



**Nestlé**

Good Food, Good Life

# Corporate Governance Report 2006

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Concept: Nestec Ltd., Corporate Identity and Design, Vevey (Switzerland)

Printed in Switzerland

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<sup>(1)</sup> The full Board of Directors Regulations and Committee Charters are published on [www.nestle.com](http://www.nestle.com)

<sup>(2)</sup> The term senior management, as used in the SWX Directive, is replaced by Executive Board throughout this document



## Preliminary remarks

The Nestlé Corporate Governance Report 2006 follows the structure of the SWX Swiss Exchange Directive on Information Relating to Corporate Governance.

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Management Report 2006, the 2006 Financial Statements that comprise the Consolidated Financial Statements of the Nestlé Group and the Annual Report of Nestlé S.A., as well as the Articles of Association of Nestlé S.A., whose full text can be consulted in Appendix 1 on page 26 of this document.

The information disclosed in the Consolidated Financial Statements of the Nestlé Group 2006 complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Where necessary, these disclosures have been extended to comply with the requirements of the SWX Directive.

### 1. Group structure and shareholders

#### 1.1 Group structure

Please refer to the Management Report 2006 for the overview of Directors and Officers, the registered offices, the stock exchange listing and quotation codes and information on market capitalisation.

For the general organisation chart of Nestlé S.A. refer to page 25 of this document. The Group's management structure is represented in the segmental information (pages 13–14 and Note 1 of the Consolidated Financial Statements of the Nestlé Group 2006).

Please refer to the Consolidated Financial Statements of the Nestlé Group 2006, page 74, for the listing of principal affiliated companies.

#### 1.2 Significant shareholders

The Company is not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

#### 1.3 Cross-shareholdings

The Company is not aware of cross-shareholdings exceeding 3% of the capital or voting rights on both sides.

### 2. Capital structure

#### 2.1 Capital

The ordinary share capital of Nestlé S.A. is CHF 400 735 700. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised share capital.

#### 2.2 Conditional capital

The share capital may be increased, through the exercise of conversion or option rights, by a maximum of CHF 10 000 000 by the issue of a maximum of 10 000 000 registered shares with a nominal value of CHF 1 each. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures or the issue of bonds with warrants. For a description of the group of beneficiaries and of the terms and conditions of the issue of conditional capital, refer to article 5bis of the Articles of Association of Nestlé S.A. (Appendix 1).

#### 2.3 Changes in capital

The share capital has changed once in the last three financial years, at the General Meeting of 6 April 2006. As a consequence of the CHF 1 billion share buy-back program launched on 4 July 2005 the share capital was reduced by CHF 2 784 300 from CHF 403 520 000 to CHF 400 735 700. For the breakdown of capital ("equity") for 2006, 2005 and 2004 see the Statement of recognised income and expense and changes in equity in the Consolidated Financial Statements of the Nestlé Group 2006 and 2005.

## 2.4 Shares and participation certificates

Nestlé S.A.'s capital is composed of registered shares only. Number of registered shares with a nominal value of CHF 1 each, fully paid up: 400 735 700. According to article 14, par. 1 of the Articles of Association (Appendix 1), each share confers the right to one vote. See also point 2.6.1 below.

There are no participation certificates.

## 2.5 Profit sharing certificates

There are no profit sharing certificates.

## 2.6 Limitations on transferability and nominee registrations

### 2.6.1 Limitations on transferability for each share category, along with an indication of statutory group clauses, if any, and rules on making exceptions

According to article 6, par. 6, lit. a of the Articles of Association, no natural person or legal entity may be registered as a shareholder with the right to vote for shares which it holds, directly or indirectly, in excess of 3% of the share capital. Legal entities that are linked to one another, through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities acting in concert to circumvent this limit, shall be counted as one person. See also article 6, par. 6, lit. e of the Articles of Association (Appendix 1) and point 2.6.3 below.

### 2.6.2 Reasons for granting exceptions in the year under review

Please refer to points 2.6.3 and 6.1.2 below.

### 2.6.3 Admissibility of nominee registrations, along with an indication of per cent clauses, if any, and registration conditions

In order to facilitate the trading of the shares on the stock exchange, the Board of Directors may, by means of regulations or within the framework of agreements with stock exchange or financial institutions, allow fiduciary registrations and also depart from the 3% limit (art. 6, par. 6, lit. e of the Articles of Association, Appendix 1). In this respect, the Board of Directors has issued regulations concerning nominees, setting forth rules for their entry as shareholders in the share register. These regulations allow the registration of:

- Nominees N ("N" as Name of beneficial owner disclosed): where trading and safekeeping practices make individual registration of beneficial owners difficult or impractical, shareholders may register their holdings through a Nominee N with voting rights, subject to the specific understanding that the identity and holdings of beneficial owners are to be disclosed to the Company, periodically or upon request. Holdings of a Nominee N, or Nominees N acting as an organised group or pursuant to a common agreement, may not otherwise exceed 3% of the share capital of the Company. Holdings exceeding the 3% limit (respectively the limit fixed by the Board of Directors, see 6.1.2) are registered without voting rights.
- Nominees A ("A" as Anonymous beneficial owner): registration without voting rights.

### 2.6.4 Procedure and conditions for cancelling statutory privileges and limitations of transferability

Please refer to point 6.1.3 below.

## 2.7 Convertible bonds and options

Bond issues are detailed in Note 19 of the Consolidated Financial Statements of the Nestlé Group 2006.

The only options issued by Nestlé S.A. are employee options allocated under the Nestlé Management Stock Option Plan (MSOP). The features of this plan are detailed in Notes 21 and 25 of the Consolidated Financial Statements of the Nestlé Group 2006.

### 3. Board of Directors

#### 3.1 Members of the Board of Directors

##### a) Name/Year of birth/Nationality/Education/First election/Term expires

Peter Brabeck-Letmathe Chairman and CEO	1944	Austrian	Economics	1997	2007
Andreas Koopmann 1st Vice Chairman	1951	Swiss	Mechanical Engineering and Business Administration	2003	2008
Rolf Hänggi 2nd Vice Chairman	1943	Swiss	Law and Finance	2004	2008
Edward George	1938	British	Economics	2004	2007
Kaspar Villiger	1941	Swiss	Mechanical Engineering	2004	2009
Jean-Pierre Meyers	1948	French	Economics	1991	2011
Peter Böckli	1936	Swiss	Attorney-at-law	1993	2008
André Kudelski	1960	Swiss	Physics	2001	2011
Daniel Borel	1950	Swiss	Physics and Computer Science	2004	2009
Carolina Müller-Möhl	1968	Swiss	Political Science	2004	2009
Günter Blobel	1936	German	Medicine	2005	2009
Jean-René Fourtou	1939	French	Ecole Polytechnique	2006	2011
Steven G. Hoch	1954	American/Swiss	International Relations and Economics	2006	2011
Naïna Lal Kidwai	1957	Indian	Economics and Business Administration	2006	2011

For complete information: please refer to individual CVs on [www.nestle.com](http://www.nestle.com).

