

151st 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

Address by Mr. Paul Bulcke

Chairman of the Board

Translation of the original French text. Check against delivery.

Dear Shareholders, Ladies and Gentlemen,

2017 was a year of changes and important developments, both within your company and in our economic and competitive environment.

The results achieved in 2017 once again make your company one of the best performing in its industry. Although below our target, our organic growth continues to be among the best in our sector. I would particularly like to highlight our strong volume growth, which puts Nestlé ahead of its direct competitors and makes it an industry leader.

Trading operating profit margin improved significantly in 2017. Your company has become more efficient and reduced its structural costs. It has taken clear decisions in terms of portfolio management and simplification of its organisation and operations. These measures have already had positive effects in 2017 and put the Nestlé Group in a good position to achieve its goals.

These results confirm the resilience of your company and its ability to seize various opportunities and adapt to the requirements of a competitive environment. Allow me to pay tribute to the good work of the management team here with me. Their determination to make the necessary changes and continue to invest in Nestlé's development is fully supported by the Board of Directors.

I would also like to express my sincere gratitude to the 323 000 Nestlé employees around the world. It is on their work, dedication and commitment, often in challenging circumstances, that the success of your company is built. I thank them all on behalf of the Board of Directors and, I am sure, on behalf of every one of you.

Dear Shareholders,

In 2017, your Board of Directors reconfirmed your company's nutrition, health and wellness strategy. This is a differentiated strategy that meets and reflects the changing needs of the society and consumers, both today and in the future. Your Board of Directors has approved the growth and profitability targets by 2020. It has confirmed the central role of innovation and growth in value creation. Improving our margins, streamlining our portfolio of activities and pursuing prudent capital allocation and acquisition strategies will enable us to achieve our objectives. Moreover, last year, your Board of Directors approved a new CHF 20 billion share buyback programme to be carried out by 2020.

Your Board of Directors also ensured a smooth transition at the helm of the company in 2017, with a new CEO and a new Chairman. The Board continued with its refreshment by ensuring that its new members, including the three candidates proposed to you today, bring to Nestlé the complementary skills and experiences necessary to face the future with ambition and to ensure Nestlé's long-term success.

Throughout 2017, the Board of Directors also listened to you, our shareholders, on your concerns, questions and suggestions.

Both the Board of Directors and Executive Board of Nestlé value your trust, your loyalty and your long-term orientation. With a view to continuing our long-term policy, the Board of Directors is proposing a further dividend increase to CHF 2.35 per share. If you accept this proposal, the total amount of the dividend paid to you will be CHF 7.1 billion. This will also be the 23rd consecutive year that the dividend increases.

Now, I would like to hand over to your CEO, Mark Schneider, to talk about your company's performance in 2017.

Presentation of U. Mark Schneider, Chief Executive Officer (s. page 7)

Ladies and Gentlemen, dear Shareholders,

The success of a company like Nestlé, with more than 150 years of history and success, is built on solid foundations. Allow me to state a few of the convictions held by your Board of Directors that enable it to ensure the health of your company, its future and its long-term success.

First, your company is clearly focused on the long-term. This is a state of mind rather than a time scale. This long-term focus is anchored in the belief that we should constantly anticipate, adapt and invest to prepare for the future, as others have done successfully before us.

It is by investing for the future that Nestlé continues to grow in a sustainable and profitable manner. Investing to continuously reinvent our brands so that they deserve the trust of our consumers. Investing in research and development to further improve our ability to innovate. Investing in new technologies across all our activities, from the origin of our raw materials through to the personalised relationship with our consumers. Investing in the development of our employees, to nurture up-and-coming talent, because they will be the ones to achieve our future successes. Innovation touches absolutely every aspect of Nestlé. This ability to constantly innovate propels Nestlé into the future.

With its nutrition, health and wellness strategy, your company has a roadmap that enables it to take the right decisions and execute these in a disciplined way. Implementing this strategy over the long-term forms the basis of creating value for you, our shareholders. Our results in recent years and the total value created for shareholders confirms the strength of our strategy and the ability of your company to implement it.

