

152nd Annual  
General Meeting  
of Nestlé S.A.  
Lausanne,  
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## Speeches

**Paul Bulcke**

Chairman of the Board

**U. Mark Schneider**

Chief Executive Officer

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## **Address by Mr. Paul Bulcke**

Chairman of the Board

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

Dear Shareholders, Ladies and Gentlemen,

2018 was a year of considerable progress and development for Nestlé.

The results achieved are fully in line with our expectations, and they confirm that your company is one of the best performing and most consistent in its industry. They also confirm the relevance of Nestlé's strategy, as well as the strength of its value creation model. Value created for you, our shareholders, but also value created for the communities in which we are present and value created for wider society. Value that is created not only over the long term, but also year after year.

In 2018, Nestlé accelerated its growth in an environment and sector that remain highly competitive and demanding. Our trading operating profit margin increased significantly, we became more efficient and reduced our structural costs, and we continued to develop our portfolio of activities and brands.

Allow me to pay tribute to the excellent work of the management team here with me, who executed Nestlé's strategy, invested wisely for the future, and made effective decisions and necessary changes throughout 2018.

I would also like to express my sincere gratitude to the more than 300 000 Nestlé employees around the world. It is due to their work, dedication and determination that the success of your company is built day after day. I thank them all on behalf of the Board of Directors and, I am sure, on behalf of every one of you.

Dear Shareholders,

Nestlé's nutrition, health and wellness strategy is more relevant than ever. It is fully in line with the needs, expectations and preferences of our consumers and wider society. These preferences are part of a major challenge that we will all face by 2050: to feed a population of 10 billion people in a healthy and sustainable way. Nestlé's clear strategic direction will help to identify significant growth and value-creation opportunities in the coming years.

In 2018, your company's Board of Directors confirmed and strengthened Nestlé's nutrition, health and wellness strategy, with an even greater focus on food, beverages and nutritional health.

In 2018, the Board also continued its renewal. The members of the Board that you, our shareholders, have elected in recent years have brought to Nestlé skills and perspectives that are helping to prepare for the future and seize long-term opportunities. It is in this spirit that we are proposing today the election of two new directors, which we will come back to later.

Throughout 2018, the Board of Directors also listened to you, our shareholders – to your concerns, questions and suggestions.

Both the Board of Directors and the Executive Board of Nestlé value your trust, loyalty and long-term orientation. With a view to continuing our longstanding policy, the Board of Directors is proposing a further dividend increase. If you accept this proposal, the dividend will increase to CHF 2.45 per share and the total amount of the dividend paid to you will be CHF 7.2 billion. This will also be the 24th consecutive year that the dividend has increased.

Now, I would like to hand over to your CEO, Mark Schneider, to talk about your company's performance in 2018.

*Presentation of U. Mark Schneider, Chief Executive Officer (s. page 8)*

Ladies and Gentlemen, dear Shareholders,

The world is facing profound changes. The global population could reach 10 billion by 2050 against a backdrop of high urbanization, population aging, migration, and constantly shifting geopolitical and economic power relations.

Producing enough high-quality food with the right nutrients in an environmentally and socially sustainable way presents significant challenges. It requires a fundamental rethinking of our food production and consumption patterns.

The first challenge is the double burden of malnutrition. Some populations consume excessive amounts of food, resulting in large numbers of people who are overweight or even obese, with the associated diseases such as diabetes and cardiovascular disease. Other populations do not have access to the quantity and quality of food they need, with micronutrients such as vitamins, iron, calcium or zinc often lacking. It is estimated that more than 800 million people in the world are still not getting enough to eat today.

The second challenge is food waste. About one-third of the food produced in the world is unused or discarded. We urgently need to reduce this waste throughout the value chain: from the production of agricultural raw materials to the consumption of finished products.

The third challenge relates to the impact our food has on the environment. We must develop production methods that are more respectful of natural resources, including water and soil. We must also adopt a diet that generates less CO<sub>2</sub> and less waste, including from packaging. And we must cultivate new sources of protein, especially from plants, if we want to be healthier and have a more sustainable food supply.

The fourth challenge is to accelerate the development of scientific knowledge, in particular that of nutritional science. This will allow us to better understand the complex relationship between our food, genes, lifestyle and health. We will also be able to develop targeted and personalized products to enhance quality of life at every stage.

The future of food, and its effects on health and the environment, is therefore a major challenge in the years ahead. It is also a huge opportunity, and Nestlé is ideally positioned to seize it. Your company has the expertise, capacity, size and desire to help address these challenges of tomorrow.

We believe Nestlé can make a positive contribution and be part of the solution, as it has done in the past. We are also convinced that Nestlé must be part of the dialog with all other stakeholders: first and foremost with consumers, but also with governments, international and non-governmental organizations, academia and civil society. We are proud of Nestlé's ability and willingness to be a positive force in society. A force that is committed to making a difference. A force for progress.

