

145th Annual
General Meeting
of Nestlé S.A.
Lausanne,
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Speeches

Peter Brabeck-Letmathe

Chairman of the Board

Paul Bulcke

Chief Executive Officer

Address by Mr Peter Brabeck-Letmathe

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Ladies and Gentlemen, dear Shareholders,

Once again, I have the privilege to report to you that your Company has had a very successful year with strong results: with organic growth of 7.5% and 60 basis points margin improvement, we have delivered “the Nestlé Model” for the sixteenth consecutive year. This solid performance, both top and bottom line, allows us to propose to you an increased dividend of CHF 1.95 per share. At the same time, we have continued to invest to ensure your Company’s growth in the future, highlights of last year being the first year of operations of Nestlé Health Science and the Nestlé Institute of Health Sciences, as well as the creation of important new partnerships in China.

Our CEO, Mr. Paul Bulcke, will present the operational results in detail. Let me just stress at this point how solid the performance of the Company has been and continues to be over time. Year after year, we have been “adding” through internal growth, i.e. through our own efforts, the equivalent of a new multibillion Swiss franc company. This growth drive has not once been interrupted in spite of a very difficult external environment. Since the beginning of 2006, Nestlé has created CHF 85 billion of additional shareholder value.

Recent times have been characterized by a whole host of events, developments and crises – economic, social and political – ranging from the unexpected to the dramatic. Yet the strong management of Paul Bulcke and his team has stayed the course, steered Nestlé with a steady hand through these turbulent times and seized new opportunities that always arise, whatever the circumstances. And ultimately, it is the motivation, the professionalism, the creativity, but also the global alignment and the hard work of all our employees – now 328 000 persons – that make these results possible. Looking back on another successful year, I want to say to each one of them my sincere thanks for another job well done, and I know that I am also speaking on behalf of all of you.

Presentation by Mr Paul Bulcke, Chief Executive Officer (see page 9).

Thank you, Paul.

Ladies and Gentlemen,

Last year, I devoted a great deal of my address to the theme of corporate governance and the respective roles and responsibilities of the different bodies. As I underlined at that time, the Board of Directors is the ultimate governing body and has certain inalienable duties and responsibilities, including the direction and control of the Group, the determination of its organization, financial control and planning, the appointment and supervision of the Chairman, the CEO and the members of the Executive Board, the approval of our long-term strategy and the review of our governance, compliance and annual risk assessment.

This year I want to report to you in a little more detail what the principal activities of your Board have been during 2011 and how the Board responded to its task.

Every year we perform self-evaluations of the Board and all our Committees and agree on a work plan for the coming year. Critically, we evaluate the performance of the CEO and management and determine their compensation. We review our succession planning and made four important appointments to the Executive Board last year.

In this context the Board also reviewed our gender strategy and the quite specific plans that management has put in place through our gender program to build up from below the pool of women to come up through our organization.

As for financial planning, the Board started the year 2011 with a review of the deployment of the Alcon proceeds and of our transition to new revenue recognition policy. We also dedicated specific discussions to our Raw Materials, as the pressure on commodities intensified. Your Board also reviewed our Capital Investments and performed an in-depth analysis of our financial situation.

Every year we devote a significant amount of time to strategic discussions. By way of example, last year, a special focus was put on the topic of Obesity, in particular childhood obesity.

Our strategy in the emerging markets was exemplified by our two large partnerships in China, Yinlu and Hsu Fu Chi. Paul Bulcke has just talked about this. The Board also undertook its annual visit this time to an emerging market, Brazil, the leading market for our PPP strategy. These visits allow our Board to see the implementation of our strategy on the ground, observe local management and meet important personalities like President Lula and President Cardoso on this occasion.

The biggest strategic shift of course relates to our new orientation towards a Health Science business. It has been a critical year for Nestlé Health Science, completing its operational set-up and defining its strategy in support of our long-term vision to become the leader in personalized nutrition aiming at preventing and addressing chronic health conditions. Nestlé Health Science made several acquisitions in 2011, including Prometheus, a U.S. company specialised in diagnostics and therapeutic products. This acquisition will allow us to develop personalized healthcare solutions, based on diagnostics, pharma and nutrition. In parallel, we set up the Nestlé Institute of Health Sciences on the EPFL campus, which has started to provide us with scientific support for our new business.

Last year, elements of our governance, risk and compliance were regularly reviewed and included the strengthening of a worldwide anti-bribery program and an internal integrity reporting system, where our employees can raise compliance issues confidentially and even anonymously. The financial crisis resulted in a close look at our pension situation and our funding strategy as well as an increased focus on our financial risk management. Our annual board risk assessment was based on more than 70 risk assessments that were performed at Group level as well as in the markets.

