

# 150th Annual General Meeting of Nestlé S.A. Lausanne, 6 April 2017



## Speeches

### **Peter Brabeck-Letmathe**

Chairman of the Board

### **Ulf Mark Schneider**

Chief Executive Officer

### **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.



## **Address by Mr. Peter Brabeck-Letmathe**

Chairman of the Board

*Translation of the original French text. Check against delivery.*

Shareholders, Ladies and Gentlemen,

As you know, 2016 marked the 150th anniversary of the founding of Nestlé, not far from here in Vevey. Today, we are still driven by the same spirit of innovation, quality and excellence as our founders, Henri Nestlé and the Page brothers. We are still guided by our values that are rooted in respect. We are still driven by our purpose – enhancing quality of life and contributing to a healthier future – through which we create value for you, our shareholders.

In 2016, your company achieved strong operating and financial results, placing it among the top performing companies in its industry, even if the results were below our expectations. They were achieved in a difficult and volatile economic and political environment in many parts of the world and in a deflationary environment in Western Europe.

These results are further evidence of your company's resilience and of its ability to adapt and grow its business sustainably and profitably while preparing for the future. We have indeed continued to invest in the future success of our brands, our innovation, our research and our employees. And we are also investing to further improve your company's operational efficiency.

2016 was also a crucial year to prepare for the future of Nestlé. With the appointment of Ulf Mark Schneider as Group CEO, your Board of Directors unanimously appointed a person who brings your company the skills, experience and know-how it needs to face the future as a Nutrition, Health and Wellness company with confidence and ambition.

I should like to pay tribute to the fine work of our management team here at my side. I would like to express my appreciation to Paul Bulcke for his leadership of Nestlé, not only in 2016, but for all of his nine years at the helm of our company. I would like to commend the hard work and dedication of the 328 000 Nestlé employees all over the world.

I thank them all on behalf of the Board of Directors and, I am sure, on behalf of every one of you.

Dear Shareholders,

Both the Board of Directors of your company and its Executive Board value your trust in them, your loyalty, and your long-term vision. Continuing our long-term dividend policy, the Board of Directors once again proposes an increase to CHF 2.30 per share. If you accept this proposal, the total amount of the dividend paid to shareholders will come to over CHF 7.1 billion.

The return offered by our company's stock is first-rate and is worth emphasising, especially given the volatility of the financial markets and the foreign exchange rate situation. Since 1942 your company has never cut the dividend it pays its shareholders. For the last 21 years – to be precise, since 1995 – the dividend paid out has increased every year.

I would now like to hand you over to Ulf Mark Schneider to talk about your company's performance in 2016 and to share his thoughts on Nestlé's prospects.

*Presentation of Ulf Mark Schneider, Chief Executive Officer (s. page 9)*

Shareholders, Ladies and Gentlemen,

We have just celebrated the 150th anniversary of the founding of Nestlé while our sector is at a turning point in its history. Consumer expectations of Nestlé are changing dramatically with evolving trends, habits and lifestyles. We are witnessing a reshaping of the competitive environment. We are on the eve of a ‘fourth industrial revolution’, an unprecedented transformation of society, full of challenges, but above all full of great opportunities.

We live in times of profound change, turbulence and uncertainty. For the first time in decades, we are once again witnessing major geopolitical tensions. We are seeing the rise of populist tides, with the corollary of withdrawal into isolationism and exclusion. Our societies are facing profound changes and a complete transformation of economic models, which are increasingly influenced by the rapid development of digital technology.

Although the period of prosperity we have recently gone through has led to a huge reduction of poverty in the world, we are seeing increasing social tension, often linked to the unequal distribution of economic added value and wealth. Economic activity, free trade and international trade, which are at the basis of a period of unprecedented value creation and prosperity, are now under threat.

Against this backdrop and despite some remarkable progress, much remains to be done to eradicate poverty, the dual burden of over- and under-nutrition and thus further improve the health of vulnerable populations. This is clearly part of the United Nations sustainable development goals up to 2030, which we fully subscribe to and actively contribute to.