In this context, our nutrition, health and wellness strategy is more relevant than ever. It is at the heart of people's concerns and needs. It is central to solving the challenges we face to ensure sufficient, healthy and sustainable food for the future.

Our strategy is inspired by the purpose that has driven Nestlé for more than 150 years: to enhance quality of life and contribute to a healthier future. Our purpose is more relevant than ever. It inspires us, guides us and motivates each and every one of us, every day. Our purpose is based on a strong conviction: we want to leave our children a healthier, happier and more sustainable world than the one today.

It is this purpose and conviction that makes Nestlé a unique company – a company that has established the creation of shared value as a fundamental principle of how it does business. Value for you, our shareholders, but also value for society at large. For individuals and families, for the communities in which we operate, and for our planet. We believe that this is the best way to develop our business in the long term and in full harmony with the world around us.

Our initiatives to support children's health, young people's futures, rural development, sustainable water management, diversity and inclusion in our company are some examples of our actions. In 2018, we also intensified our efforts to improve our packaging and reduce the use of plastic and its impact. Our concrete actions demonstrate our strong commitment to these issues.

Nestlé has always focused on the long term. We maintained this focus even when, a few years ago, short-term models were in vogue – models based excessively and even exclusively on cost reductions and restructuring. Nestlé on the other hand has always invested in its future growth – healthy and profitable growth. Nestlé has continually advanced knowledge development, innovative technologies, new products, its brands and – last but not least – the skills and education of its employees. We will continue to do so to ensure Nestlé's long-term development and performance, while maintaining high intensity in the short term.

That is why Nestlé needs first-class corporate governance, beginning with a first-class Board of Directors. A Board whose primary responsibility is to ensure that Nestlé remains healthy. A Board that has an accurate assessment of the environment in which Nestlé operates and asks the right questions. We pay particular attention to the composition and renewal of the Board. We aim to always have the right balance of diversity, experiences and perspectives to understand and anticipate the changes affecting our industry. Our directors look after the good of Nestlé – and protect your interests, dear Shareholders.

It is in this spirit that we have called on, and you have elected, seven new independent directors since 2015. And it is why we are today proposing two new candidates who, if elected, will bring their vast experience to the Board and Nestlé.

Ladies and Gentlemen, Shareholders,

A company like ours is an integral part of the community in which it operates and exists. It must therefore commit to and express its views on important issues.

I would like to address a point that was raised last year, because it is a subject that concerns me: the responsible business initiative here in Switzerland. In our opinion it is a well-intentioned but ill-conceived initiative. Nestlé is a responsible company. We firmly believe that a company like ours must respect human rights and protect the environment – principles that we apply all over the world. But we are also convinced that it is concrete actions on the ground that make a real contribution – not an unprecedented constitutional article like the one proposed. We actively supported efforts to develop a counterproposal to correct the shortcomings of the initiative and result in its withdrawal – unfortunately in vain.

If the initiative – or a similar counterproposal – were to be adopted, companies based in Switzerland would be forced to constantly prove their innocence. Our country's courts would to an extent become the world's police force. This seems inappropriate and counterproductive to us. And to repeat: Nestlé is a responsible company – not out of obligation, but out of conviction!

Dear Shareholders,

Before concluding, I would like to salute, once again, the women and men who work in your company day after day. It is also for them that we must have the proper strategy, the ability to make informed decisions and the right values,

rooted in respect. This is what guides us and our employees. Because it is people who make a difference. And you, our shareholders, allow us to do so.

We are committed to further developing Nestlé and creating value for you and society at large. The competitive environment in which we operate will remain very intense in the future. We are prepared for this. We will continue to evolve Nestlé to ensure it remains relevant and competitive, on the cutting edge, avoiding complacency. We remain on our toes.

We appreciate your support and trust, your attentiveness and input – we want to continue our dialog with you. Above all, we want to continue to reward your loyalty and long-term orientation through our performance.

On behalf of the Board of Directors and Executive Board, I thank you, our shareholders, for your trust in and commitment to Nestlé.

Thank you for your attention.

## **Address by Mr. U. Mark Schneider**

Chief Executive Officer

Thank you, Paul.

Good afternoon, Ladies and Gentlemen, dear Shareholders,

Let me also welcome you to our Annual General Meeting.

2018 was a successful year, with our continuous efforts over the past years bearing fruit. Organic growth and profitability improved significantly.

2018 was also a busy year. Nestlé made some important decisions, all of which led to sharpening our strategic focus on food, beverages and nutritional health.

We also had to make some difficult decisions, which affected our employees in many parts of the world. Some of these decisions also affected Switzerland. We understand that these changes are a source of uncertainty for our employees and their families. I assure you that Nestlé is committed to supporting its employees in a fair and respectful way. Nestlé has always made it a point of honor to do so.

We are proud of our more than 300 000 employees. I would like to express my gratitude to them for their dedication, passion, and ability to innovate and adapt. I thank them on your behalf as well. Thank you.

