Address

Peter Brabeck-Letmathe
Chairman of the Board
and Chief Executive Officer
Ladies and Gentlemen, dear Shareholders,

Your Company has just completed an eventful year. Nestlé’s sales topped the 107 billion Swiss francs mark in 2007, with more than 100 billion Swiss francs of this total being generated in food and beverages. Net profit amounted to 10.6 billion Swiss francs, and EBIT climbed to 15 billion Swiss francs. Given the difficult environment in which this performance was achieved, it is nothing short of remarkable.

Indeed, 2007 was marked by an increase in raw materials prices to an extent rarely seen. Within the space of just a few months, the global price of powdered milk rose from USD 1,800 to USD 5,400 per tonne, with cereals, coffee and cocoa also following suit. You have undoubtedly all been following the oil price developments, which are having a significant impact on our energy and distribution costs and, indirectly, on our packaging costs.

Despite this, Nestlé has produced a highly convincing result that demonstrates the Company’s ability to sail through the difficulties currently facing a number of players in our industry. I see proof
of this in the way we have successfully completed the strategic transformation of our Group. From its origins as an agrofood company in which raw materials represent an extremely significant part of the value creation chain, Nestlé has evolved into the kind of company whose growth and performance depend essentially on its capacity for leveraging the know-how acquired in the research and development process. This is one of the effects of our strategic reorientation towards nutrition, health and wellness.

As you can see, Ladies and Gentlemen, your Group has successfully weathered the storm and has posted extremely solid sales growth of over 9%, which corresponds to an absolute increase of over CHF 9 billion. What is more, we have achieved an organic growth rate of 7.4% which, combined with a further improvement in our performance, has pushed our operating margin up to 14%. I would also like to draw your attention to the strong advance in net profit, which increased by almost 16% to CHF 10.6 billion.

Your Board of Directors is therefore in a position to propose a further substantial dividend increase from CHF 10.40 to CHF 12.20 per share, which corresponds to a rise of 17.3%. While our considerations are clearly inspired by the excellent 2007 results, they also take into account our outlook for the future. Thus, we are completely confident of achieving our objectives yet again this year and remain highly optimistic about the years to come.

This enviable situation is the result of a clearly defined strategy and flexible structures that are adapted to suit the nature of our activities, as well as the power of our brands, which have enabled us to maintain the trust and loyalty of our consumers. However, Ladies and Gentlemen, it is above all thanks to the commitment and professionalism of our employees throughout the world, who are devoted to achieving success in markets that can be highly competitive. I am sure that I also speak on your behalf when I express our recognition and gratitude for their work and their loyalty to the Group.
These results, Ladies and Gentlemen, did not come about by chance. We achieved them by building on the extremely solid base established by our predecessors, a base that has enabled the Group to progress steadily year after year, improving its sales and performance in the process. In fact, the “Nestlé model”, which combines organic growth of between 5% and 6% with a steady and sustainable increase in operating profit, has essentially been unfailingly implemented for the last 11 years. During this period we have succeeded in generating average organic growth of 5.9%, while the figure for the industry as a whole was around 2%. Our operating margin has increased from 10.2% to 14%, and our net profit margin has climbed from 5.6% to 9.9%.

At the same time, we have implemented a far-reaching strategic reorientation and adapted our structures to better suit the specificities of our business units and track developments in the markets. We have also introduced new state-of-the-art tools that enable us to manage our business in a more efficient manner.

Poorly understood in the beginning by many observers, the vast GLOBE (Global Business Excellence) project is a means for managing both the complexity resulting from the diversity of our consumers and the operational efficiency we strive to achieve. GLOBE endows us with a competitive advantage over our competitors in the consumer goods industry, and will continue to do so for many years to come. The GLOBE project has also enabled us to transform the Nestlé supertanker into a flotilla of rapid and manoeuvrable vessels. This now means that areas of the business requiring a global structure, such as Nestlé Nutrition and Nestlé Waters, are able to operate with considerable autonomy within the framework of a general strategy defined by the Centre, while the majority of our traditional activities develop within the tried-and-tested geographical structure.
At the same time, we have made considerable efforts to improve our cost structure and our competitiveness upstream. Centralising and unifying structures in purchasing, production and factory management has enabled us to reduce our production costs by benefiting from the scale and scope of our activities. Rather than operate in a scattered manner, country by country, we have opted to present ourselves to our suppliers, customers and commercial partners as a single entity, with the increased weight and authority this implies. We have also worked on tightening our financial policy and have made considerable savings here too.

