



Good Food, Good Life

140th Annual General Meeting of Nestlé S.A.  
Lausanne, 19 April 2007

# Address

**Peter Brabeck-Letmathe**

Chairman of the Board  
and Chief Executive Officer



Ladies and Gentlemen, dear Shareholders,

Your company has just completed an excellent year. Excellent, first and foremost, in terms of the results achieved: sales topped the 98 billion Swiss francs mark, net profit climbed to 9.2 billion Swiss francs and – for the first time in the Company’s history – its operating margin rose to 13.5 percent. Quite clearly, these are impressive figures. But beyond all abstract notions of percentages and improving margins, allow me to share with you, the owners of Nestlé, the human and industrial reality behind this performance.

Ladies and Gentlemen, last year’s results stem from the efforts and daily labours of the 265,000 staff members who have worked so hard to produce and sell the 48 million tonnes of products on which our business is based. Given the unit prices at which our products sell, achieving our sales figures requires billions of individual purchases on a daily basis. Billions of consumers have freely opted for our brands rather than those of our competitors. It takes outstanding commitment and creativity to win the confidence of consumers, to listen to them, understand them, provide the products they want, ensure consistently high quality and freshness, and constantly surprise and please them with ongoing innovation. The members of our workforce, at every level and in

every country in which we operate, are the ones who have delivered this performance, and I am sure I speak on your behalf when I express my heartfelt thanks to all of them.

Ladies and Gentlemen, dear Shareholders, our performance in 2006 was by no means exceptional or isolated: 2006 simply confirms what we have demonstrated over the last eleven years. Since 1996, Nestlé has reported average organic growth of 5.7 percent per annum and, even more encouragingly, has also improved its operating results at the same time. Our growth rate is clearly higher than that of the food market in general, and our margins compare very favourably with those of our competitors. We are the only company in our sector to succeed in combining growth and margin improvement over a period of eleven consecutive years, thereby proving that the 'Nestlé model' is sustainable.

In other words, we have remained faithful to the long-term vision on which our Company's success is built. In 2006, as in the past, we further increased investments aimed at reinforcing our brands. We invested substantial sums in maintaining a modern, high-performance production and distribution system, as well as in research and development. But the improvement in our margins is not due primarily to the cost-cutting programmes we have implemented with such success in recent years. Whilst these programmes have enabled us to remain competitive and to generate the resources required to support our brands, the beneficial long-term impact of increased profitability stems rather from a portfolio management strategy geared to the brands and products which combine higher margins with stronger growth potential, and also from our efforts to divest activities which fail to deliver the desired level of profitability and growth for the Group. Furthermore, we have taken the necessary structural and technical action to correct situations that, although unsatisfactory, offered scope for improvement, as was the case with Perrier. And finally, our strategic reorientation towards nutrition, health and wellness has provided the impetus to create new growth platforms, particularly in the field of nutrition.

Let me also point out that our growth is not the result of unbridled acquisitions: the impact of acquisitions on consolidated sales over the past decade is plus 2.5 percent, from which one obviously has to deduct divestments of 1.5 percent, yielding a net contribution of 1 percent. Our growth rate is faster than the market growth rate because your Group made a bold and very early decision to interest itself in markets all round the world, and to supply a very wide range of foodstuffs. Recent months have seen us inaugurate new factory models in Brazil and Pakistan, and I shall soon have the pleasure of opening the Nestlé Group's 22nd factory in China, a new milk factory in Inner Mongolia. This shows the extent to which Nestlé has become a citizen of the world. And yet we remain profoundly attached to Switzerland, our home country. That attachment is also reflected in a growing commercial and industrial presence: in just three years, the Group has created over 1,000 jobs in Switzerland, where we now employ a total workforce of over 8,100. And these jobs are by no means confined to management and research: as you are no doubt aware, we have decided to build a new Nespresso production unit and distribution centre in Avenches. In our view, the availability, flexibility and quality of Swiss labour more than compensate for higher salary levels.

