Good Food, Good Life

Speeches

142nd Annual General Meeting of Nestlé S.A.
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Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Address by Mr Peter Brabeck-Letmathe

Ladies and Gentlemen, dear Shareholders,

One year ago, I expressed my full confidence that we would again reach our objectives in 2008. And we did: with organic growth of 8.3 % and a further improvement of the EBIT margin to 14.3%, your Company achieved strong sales growth and profit, and we delivered - even outperformed - again the Nestlé Model, for the 13th time in a row. This is a remarkable performance and an achievement which stands in stark contrast to the dramatic deterioration of the environment we are operating in.

Ladies and gentlemen, these results are due especially to our 280 000 employees. Their commitment, their professionalism, their energy as well as their enthusiasm are at the core of the success of our Company. And I am sure that you, dear Shareholders, will join me when I express my gratitude and thanks to each one of them.

Ladies and gentlemen, allow me to speak for a few moments about the current general situation. 2008 was a historic year that dramatically changed the world and the business environment. The destructive global power of the financial crisis became worryingly clear last year. Meanwhile the industrial sector has also plunged into a profound crisis. In fact in many regions economic growth towards the end of last year virtually stopped, pushing major economies simultaneously into recession. The world has not seen such a contraction since the first oil shock in the 1970s - and even that was not so widespread in terms of regions and sectors.

Without any doubt, the present crisis is unprecedented in scope. We cannot measure the depth of this recession because we have never experienced such a situation in our lifetime.

Central to this crisis is a general loss of trust, by investors, employers, employees, and hence increasingly by consumers. Some once reputable companies have disappeared, gone effectively bankrupt, or depend for their survival on the goodwill of governments. Given the uncertainty of jobs, and pension schemes, many consumers are increasingly wary to spend. Without trust, free markets and economic growth collapse. Governments now try to counteract by opening their coffers wide and large, and central banks are massively increasing liquidities, raising the specter of sovereign debt crises or hyperinflation, or both.

The present economic difficulties are bound to have political consequences. I will mention just two.

First, although most governments may publicly claim their firm adherence to free trade, and pontificate about the dangers of protectionism, many of them seem to nevertheless fall back into protectionist behavior. President Obama's new administration has yet to prove that the ominous "buy American clause" in the gigantic US stimulus package is not a harbinger of discrimination, inward-looking trade policy, and protectionism. And the same holds true for some European governments, which put at risk even the "acquis" of the internal market.

On a second, more fundamental level, I believe that this economic crisis goes hand in hand with a crisis of values. The foundations and merits of free society and of free enterprise are being severely questioned. Governments believe that they have to do everything in their power to lift demand to safeguard economic structures, regardless of their competitiveness and long-term viability. However, in order not to recreate the basis for another crisis, which could be even worse, state intervention must be temporary and clearly targeted. Governments cannot substitute themselves for entrepreneurs and free enterprise, unless we are willing to go down the road to the type of economic nationalization long thought to be overcome, and that history has proven to end in failure.

Ladies and Gentlemen, do not get me wrong. I do not believe that the future is all doom and gloom. Times of crisis are times of opportunity. But we have without doubt entered a period of unprecedented volatility and insecurity, and it is extraordinarily difficult to foresee what the post-crisis world will look like. For this reason, whatever the decisions of government and other economic actors, these must be very carefully weighed with their long-term implications in mind.

Despite this challenging background, and as I stated earlier, your Company has succeeded once again to muster a very solid performance.

It is my pleasure now to invite your Chief Executive Officer, Mr Paul Bulcke, to give you the details of the excellent results of 2008. Paul will also inform you of the strategy and performance framework that we have put in place to take us through this crisis with confidence and make your Company even stronger. Paul.

Presentation of Mr Paul Bulcke, CEO (see page 7)

Thank you Paul. As Paul clearly showed, your Company is fully and comprehensively equipped not only to ride the waves of this crisis with confidence, but to hold strong and further strengthen our position as the world's leading nutrition, health and wellness company.