One key element of long-term success is Nestlé's ability to generate growth. Reducing costs is a way to improve margins. But, most importantly, it is also a way of having the means to invest in innovation and brand development. Sooner or later, companies that focus primarily on radical cost-cutting, driven by short-term profit maximisation, show signs of fatigue and weakness. At Nestlé, we stress the central role of innovation and growth in creating value. We will not compromise on this.

Second, we firmly believe in creating shared value. This is the fundamental principle for how Nestlé does business. It is based on the belief that to generate long-term value for you, our shareholders, we must, at the same time, create value for society at large. Creating shared value, a concept devised by Nestlé, which Nestlé has applied since it was founded, is now recognised globally: by

advocates of sustainable development, multilateral organisations and academia. Creating shared value is also now recognised and even required in the financial sector, and by investors in particular. It is absolutely clear that a company like ours, cannot solely focus on maximising short-term profit at the expense of its potential and long-term health.

Ladies and Gentlemen,

Creating shared value does not happen in meeting rooms, in the corridors of Parliament or in the courts, as some would have us believe. Creating shared value happens on the ground, through the responsible commitment, day after day, of thousands of men and women who work at our company, who identify with Nestlé's purpose and share the same values. It is their commitment and their work on the ground with our partners and suppliers, which enable us to make a difference. It requires conviction, enthusiasm and hard work to move things forward: to manufacture and offer healthy, delicious, high-quality products; to improve working conditions; to support children's education; to provide access to clean drinking water or to reduce deforestation. As a responsible company, Nestlé will always choose to engage in dialogue and look for solutions transparently, even when this is challenging. Particularly when it is challenging. We engage with and involve the parties concerned in good faith to work with us to improve things on the ground. It is on the ground that we are part of the solution. Through conviction. A "popular initiative" that is currently being debated here in the Swiss Parliament or even a similar counter-proposal, if accepted by the people, would not only jeopardise our way of creating shared value but also discourage many other companies from adopting this approach.

To find out more about how Nestlé commits and assumes its responsibilities, please read our annual report and our report on creating shared value.

Finally, your company is driven by its purpose, which is to enhance quality of life and contribute to a healthier future. For our consumers, for the communities in which we are present, for the environment and natural resources on which we depend. Through this purpose, we aim to generate sustainable, industry-leading financial performance. Your company is guided by values rooted in respect. Self-respect, respect for others, respect for diversity and respect for the future.

This also means respect for the environment in which Nestlé operates. I would like to emphasise here that Nestlé is firmly rooted in Switzerland, its country of origin. The relationship between Nestlé and Switzerland is a deep and mutually beneficial one. We invest, innovate, manufacture in Switzerland and export from

Switzerland. We are also a corporate citizen, engaged in community and cultural life at national, regional and local level. To remain a leading company, Nestlé has to stay competitive. Nestlé therefore ensures a good balance between its economic and citizen dimensions.

Ladies and Gentlemen, Shareholders,

In an era in which change is accelerating, it is our duty and responsibility to evolve and change even faster, to continue to progress and stay ahead of competitors. It is the responsibility of your Board of Directors to ensure that the Executive Board of Nestlé is equipped and fully supported in the development and transformation of your company. We would therefore like to assure you that you have a Board of Directors with the most advanced and relevant skills, experiences and perspectives in our industry.

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.

Ladies and Gentlemen, dear shareholders, good afternoon.

Last year I told you that improving my French was one of my priorities. It is therefore my pleasure to deliver my speech in French today. However, I will answer your questions in English.

Our industry is going through fundamental and unprecedented change. In this environment, the way forward for our company is *continuity* and *change*.

Continuity through implementing our nutrition, health and wellness strategy, always driven by our purpose and guided by our values.

Change by adapting our product portfolio to changing consumer demands and lifestyles, and by improving efficiency and simplifying the way we work.

2017 was another intense and challenging year of transformation to prepare Nestlé for the future.

I would like to sincerely thank our 323 000 employees around the world for their dedication, their ability to innovate and the great resilience they demonstrated throughout the year. I have personally witnessed their tireless commitment to position Nestlé well for the future.