We are, however, convinced that downstream – that is, in our interaction with the consumer – it is our obligation to maintain a high degree of decentralisation. We continue to believe that there is no such thing as a global consumer, and this is why we absolutely must take local preferences and habits into account. It is this respect of cultural and ethnic or religious differences that enables us to maintain the trust of consumers throughout the world. Our marketing and communication activities are carefully evaluated to ensure that they conform to the sensibilities of our local consumers. This, Ladies and Gentlemen, is the key to our success.

I would like to note that we have succeeded in our strategic reorientation towards nutrition, health and wellness. In a certain sense, in doing so we have returned to Nestlé’s roots. This is a tradition to which we have remained true throughout our history of the last 142 years. With our extremely strong position in infant nutrition and our more recent commitment to medical nutrition, we offer products and services that are adapted to suit the needs of particularly vulnerable sections of the population. I am delighted that we have recently been able to reinforce this attachment further still by means of two strategic acquisitions in medical and infant nutrition.

Today we respond to the demands of a consumer who expects the food industry to provide ever more sophisticated products with added health benefits. What is more, individuals with very
specific nutritional requirements - athletes, for example - can also find products that meet their needs among the range we offer. We are interested in an approach that extends beyond simply offering products for sale and involves providing nutritional advice via the services of Jenny Craig in North America and Oceania. This new activity is welcomed by consumers as a response to the constraints and priorities of the industrialised world. For many consumers, being able to benefit from nutritional advice and purchase the appropriate products that are adapted to suit each individual case represents a real advantage.

Thanks to the value we have always given to the research process, we are now in a position to respond to this demand. Over the last few years we have drastically modified the way in which we conduct our research and development. We are working increasingly with universities, other research institutions and third-party companies – often start-ups – with a view to covering, as far as possible, all the areas that might be of interest to us. The field of investigation has grown spectacularly, and we believe it is vital to closely follow all the axes of research in order to maintain an innovation pipeline that keeps us one step ahead of our competitors. We are currently the clear No. 1 among nutrition and health companies, and we aim to maintain this position over the years and decades to come, which is why we will continue to invest significantly in research and development. Our spending in this area already amounts to CHF 1.9 billion, with more than a quarter of research costs attributable to nutrition in its strictest sense. This proportion clearly demonstrates the level of importance we attach to the concepts of nutrition and health.

I am strongly convinced, Ladies and Gentlemen, that the last few years have not only enabled us to achieve good results and consolidate our place at the top of our industry. We have, in particular, taken decisions and implemented structures that will enable us to continue generating sustainable shareholder value in the years to come.
It is in this context that the decision announced last Monday should be considered. It reflects Nestlé’s commitment to ensure a strategically sound and financially attractive solution for Nestlé and Alcon. Nestlé has been able to take a further step in realizing shareholder value from its long-term Alcon investment. With Novartis as a new minority shareholder Alcon benefits from a company whose activities are closely aligned with its own business and I am certain that this strategic decision will strengthen Alcon’s leadership position in the very promising ophthalmic area.

This focus on the long term, the capacity to ensure continuity in management and the relevance of the strategies put in place – all of this goes a long way to explaining the success of our Company.