Ladies and Gentlemen, Nestlé is constantly evolving and adapting to external circumstances. At the same time we have also taken some important steps to consolidate our internal structures, notably by reforming and modernizing our corporate governance. I would like to talk about this in further detail as, in these turbulent times, a strong corporate governance framework is of particular importance

At our last meeting you approved a complete revision of our Articles of Association. From now on, these serve the best interests of our Company, which aims for the long-term, sustainable value creation, a commitment which was specifically added to the purpose clause of the new Articles.

In terms of governance, the Board of Directors appointed Mr. Paul Bulcke as Chief Executive Officer. With your approval he was appointed by the Board as "administrateur délégué". Our new Board Regulations clearly spell Paul's responsibilities as well as mine. Paul, as CEO, is entirely in charge of all aspects of operational management and as "administrateur délégué" he also participates fully in the Board's work. For my part, I focus on group strategic and financial options, specifically our special investments in Alcon and L'Oréal as well as other inalienable decisions of the Board such as governance and institutional relations. I can report to you that the chosen governance model has proven to work very efficiently for us, and the transition has been exceptionally smooth.

Compensation policy remains the subject of much public debate. Last year, we produced for the first time a special annual compensation report, which you approved as part of the approval of the annual financial statements, as foreseen in the Swiss Code of Best Practice for Corporate Governance. As a result of discussion with many shareholders, in today's meeting we are submitting our compensation report, for the first time, for acceptance in a separate, advisory vote, as per the alternative procedure foreseen in the Swiss Code of Best Practice. This is a temporary solution whilst we wait for the result of the current revision regarding Company Law.

Let me emphasize in this context that a clear separation of the responsibilities of the shareholders, on the one hand, and the Board, on the other hand, remains an essential element of good corporate governance. It is only the Board of Directors that has a fiduciary duty to ensure the long term interests of the company. And only the Board has the legal obligation to appoint, evaluate and remunerate management and has the necessary information to do so. Setting the compensation of the management must therefore remain an integral part of this inalienable responsibility of the Board of Directors.

Conversely, and as I have indicated before, we are not in principle against a shareholder vote on the compensation of the Board of Directors, including my own. The shareholders elect the Board of Directors and should therefore formally set its compensation. What remains to be clarified, however, are certain practicalities. What happens, for example, if the shareholders at the meeting make various counterproposals? What happens if the vote comes out negatively? Would this imply the immediate resignation of members of the Board of Directors or the calling of an Extraordinary Meeting of Shareholders? It is not acceptable that a company be thrown into turmoil as a result of such a vote. For this reason, several investors have indicated to us that they prefer a system that has proven to work elsewhere, i.e. a separate advisory vote on the compensation report. And this is what we are proposing to you today as a temporary solution.

The development of the corporate governance framework in our country remains an important topic for us. Switzerland has been a good base for us throughout our history and we want it to be kept as an attractive market place for international companies.

Ladies and Gentlemen, our Company has been in business for more than 140 years. In 1867, Henri Nestlé established his firm in Vevey, a year after George Page had founded the Anglo-Swiss Condensed Milk Company in Cham, the two original pillars on which Nestlé was built. Our Group has remained true to its first raison d'être - to provide nutritional solutions to consumers around the world. And it has remained true to its values. Our past and present activities have been, and still are, shaped by a sense of modesty, pragmatism, openness and tolerance. In this period of economic and social turbulence, more than ever, strong long-term orientation, clear strategies, and disciplined implementation based on solid values are essential to perpetuate the success of a Company. These values are more important now than ever.

We are a profit-oriented commercial enterprise; and yes, we want to be good "corporate citizens" respecting our "social responsibility" wherever we operate. We have defined this ambition in a more precise and meaningful principle that we call Creating Shared Value. This concept was also presented in last year's General Meeting. Creating Shared Value is the expression of our firm conviction that only by creating value to society as a whole, can we create long-term value to our shareholders. This is not a fashionable add-on for sunny days that we would forego when times get tougher. It is the Nestlé way of doing business.

