

148th Annual  
General Meeting  
of Nestlé S.A.  
Lausanne,  
16 April 2015



## 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,

2014 was marked by a difficult environment, both at the economic and the political level. Deflationary trends in Europe in particular, weakening growth in key emerging markets as well as political instability in numerous regions around the world created a highly uncertain context for business.

In spite of the many external challenges, your company once again managed to

- post a solid performance in all areas of activity, thus exceeding market growth,
- improve margins, and
- increase underlying earnings per share.

In addition, significant initiatives were taken to promote and strengthen our strategy in the area of “Nutrition, health and wellness”, so that we will be able to face the future from a strong foundation and seize the countless opportunities that arise.

Our CEO will speak about this in a moment.

Allow me to highlight the strong operating results achieved by our management team under the leadership of Paul Bulcke and through the hard work and dedication of the 339,000 Nestlé employees all over the world. I would like to thank them all on behalf of the Board of Directors and, I’m sure, on behalf of every one of you.

After having expanded the limits of “Nutrition, health and wellness” with the creation of Nestlé Health Science in 2011, the Board of Directors extended this strategy in 2014 with the creation of Nestlé Skin Health, thus widening the base of our future activities. The acquisition of Galderma, which is the foundation for Nestlé Skin Health, meant the divestment of part of our stake in L’Oréal, a stake that remains very important financially and strategically.

Dear Shareholders,

Continuing our long-term policy, the Board of Directors is proposing a further dividend increase to CHF 2.20 per share.

It is worth underlining the return on shares in our company in light of the current financial market environment.

Since 1942, your company has never reduced the dividend paid to its shareholders, and the dividend has increased every year for 20 years (since 1995).

If we look at the total return for shareholders, we can see that since the introduction of the “Nestlé model” in 1997, this has amounted to 12.06% per year in Swiss francs.

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

*Presentation by Mr. Paul Bulcke, Chief Executive Officer (see page 11).*

Ladies and Gentlemen,

The new corporate governance legislation introduced recently in Switzerland differs from all other countries in the world due to three unique rules: first, the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the General Meeting; second, the binding shareholder vote on the proposals for the compensation of the Board of Directors and Executive Board; and lastly, the penalty for breaching the “Say on pay” provisions, of a three-year custodial sentence for directors.

Now more than ever, proper preparation of a General Meeting requires active dialogue with our shareholders around the world, as well as with proxy advisers. We have already been doing this for some time in our Chairman’s Round Tables, more of which took place in 2015, which were held in London, New York and Hong Kong as well as Switzerland.

Three issues which concern shareholders stood out in these meetings and discussions:

- 1) The recent legal instability regarding corporate governance in Switzerland;
- 2) The decrease in competitiveness of Switzerland, exacerbated by the discontinuation of the minimum exchange rate for the Swiss franc;
- 3) The competitiveness of Nestlé, specifically with regard to the dramatic change in consumer behaviour and the huge upheaval in the food industry, with the merger of Heinz and Kraft as the latest example.

Allow me to speak about these three issues in more depth.

First of all, here is an overview of the shareholders in your company:

#### Overview of the shareholders



**1/3** Switzerland

**1/3** United States and United Kingdom

**1/3** Rest of the world

As you can see, one-third of the shareholders are in Switzerland, one-third in the US and the UK, and the remaining third in the rest of the world, with China

showing the fastest growth. We must undoubtedly pay attention not only to the opinion of Swiss shareholders, but also listen to the majority of shareholders, who are not Swiss!

You will remember that only a year ago, I shared with you from this podium shareholder concerns regarding certain political decisions taken in Switzerland that considerably increased the unpredictability of framework conditions in this country. At our meetings, we were able to dispel some of these fears by explaining in detail how Nestlé would be applying the Minder Initiative in a practical way to ensure the stability and competitiveness of the company.

To this end, at our last General Meeting, you approved the changes to our Articles of Association, elected all of the members of the Board of Directors individually for a term of one year and directly elected the Chairman of the Board and the members of the Compensation Committee, all by a very large majority.

Today, we are submitting to you for the first time our proposals for the compensation of the Board of Directors and the Executive Board as the ordinance implementing the Minder Initiative requires. This way of applying the new ordinance is a solution with which the Swiss economy can live.