##### b) Operational management tasks of the members of the Board of Directors

With the exception of Peter Brabeck-Letmathe, all members of the Board of Directors are non-executive members.

##### c) Information on non-executive members of the Board of Directors

All non-executive members of the Board of Directors are independent, were not previously members of the Nestlé management and have no important business connections with Nestlé. For cross-involvement, see point 3.3.

#### 3.2. Professional background and other activities and functions

##### Peter Brabeck-Letmathe, Chairman and CEO



Peter Brabeck-Letmathe joined the Nestlé Group's operating company as a salesman in Austria in 1968. Between 1970 and 1987 he held a series of responsibilities in Latin America. In 1987, he transferred to Nestlé's international Headquarters in Vevey, Switzerland, as Vice President and was named Executive Vice President in 1992. At the Annual General Meeting of Shareholders in June 1997, Peter Brabeck-Letmathe was elected Member of the Board of Nestlé S.A. In 1997, the Board of Directors of Nestlé S.A. appointed him CEO (Administrateur délégué). In 2001 he was elected Vice Chairman and in 2005 Chairman of the Board of Directors.

As a Nestlé S.A. representative, he serves as Vice Chairman of L'Oréal S.A., France, and is Co-Chairman of the Supervisory Board of Cereal Partners Worldwide, Switzerland.

Peter Brabeck-Letmathe is also a member of the Board of Directors of Credit Suisse Group, Switzerland, and of Roche Holding Ltd., Switzerland.

In addition, he is a member of the European Roundtable of Industrialists, Belgium, a member of the Foundation Board of the World Economic Forum, Switzerland and Co-Chairman of ECR Europe, Belgium.

#### Andreas Koopmann, 1st Vice Chairman



Andreas Koopmann began his career in 1979 as Assistant to the Chairman and CEO of Bruno Piatti AG, Switzerland, and from 1980 to 1982 was Assistant to a Group Executive at Motor Columbus AG, Holding, Switzerland. Since 1982 he has been at Bobst Group, starting as Vice President of Engineering and Manufacturing in Roseland, New Jersey (USA). In 1989 he returned to Switzerland, holding a number of senior positions in the company, including member of the Group Executive Committee in charge of Manufacturing. He was a member of the Board of Directors for Bobst Group SA from 1998 to 2002 and was appointed to his present position as CEO in 1995.

Presently, he also serves as Vice Chairman of Swissmem in Switzerland, and is Vice Chairman of the Advisory Board of Credit Suisse Group, Switzerland.

#### Rolf Hänggi, 2nd Vice Chairman



In 1970 Rolf Hänggi started his career as a financial and investment analyst at Swiss Bank Corporation, Switzerland, before moving on to the Union Bank of Switzerland and then to the Baselland Cantonal Bank, Switzerland. In 1976 he joined Zurich Insurance Company and in 1986 became a member of the Corporate Executive Board and Head of finance and investments in securities, worldwide. He was appointed Deputy CEO of Zurich Insurance Company in 1988, serving as a Board member from 1993 to 1997, before becoming a private consultant.

Presently Rolf Hänggi also serves as Chairman of Rüd, Blass & Cie AG, Bankers, Switzerland, and is a Board member of Speedel Holding Ltd, Switzerland.

In addition, he is a member of the Board of Trustees for Foundation Luftbild Schweiz, Switzerland; a member of the Foundation Board, Werner Abegg Fonds Foundation, Switzerland, and also sits on the Advisory Board for the Mastercourse of Advanced Studies in Applied History at the University of Zurich, Switzerland.

#### Edward George



Lord George joined the Bank of England directly from University in 1962. Between 1966 and 1974 he was seconded first to the Bank for International Settlements, Basle, Switzerland, and then to the International Monetary Fund. During the next 16 years, Lord George held various senior positions within the Bank of England before being appointed Deputy Governor in 1990. From 1993 to 2003 he served as Governor of the Bank of England.

He is also a Board member of the Bank for International Settlements, Basle, Switzerland; Grosvenor Group Holdings Ltd, Great Britain; N. M. Rothschild and Sons Ltd, Great Britain; and Rothschilds Continuation Holdings AG, Switzerland.

#### Kaspar Villiger



Kaspar Villiger began his career as manager and joint owner of family firm Villiger Soehne AG in 1966. In parallel, he started a political career in 1972 as a member of the Swiss Liberal Democratic Party in Canton Lucerne. He was a member of the Swiss federal parliament and elected to the National Council in 1982, and to the Council of States in 1987. From 1989 to 1995 he was Defence Minister, and from 1995 to 2003 he was Finance Minister. He served as President of the Swiss Confederation in both 1995 and 2001.

Kaspar Villiger is also a Board member of AG für die Neue Zürcher Zeitung, Switzerland; and Swiss Re (Swiss Reinsurance Company), Switzerland.

#### Jean-Pierre Meyers



From 1972 to 1980 Jean-Pierre Meyers was attached to the directorate of financial affairs at Société Générale. During the same time he was Assistant professor at the Ecole Supérieure de Commerce in Rouen, France. From 1980 to 1984 he was a Director of the bank Odier Bugnèier Courvoisier. Jean-Pierre Meyers has been a Board member of L'Oréal SA, France, since 1987 and Vice Chairman since 1994. He has also served as Vice Chairman of the Bettencourt-Schueller Foundation since 1988.

In addition, Jean-Pierre Meyers is a Board member of Rothschild Ophthalmological Foundation in France, and a member of the Supervisory Board at Téthys S.A.S. in France.

#### Peter Böckli



From 1963 to 1981 Peter Böckli worked as an attorney-at-law in New York, Paris and Basle, and from 1975 to 2001 he was a visiting professor for Business and Tax Law at the University of Basle. He became a partner at law firm Böckli & Thomann in Basle (currently Böckli Bodmer & Partner) in 1981.

Presently, he also serves as Board member of Manufacture des Montres Rolex SA in Switzerland, and is a Board member of Assivalor AG, Switzerland and Vinetum AG, Switzerland.

He sits on the Board of Trustees for Holler-Stiftung in Germany; and is Secretary of the Board of Trustees for Doerenkamp-Stiftung, Switzerland.

#### André Kudelski



André Kudelski started his career in 1984 at Kudelski SA, Switzerland, as a research and development engineer. After working in Silicon Valley, he returned to Kudelski SA in 1986 and was appointed product manager for Pay-TV products. From 1989 to 1990 he was the director of the Pay-TV division (then called NagraVision) before taking over the position of Chairman and CEO of Kudelski Group in 1991. In addition, he became Chairman and CEO of Nagra Plus SA, a joint venture of Kudelski SA and Canal Plus, in 1992.

Presently, André Kudelski is a Board member of Dassault Systèmes S.A., France; and Groupe Edipresse, Switzerland.

In addition, he is a Board member of HSBC Private Bank Holding and a Board member of the Swiss-American Chamber of Commerce.