I therefore say with force and conviction: the Nestlé model is a sustainable model, and one that will continue to deliver benefits in the years to come. My confidence is based on the success of our transformation, both strategic and operational.

Ladies and Gentlemen, we are in an extremely good strategic position. Since the 1980s, and under the leadership of Helmut Maucher, our Honorary Chairman, Nestlé has moved into new sectors such as water, pet food and ice cream. We have subsequently brought this development to a successful conclusion by manoeuvring Nestlé into the leadership position in each of these areas. At the same time, we have committed ourselves to becoming a company focused essentially on nutrition, health

and wellness, which will provide us with an optimum base for ensuring long-term growth and a substantial structural improvement in our margins. Through analysis of global revenue distribution and demographic trends, we have identified three major opportunities:

The first, nutrition, is worth some 100 billion Swiss francs in general. This is a very promising area of business, which is why, in recent months, we have opted to reinforce our position through an active strategy of acquisitions, of which Uncle Tobys, Jenny Craig and Novartis Medical Nutrition are just a few examples. And finally, I am delighted to be able to mention the strategically very important acquisition of Gerber, which we announced only a few days ago. In combination with our own internal growth, this purchase will boost our sales of specialised nutrition to over ten billion Swiss francs, making us the undisputed global leader in this field. Given the importance of this acquisition, I have asked Richard Laube, Deputy Executive Vice President, to give us a more detailed presentation during the General Meeting.

The second big opportunity lies in the food services sector, the growing importance of which derives from strong growth in spending on food outside the home. In certain industrialised nations, over half of the domestic food budget is spent outside the home. The market in products and services – including the nutrition aspect - for the hospitality industry is very big and continues to grow. With sales in excess of 6.5 billion Swiss francs, Nestlé is already the leader in this sector, but market consolidation activities offer even more opportunities for growth. It is with these opportunities and prospects in mind that we have accorded special status to this activity by naming the head of this area, Marc Caira, a Deputy Executive Vice President, and by asking him to report directly to the CEO.

And finally, the third opportunity: the many potential customers in emerging and developing countries with incomes of between 1,500 to 5,000 dollars per year. These persons have different

nutritional needs, of course, but are equally entitled to first-class nutrition. We are responding to this demand with products which we refer to as Popularly Positioned Products (PPPs), which are often specially formulated to overcome certain nutritional deficiencies such as a lack of vitamin A, iodine or zinc. To succeed in this area we will have to adapt our product formats, their composition and the raw materials we use; we will also have to reinvent the way our products are distributed to take account of local consumer lifestyles and habits. These are profitable activities: this is not charity, but a long-term business opportunity that is justified by the returns generated. Furthermore, such activities help create jobs and encourage local development through taxes whilst also improving the nutrition available to the most vulnerable population groups. I was very pleased, therefore, when the President of the Federal Republic of Brazil commented on this at the opening of our new factory in Feira de Santana in the north-east. This factory is exclusively destined to produce popularly positioned products. It will provide 300 jobs, but it will also have an indirect beneficial impact on thousands of other lives. President Lula said: "The Nestlé initiative is a concrete example of how jobs can be created and income generated in order to make this country a more equitable place, where people have the right to work, study and buy reasonably-priced products."

In all three areas mentioned above we need very solid wide-ranging research with the capacity to meet even the most sophisticated nutritional requirements of our consumers. In the past, our research delivered essentially technological advantages which allowed us to manufacture safe, first-class products; these days we need a scientific-medical approach which will give us a better understanding of human nutritional needs at all ages. We have therefore intensified our partnerships with our contacts in universities and other research institutes. Our contribution of 25 million Swiss francs to a vast brain research project conducted with the *École Polytechnique Fédérale de Lausanne* is just one example of this much broader approach. The new role and impor-

tance of research is also reflected in the recently created post of Group Chief Technology Officer, to which Werner Bauer has been appointed.

