long that will take. To do nothing, however, would not help the process.

Ladies and Gentlemen, the environment changes at an ever higher speed and your Company must maintain at least the same rhythm of change. But at the same time, it must preserve continuity in the basic issues. This continuity in a changing environment appears particularly appropriate for a Company that is celebrating its 140 years of existence this year and whose success results from the longevity of its operations as well as of its principles. The founders of our Company, Henri Nestlé and the Page brothers, introduced a business model that we still apply today: identify a consumer need in nutrition, find a solution based on the science and the technology required, and support it with strong brands. Clearly, we will not hesitate to adapt to circumstances in our methods, in our tools and in our products. But we remain very prudent when it comes to the values that are respected in Nestlé and that form the basis for our corporate culture. One of these values is certainly the importance we give to long-term strategy.

I am rightly proud of the traditional attitude in Nestlé that says that our activities must not only benefit you, Ladies and Gentlemen, our shareholders, but also all those who in one way or another play a role in the life of the Company: staff, suppliers, consumers and communities. How could we commit ourselves to create sustainable shareholder value for you if we did not simultaneously make sure that all people in contact with Nestlé did not feel trust, loyalty, respect and sympathy? All of our products are replaceable and every day of the year, consumers all over the world must freely decide to purchase about one billion of our products in order for us to reach 91 billion Swiss francs in consolidated sales. We know full well that our first task is to remunerate the capital that you have placed in this Company, and we feel all the

more committed to that since we know that a significant part is held by pension funds who have to guarantee to their present and future retirees an appropriate remuneration. But we know just as clearly that we will not succeed in generating that performance if other societal groups do not benefit from our activities. We solve the dilemma by creating value for our shareholders and by simultaneously making sure that the benefits created in that process are shared so that all concerned find their advantage. We believe that this approach better corresponds to our perception of corporate social responsibility. For us, this concept cannot consist in some criteria imposed from outside, not in some occasional and much publicized charitable action. We prefer to see it as a basic element of our business strategy, that affects every decision and every activity of the Company. Acting responsibly is a constant concern, because we are convinced that socially responsible activities are the best possible way to ensure the long-term success of the Company. Thus, our interest for the problems of the developing world has been obvious for decades and the creation of the "Nestlé Foundation for the Study of Problems of Nutrition in the World", 40 years ago, very concretely reflects this traditional commitment.

I am very convinced that this approach is also in your interest, Ladies and Gentlemen, and corresponds to your views. I take great pleasure in inviting you to watch a small film of a study we conducted with Professors Michael Porter and Mark Kramer from Harvard University. The study looks at our activities in Latin America and confirms that our approach to corporate social responsibility actually has positive effects for large groups of the population of Latin American countries. The two academics have been able to

confirm in Nestlé a theory they developed and which could significantly influence the on-going discussion of corporate social responsibility. We have by the way joined this study to the 2005 Management Report and I warmly recommend it to you.

I seized the opportunity to thank our staff for the excellent work they did in 2005. Let me, Ladies and Gentlemen, express my thanks to you, the shareholders, for your fidelity and for the support you have given to Nestlé throughout the years. Your attachment and your understanding allow us to conduct a truly long-term policy which guarantees the lasting continued success of the Group in the years to come. Thank you, Ladies and Gentlemen, and now let us watch the film I mentioned.