Ladies and Gentlemen,

Throughout history, one of the great challenges facing humanity has been to ensure sufficient food for its survival and development. In recent decades, increasing agricultural yields and advances in the food industry’s ability to provide safe, nutritious and affordable food have been important advances.

But the future of our food security faces important challenges: by 2030, the rapid growth of the world’s population, coupled with an increase in incomes, will boost demand for food by 35%, for water by 40% and for energy by 50%. More than two-thirds of the world’s population will live in urban areas by 2050. This will profoundly change patterns of food production and consumption.

In addition, globally, one person in three is malnourished today. For some, this malnutrition manifests itself in a lack of calories and a nutritional deficit. For others, this translates into an overconsumption of calories, which, coupled with a growing sedentary lifestyle, leads to problems associated with being overweight and obesity and non-communicable diseases linked to them. In some countries, this has already become the most pressing public health problem and the number one cause of death.

It is therefore increasingly recognised that sufficient food production is no guarantee of food security. Today, and for the first time in the history of mankind, it is absolutely clear that in addition to sufficient quantity, food production must also offer better nutritional quality. In future, the notion of nutritional security will be paramount.

It is against this backdrop that the future of our company will be written. A future that Nestlé is building to seize the enormous opportunities available for our company, its consumers and shareholders.

We are investing in science and innovation to develop and promote the therapeutic role of nutrition. We are innovating to provide personalised nutrition solutions that allow better health management, and even the prevention or cure of certain diseases.

We continue to adapt our products and historical brands so that they actively contribute to a healthy and happy life for our consumers. We are confident that we have the skills and knowledge to offer our consumers the healthiest, but also the most flavourful choices in each of the product categories we operate in.

We are rapidly adopting new technologies, not only for the innovation of our products, but across all of our activities. To innovate better, to increase efficiency, to communicate better and to better interact with the world around us.

Growth is and will remain the best way to create long-term value in future. At a time when we are seeing more and more consolidation in our field of activity and in our industry, at a time when some of our competitors are making drastic cost cuts their main or even sole priority, it is important to reaffirm Nestlé's drive to create value through growth. Growth that is sustainable and profitable.

It is clear that in order to be able to invest for growth, particularly through innovation and renovation, we will have to increase our operational efficiency to free up

the resources we need to sustain the growth of our brands. Change and reassessment will be challenges that Nestlé will be able to meet.

Nestlé has the human, technological and financial capabilities to continue to grow and create value, both for you, our shareholders, and for society at large. This is what Nestlé calls creating shared value.

Finally, I would like to highlight the quality of our teams and our people. At our headquarters and in our markets; on our governing bodies and throughout the company; in Switzerland and around the world, Nestlé employees have made and will continue to make a difference in future, with their skills, know-how, commitment and passion. I express my full confidence in the team that will lead your company into the future. Together with Paul Bulcke, who is now the proposed Chairman of Nestlé Group, Ulf Mark Schneider, CEO of the Group, and finally with the executive management present here at my side, Nestlé's future and success are in the hands of experienced professionals and an able and committed team.

With a strong sense of purpose that drives them and the strong values that guide them, all Nestlé employees will know how to drive your company to the results you have a right to expect. Leaving Nestlé with such extraordinary human capital is what I am most proud of.

Before concluding, I would like to sincerely thank the Board of Directors for their commitment, their expertise and their support. I would also like to thank you, the shareholders, for your loyalty and commitment to Nestlé. Over the past 20 years, I have had the honour and the pleasure to lead and then to chair our wonderful company. During all these years, you have shown me your support and confidence. I sincerely appreciate it.

Thank you for your attention.



## **Address by Mr Ulf Mark Schneider**

Chief Executive Officer

Thank you, Peter.

Ladies and Gentlemen, dear Shareholders, good afternoon,

I am very honored to be here today.

Before commenting on our financial performance 2016, I apologize for not continuing my speech in French. I can assure you, however, that improving my knowledge of the French language is one of my priorities.

Dear shareholders,

Last year, Nestlé delivered organic growth at the higher end of our industry. It was, however, at the lower end of our expectations. We saw a solid improvement of our trading operating profit margin and our cash flow grew significantly.