Let me now walk you through our financial performance in 2017.

Group sales reached 89.8 billion Swiss francs, with an organic growth of 2.4%. While this is below our expectations, I would like to highlight a strong point of our 2017 results: with real internal growth of 1.6%, our volume growth is at the high end of our industry.

Importantly, our three geographic areas and all our product categories contributed to this growth. This demonstrates the strength of our portfolio, which is the foundation of our success.

The underlying trading operating profit before restructuring costs and other items was 14.7 billion Swiss francs. This represents a margin of 16.5%, up 50 basis points in constant currency. This improvement puts us firmly on track to meet our 2020 margin improvement target.

We have improved operating efficiency and carried out restructuring initiatives. This has helped improve margins and largely offset higher commodity costs of around 900 million Swiss francs.

To reflect the current prospects of our *Nestlé Skin Health* business, we took a goodwill impairment of 2.8 billion Swiss francs. This was the main reason why our 2017 net profit decreased by 15.8% to 7.2 billion Swiss francs. This corresponds to earnings per share of 2.32 Swiss francs.

Let me now give you some additional perspectives on last year and provide you with an outlook on the next few years.

For over 150 years, Nestlé has built a successful business by anticipating consumer needs and by adapting to a constantly changing marketplace. This remains true today.

I have already mentioned the pace at which our industry is changing. Consumers are looking for practical and healthier options. They also want to know where their food and beverages come from and how they are made.

Nestlé is meeting these expectations through innovation and renovation. We aim to offer the tastiest and healthiest products in each of our categories. We also strive to ensure that our products are made in a way that protects the environment for future generations and that has a positive impact on society.

We are acting with a great sense of urgency, but also with prudence and always in line with our nutrition, health and wellness strategy. With this approach we target faster growth and greater profitability, creating value in the long term for you, our shareholders.

In 2017 we made good progress in adjusting our portfolio towards high-growth, high-margin categories.

We acquired *Atrium Innovations*, a global leader in nutritional health products. We also invested in rapidly-growing companies such as *Blue Bottle Coffee*, *Sweet Earth*, *Chameleon Cold-Brew* and *Freshly*. All these brands provide Nestlé with a fresh perspective and expertise in terms of new consumer trends.

We also completed strategic divestments, including selling our confectionery business in the United States for 2.8 billion dollars.

It is important to remember that these kind of changes always come with a time lag. We expect to see the first results of these investments in 12 to 18 months.

Another focus is improving our efficiency and costs. Our objective is to finance profitable and sustainable growth for the future. Nestlé's capacity for growth will be the source of long-term value creation for you, our shareholders.

As announced in September 2017, we will further reduce structural costs in areas such as production, procurement and general administration.

We have already defined projects in these areas to deliver total savings of 2 to 2.5 billion Swiss francs by 2020. We already saved 500 million Swiss francs in 2017.

We know that this process has an impact on our employees. We understand that it creates uncertainty. In such situations, what makes the difference is how we treat people. We treat them with utmost respect and are always committed to exploring all possible options for colleagues that are affected.

These cost-saving programs allow us to continue investing for the future, in Switzerland and globally. Over the last ten years, we have invested 3.8 billion Swiss francs in our home country. We have created 4 800 jobs here. This once again underlines our commitment to Switzerland, which has always given us the environment we needed to develop and succeed.

Ladies and Gentlemen,

Before concluding, I would like to assure you that Nestlé has a solid foundation and a clear path forward.

We have many strengths that keep us at the top of our industry: great brands that people love, a unique global footprint, size and scale that we use to our advantage, thousands of committed employees around the world, and the capacity to invest for the long term.

We are committed to preparing Nestlé for the future, while remaining true to our purpose of *enhancing quality of life and contributing to a healthier future* and to our values rooted in respect.

Our fundamental belief is that a company that wants to ensure its long-term success and create value for its shareholders must at the same time create value for society as a whole. This is how we have conducted our business for over 150 years. This is how we will continue to conduct our business in the future.

I thank you, dear shareholders, for your commitment and your continued trust in our company and our people.

Thank you for your attention.



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