Our operational transformation is now largely complete. I spoke to you last year about breaking up the Nestlé supertanker into a flotilla of fast ships. Decision-making has become faster and more flexible with these lighter structures and shorter lines of responsibility. By delegating authority and responsibility down the ranks, we have increased motivation amongst our managers. Of course, it would be impossible to guarantee strategic coherence or manage the flow of vital information required to achieve our vision without an essential tool, GLOBE. Now 80 percent implemented, GLOBE also enables the swift implementation of administrative services shared by several operating companies, thus making us even more efficient. As intended, GLOBE delivers a formidable competitive advantage in that it allows us to reconcile complexity and efficiency.

This efficiency, which guarantees our competitiveness, does not blind us to the social impact of our activities. Experience has shown that the long-term success of our operations outside Switzerland is dependent on benefits accruing to both investor and host country. That is why we continue to devote a great deal of attention to the farmers who supply our milk, for example. Some weeks ago I was in Pakistan, where I attended both the opening of the biggest dairy factory in the Nestlé Group, and a ceremony at which certificates were presented to hundreds of women who had completed training in animal husbandry.

Nestlé launched this programme a number of years ago in the hope of making a real improvement in the lives of rural populations of the Pakistani Punjab. The United Nations Development Agency felt the programme was sufficiently interesting and promising for it to join the operation unasked, and to make considerable funding available. This has allowed us to substantially extend the programme, which will henceforth benefit over 150,000 women

in the rural population. This is pragmatic cooperation between the public and private sectors at its best, and Nestlé is delighted to be involved. President Musharraf's comment at this event struck me as highly pertinent: "You are helping the poor of Pakistan, which in turn helps us to fight the root cause of extremism and terrorism."

Ladies and Gentlemen, you will have noted that this year's Management Report includes a brochure about water. The availability and quality of water are fundamentally important to us. How are we to produce or process quality foodstuffs without sufficient quantities of clean water? We felt it would be worthwhile outlining the action taken within the Group to preserve our water, and to describe current initiatives aimed at collaborating with other organisations and institutions to improve access to clean water on a much larger scale. As for the water used by the Group for production purposes, there was a drop of 35 percent between 2002 and 2006. We have also cut volumes of wastewater by 37 percent. And I cannot resist the temptation to confirm that the volume of water saved across Group production processes as a whole now exceeds the volume which we bottle and sell around the world. In fact, we have made a short film which illustrates our attitude and our activities in this area of such utmost importance. It will be screened as soon as I have finished speaking.

As you can see, Ladies and Gentlemen, the quality of our results is not measured solely in terms of financial figures: it also encompasses qualitative aspects such as health and safety at work. I am pleased to report that in 2006, there was another significant drop in the number of hours lost due to occupational accidents. With regard to environmental protection, we achieved a slight reduction in energy consumption in spite of a sharp increase in our total production. CO<sub>2</sub> is a major element in any debate on climate, and Nestlé devoted targeted and concrete efforts to reducing its impact: in fact our policy has been so successful that we are now in a position to sell CO<sub>2</sub> certificates to other companies. All in all, we have established a solid base which will allow us to

make further progress with an ambitious and proactive environmental policy which undoubtedly places us amongst the best in our class.

I note with satisfaction that our efforts have earned us the recognition of all the agencies and funds which compare corporate performance in this area. Innovest, an international advisory agency specialising in strategic value investments, has awarded us a triple-A rating and classed us first amongst 47 companies, and we are also listed again on the prestigious Dow Jones Sustainability Index. Confident that our consumers and clients follow what we do with interest and attachment, we make a real effort to keep the public informed of our efforts in this area.

I am sure you will also allow me a few remarks on the subject of corporate governance. In recent weeks there has been renewed and lively debate on remuneration for CEOs and managers of large companies: I would like to give you our views on this subject. We agree on the need for maximum transparency with regard to compensation for members of the Board of Directors and this year, for the first time, our Corporate Governance Report includes a table with details of what is paid to each member. In terms of total compensation, details of which we have been publishing for years, by the way, I would like to point out that Nestlé, a Group which generates sales of almost 100 billion Swiss francs a year, sets aside just over 2.8 million Swiss francs and 6,800 shares by way of remuneration for its 13 Board members. That, to me, seems relatively modest in relation to the legal responsibility incumbent on these persons.