#### Daniel Borel



Daniel Borel is the co-founder of Logitech. He served as Chairman and CEO of Logitech S.A. from 1982 to 1988, and of Logitech International S.A. from 1992 to 1998. Since 1998, he has served as Chairman of Logitech International S.A.

Daniel Borel is also a Board member of Bank Julius Baer, Switzerland.

In addition, he serves as Chairman of the Foundation for Excellence in Education in Switzerland and is a member of the Foundation Board of Defitech Foundation, Switzerland.

#### Carolina Müller-Möhl



Carolina Müller-Möhl was a journalist and advertising and PR consultant until 1999 when she became Vice Chairperson of the Board of Müller-Möhl Holding AG. In 2000 she became President of the Müller-Möhl Group.

Carolina Müller-Möhl is also Chairperson of Hyos Invest Holding AG, Switzerland; a Board member of Plus Orthopedics Holding AG, Switzerland; and a Board member of Kühne Holding AG, Switzerland.

Presently, she is also a member of the Foundation Board of Pestalozzianum Foundation, Switzerland; and a member of the Advisory Board of the Swiss Economic Forum and Jury President Award.

#### Günter Blobel



Günter Blobel earned a doctoral degree in oncology in 1967 and was appointed to the Howard Hughes Medical Institute in 1986. In 1999, he was awarded the Nobel Prize in Medicine. He currently holds a position at The Rockefeller University, New York.

Günter Blobel is the Co-founder of Chromocell Corporate Technology Center, USA, and also a Board member of IFF International Flavours & Fragrances Inc., USA.

In addition, he is Chairman of the Friends of Dresden Inc., USA, and has been a member of the Nestlé Nutrition Council (NNC) – a group of international experts who advise Nestlé on nutrition – since August 2001.

#### Jean-René Fourtou



Jean-René Fourtou began his career at Bossard & Michel in 1963. He became CEO of Bossard Consultants in 1972 and later Chairman and CEO of the Bossard Group from 1977 to 1986. From 1986 to 1999 he served as Chairman and CEO of Rhône-Poulenc Group, and when Hoechst and Rhône-Poulenc merged to create Aventis in 1999, he became Vice Chairman of the Management Board and Managing Director of the company until 2002. Since 2005, he has been Chairman of the Supervisory Board of Vivendi Universal, where he was Chairman and CEO from 2002 to 2005. Jean-René Fourtou is also Chairman of the Supervisory Board of Canal+ Group, France; Vice Chairman of the Supervisory Board of AXA Group, France, and Board member of Sanofi-Aventis, France; CapGemini SAS, France; NBC Universal, USA; Maroc Telecom, Morocco and AXA MILLESIMES SAS.

He also serves as Honorary Chairman to the International Chamber of Commerce (ICC), France.

#### Steven G. Hoch



Steven G. Hoch started his career in 1978 at the Chemical Bank in New York and Zurich. From 1987 to 1990, he was a member of the Management Committee, and Vice President, Business Development, of the Bank in Liechtenstein Trust Company and BIL, Trainer Wortham Inc., New York. Steven Hoch was Senior Vice President and a member of the Management Committee at Bessemer Trust Company, N.A., New York, from 1990 to 1994, and a member of the Executive Committee and Head of Client Service for Pell Rudman Trust Company, Boston, from 1994 to 2002. In 2002 he founded Highmount Capital, LLC, a US-based investment management firm where he is still a Senior Partner.

Steven Hoch is also a Director of the American Swiss Foundation, a corporation board member of the Woods Hole Oceanographic Institution, USA, and a member of the National Board of the Smithsonian Institution, USA.

#### Naïna Lal Kidwai



Naïna Lal Kidwai started her career in 1982 and until 1994 was at ANZ Grindlays Bank Plc. (now Standard Chartered Bank). From 1994 to 2002, she was Vice Chairman and Head of Investment Banking at Morgan Stanley India before moving to HSBC. Currently she is CEO and Country Head of the HSBC Group of Companies in India and a Group General Manager of the Bank.

She serves the Government of India on the National Science and Technology Entrepreneurship Development Board, the National Integration Council and the Indo German Consultative Group. She is Chairman of the Population and Health Committee, and a member of the National Council of Confederation of Indian Industries and on the Corporate Governance Council. She is a member of the Governing Body of the National Council of Applied Economic Research. Her involvement with educational institutions includes the India Board of John Hopkins School of Advanced International Studies, USA and the Board of Dean's Advisors of the Harvard Business School. She is on the Board of Grassroots Trading Network for Women – a not for profit organisation to empower underprivileged women.

She was awarded the Padma Shri by the Indian government.

### 3.3 Cross-involvement

Peter Brabeck-Letmathe and Jean-Pierre Meyers are on the Board of Directors of both Nestlé and L'Oréal.

### 3.4 Principles of election procedure

The General Meeting of Shareholders has the competence to elect and remove the members of the Board. In principle, the initial term of office of a Board member is five years. Outgoing Directors are re-eligible. Each year the Board is renewed by rotation in a way that, after a period of five years, all members will have been subject to re-election.

The Board of Directors elects, for a one-year term, the Chairman/CEO, two Vice Chairmen and the members of the Committees.

The term of office of a Board member expires no later than the Ordinary General Meeting following his 72nd birthday.

For the principles of the selection procedure: see point 3.5.2 below (Compensation and Nomination Committee).

### 3.5 Internal organisational structure

#### 3.5.1 Allocation of tasks within the Board of Directors

	Chairman's and Corporate Governance Committee <sup>(1)</sup>	Compensation and Nomination Committee <sup>(2)</sup>	Audit Committee <sup>(3)</sup>	Finance Committee <sup>(4)</sup>
Peter Brabeck-Letmathe Chairman and CEO	• (Chair)			
Andreas Koopmann 1st Vice Chairman	•	•		
Rolf Hänggi 2nd Vice Chairman	•		• (Chair)	• (Chair)
Edward George (Lord George)	•	•		•
Kaspar Villiger	•		•	•
Jean-Pierre Meyers			•	
Peter Böckli		• (Chair)		
André Kudelski			•	
Daniel Borel		•		
Carolina Müller-Möhl				
Günter Blobel				
Jean-René Fourtou				
Steven G. Hoch				
Naina Lal Kidwai				