Every year in November, we review our overall strategy against the macroeconomic background. This also led us to review the Nestlé financial model. As I said at the outset, we have accomplished this model for the 16th consecutive time last year. And I am happy to add that we found this model to be sustainable.

This is a short report on the work of your Board of Directors last year.

Ladies and Gentlemen,

2011 has also been a key year with respect to our activities related to water. Water is the single most critical factor for the long term sustainability of our business. Water is needed all along the value chain, from the cultivation of our agricultural raw materials to the manufacturing of our products to their preparation by the consumers.

Last September, Nestlé was honoured with the highest international distinction for innovation and leadership in water sustainability – the prestigious Stockholm Industry Water Award –, Sadly, the global water security issue is still not well known enough or not sufficiently recognized. Take as an example the debate, often ideological, on bottled water. What is the problem?

In order to feed the future 10 billion inhabitants of the planet, food production will have to nearly double. The most constraining factor is water, our most precious natural resource, which is already overused today in an alarming proportion. If this problem is not addressed with urgency and determination by all actors involved, today's global water crisis will be compounded by a future global food crisis.

Today 70% of global freshwater withdrawals go into agriculture, mostly for irrigation. 20% go into industry, and 10% go into households, for anything from drinking, taking a shower, to washing cars or filling swimming pools.

1.5% of total water withdrawals are necessary to assure what is rightly considered a Human Right: 5 liters of water for hydration and 25 liters per day and person for minimum hygiene. Governments have a moral obligation to assure the adequate access to this human right for all parts of the population. The recent report of the United Nations has shown that progress has been made over the last couple of years, but the reality is still today that from 800 million to 1 billion people do not have access to safe water.

The linchpin is agriculture, with 70% of water withdrawals and more than 90% of total water usage! At the current rate of overuse of water, harvests will decline dramatically, by 2030 to the tune of the whole grain harvests of the USA and India combined. On top of that, several governments around the world have adopted green energy policies which heavily subsidize crop production for biofuel!

Just imagine: it takes up to 4600 liters of water to produce 1 liter of bioethanol and up to 9100 liters of water for 1 liter of biodiesel, the preferred biofuel of Europeans. If water for biofuel production had any value – even 1 centime per liter – we would not find any commercial rationale for such an aberration. And it is this energy policy of imposed, heavily subsidized biofuels which is the principal cause for the enormous price increases of agricultural raw materials of the last 3 years, which have pushed hundreds of millions of people back into extreme poverty.

Ladies and Gentlemen, Food is for feeding people, not for feeding cars! Food is the power of life, not the power of engines. Therefore our strong policy claim: "no food for fuel"!

If governments assumed their responsibility to supply adequately the human right of 1.5% fresh and healthy water to every person on earth, we could be discussing with less emotion about what we need to do with the 98.5% of water which is inefficiently and often irresponsibly used by agriculture, industry and households!

Value is what you get, price is what you pay. Water is of enormous value, but being available often free or heavily subsidized, it is wasted in a shameful manner. Water needs a more respectful treatment reflecting its true value and in consequence deserves an adequate price as any other precious raw material does!

Another issue which gives rise to heated debate is the so-called “privatization” of water. First of all, water per se - rain, rivers or underground aquifers – cannot be privatized. What can be privatized is the service to bring the water to the users, whether it is in pipes or bottles, or the use of part of the available water.

In today’s world, more than 97% of all water supplied to households is delivered by public utilities and less than 3% by private companies. Unfortunately statistics show that no matter who is in charge, the performance of the service is catastrophic with up to 35% of water lost in European countries and up to 70% in emerging ones, due to insufficient investments in the necessary infrastructure.

In France alone the annual loss is 1.5 billion cubic meters which corresponds to 3 centuries of the national consumption of bottled water (which is 5.2 millions of cubic meter per year).

Ladies and Gentlemen,

What is Nestlé’s contribution to solving the water problem?

First of all, we start with ourselves by constantly improving the water efficiency of our own operations, from farmer to consumer. We use about 0.005% of global freshwater and have calculated that per dollar of sales, we used 4.5 liters of water ten years ago and 1.5 liters of water in 2011. You will find a lot more information on this in the Water Report that forms part of the Annual Report and that I specially recommend to your attention.

In fact, for our 2011 Creating Shared Value Report, we are the first food and beverages company to have received the top rating (A+) from the Global Reporting Initiative, a world renowned organisation.

We will relentlessly pursue the drive for continually increasing water management efficiency. These efforts are embedded in a general policy to strive for maximum resource efficiency. Over the last 10 years, they have resulted in a reduction of energy consumption by more than 40% and in halving the emission of greenhouse gases per ton of manufactured product.