There has been recent discussion of reintroducing the old system of Directors' fees as a means of linking business performance and Board remuneration even more closely. This is, you will remember, the system applied by Nestlé up to 1990. Before 1990, the Articles of Association gave the Board the right to share 2 percent of net profit amongst its members. In today's terms, that would be equivalent to 184 million Swiss francs. Let me make it clear

immediately that all the Boards of the time felt this percentage was excessively high, and never took more than a small fraction of the net profit.

The compensation package paid to the Chairman and CEO is strictly linked to business performance. My basic salary in 2006 was three million Swiss francs, and like any other Nestlé employee, my pension is calculated solely on the basis of this salary. The remainder of my remuneration is variable and linked to the Group's performance, as we explained in detail at last year's General Meeting. And finally, Nestlé does not have golden parachutes and the CEO is appointed for a period of one year with no other contractual arrangements.

The option of according the General Meeting a consultative vote on the executive management's remuneration has been considered. I have reservations as to the wisdom of such a vote, which would call into doubt the inalienable and primary responsibility of the Board of Directors, which is to appoint, control and remunerate management. Moreover, the Corporate Governance Report is an integral part of the Management Report, so you already have a means of expressing your opinion when you vote on the approval of the Management Report. You may also make your views known by voting on the granting of discharge to the Board of Directors. Finally, you also have the power to elect or re-elect the members of the Board of Directors. To my mind, the non-binding character of a consultative vote renders it incompatible with your responsibilities as Company owners.

Last year, dear Shareholders, a very large majority of over 98 percent of you voted in favour of the Board drafting a revised version of our Articles of Association for your consideration. It was not entirely surprising that your decision was contested in court, which means we are unable to present the revised Articles to you this year. However, we have just won our case before the court of first instance and your Board therefore hopes to be able to submit updated Articles for your vote at the 2008 General Meeting. For

the time being, however, our current Articles remain in force. This is important in terms of the forthcoming vote on the re-election of two Board members. In line with our current Articles, members of the Board are elected for a period of five years. In this situation, we felt it better to continue to work on the basis of the period specified in the Articles rather than propose an arbitrarily shortened period which could, if contested in court, be an obstacle to the management of the Company. We must have legal certainty with regard to the duration of office and that certainty can only come from the Articles currently in force. The logical outcome of this is that once shortened, the new terms of office will apply to all Board members, myself included.

Ladies and Gentlemen, this is Nestlé's 140th General Meeting. Our Company has been in business for precisely 140 years. Born of the merger between the Anglo-Swiss Condensed Milk Company founded by George Page in 1866 in Cham and the Henri Nestlé Company established in Vevey in 1867, our Group has remained true both to its first goal – to provide nutritional solutions to its consumers throughout the world – and to its values. Our past and present actions have been, and still are, shaped by modesty, pragmatism, international openness and tolerance. At the same time, we have undergone an ongoing transformation process thanks to which our working methods, technologies and manner of managing the Group have evolved throughout those 140 years. More recently we have seen a sharp acceleration in this process of ongoing change. We therefore felt it would be useful to describe in more detail the strategies and events which have shaped the Group over the past 15 years. The resultant book supplements the volume written for Nestlé's 125th anniversary, and will be presented to you on request.

Ladies and Gentlemen, in recent years we have built an extremely solid base to ensure a promising future for the Group. I cannot yet give you the first quarter sales figures, but I can confirm the forecasts published in February. Thanks to the strength of our brands and our continuing programmes to rationalise and adapt our port-

folio of activities, I remain confident in our ability to generate, in 2007 as in past years, organic growth of 5 to 6 percent and a further EBIT margin improvement in constant currencies. 2007 should therefore allow us, for the twelfth time in succession, to deliver results in line with the Nestlé model and thus to reinforce the platform upon which our future success will be built. Thank you, Ladies and Gentlemen, for your support and attachment to our Company, and let us now watch that film about water.