### 3.5.2 Tasks and area of responsibility for each Committee of the Board of Directors<sup>(1)</sup>

- (1) The **Chairman's and Corporate Governance Committee** consists of the Chairman/CEO, the two Vice Chairmen and other members as elected by the Board. It liaises between the Chairman/CEO and the Board of Directors in order to expedite whenever necessary the handling of the Company's business. It is entitled to engage outside counsel.
- The **Corporate Governance Committee** periodically reviews the Corporate Governance of the Company and prepares recommendations for the Board. It reviews, at least annually, the independence of the members of the Board.
- (2) The **Compensation and Nomination Committee** consists of one Vice Chairman and a minimum of two other members of the Board, excluding the Chairman/CEO. It draws up the principles for remuneration of the members of the Board and submits them to the Board for approval. It oversees and discusses the remuneration principles for the Company and the Group. In addition, it determines the remuneration of the Chairman/CEO and the individual remunerations of the members of the Executive Board. It also reports on its decisions to the Board, and keeps the Board updated on the overall remuneration policy of the Group. It is entitled to engage outside counsel. The **Compensation and Nomination Committee** as regarding nomination matters establishes the principles for the selection of candidates to the Board, selects candidates for election or re-election to the Board and prepares a proposal for the Board's decision. The candidates to the Board shall possess the necessary profiles, qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction into the business and affairs of the Company and the Group. If appropriate, the Board arranges for further training of its members.
- (3) The **Audit Committee** consists of a Vice Chairman, who chairs the Committee, and a minimum of two other members of the Board, excluding the Chairman/CEO. At least one member must be a financial expert. The powers and duties of the Audit Committee are established in the Audit Committee Charter, which is approved by the Board. In discharging its responsibilities, it has unrestricted access to the Company's management, books and records. It is free to appoint outside counsel.
- The Audit Committee supports the Board of Directors in its supervision of financial control through a direct link to KPMG (external auditors) and the Nestlé Group Audit (corporate internal auditors). The Audit Committee's main duties include the following:
- to discuss Nestlé's internal accounting procedures
  - to make recommendations to the Board of Directors regarding the nomination of external auditors to be appointed by the shareholders
  - to discuss the audit procedures, including the proposed scope and the results of the audit
  - to keep itself regularly informed on important findings of the audits and of their progress
  - to oversee the quality of the internal and external auditing
  - to present the conclusions on the approval of the Financial Statements to the Board of Directors
- The Audit Committee regularly reports to the Board on its findings and proposes appropriate actions. The responsibility for approving the annual Financial Statements remains with the Board of Directors.
- (4) The **Finance Committee** consists of one Vice Chairman, who chairs this Committee, and of two members of the Chairman's and Corporate Governance Committee. It reviews the financial asset and liability framework of the Group, and prepares and updates for the Board's approval financial asset and liability risk management guidelines. It is free to appoint outside counsel.

<sup>(1)</sup> For complete information: please refer to the Board of Directors Regulations and Committee Charters on [www.nestle.com](http://www.nestle.com)

### 3.5.3 Work methods of the Board of Directors and its Committees

The Board meets as often as necessary, at least quarterly, and on notice by the Chairman/CEO or by the person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman/CEO for a meeting.

The following meetings were held in 2006:

– Board of Directors of Nestlé S.A.	6 times
– Chairman's and Corporate Governance Committee	7 times
– Compensation and Nomination Committee	3 times
– Audit Committee	3 times
– Finance Committee	2 times

The Board reserves one full day per year to discuss strategic questions. Board and Committee meetings also took place during the annual visit to a Nestlé Market, in 2006 to Nestlé in Russia. In 2006, the average duration of the Board meetings held was 3 hours 45 minutes. The average attendance at the Board meetings was over 98%.

### 3.6 Definition of areas of responsibility

The governing bodies have responsibilities as follows:

#### 3.6.1 Board of Directors

The Board of Directors is the ultimate governing body of the Company. It is responsible for the ultimate supervision of the Group. The Board attends to all matters which are not reserved to the General Meeting of Shareholders or another governance body of the Company by law, the Articles of Association or specific Regulations issued by the Board of Directors.

The Board has the following main duties:

- a) the ultimate direction of the Company, in particular the conduct, management and supervision of the business of the Company, and the provision of necessary directions;
- b) the determination of the Company's organisation;
- c) the determination of accounting and financial control principles, as well as the principles of financial planning;
- d) the appointment and removal of the Chairman/CEO and the Vice Chairmen, of the Committee members and members of the Executive Board;
- e) the ultimate supervision of the Chairman/CEO and the members of the Executive Board, in particular with respect to their compliance with the law, the Articles of Association, the Board Regulations and instructions given from time to time by the Board;
- f) the preparation of the Management Report, the General Meeting of Shareholders and execution of its resolutions;
- g) the notification of the court in the event of overindebtedness;
- h) the discussion and approval of:
  - the Group's long-term strategy and annual investment budget;
  - major financial operations;
  - any significant policy issue dealing with the Company's or the Group's general structure or with financial, commercial and industrial policy;
  - Corporate Governance principles of the Company;
  - the review of and decision on any report submitted to the Board.

### 3.6.2 Executive Board

The Board of Directors delegates to the Chairman/CEO, with the authorisation to sub-delegate, the power to manage the Company's and the Group's business, subject to law, the Articles of Association and the Board of Directors' Regulations.

The Chairman/CEO chairs the Executive Board and delegates to its members individually the powers necessary for carrying out their responsibilities, within the limits fixed in the Executive Board's Regulations.

### 3.7 Information and control instruments vis-à-vis the Executive Board

The Board of Directors, on a regular basis, is fully informed on material matters involving the Company's and the Group's business. Additional means to allow appropriate decision making are:

The **external auditors**, KPMG (auditors of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group), who conduct their audit in compliance with Swiss law and in accordance with Swiss Auditing Standards and with International Standards on Auditing.

The **Nestlé Group Audit**, the corporate internal auditors, which has a direct link to the Audit Committee (see point 3.5.2 above). It comprises a unit of international auditors who travel worldwide, completing audit assignments.

**Group Risk Services**, the corporate risk management unit, providing assistance to all corporate entities with regard to risk management, loss prevention, claims handling and insurance/risk financing. A top-level risk assessment is performed once a year for all businesses.

Furthermore, the Audit Committee assesses the effectiveness of the internal and external audit systems/processes as well as the internal risk management organisation and process.

## 4. Executive Board

### 4.1 Members of the Executive Board

#### a) Name/Year of birth/Nationality/Education/Current function

Peter Brabeck-Letmathe	1944	Austrian	Economics Chairman and CEO
Francisco Castañer	1944	Spanish	Economics EVP: Pharmaceutical & Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Lars Olofsson	1951	Swedish	Business Administration EVP: Strategic Business Units and Marketing
Werner Bauer	1950	German	Chemical Engineering EVP: Technical, Production, Environment, Research & Development (as of 1 February 2007: Chief Technology Officer)
Frits van Dijk	1947	Dutch	Economics EVP: Zone Asia, Oceania, Africa, Middle East
Paul Bulcke	1954	Belgian	Economics and Business Administration EVP: Zone USA, Canada, Latin America, Caribbean
Carlo M. Donati	1946	Swiss	Economics EVP: Nestlé Waters
Luis Cantarell	1952	Spanish	Economics EVP: Zone Europe
Paul Polman	1956	Dutch	Economics and Business Administration EVP: Finance and Control, Global Nestlé Business Services, Legal, Intellectual Property, Tax, Purchasing (and GLOBE as of 1 January 2007)
Chris Johnson	1961	American	Economics and Business Administration Deputy EVP: GLOBE, IS/IT, Strategic Supply Chain (until 31 December 2006)
Richard T. Laube	1956	Swiss & American	Organisational Development and Evaluation Research Deputy EVP: Nestlé Nutrition
Marc Caira	1954	Canadian	Marketing Deputy EVP: FoodServices Strategic Business Division
David P. Frick	1965	Swiss	Law SVP: Corporate Governance and Compliance
as of 1 February 2007:			
José Lopez	1952	Spanish	Mechanical Engineering EVP: Operations

(EVP: Executive Vice President; SVP: Senior Vice President)

For complete information: please refer to individual CVs on [www.nestle.com](http://www.nestle.com)

## 4.2. Professional background and other activities and functions

### Peter Brabeck-Letmathe

Please refer to point 3.2 above.