The amount of water Nestlé uses for its bottled water accounts for 0.0009% of total global water withdrawal. This figure shows the true proportions, but even 0.0009% may be too much for those who, for whatever reason, consider bottled water something “evil”. To them, let me say two things: First, bottled water is not in competition with tap water, but with other bottled drinks, notably soft drinks, most of which contain sugar and colorants and which for their production require a multiple of the quantity of water needed for bottled water. Second, to those who fear that we exhaust water resources by bottling water, I would like to invite them to visit one of our sources – e.g. Henniez, 35 km northeast of here, or Vittel in neighboring France. You will see how we work with local farmers and communes, making agriculture more ecological and improving the quality of the groundwater for the whole region. It is in our business’s own long term interest to use its essential resource responsibly and sustainably! This is true in Switzerland, in France, in America and in Pakistan – everywhere!

Nestlé can have an impact through its own operations, but truly sustainable solutions can only come from a collaborative response from multiple stakeholders. The many projects we undertake, e.g. together with the Federation of Red Cross and Red Crescent Societies in Africa, to drill wells and provide sanitation to rural communities, are hugely important to the local populations who benefit, but they remain essentially ad-hoc humanitarian actions. Also on the humanitarian level, Nestlé is present – often the first on the scene – when crises happen, witness our support in Haiti after the earthquake, where we donated millions of bottles of water to the victims.

Working with multiple stakeholders in a public-private partnership is the principle behind an initiative that was established at the WEF in Davos in 2009, called the “2030 Water Resources Group”. Together with the International Finance Corporation, an arm of the World Bank, and a group of other international companies, this group which I am chairing, works with individual governments to find cost-effective solutions for water stress problems in individual watersheds. These are important concrete steps to bring freshwater withdrawals back into balance with natural renewal.

Nestlé has been and wants to continue to be part of the solution to the global water crisis which is serious and, if not decisively addressed, will inexorably push us into a global food security crisis. Solutions do exist and your Company, the world’s biggest food and beverages company, has an important role to play in this collective effort.

Ladies and Gentlemen

Water is only part, although an essential one, of the overall effort of your Company in the area of sustainability and Creating Shared Value, intensifying our relations, cooperation and communication with external stakeholders. Let me highlight two important new developments in this respect:

In 2011 we were included, as the first and only infant formula manufacturer, into the responsible investment index of the London Stock Exchange – the so-called FTSE4Good – after having undergone a very rigorous external audit of a whole range of company policies and practices, notably in the areas of supply chain, human rights and breast milk substitutes marketing. Particularly in the very sensitive and historically charged area of infant nutrition, additional external verification in India and Zambia confirmed that Nestlé has implemented the most rigorous control mechanisms in the industry.

Another very difficult and disturbing problem area is the occurrence of child labour in the production of agricultural commodities, especially cocoa. The chocolate industry has been repeatedly accused of turning a blind eye to unacceptable practices on the thousands of mostly small cocoa farms, or at least for not doing enough to prevent such practices. We have been working over the last years to address the problem, without receiving satisfactory assurance of concrete results, partially due to the fact that the most important cocoa producing country, the Ivory Coast, was subject to a cruel civil war. As the first company in the food sector, we have therefore initiated a collaboration with the internationally recognized NGO Fair Labor Association to help us bring transparency into our cocoa supply chain and to assist us in defining and implementing corrective measures, together with the other stakeholders involved (local governments, middlemen and traders, as well as the International Committee of the Red Cross among others). Clearly, both child labour and slave labour have no place in our supply chain.

Dear Shareholders,

Your Company is strongly positioned to live up to the challenges of an uncertain economic and political environment and to continue its unmatched success story. Its track record and consistency over the last difficult and turbulent years speak for themselves. Fortune Magazine has just ranked Nestlé as the world's most admired company in the Consumer Food Industry, for the seventh straight year.

Actually, Nestlé is today the largest company by sales and market capitalisation in the fast moving consumer goods industry worldwide, a market capitalisation that places us 12th among global companies in any sector. We have a powerful vision

– to create the market for Nutrition, Health and Wellness and be its undisputed and recognized leader. We have clear strategies in place that will enable our management to leverage the company's innovation capabilities and to seize the opportunities for continued profitable growth. And we have the people in this Company who are able and motivated to make it happen.

I would like to conclude by thanking you, in the name of the Board of Directors, for your loyalty and for your long term commitment to Nestlé.

Thank you for your attention.

Address by Mr Paul Bulcke

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

Ladies and Gentlemen, our Company achieved a solid performance in 2011, with excellent results in both emerging and developed markets and across all categories.

These results were achieved in what was a particularly challenging year. Unprecedented events have been unfolding that are changing the face of the world in many unexpected ways – economically, financially, politically and socially. We have seen continued subdued consumer demand in the Western world and raw material costs have risen considerably. At the same time, Europe has been going through an economic and monetary crisis and many countries have faced political turbulence.