According to a study by the Ethos foundation, three-quarters of the 150 largest Swiss companies have decided to submit their compensation proposals to a prospective vote, which provides the necessary legal security for the proper functioning of the company. Yet while the Board of Directors and shareholders have not even begun to apply these new regulations, the government is already launching a new initiative: the reform of Swiss company law. We know that Switzerland was under external pressure to change a number of these regulations, particularly in the financial sector, but there were no demands or pressure from abroad for Switzerland to change and tighten legislation that has only just been implemented and that was already sufficiently contentious to concern foreign investors.

But what are the planned provisions of the current bill to reform Swiss company law? Among other things, it proposes to make this prospective vote mechanism, which guarantees legal security and reconciles the expectations of Swiss and international investors, impossible.

The voting option chosen by three-quarters of companies would therefore be prohibited. This proposal was made before this voting had even once been tested in a general meeting.

The second feature of the new law provides for enforcing a quota of women, without even waiting, once again, for the 2014 Swiss Code of Best Practice to bear fruit. Under an approach which Switzerland is the only country in the world to support, the quota of women would not only apply to boards of directors in this country, but also to executive boards. It cannot be denied, however, that there are too few women directors and executives in companies worldwide and that long-term measures will be necessary to remedy this situation.

At Nestlé, for example, we have four women on the Board of Directors and currently have one female member of the Executive Board.

More importantly, through a policy that promotes gender balance at management level and among younger staff, we are laying the foundations for stronger female representation in senior positions within our company, but our decisions are always based on skills and merit.

The third aspect concerns the new rights to pursue legal action and the proposal to introduce an effective special procedural law for the economy. Shareholders representing just 3% of voting rights would be able, for example, to bring liability actions against the board of directors and management, even if a majority of shareholders did not approve the action during the general meeting.

And that is not all: it would be possible to file the lawsuit at the cost of the company. This would effectively silence the general meeting, while activist shareholders and plaintiffs' lawyers would be granted "free reign", enabling them to file lawsuits at the expense of the company that were nonetheless rejected by the majority of shareholders. This type of measure amounts to subjugating the majority of shareholders and favours minority shareholders whose interests are often contrary to the objectives of the company and pursue short-term financial goals.

Given the challenges that the country is currently facing, ladies and gentlemen, it is all the more unsettling that this is all happening in an area in which Switzerland is doing rather well. It is high time it was ensured that all new legislation is in fact necessary, meaning there should be checks as to whether there is an urgent need for regulation and that it is proportionate, or in other words: whether it stands up to a detailed cost-benefit analysis. These are the demands of the "Rule of Law", exactly as it is provided for in the Federal Constitution of the Swiss Confederation.

The second issue for investors relates to the competitiveness of Switzerland in general, particularly after the discontinuation of the minimum exchange rate for the Swiss franc against the euro on 15 January.

I would like to tell you right now that I fully agree with the Swiss National Bank: a minimum rate set by a central bank and not by the market is not consistent with a leading global economy, and the economic reality clearly showed that it was unsustainable!

Of course, this does not mean that Nestlé is unaffected or unconcerned by this decision.

First of all, it has a definite impact on our sales reported in Swiss francs. Look at the impact of the exchange rate on their evolution over the past ten years.

A number of Swiss companies have therefore opted to consolidate their accounts in US dollars. Nestlé is sticking with the Swiss franc.



Owing to the geographic diversification of our activities, the operational consequences for Nestlé as a group are certainly less disruptive than for other Swiss companies. Approximately 90% of our global production is sold locally. And Switzerland only accounts for barely 2% of global sales. The impact on operating margins is slightly lower, but obviously affects the consolidated result with management having few possibilities to intervene. This is why the “Nestlé model” of 5-6% growth and an increase in operating margins is based on constant exchange rates.

In contrast, the effects of adjusting the exchange rate have an immediate and significant impact on exports of products made in our Swiss factories, as well as on local structural costs. These include the regional structures and global headquarters of our subsidiaries established in Switzerland, as well as the Headquarters of the Group.

Measures to increase productivity and thus ensure competitiveness are all the more necessary.

For my part, I continue to be impressed by the pragmatism and flexibility demonstrated by economic players in this country, primarily by companies and social partners. The willingness to tackle reality and take the measures needed at the level of individual companies to maintain productivity in a climate of international competition bears witness to the inherent strength of the Swiss economic fabric. It underlines once again one of the most valuable assets of this country: the constructive attitude of social partners and the flexibility of the labour market.