### Francisco Castañer



Francisco Castañer joined Nestlé España in 1964, in marketing research, before being transferred to the Organization Department at Nestlé's Headquarters in Switzerland. He returned to Spain in 1973 to become Head of the Infant and Dietetic Products Division in 1976 and Head of the Diversification Department in 1981. He was Alimentos Refrigerados SA (Nestlé Group) General Manager from 1982 to 1984 before serving two years as Nestlé España SA Deputy Managing Director and then Managing Director and Vice President of the Board from 1986 to 1996. Since June 1997, Francisco Castañer has been the Executive Vice President responsible for Nestlé Group's worldwide non-food business (including Alcon and Galderma Laboratories, and relations with L'Oréal), as well as being responsible for Human Resources and Corporate Affairs. He represents Nestlé as Vice Chairman of Alcon Inc., Switzerland; and as a Board member of L'Oréal S.A. in France and Galderma Pharma S.A., Switzerland.

### Lars Olofsson



Lars Olofsson joined Nestlé in 1976 as a product manager for Findus frozen products. In 1981 he took charge of various commercial and marketing functions for Nestlé France, later heading the Dairy and Dietetic Products Division of Sopad Nestlé before returning to Sweden for 18 months as President of Pripps-Procordia. In 1992, he became General Manager of France Glaces Findus, and was appointed Head of Nestlé Group's four Nordic markets in 1995 (Sweden, Norway, Denmark and Finland). He was appointed President and CEO of Nestlé France in November 1997. In July 2001 he was appointed Executive Vice President, responsible for Zone Europe. Since December 2005 he has been Executive Vice President in charge of Strategic Business Units and Marketing. As a representative of Nestlé, he serves as Chairman of Nespresso S.A., as Co-Chairman of Beverage Partners Worldwide S.A. and is a Board member of both Life Ventures S.A. and Nutrition-Wellness Venture AG, Switzerland.

### Werner Bauer



Werner Bauer began his career in 1975 as an Assistant Professor in Chemical Engineering at the University of Erlangen-Nürnberg. In 1980 he was appointed Professor of Chemical Engineering at the Technical University, Hamburg, and in 1985 he obtained the Directorship of the Fraunhofer Institute for Food Technology and Packaging and a position as Professor in Food Processing, Technical University, Munich.

Werner Bauer became Head of the Nestlé Research Center, Lausanne, in 1990, moving on to become Head of Nestlé Research and Development in 1996. After serving as Technical Manager and then Region Head for Nestlé Southern and Eastern Africa Region, he moved to his present position as Executive Vice President and Head of Technical, Production, Environment, Research and Development in 2002.

As a representative of Nestlé, Werner Bauer also undertakes the following duties: Board member of Alcon Inc. in Switzerland; Board member of L'Oréal in France; member of the Supervisory Board for Cereal Partners Worldwide, Switzerland; Vice Chairman for both Life Ventures S.A. and Nutrition-Wellness Venture AG; Chairman of Rychiger AG and of Sofinol S.A. in Switzerland. He is also a member of the Board of Trustees for the Bertelsmann Foundation in Germany, and is a Board member of the Swiss Society of Chemical Industries.

#### Frits van Dijk



Frits van Dijk joined Nestlé in 1970 as a sales representative for the UK before holding a series of positions in India and the Philippines from 1972 to 1979. He returned to Europe to work in Nestlé's Beverage Division before again returning to Asia in 1982 where he took on a number of portfolios and was appointed Managing Director of Nestlé Japan in 1995. In 2000, he was appointed Chairman and CEO of Nestlé Waters Worldwide (formerly Perrier Vittel SA), and in May 2005 he was appointed Executive Vice President for Zone Asia, Oceania, Africa and Middle East. Frits van Dijk represents Nestlé as a member of the Supervisory Board of Cereal Partners Worldwide, Switzerland, and is a Board member of Osem Investments Ltd., Israel, Quality Coffee Products Ltd., Thailand, Nestlé Central and West Africa Limited (Ghana); Nestlé (China) Ltd., Nestlé (Malaysia) BHD., Nestlé Pakistan Ltd., Nestlé Philippines Inc., and Nestlé (South Africa) Pty Ltd. He is President Commissioner of both PT Nestlé Indonesia and PT Nestlé Indofood Citarasa Indonesia.

#### Paul Bulcke



Paul Bulcke began his career in 1977 as a financial analyst for Scott Graphics International in Belgium before moving to the Nestlé Group in 1979 as a marketing trainee. From 1980 to 1996 he held various marketing, sales and division functions in Nestlé Peru, Nestlé Ecuador and Nestlé Chile before moving back to Europe as Managing Director of Nestlé Portugal. Between 1998 and 2003 he was Managing Director of firstly Nestlé Czech and Slovak Republic, and then Nestlé Germany, before he was appointed to his present post as Executive Vice President, responsible for Zone Americas.

As a representative of Nestlé, Paul Bulcke serves as Chairman of both Nestlé Brazil Ltda., and Nestlé Chile S.A. He is also a Board member of Beverage Partners Worldwide S.A. in Switzerland, a member of the Supervisory Board of Cereal Partners Worldwide, Co-Chairman of the Supervisory Board of Dairy Partners Americas (Switzerland and New Zealand), and Vice Chairman of Dreyer's Grand Ice Cream Holdings Inc., USA.

He is also a board member of the Swiss-Latin American Chamber of Commerce.

#### Carlo Donati



Carlo Donati began his career at Nestlé in 1973 as a marketing trainee. From 1976 to 1979 he was product manager and Assistant to CEO, Nestlé India before becoming product manager, Nestlé Portugal. From 1980 onwards, Carlo Donati held a series of senior positions in Africa. In 1993 he was transferred to Nestlé's Headquarters as Regional Assistant / Deputy for the Africa & Middle East Zone of operations, moving on from that position in 1996 to become Divisional Manager of Nestlé Italiana, and then Managing Director of Nestlé India in 1998. After five years as Region Head of Nestlé South Asia Region, he was appointed to his present post as Executive Vice President, Nestlé Waters, in 2005.

Carlo Donati represents Nestlé's interests as a board member of Manantiales la Asunción S.A. de CV in Mexico. He is also Chairman of both Nestlé Waters SAS, and Nestlé Waters MT (Management & Technology) SAS in France.