But despite such a challenging environment, our Company delivered very good results, and these came on top of the good performances achieved in previous years. Our total Group sales amounted to CHF 83.6 billion with organic growth of 7.5%. Our trading operating profit was CHF 12.5 billion, with a margin of 15%, up 60 basis points. The Group delivered a net profit of CHF 9.5 billion, up 8.1% on a continuing basis. Our underlying earnings per share, at CHF 3.08, were up 7.8% in constant currencies. Our operating cash flow was CHF 9.8 billion, a similar level to 2010 excluding Alcon's cash flow in 2010 and the impact of foreign exchange in 2011.

At the same time, we continued to invest in our capabilities, capacities, operations and R&D. We also continued our efforts to drive out waste, improve operating efficiency and leverage our scale. And we invested heavily in our people. These initiatives ensure that we are able to face challenges and grasp opportunities, now and in the future.

Ladies and Gentlemen, let me briefly explain the reasons for our success in 2011.

The first reason for our success is based on our Company's ability to understand and anticipate the changing context in which we operate, to see the various challenges as well as the opportunities.

Indeed, the current environment is characterised by – among others things – major public debt in developed countries, a tendency towards over-regulation and slower economic growth in many countries.

And yet this environment also offers us many new opportunities, such as the heightened awareness of healthier lifestyles, ageing populations with specific nutritional needs, the emergence of new sciences and technologies and, above all, 80% of the global population aspiring to, and working for, a better future.

These changes are fundamental and are here to stay; they form what we might call a New Reality.

To win in this New Reality characterised by uncertainty and volatility, we need to be even more creative and proactive than before, implementing our strategies quickly and flawlessly.

Our strategic roadmap, which we have shared with you in previous years, is a key driver in this. It sets out clearly what Nestlé wants to be, the competitive advantages we aim to leverage, our growth drivers, and the organisation we have chosen to be effective. The roadmap enables us to be decentralised and thus fast moving, proactive and entrepreneurial in countries around the world. Furthermore, this roadmap helps us to be coordinated and aligned and to share our values across all our markets.

Secondly, our success is based on our Company's ability to organise itself in such a way as to grasp the many opportunities and transform them into reality in all our categories, all over the world.

The creation of Nestlé Health Science and the Nestlé Institute of Health Sciences illustrates this well. Both organisations became operational in 2011 and are off to a good start, creating an important growth platform for the future in the area of health sciences and personalised nutritional solutions. We can thereby help alleviate the global burden of chronic diseases and curb spiralling healthcare costs.

The way we operate in the emerging markets is a good example of how we organise ourselves around opportunities. We already achieve about 40% of our sales in emerging countries and we expect this to grow to 50% by 2020. We are therefore continuing to strengthen our presence and positions in these markets by investing in capabilities and capacities, and by deepening our distribution. However, we don't just want to exploit our own capabilities, we also want to become a truly local player by deepening our knowledge of local resources and participating in local culinary and nutritional traditions.

In China, we signed two partnerships of strategic importance, acquiring 60% of both the companies Yinlu and Hsu Fu Chi. Both businesses have strong brands that are an intimate part of the Chinese landscape, and their products

are an excellent fit with Nestlé's portfolio in China. Moreover, they bring a well-established and tremendous distribution network to our Company, enabling us to deepen our engagement with Chinese consumers. With more than 30 000 new employees having joined the Nestlé family, these partnerships will transform our business in China and put us in an ideal position to accelerate our growth in this thriving market.

A third reason for our success is innovation; innovation, not just in products, systems and services but also in ways of reaching our customers and communicating with our consumers, and in our ways of working.

In 2011, we renovated our portfolio, improving the health and nutritional profile of over 5 000 products. We successfully supported the rollout of new products under the *Maggi* brand. We continued the geographic expansion of our systems, including *SpecialT.*, *Nespresso* and *Nescafé Dolce Gusto*, which has been launched in 17 new markets and is now available in more than 50 countries. We developed new concepts such as *Maison Cailler* and launched innovative and eye-catching advertising campaigns, such as the one for *Contrex*.

These are just a few examples of how your Company continues to address consumers' needs, anticipates new trends and creates new market opportunities.

We accomplish this by maintaining our principle of Creating Shared Value. Indeed, we firmly believe that we can only be successful over time if we create value not just for our Company, but also for society at large, in everything we do.

Having said this, Ladies and Gentlemen, our 2011 performance would not have been possible without the efforts of our 300 000-plus employees. Their strong alignment behind our roadmap combined with their talent, loyalty, commitment and energy are what guarantees the continued success of Nestlé.

As we look to the challenges of 2012 and beyond, my message today is that our Company is well positioned. We have the mindset and the right structure in place to respond to these challenges and to grasp the many opportunities presented to us in emerging and developed markets.

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

Thank you for your attention.

Peter



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