2016 was not easy, but our 328 000 employees around the world rose to the challenge. On behalf of all of you, I thank them for their commitment and dedication to Nestlé. Thanks to their hard work and accomplishments we are well positioned for 2017 and beyond.

Now let's take a detailed look at our 2016 financial performance.

Nestlé Group sales reached 89.5 billion Swiss francs. Organic growth was 3.2%, with real internal growth at a three-year high of 2.4%. Our growth was broad-based, highlighting the strength and resilience of our portfolio.

This growth is the result of our investment in innovation and R&D, in marketing support and in new distribution channels, like E-commerce, which grew almost 20% last year. It now represents nearly 5% of total Group sales.

E-commerce is only one of the highlights of how Nestlé embraces digital technology. Our communication, marketing, services and new business models are

more and more digitally inspired. In addition, we make our internal processes more efficient thanks to digital solutions and tools.

In 2016, the Group's trading operating profit reached 13.7 billion Swiss francs, or 15.3% of sales. This is a 30 basis points improvement in constant currency. We achieved this while investing in our future growth.

Our net profit reached 8.5 billion Swiss francs. Underlying earnings per share grew 3.4% in constant currency. This is at the lower end of our expectations, but we are working to address this.

Our cash flow is at the top end of our industry and has been for many years. In 2016, operating cash flow improved by 1.3 billion Swiss francs to 15.6 billion. Free cash flow improved by 200 million Swiss francs to 10.1 billion or 11.3% of sales.

This concludes the review of our 2016 financial performance. Let me now share with you some of my perspectives on Nestlé.

Over the last few months, I have visited Nestlé organisations around the world. I have met our employees and learned about our business. I have seen for myself the many opportunities we have and some of the challenges we face. Above all, I have seen the intrinsic strengths of our company: the experience of our people, our strong brands, our industry-leading R&D and innovation capabilities.

Nestlé's success is built on its nutrition, health and wellness strategy. It is now more relevant than ever as people around the globe want to lead healthier lives. They are interested in the role good nutrition plays in their personal health and wellbeing. Nestlé is well positioned to support them in this.

The strength and the depth of our research and development enable us to continuously improve the nutritional profile of our products while delivering great taste. This includes, for example, lowering salt and sugar content, or adding wholegrains, vegetables or micro-nutrients.

In addition to our food and beverage business, which is the core of our company, we are building two new health-related platforms: *Nestlé Health Science* and *Nestlé Skin Health*.

Now, when I look at the environment around us, I see an industry which is going through fundamental and unprecedented change. Many companies are focusing on radical cost cutting to deliver higher profits in the short term. They are, however, experiencing lower or even negative organic growth. In our view, this

approach is not sustainable. Meanwhile, start-up businesses are capitalising on trends towards more local, organic or artisanal products. They innovate fast and respond swiftly to changes in the market.

We at Nestlé believe that sustained value creation is the result of both growth and operating efficiency. These are my two priorities for the company. Together with a healthy sense of urgency, they will ensure the continued success of Nestlé.

To generate growth, we are investing in our fast-growing categories and regions, in product and business model innovation and digital opportunities. In today's environment, speed is of the essence. That is why we need to move quickly to capture fast-changing consumer trends early and deliver meaningful innovation to the market. Where we experience lower growth, we are taking the necessary actions.

To free up the resources needed to support our growth, we continuously improve Nestlé's operating efficiency. Our structural cost savings programmes announced last year play an important role in this.

Dear shareholders,

Continuity and change. These two words describe the way forward for Nestlé. *Continuity* – building on the strong nutrition, health and wellness strategy of our company. *Change* – increasing our speed and simplifying the way we work.

I am confident that Nestlé has what it takes to be successful: a robust strategy, unparalleled global reach, industry-leading expertise and, above all, our people – the thousands of colleagues around the world who make Nestlé.

I thank you for your commitment and your loyalty to our company.



© 2017, Nestlé S.A., Cham and Vevey (Switzerland)  
Concept and Design: Nestec Ltd., Vevey (Switzerland)