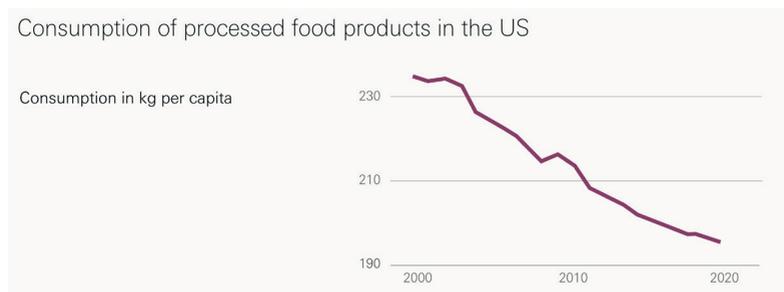
I am also struck by the fact that, with a few exceptions, the politicians have not called into question the independence of the Swiss National Bank, guarantor of a healthy and reliable monetary policy. The importance of the strength of public institutions for investors, companies and the Swiss economy as a whole should not be underestimated.

Consequently, I can assure investors that while the revaluation of the Swiss franc is definitely a significant problem in the short term, particularly for the export industry, in the long term, it will strengthen Switzerland's competitiveness through increased productivity and the application of innovative technologies.

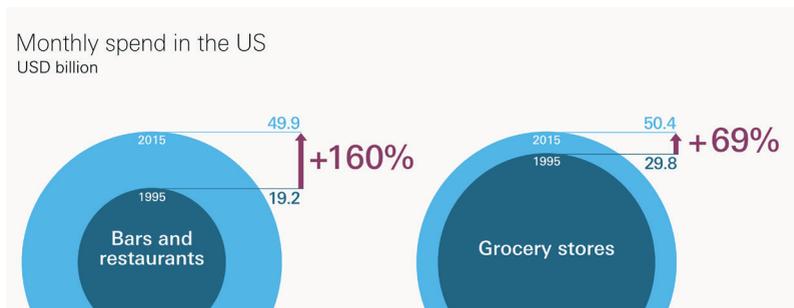
Ladies and gentlemen, this brings me to the third issue that investors have raised: Nestlé's competitiveness.

The food industry has undoubtedly faced major problems since the financial crisis, which can be partly explained by a deflationary environment, particularly in Europe and certain developed countries.

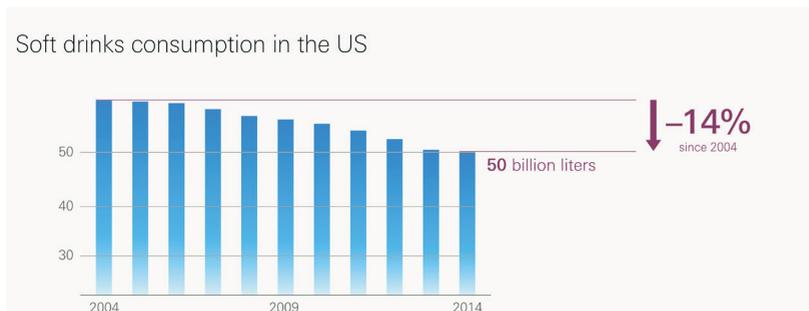
But if you take a closer look, you will notice another phenomenon that is well illustrated in this graphic:



It shows the decline of the consumption of processed food in the United States. In addition, American consumers are no longer spending as much on traditional food products or in large retailers. This is the change in spend per month:



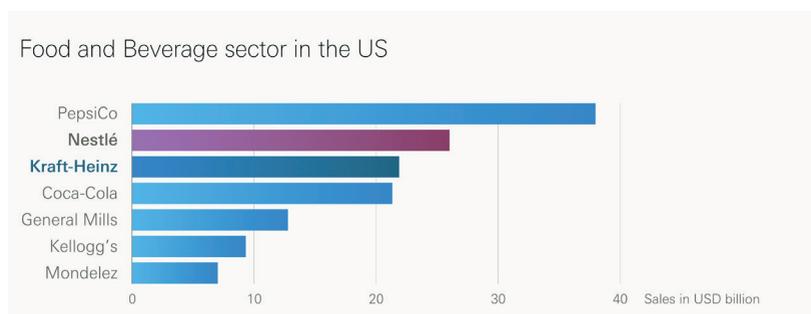
This change in consumer behaviour has a stronger impact on some categories than on others, for instance on soft drinks consumption.