As part of our Creating Shared Value approach, we have identified three long-term priorities. The first of these is nutrition, where we are creating more nutritious, better-tasting, affordable products for consumers at all income levels. Actually, this year a publication about nutritional needs and quality diets, forms an integral part of our Management Report. The second priority is the critical area of water. Water is an essential human need. People need better access to water, particularly in vulnerable regions. Also, water availability is a necessity for our operations. The third priority concerns rural development, which includes investing in operations close to farmers, suppliers and consumers in emerging markets to build our presence and improve the living standards of rural communities.

On April 27th and 28th we will be presenting our concept of Creating Shared Value and our activities at a forum in New York. This will bring together high-level representatives from the United Nations, from non-governmental organisations (NGOs) as well as opinion leaders. This is a new step for us and forms part of our moves to intensify our dialogue with these international circles. You can follow this event live via our website.

Ladies and Gentlemen, I firmly believe that Nestlé is very well positioned, not only to overcome this crisis with confidence, but to seize future opportunities. This Company and its people have all the ingenuity, the strength and resilience to take up the great challenges which are becoming clearly visible on the horizon:

By 2050 we will need to double world food production to be able to satisfy the needs of the then 9 billion people living on this planet. To avoid a food crisis, policies on agricultural subsidies and trade barriers, on biofuels and water have to change radically. And business can also make its contribution: in traditional agriculture, lost produce and waste, estimated at 40 – 50%, could be considerably reduced through better infrastructure and better organized supply chains.

Markets for food products are rapidly evolving: Over the next ten years, an additional 1 billion people in emerging markets will enter the cash economy and become consumers of branded nutritional products.

And finally, in developed, but more and more also in emerging countries, food and beverages will increasingly be judged by their value-added, intrinsic nutritional advantages.

Nestlé’s comprehensive product and brand portfolio, covering all income groups and nutritional needs, coupled with its formidable innovation and renovation capabilities, position your Company well to take up these challenges and continue its growth.

We are optimistic about change. Nestlé's approach has always been to focus on the long term perspectives, while continuously delivering short term results. The current crisis has quite brutally revealed the traps of "short term-ism". We have never subscribed to such a philosophy.

Economies across the world have considerably weakened these past months and it is quite probable that future developments will further weigh on consumer demand. However, in the strongly recessionary environment of the first quarter of 2009, Nestlé succeeded in achieving a respectable level of organic growth, in line with our expectations. There is no reason for the moment, therefore, to modify the ambitious objectives that we have fixed for the current year.

Ladies and gentlemen, the course for your Company – which wants to be the world leader in Nutrition, Health and Wellness – has been set, and throughout this journey, which has only just begun, we have always been able to rely on the support of you, our Shareholders.

In conclusion, it therefore remains for me to thank you, on behalf of myself and the Board of Directors, for your trust and for your attachment to our Company.

Address by Mr Paul Bulcke

Thank you Peter, and good afternoon, Ladies and Gentlemen.

It is an honour and privilege to present our results from 2008 and to explain our business strategy for 2009 and beyond.

As you have heard, your Company has created a strong momentum and the results of 2008 reflect this.

In 2008, our Group sales grew to almost 110 billion Swiss Francs, representing 8.3% organic growth. As for profits, we achieved an EBIT of 15.7 billion Swiss Francs, with a margin improvement of 30 basis points, which is 50 basis points in constant currencies. Our EBIT margin has now reached 14.3%.

Net profit also climbed significantly to 18 billion Swiss Francs, including the profits from the sale of 24.8% of Alcon to Novartis. Our underlying earnings per share grew 10.9% in constant currencies.

The share buyback programme, launched in September 2007 is on track and will be completed, subject to market conditions, within the 36-month period originally planned. In 2008, the Group spent 8.7 billion Swiss Francs on buying back its own shares, which brings the total value of repurchased shares to 13.1 billion Swiss Francs. Combined with the 4.6 billion Swiss Francs paid in dividends in April 2008, we returned a total of 13.3 billion Swiss Francs to you, Ladies and Gentlemen, our shareholders, during 2008.

Since 2005, we have returned a total of 32.3 billion Swiss Francs to you, and it is likely that we will return an additional 9.1 billion this year.