#### Luis Cantarell



In 1976 Luis Cantarell joined Nestlé España S.A. and was appointed Head of Coffee Marketing in 1987 and later Head of the Nutrition Division of Nestlé Spain. In 1994 he transferred to Nestlé's Headquarters, taking worldwide responsibility for Coffee Marketing within the Coffee & Beverages Strategic Business Unit. He returned to Spain in 1996 as Division manager. From 1998 to 2001 he was Managing Director of Nestlé Portugal S.A., and in 2001 was nominated Senior Vice President in charge of the Group's Nutrition Strategic Business Division. In 2003 he was appointed Deputy Executive Vice President, before taking his present position in November 2005 as Executive Vice President, Nestlé S.A., in charge of Zone Europe.

As a representative of Nestlé, he is member of the Supervisory Board of Cereal Partners Worldwide, in Switzerland, Chairman of Nestlé Entreprises SAS in France, Nestlé Suisse S.A., and Société des Produits Nestlé S.A. in Switzerland.

Luis Cantarell is also a member of the Foreign Investment Advisory Council of Russia, a Board member of Association des Industries de Marque (AIM) in Belgium, President of the Liaison Committee with the CIAA and member of the Executive Board of ECR Europe in Belgium.

#### Paul Polman



From 1979 to 1986 Paul Polman completed various financial assignments for Procter & Gamble in Belgium, Holland and France. By 1986 he was a Category Manager and Marketing Director at P&G France, eventually becoming Vice President and General Manager of P&G Iberia in 1989 and Vice President and Managing Director of P&G UK in 1995. From 1998 to 2001 he was President of Global Fabric Care at P&G and from 2001 to 2005 Group President of P&G Europe and Officer of the Procter & Gamble Company responsible for P&G's European business.

Paul Polman joined Nestlé in 2006 and serves as Executive Vice President Finance & Control, also in charge for Global Nestlé Business Services, Legal, Intellectual Property, Tax and Purchasing (plus GLOBE as of 1 January 2007).

As a representative of Nestlé Paul Polman is a Board member of Alcon Inc., and of both Life Ventures S.A. and Nutrition-Wellness Venture AG in Switzerland.

He is also Treasurer of the Swiss-American Chamber of Commerce.

#### Chris Johnson



Chris Johnson began his career in 1983 at Carnation Company in the United States (acquired by Nestlé in 1985) and held various sales and marketing positions through 1990. In 1991, he joined Nestlé Japan as Marketing Manager for the Friskies Pet Care Business Unit and later became the Manager for the Refreshment Beverages Business Unit. In 1995, he took the role of Senior Area Manager, Asia Region, for Perrier Vittel SA (now Nestlé Waters) based in France. From 1998 to 2000, he was Managing Director of Nestlé Taiwan. In 2000, Chris Johnson was appointed to his current position as Deputy Executive Vice President responsible for the GLOBE Program, IS/IT and Strategic Supply Chain (until 31 December 2006).

He is also a member of the Executive Board of the Global Commerce Initiative (GCI) in Belgium, and a member of the Management Board of GS1 (formerly EAN International) in Belgium.

#### Richard T. Laube



From 1980 to 1986 Richard T. Laube was a brand manager for Procter & Gamble, firstly in Geneva, Switzerland, and then in Cincinnati, USA. In 1987 he moved to Osaka, Japan, as Paper Brands Marketing Director for P&G Far East Inc. and then to Germany in 1992 as General Manager and Vice President of P&G Pharmaceutical, Deutschland. After three years as Managing Director of P&G do Brasil, Richard T. Laube became President of Roche Consumer Health in 1999, and was appointed a member of the Roche Corporate Executive Committee in 2001.

Richard Laube joined Nestlé S.A. in April 2005 and became Deputy Executive Vice President, Corporate Business Development, and in November 2005 was appointed Deputy Executive Vice

President in charge for Nestlé Nutrition. Richard Laube also represents Nestlé as Chairman of Nutrition-Wellness Venture AG and Life Ventures S.A. in Switzerland and as Chairman of Jenny Craig.

#### Marc Caira



Marc Caira started at Nestlé Canada in 1977. In 1986 he was appointed Regional Sales Vice President and then in 1990 Vice President Foodservice, eventually serving as President of Foodservice & Nescafé Beverages for Nestlé Canada from 1997 to 2000. In October 2000 Marc Caira joined Parmalat Canada and became President and CEO of Parmalat North America in 2004. In May 2006, Marc Caira returned to Nestlé and was appointed Deputy Executive Vice President in charge of FoodServices Strategic Business Division.

#### David P. Frick



David P. Frick began a legal career in 1991 with a clerkship in the Meilen District Court in Zurich and in 1993 became assistant to the Banking Law Chair at Zurich University Law School. From 1994 to 1999 he was an attorney in the International Corporate and Litigation practice groups of Cravath, Swaine & Moore, the New York law firm, before becoming Group General Counsel and Managing Director of Credit Suisse Group, Zurich, in 1999. In 2003 David Frick was appointed as a Member of the Executive Board at Credit Suisse Group and became the company's Head of Legal and Compliance in 2005. David Frick joined Nestlé S.A. in 2006 as Senior Vice President, Corporate Governance and Compliance. He is also on the Committee on Extraterritoriality for the International Chamber of Commerce in Paris, and the Legal Committee for the Swiss-American Chamber of Commerce.

as of 1 February 2007:

#### José Lopez



José Lopez joined Nestlé in 1979 as Engineering Trainee. From 1983 to 1995, he completed various technical assignments in Spain, USA, Japan and France. In 1995 he was appointed Technical Manager of the Oceania Region, becoming in 1997 the Operations Director responsible for Technical, Supply Chain and Exports. In 1999 José Lopez was appointed Market Head responsible for the Malaysian/Singaporean Region, in 2003 he became Market Head of Nestlé Japan. As Executive Vice President of Operations he will be responsible for Procurement, Technical and Production as well as Supply Chain Functions.

### 4.3 Management contracts

There are no management contracts with third parties at Nestlé.

## 5. Compensations, shareholdings and loans <sup>(1)</sup>

### 5.1 Content and method of determining the compensation and of the share-ownership programmes

The Compensation and Nomination Committee recommends to the Board of Directors, for approval, the compensation policy and the fees paid to the members of the Board of Directors, including the compensation of the Chairman/CEO. Upon proposal by the Chairman/CEO, the Compensation and Nomination Committee reviews and approves the Executive Board members' individual compensation, including short-term and long-term incentive components, in light of their individual assessments, targets and achievements relevant to compensation.

The principles and elements of compensation for acting and former members of the Nestlé Board of Directors and Executive Board were the following:

<sup>(1)</sup> See Notes 21 and 33 of the Consolidated Financial Statements of the Nestlé Group 2006 for full details

### Members of the Board of Directors

Members of the Board of Directors received an annual compensation that varied with the Board and the Committee responsibilities as follows (see details below): Board members CHF 280 000; members of the Chairman's and Corporate Governance Committee additional CHF 200 000; members of the Compensation and Nomination Committee additional CHF 50 000 (Chair 150 000); members of the Audit Committee additional CHF 100 000 (Chair 150 000). Half of the compensation was paid through the granting of Nestlé S.A. shares at the ex-dividend closing price at the day of payment of the dividend. These shares are subject to a two-year blocking period.