I note with immense satisfaction that this great journey has culminated in success. All along the way we have continued to create value for you, our shareholders, while reinforcing the basis for the Group’s future development by means of investments, acquisitions, restructuring and modernisation. This is what we call the creation of sustainable value, and I am justly proud to have been able, with your trust and support, to conclude this stage while securing a good return on your investment year after year. In fact, over the last 12 years, the total return – based primarily on dividends and more recently on share buybacks and increases in the share price – amounts to more than 400% in Swiss francs, the world’s strongest currency. During this same period, the Company has paid out a global total of CHF 36 billion to its shareholders in the form of dividends and share buybacks. I am certain that this result is welcomed by all the pension funds among our investors. Nestlé’s individual shareholders – of which I am pleased to say I am one – have also earned a generous return on their investments. I know of few other investments offering such distribution of risk, predictability and solidity combined with such strong earnings momentum.
Your Board of Directors, Ladies and Gentlemen, was highly conscious of the need to maintain continuity at the top of your Company during this important transitional phase. Likewise, the members of the Board found it extremely important to allow the future successor to the CEO free rein with regard to the definition of strategy and priorities. Against this backdrop, and for purely pragmatic reasons, the Board opted in 2005 to entrust the roles of Chairman and CEO to one and the same person. This decision gave rise to certain comments and reactions. Now that the Company is about to return to the separation of the functions of Chairman and CEO, an approach which is more traditional in Switzerland, you can be sure that the majority decision you made back in 2005 was the right one. The Group has successfully completed its strategic reorientation, and operating results are extremely encouraging, as demonstrated by the spectacular increase in the value of the Group from CHF 81 billion to CHF 196 billion in the space of three years. Above all, Ladies and Gentlemen, you have continued to recognise the importance of the Board’s flexibility to act – a key element in the success of the Company both now and in the future.

I am pleased that these discussions in 2005 also enabled us to embark on a new path that led to the revision of our Articles of Association. In a world that is evolving at an ever faster pace, it is vital that we remain poised to adapt. The Board of Directors believes that the proposals you have received, and are invited to discuss during the course of this meeting, are in the best interests of the Company and its shareholders.

Success is about more than just smooth-running industrial and commercial activities. It is equally vital that the institutional framework is appropriate to the circumstances. With this in mind, you instructed the Board of Directors to submit a revised set of Articles of Association aligned with the current legislative situation and developments within the financial world. You have been given the opportunity to peruse our proposals, which are the result of an in-depth consultation process.
I believe that we have taken into account the composition of our shareholder base as it stands today, as well as the sometimes divergent priorities and preferences that it represents. We have also taken care to ensure the reasonable protection of individual shareholders. Finally, we have adapted a series of provisions to comply with the principles of contemporary corporate governance. On the whole, we are presenting you with what we perceive to be a balanced solution that will enable all those concerned to perform their respective responsibilities to the fullest possible extent. The new Articles of Association will constitute a good basis for clear, transparent and efficient governance, thereby contributing to the performance of our share price on the stock market in the long term. I would therefore like to invite all of you to approve this revision of our Articles of Association.

In addition, the Board of Directors proposes a 1:10 split in the nominal value of the Company’s shares, which will result in a share price that better meets the needs of a large number of foreign investors. As you will have seen, we are also pursuing a share buyback programme and would like you to approve a capital reduction worth the equivalent of 10 million shares for this year.

Please allow me, Ladies and Gentlemen, to briefly mention the changes that have taken place within the Board of Directors over the past year.

You will have heard of the death of Mr Arthur Furer, Chairman of the Board of Directors from 1982 to 1984 and CEO from 1975 to 1981. Arthur Furer performed these vital roles during a difficult period for the Company, and he will be remembered as a highly conscientious manager with a great deal of humanity. I would like to ask you to observe a few moments of silence in his memory.

Thank you, Ladies and Gentlemen.
Your Board of Directors says farewell today to Professor Peter Böckli, who has supported Nestlé since 1993 with his vast legal knowledge and experience. He has also assisted in the work of various committees, chairing the Remuneration and Nomination Committee with a high degree of professional integrity. He notably managed the work of the Committee during an extremely important period that saw the appointment of Nestlé’s new CEO. In the name of the Board of Directors, as well as on your behalf, I would like to express my sincere thanks to our colleague.

You will also have noted that our two Vice Chairmen, Andreas Koopmann and Rolf Hänggi, are standing for re-election to the Board of Directors. Our partnership has been an extremely successful over the years, and I will be delighted to continue working with them in the future.

Finally, the Board of Directors proposes Paul Bulcke and Beat W. Hess as two new candidates for membership of the Board. Mr Hess, a Swiss national, is responsible for all legal services within the multinational oil company Shell, based in the Netherlands. The Board of Directors will benefit from his extensive experience, as well as his in-depth knowledge of the operations of an international enterprise.