In 2009, the Group is giving preference to the dividend, as evidenced by the 14.8% increase that we are proposing to you today. This differentiates us from present market trends. In addition, this year we intend to invest around 4 billion Swiss Francs in the repurchase of our own shares.

The Food and Beverages business was the key contributor to our performance in 2008, with 8.2% organic growth and a 40 basis point improvement in EBIT margins in constant currencies. For the second year in a row, most sectors contributed to this result. Each of our three Zones, our geographical areas, achieved good levels of organic growth as well as EBIT margin improvements.

This demonstrates the momentum in our business, and is one of the reasons why we remain confident for this year, despite the very tough environment.

The main force behind our performance is our brands. Their success is increasingly derived from their inherent nutritional credentials. Our Company's commitment to growing our brands towards consumers is demonstrated by a 7.5% increase in consumer-facing marketing spend in constant currencies. The engine of these efforts remains innovation and renovation. Taken together, our annual R&D expenditure has increased by 10%, and we are constantly looking to maximise leverage of our R&D platform.

The billionaire brands, more than 70% of our food and beverage sales, remain the key drivers of growth. In 2008 many outperformed their markets, driven by our continuing focus on nutrition, health and wellness; by our accelerated targeting of the particular needs of consumers in different economic circumstances; by our significant presence in emerging markets; by around 10% growth with our top 10 customers; and by our multi-channel distribution and multi-price point strategies.

On the efficiency side, in 2008 we saw the benefit of our accelerated focus on cost savings. Earlier than others, we anticipated the increase in commodity prices and implemented rigorous cost controls. This helped compensate the impact of these effects on our cost of goods sold. It also benefited our distribution, marketing and administration costs. Through this anticipatory action, we were prepared for a more difficult environment, whilst concentrating our efforts on growth generation.

So, despite the difficult situation during the last months of 2008, as Peter mentioned previously, we not only achieved the Nestlé Model, we outperformed it.

In fact, our Company is constantly accelerating and evolving. We don't wait for bad times to redeploy our resources, or to otherwise adapt, but we try to anticipate coming trends. This means that we are better positioned to face turbulence, and even storms, and see them through. We are constantly fine-tuning and engineering our organisation for optimal performance. Our focus is clearly on acceleration! Getting more done with the same resources, doing things quicker, faster and smarter, and with more impact.

Nestlé has 280 000 people who know that to achieve our ambition we must share one vision and be aligned behind a clear strategy. We are all aligned behind the same goal which is to be recognised as the world leader in nutrition, health and wellness, and to be the reference for financial performance in our industry.

We express this strategic alignment at our Company with a simple chart which we call the Nestlé Roadmap. This sets out the strategic and performance framework that will allow us to achieve our ambition. It is key to our continued growth and ever more relevant in today's environment. This is why we explain this in detail to you, our shareholders, in our Management Report of 2008.

Our Roadmap shows what we want to be and outlines the way we are going to achieve this.

So what are our competitive advantages? They are our diverse product and brand portfolio; our industry-leading R&D capability; our unmatched geographic spread; and our people, values and culture.

What are the growth drivers? We have identified four. They are, firstly, nutrition, health and wellness; secondly, emerging markets and consumers, including popularly positioned products (PPP); thirdly, the out-of-home market; and fourthly, premiumisation.

Finally, we continue to work with our four strategic pillars which guide our actions on a daily basis. They are innovation and renovation; operational efficiency; global product availability; and consumer communication.

The strength of this roadmap is its clarity and simplicity. It allows our people to delegate and empower their teams with increased individual responsibility and autonomy across all levels of our company. This alignment permits more flexibility, more initiative, more creativity, more discipline and faster action and execution.

We believe that our strategy places us in a good position, and is all the more appropriate in difficult times. Not only does it give us excellent defensive characteristics, it also creates a platform for profitable growth that has proven itself to be one of the most vigorous in the industry. This will continue to guide and inspire our success through the present economic downturn.

With that, Ladies and Gentlemen, I hand you back to our Chairman. Peter.

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