Members of the Board of Directors also received an annual expense allowance of CHF 15 000 each (included in the table below). This allowance covers travel and hotel accommodation in Switzerland, as well as sundry out-of-pocket expenses. For Board members from outside Europe, the Company reimburses additionally the airline tickets. When the Board meets outside of Switzerland, all expenses are borne and paid directly by the Company.

The Chairman/CEO was in addition entitled to a salary, a bonus, share options and restricted stock units.

### Compensation of members of the Board of Directors

	Annual compensation	
	Cash (in CHF)	Shares (number)
Peter Brabeck-Letmathe, Chairman and CEO Chairman's and Corporate Governance Committee (Chair)	(Please refer to point 5.9)	
Andreas Koopmann, 1st Vice Chairman Chairman's and Corporate Governance Committee (Member) Compensation and Nomination Committee (Member)	280 000	697
Rolf Hänggi, 2nd Vice Chairman Chairman's and Corporate Governance Committee (Member) Finance Committee (Chair) Audit Committee (Chair)	330 000	829
Edward George Chairman's and Corporate Governance Committee (Member) Finance Committee (Member) Compensation and Nomination Committee (Member)	280 000	697
Jean-Pierre Meyers Audit Committee (Member)	205 000	500
Peter Böckli Compensation and Nomination Committee (Chair)	230 000	566
André Kudelski Audit Committee (Member)	205 000	500
Kaspar Villiger Chairman's and Corporate Governance Committee (Member) Finance Committee (Member) Audit Committee (Member)	305 000	763
Daniel Borel Compensation and Nomination Committee (Member)	180 000	434
Carolina Müller-Möhl	155 000	369
Günter Blobel	155 000	369
Jean-René Fourtou	155 000	369
Steven George Hoch	155 000	369
Naina Lal Kidwai	155 000	369
Total non-executive Board members	2 790 000	6 831

### Members of the Executive Board

The total annual compensation of the members of the Executive Board comprises a base salary, a bonus (based on the individual's performance and the achievement of the Group's objectives), stock options, restricted stock units, other benefits (see below), as well as contributions towards pension benefits.

Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average price of the last ten trading days of January of the year of allocation. These shares are subject to a three-year blocking period.

When determining the value and the design of the various elements, the Company uses several benchmarks. The major peer group considered for purpose of competitive practice is made up of some 15 mainly European parented fast-moving consumer goods companies. The Company's base salaries as well as bonus and long-term incentive targets generally today are at the median values of this comparator group; longer term we aim to be within the third quartile. Variations from this benchmark can exist as a result of special position requirements or particular experience or seniority of the incumbent.

The benchmark for pension benefits is the group of the leading Swiss companies, both in the industrial and financial services sectors.

Here below is a short description of the various compensation elements.

#### Base Salary

The Base Salary is the foundation of the total compensation. It also serves as the base for determining the Short-Term Bonus target and the Long-Term Incentives. It is reviewed annually based upon the individual contribution and with the objective to keep it competitive against our chosen peer group.

#### Short-Term Bonus

The Short-Term or annual Bonus is expressed as a Bonus target, which is a percentage of the Base Salary. The objectives are set at the beginning of each year and they include collective as well as individual objectives. Collective objectives are Nestlé Group operational objectives such as RIG, EBIT, Capex and others. Individual objectives are determined for each member of the Executive Board. In case all objectives are reached in full, the bonus payout will correspond to the targeted level. In case of overachievement of the objectives, the payout can reach a maximum of 150% of target. There is no guaranteed minimum bonus payout.

#### Long-Term Incentives

Each year, members of the Executive Board are eligible to receive Long-Term Incentives in the form of stock options under the Management Stock Option Plan (MSOP) and restricted share units under the Restricted Stock Unit Plan (RSUP). A target value is set at the time of the grant and the respective number of options and restricted stock units is then allocated to each member of the Executive Board. Grants under both plans vest following a waiting period of three years after the grant. The exercise price for the stock options corresponds to the average price of the last ten trading days preceding the grant date. Upon vesting, the options have an exercise period of four years before they expire, and the restricted stock units are made available to participants in the form of Nestlé S.A. shares.

#### Other benefits

Nestlé limits other benefits to a minimum. Typical elements are a car allowance (there are no company cars provided to the members of the Executive Board) and a minimal contribution towards the health insurance premiums, as offered to other employees. Those Executive Board members who have been transferred from other Nestlé locations can receive benefits in line with the Nestlé Corporate Expatriation Policy. There are no contractual provisions concerning severance payments for members of the Executive Board.

## Pension Benefits

Executive Board members domiciled in Switzerland are affiliated to the Nestlé Pension Plan in Switzerland as all other employees. The Plan is designed as a defined contribution plan with a retirement pension objective expressed as a percentage of the base salary. This means that the pensionable earnings include the base salary, but not the variable compensation. Any part of the base salary which exceeds the ceiling prescribed by the Swiss Pension Law is covered directly by the Company.

### 5.2 Compensations for acting members of governing bodies

The total of all compensations (including contributions towards pension benefits but excluding stock and option grants) conferred by Nestlé S.A. or one of its Group companies during the year under review and that directly or indirectly benefited members of the Board of Directors and/or the Executive Board was:

- For the executive member of the Board of Directors and members of the Executive Board:  
CHF 23 810 013 (of which CHF 3 976 030 are contributions towards pension benefits).
- For non-executive members of the Board of Directors<sup>(1)</sup>: CHF 2 790 000.

No severance payment was made to any person giving up their function in a governing body during 2006.

### 5.3 Compensations for former members of governing bodies

A total of CHF 101 550 was conferred during 2006 on two former members of the Executive Board who gave up their function during the year preceding the year under review or earlier.

### 5.4 Share allotment and restricted stock unit grant in the year under review

The number of Nestlé S.A. shares allotted to the following parties during 2006 was:

- To the executive member of the Board of Directors and members of the Executive Board: 23 892 shares.
- To non-executive members of the Board of Directors: 6 831 shares<sup>(1)</sup>.

The number of restricted stock units granted to the following parties during 2006 was:

- To the executive member of the Board of Directors and members of the Executive Board: 25 020 units.

Each restricted stock unit gives the right to receive one share at the end of the restriction period of three years (or earlier in case of early vesting).

### 5.5 Share ownership

The number of Nestlé S.A. shares held by the following parties on 31 December 2006 is as follows:

- By the executive member of the Board of Directors, members of the Executive Board and parties closely linked to such persons: 90 579 shares.
- By non-executive members of the Board of Directors and parties closely linked to such persons:  
192 761 shares.