This phenomenon triggered considerable upheaval in the beverages industry. Nestlé Waters has become the third-largest beverage company in the United States, notably thanks to our brands *Nestlé Pure Life*, *Poland Spring* and in particular *S.Pellegrino* and *Perrier*. “Nutrition, health and wellness” is proving increasingly every year to be the main growth driver. We should be pleased that we positioned ourselves as a leader 15 years ago, which has enabled us to continue to grow, even though some of our activities are not yet meeting consumers’ expectations, as we have painfully experienced with our frozen products business in the US. However, we firmly believe we have found the solution for this in 2015.

The financial markets have closely observed what is happening in our industry and acted quickly and decisively.

Swiss-Brazilian Jorge Paulo Lemann's New York-based investment fund 3G Capital and Warren Buffett's Omaha-based Berkshire Hathaway have pulverised the food industry market, particularly in America, with serial acquisitions, first in the beverages sector with the creation of the world's largest brewery, Anheuser-Busch/InBev, then in the foodstuffs sector with the purchase of Burger King, Tim Hortons and Heinz. Heinz, which is merging with Kraft, will become the third-largest food company in the US in terms of sales after PepsiCo and Nestlé, but ahead of Coca Cola, General Mills and Kellogg's.



Both Kraft and Heinz posted subdued growth with products that were extremely attractive in the past but are not sufficiently adapted for the future.

3G's partners are known in our industry for ruthless cost-cutting and have already proven numerous times that they are capable of reducing operating costs in particular by between 500 and 800 basis points, which has a revolutionary impact on all the other members of the industry.

Nonetheless, although profitability for a company like Heinz is indeed greatly improved today, the same is not true for sales growth, which declined by 4.6% in 2014.

The creation of Kraft-Heinz as well as the merger of Mondelez-Douwe Egberts, which will create a formidable competitor in the coffee segment, and the spectacular growth of some multinationals in developing countries, all require two things of Nestlé to ensure that it remains the undisputed leader in our industry:

First of all, an acceleration in our policy of adjusting our portfolio of activities, and at the same time, better use of our size. This should be achieved while maintaining our corporate principles of leadership and management, as well

as our belief that to ensure long-term success, we need to create value for our shareholders as well as for society as a whole.

This is why your management is working constantly to revalue our products and services worldwide, by making choices that transform our portfolio of activities to reflect our positioning in the health and well-being sector, while the Board of Directors has played an active role in creating new growth platforms. We have expanded the limits of “Nutrition, health and wellness” by creating Nestlé Health Science, with the aim of giving nutrition a major preventive and therapeutic role, then Nestlé Skin Health, which should become the world leader in skin health.

With regard to the effectiveness and efficiency of your company, we firmly believe that we continue to benefit from its decentralised structure, which enables key decisions to be taken as close as possible to consumers; but we also believe that we can and, particularly given the new competitive situation, that we are obliged to make better use of our size.

Our CEO has already spoken to you about management’s plans in this area, with the creation of “Nestlé Business Excellence” as the backbone, in order to enable operating units to focus more on generating demand.

With these two major approaches, at strategic and operational level, which require flawless execution now, I believe that your company is and will continue to be as well balanced and prepared as possible to achieve our ambitious targets that we have set with you and for you.

What we need, however, is a political and legal environment in Switzerland that guarantees our company a stable framework. In the past, this was always one of the major assets of this country and we should do everything we can to preserve it.

I invite you, dear shareholders, to join us on this journey as leader in the “Nutrition, health and wellness” market. Your loyalty and commitment are important to our success, and I would like to thank you for them.

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,

2014 was another challenging year. The business environment was again marked by great uncertainty, and socio-economic and political change continued to affect growth in many parts of the world.

In the face of such uncertainty, it was more important than ever that we stay the course and remain loyal to our strategy, driving short-term performance while at the same time investing and building our company for the future.

In 2014, our total Group sales amounted to 91.6 billion Swiss francs, with organic growth of 4.5%. Our trading operating profit margin was up 30 basis points in constant currencies. The Group delivered a net profit of 14.5 billion Swiss francs and our earnings per share were CHF 4.54.

We can call these solid results; they build on the good growth of past years and were delivered in a soft trading environment. Overall, we outperformed the market.

These results clearly demonstrate the intrinsic strengths of our company. I refer here for instance to our global footprint with operations in almost every country in the world; our portfolio of products and brands which we build and strengthen year on year; the quality of our innovation and above all, the commitment of our people; the 339,000 employees around the world who make such a performance possible. Their loyalty, efforts and talent are instrumental to Nestlé's success, and I thank them sincerely.

Ladies and gentlemen,

In 2014, we continued to take decisive steps in furthering our ambition to enhance the quality of people's lives through nutrition, health and wellness with science-based innovation and renovation.