Let's now take a closer look at our financial performance in 2018. The results are good and in line with our expectations. The Group generated sales of 91.4 billion Swiss francs and achieved organic growth of 3%. Real internal growth was 2.5%.

Underlying trading operating profit, which excludes restructuring costs and other items, amounted to 15.5 billion Swiss francs.

This represents a margin of 17%, up 50 basis points in constant currency compared with the previous year. Our net profit attributable to shareholders increased by nearly 42% to 10.1 billion Swiss francs. This corresponds to earnings per share of 3.36 Swiss francs. Our net profit was supported by several exceptional items, including proceeds from the sale of businesses.



It is important to note that we also recorded a sharp increase in our underlying net profit, which excludes exceptional items. The improvement in our performance and operational efficiency supported our results.

Free cash flow increased by nearly 15% to 10.8 billion Swiss francs. This is mainly due to the increase in operating profit, improved working capital and disciplined capital expenditure.

This substantial free cash flow has enabled us to return to you, dear shareholders, 13.9 billion Swiss francs in the form of dividends and share repurchases.

Ladies and Gentlemen, Shareholders,

As you can see, all of your company's key financial performance indicators are positive. Our value creation model is clearly gaining traction and we are on track to achieve our objectives for 2020. However, we know that we still have a long way to go, and we will continue to execute our strategy with discipline and determination.

Last year, Nestlé significantly developed its product portfolio. We integrated activities with strong growth potential and strengthened our nutrition, health and wellness strategy, focusing on food, beverages and nutritional health. In 2018, we made acquisitions and divestments totaling nearly 14 billion Swiss francs.

Our most important transaction was certainly the acquisition of the license to market Starbucks coffee products outside of the company's coffee shops. We are delighted that this transaction was completed so quickly. The alliance with Starbucks has already strengthened our position in the global coffee sector. The new Starbucks brand capsules for our Nespresso system are now produced in our factories in Orbe and Avenches, here in Switzerland.

In 2018, we also announced our intention to explore strategic options for Nestlé Skin Health. This unit made significant progress over the past two years, but after careful consideration the Board of Directors found that its growth opportunities are increasingly outside the scope of Nestlé's nutrition, health and wellness strategy.

Ladies and Gentlemen,

Our main growth driver remains innovation. Each year, Nestlé launches up to 1500 new products and improves the recipes of some 8000 existing products. Innovation is a key factor in the long-term success of your company.

This is why our research and development budget is one of the highest in the industry. Our priority is to improve our ability to innovate and increase the impact of our innovations.

I would also like to point out that most of our investment in research and development is made in the Lausanne region.

Now, let's look behind the numbers.

Nestlé has always believed that business must also serve the common good. Our principle of creating shared value – for shareholders and for society – dates back to our company's origins. We apply this fundamental principle to all our activities, all over the world.

First of all, we want to contribute to healthier lives, with a particular focus on children's nutrition. Lifelong eating habits are formed in childhood. Improving the nutritional profile of our products is at the heart of our action. Accordingly, our Nestlé for Healthier Kids initiative brings together all our efforts in this area: from reformulating our products to raising awareness about the importance of healthy eating for parents and children.

We are also strongly committed to the communities in which we are present. Our Nestlé needs YOUth initiative is an excellent illustration of this. With this initiative, we aim to help 10 million young people access economic opportunities. This includes our support for young farmers, as well as for rural development.

Finally, we are strongly committed to the environment. One of the most urgent environmental challenges is that of packaging waste, in particular plastic-related waste. In April 2018, we pledged to make our packaging fully recyclable or reusable by 2025. We also created our Institute of Packaging Sciences right here in Lausanne.

In January 2019, we announced a series of specific measures that are based on three pillars: The first is to phase out all non-recyclable or hard-to-recycle plastics, and replace these with alternative materials that are recyclable or even biodegradable, which we are currently examining. We are also developing

new distribution systems for our products with reusable packaging to reduce single-use packaging. All the options we consider must of course guarantee the safety and quality of our products.

Our second pillar is to achieve a waste-free future. In Asia, we are involved in projects to prevent the further accumulation of plastic in nature and the oceans.

The third pillar is to promote good behavior starting internally. For example, we have already taken steps to eliminate non-recyclable single-use plastic items in all our facilities worldwide.

June 8 is World Oceans Day. To mark this occasion, Nestlé employees around the world will participate in beach cleanup operations. The management and employees of the Group's headquarters here in Switzerland will participate in the Lake Geneva shore cleanup two weeks later.

Solving the problem of plastic waste requires large-scale, well-coordinated and long-term efforts. There is no single or easy solution.

Nestlé creates shared value in many other ways. The fight against deforestation in our supply chain and the preservation of water in our operations are important examples. Creating shared value is and will remain the way Nestlé does business. Paul Bulcke will come back to this point later.

Ladies and Gentlemen, Nestlé is committed to continuing to work on innovation, growth, efficiency and sustainability. This is how we will position Nestlé for sustainable success in the future – for you, our shareholders, and for society at large.

Thank you for your attention.



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