It was announced in September 2007 that the Board of Directors intended to entrust the executive management of the Group to Mr Paul Bulcke as Nestlé’s new CEO. This choice by the Board was based on a completely professional selection process, and Nestlé is extremely fortunate in being able to rely on an individual who has successfully performed managerial roles in both developing and industrialised countries, and who has experience of working in both Europe and Latin America. What is more, as Head of Zone Americas, he played a decisive role in the transformation of this region into the most important and profitable within the Group. We have full confidence in his ability to take on the operational leadership of Nestlé. We also appreciate Mr Bulcke’s attachment to the values of our Company.
It is, then, with total conviction that I recommend to you the election of these candidates to the Board of Directors.

In order for us to succeed as a company, Ladies and Gentlemen, it is vital to ensure good governance and the perfect implementation of a long-term strategy. But sustainable success requires an extra step. The creation of long-term value is not conceivable without consideration of criteria such as economic viability, social equality and ecological sustainability. In recent years, rather than just talking about corporate social responsibility, we have been working with Professors Mark Kramer and Michael Porter to develop a unique concept that we call the “creation of shared value”. It is not enough to create value for shareholders only. In the interests of the development of the Company as a whole, it is essential to involve consumers, employees, suppliers and communities in this process. Our approach now encompasses all the individuals and institutions with an interest in Nestlé in one way or another, and we will ensure that this concept of shared value is integrated into all the decisions made by our Company. We have presented the outline of this approach in the film shown at the opening of our Meeting and you will find detailed information on our progress in this area in the report on the creation of shared value, which forms an integral part of our Management Report.

Our approach to this issue is already taking effect in terms of our Company’s reputation. Numerous opinion polls and surveys have confirmed that we continue to enjoy an excellent reputation, and that our policy of openness and dialogue with a wide range of stakeholder groups is bearing fruit.

Of course, nothing is perfect, and there are areas in which further improvements can be made. There is no doubt, for example, that female representation within our executive bodies is not yet at the level one could expect of a nutrition, health and wellness company. This is an important issue for us, and we have implemented an internal initiative which will enable us to make progress in this area as well. We believe that we are in a position to develop, in
a perfectly pragmatic manner, services and procedures that will make it easier for our female staff to reconcile the demands of work and family. We hope that this approach will provide them with access to the broad international experience that remains indispensable for assuming leading roles within our Company.

Nestlé has a great future ahead, and I encourage you to be part of this future as our shareholders. Companies that benefit from such a broad portfolio of brands and activities are rare. Few enterprises enjoy such solid positions throughout the world, particularly in emerging markets which in recent months have demonstrated the economic vigour and determination to finally enjoy a standard of living that matches that of the developed world. We have already been present in these countries for decades, and our brands are a way of life for their young and ambitious populations. These locations will doubtlessly continue, for many years to come, to represent dynamic opportunities for the marketing of our traditional products. In addition, we are constantly seeing how important the concepts of health and nutrition have become for consumers. A vigorous and open research policy and an extremely solid financial situation enable us to look with confidence to the future.

Please allow me to add one final comment. Your Company, Ladies and Gentlemen, is a modern entity which, each and every day, makes use of the most state-of-the-art tools and methods available. This is an essential condition for our success. Alongside this modern approach, however, Nestlé remains faithful to the principles and values that some are quick to dismiss as old-fashioned. And yes, we continue to see hard work as a key to success. We are convinced that a sense of responsibility towards employees is a good thing and promotes loyalty and motivation among our staff. We believe that promises given and agreements made are to be respected, and that we have an obligation of loyalty towards our suppliers and commercial partners. We also believe that respect for other cultures, tolerance and openness enable all employees to work together regardless of their origin, and that this attitude facilitates our integration in all the countries in which we operate.
These elements, Ladies and Gentlemen, are so important for the success of the Company because they create – both within the Company and outside it – the motivation, commitment and trust without which no human project can succeed.

It remains for me to thank you, on behalf of myself and the Board of Directors, for your continued trust and support. I wish Nestlé, and you, its shareholders, the greatest possible success and satisfaction in the years to come and I am honoured to be able to contribute to it.