Thanks to the continuous renovation of our portfolio of food and beverage products, we improved the health and nutritional profile of almost 11,000 products last year.

Moreover, we invested in the roll-out of new products, for instance under the *Maggi*, *Buitoni* and *Purina* brands, and our new premium chocolate tablets *Les Recettes de l'Atelier* are also very successful. In North America, we launched the new Nespresso *VertuoLine* system that delivers the long-cup coffees Americans prefer, and globally our *Nescafé Dolce Gusto* solution has for the first time reached sales of 1 billion Swiss francs.

Also in 2014, *Nescafé* – the number one global soluble coffee brand – strengthened its identity and launched innovations such as *Nescafé Premium Cappuccino*, *Nescafé Blend & Brew* and *Nescafé Gold Blend Barista Style*.

We are also innovating in the way we communicate and connect with consumers, for instance in Japan, where we have started using humanoid robots to sell our *Nescafé* coffee machines in home appliance stores.

These are just a few examples of how we introduce new ideas, products and solutions in all our categories, all around the world.

Building on the strong foundations of our food and beverage business, we are expanding the boundaries of nutrition, health and wellness with two new promising growth platforms for our company.

Four years ago, we established Nestlé Health Science, motivated by the opportunity to forge a major therapeutic role for nutrition in the management of health.

At the end of 2014, Nestlé Health Science entered into its next phase of development. Based on the foundations laid in previous years, we structured the organisation into three specific business areas: *Consumer Care*, *Medical Nutrition* and *Novel Therapeutic Nutrition*, adding greater focus and drive to our innovation efforts. This new structure puts Nestlé Health Science in an excellent position to lead the development of nutritional therapies that transform the way people,

patients and healthcare professionals manage health; this is a promising and interesting new opportunity for Nestlé.

We took another step last year when we created Nestlé Skin Health, based on Galderma, now a 100% subsidiary of Nestlé following the acquisition of Galderma shares previously owned by L'Oréal. Nestlé Skin Health offers science-based solutions for the health of skin, and allows us to compete in the growing and promising global skincare market. Already in its first year of existence, we strengthened Nestlé Skin Health by acquiring the full rights to commercialise several key aesthetic dermatology products in the United States and Canada.

Building the future of our company needs resources; even more so today when we are building a portfolio guided increasingly by R&D and science.

That is why we are continuing our drive to ensure our company is organised efficiently and effectively. An optimised organisation enables us to free up resources – be it financial resources, resources in time or people with their energy and their talent – to support our growth, today and tomorrow. And this is exactly why we have set up *Nestlé Business Excellence* in 2014.

This new entity brings together our corporate support functions – like GLOBE and our shared services – and our continuous improvement programme under one responsibility at Executive Board level. By combining these, we bring speed and agility to all our support functions and allow our markets to concentrate on their commercial activities.

And because we want the Zones to have the necessary balance between emerging and developed market trends, as well as the different consumer dynamics and opportunities, we redefined our Zones and integrated the Maghreb, the Middle East, the North East Africa region, Turkey and Israel into Zone Europe to form Zone EMENA – Zone Europe, Middle East and North Africa.

We also continued our active portfolio management, making choices about where we wanted to invest – I have cited several examples – where we wanted to improve, and what we wanted to divest. Making such choices enables us to put our people and our resources behind our best ideas, products and categories to deliver sustained financial performance.

Ladies and Gentlemen,

As we look to 2015 and beyond, I can say that our company – your company – is well positioned. We are well positioned to respond to the challenges and to grasp the many opportunities presented to us.

While delivering in the short term, we will remain focused on our business, long term, and continue to build the foundations for future growth. Exactly as we have done in previous years; exactly as you expect your company to do, today and tomorrow.

And then there is the important question of how Nestlé does things. With respect... respect for people, different cultures, the environment and for the future of the world we live in. This is the basis of what we call Creating Shared Value. This is our fundamental belief that for a company to prosper over the long term and create value for shareholders, it must also create value for society at the same time.

Ladies and Gentlemen,

We have the strategies, we have the structures and above all, we have the people. Their commitment, their perseverance and their disciplined alignment behind our strategy ensure that we achieve our common goal: to continue to make Nestlé the world's leading nutrition, health and wellness company.

Thank you for your attention.









© 2015, Nestlé S.A., Cham and Vevey (Switzerland)  
Concept and Design: Nestec Ltd., Vevey (Switzerland)