<sup>(1)</sup> For details of compensation: see table point 5.1 above

## 5.6 Options

Overview of the options on Nestlé S.A. shares held by the following parties on 31 December 2006:

### Executive member of the Board of Directors, members of the Executive Board and parties closely linked to such persons

Grant date (options) <sup>(1)</sup>	Duration	Exercise price	Number of options outstanding
01.02.2006	7 years	CHF 379.50	104 475
01.02.2005	7 years	CHF 309.20	56 800
01.02.2004	7 years	CHF 329.10	176 500
01.02.2003	7 years	CHF 278.55	88 300
01.03.2002	7 years	CHF 367.35	84 150
01.03.2001	7 years	CHF 343.20	46 980

### Non-executive members of the Board of Directors and parties closely linked to such persons

– none

## 5.7 Additional fees and remunerations

There are no additional fees or remunerations billed to Nestlé S.A. or one of its Group companies by members of the governing body or parties closely linked to such persons as defined by the SWX Directive.

## 5.8 Loans to members of governing bodies

The total outstanding amount and conditions of the guarantees, loans, advances or credits granted to members of the Board of Directors or the Executive Board by Nestlé or one of Nestlé's Group companies, on 31 December 2006:

- Executive member of the Board of Directors and members of the Executive Board <sup>(2)</sup>: CHF 94 250.
- Non-executive members of the Board of Directors: None.

Closely linked parties did not receive any loans.

Loans are generally reimbursed over a three-year period and are interest-free.

## 5.9 Highest total compensation

For the member of the Board of Directors upon whom the highest total compensation was conferred during 2006, i.e. the Chairman/CEO, the elements are:

Element	Number	Value (in CHF)	Valuation method
Compensation (in cash) <sup>(3)</sup>		3 590 190	
Share allotment	17 414	6 484 140	Fiscal value at grant
Option allotment	56 600	1 038 610	Fiscal value at grant
Restricted Stock Unit grant	7 700	2 887 500	Market value at grant
Total		14 000 440	

<sup>(1)</sup> The subscription ratio is one option for one share in all cases

<sup>(2)</sup> Two beneficiaries under the Nestlé Corporate Expatriation Policy

<sup>(3)</sup> The Company also made a contribution of CHF 956 632 towards future pension benefits of the Chairman/CEO in line with Nestlé's pension benefits policy described above

## 6. Shareholders' participation

### 6.1 Voting rights and representation restrictions

#### 6.1.1 All voting rights restrictions, along with an indication of statutory group clauses and rules on granting exceptions, particularly in the case of institutional voting-rights representatives

Only persons who have been duly entered in the Share Register are recognised by the Company as shareholders and can exercise the rights conferred by the shares (art. 6, par. 4 of the Articles of Association, Appendix 1). Shareholders with the right to vote may exercise all the rights conferred by the shares. The exercise of any right conferred by the shares implies adherence to the Articles of Association. Shareholders without the right to vote may neither exercise the right to vote nor the other rights relating thereto.

Each shareholder with the right to vote may have their shares represented at General Meetings by another shareholder entered as a shareholder with the right to vote (art. 14, par. 2 of the Articles of Association, Appendix 1). Nestlé S.A. also offers the possibility to its shareholders to be represented by the Company or by an independent representative.

No shareholder nor shareholders acting in concert may, for the aggregate of the shares held or represented by them, vote in respect of more than 3% of the share capital (art. 14, par. 3 of the Articles of Association).

In order to permit the exercise of voting rights in respect of shares deposited with banks, the Board of Directors has granted exceptions to certain banks to vote shares deposited by their clients, which in aggregate are in excess of 3% of the share capital.

Further details regarding exceptions to voting restrictions are described under article 14, par. 4–5 of the Articles of Association (Appendix 1).

#### 6.1.2 Reasons for granting exceptions in the year under review

In order to facilitate trading of the shares on the stock exchanges, the Board of Directors has issued regulations authorising certain nominees to exceed the 3% limit to be registered as a shareholder with the right to vote. The responsibility for disclosure of beneficial owners resides with the nominees registered in the share register.

#### 6.1.3 Procedure and conditions for abolishing statutory voting-rights restrictions

Shareholders representing at least two thirds of the share capital must be present at a General Meeting in order to amend the provisions of the Articles of Association relating to the registration of voting rights and the limit on voting rights at General Meetings. Such a resolution requires a majority of three quarters of the shares represented at the General Meeting (art. 17 of the Articles of Association). See also article 14, par. 5 of the Articles of Association. See, however, Art. 36 of the Articles of Association as adopted by the General Meeting of 6 April 2006 (Appendix 1) and pages 10–11 of the Nestlé Management Report 2006.

#### 6.1.4 Statutory rules on participating in the General Meeting of shareholders if they differ from applicable legal provisions

Shareholders with the right to vote may have their shares represented by another shareholder with voting rights (art. 14, par. 2 of the Articles of Association, Appendix 1). Nestlé S.A. also offers the possibility to its shareholders to be represented by the Company or by an independent representative.

### 6.2 Statutory quorums

Please refer to articles 16 and 17, par. 1 of the Articles of Association (Appendix 1). See, however, Art. 36 of the Articles of Association as adopted by the General Meeting of 6 April 2006 and pages 10–11 of the Nestlé Management Report 2006.

### 6.3 Convocation of the General Meeting of shareholders

Nestlé S.A. statutory rules (art. 11 and 12 of the Articles of Association, Appendix 1) do not differ from applicable legal provisions.

#### 6.4 Agenda

Please refer to article 20 of the Articles of Association (Appendix 1).

#### 6.5 Registrations in the Share Register

The registrations appearing in the Share Register twenty days prior to the date of the General Meeting shall determine the right to participate in, and the right to represent shareholders at General Meetings (art. 6, par. 7 of the Articles of Association, Appendix 1).

### 7. Changes of control and defence measures

#### 7.1 Duty to make an offer

Nestlé S.A. does not have a provision on opting out or opting up in the Articles of Association.

Thus, the provisions regarding the legally prescribed threshold of 33 $\frac{1}{3}$ % of the voting rights for making a public takeover offer set out in article 32 of the Stock Exchange Act are applicable.

#### 7.2 Clauses on changes of control

There are no such agreements.

### 8. Auditors

#### 8.1 Duration of the mandate and term of office of the lead auditor

On 22 May 1993, Klynveld Peat Marwick Goerdeler SA (referred to as KPMG in this report), was first appointed as auditor of Nestlé S.A. On 14 April 2005 at the 138th General Meeting of Shareholders of Nestlé S.A., KPMG was reappointed as auditor of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group for a term of office of three years.

The audit report is signed jointly by two KPMG partners on behalf of KPMG. The first year that Mr. M. Baillache, in his capacity as auditor in charge, signed the Nestlé S.A. and the Consolidated Financial Statements of the Nestlé Group was for the year ending 31 December 2006.

#### 8.2 Auditing fees

The total of the auditing fees paid to the auditors for 2006 amounts to CHF 50 million, of which KPMG, in their capacity as Group auditors, received CHF 47 million.

#### 8.3 Additional fees

The total of the fees paid to the auditors for 2006 related to additional services amounts to CHF 8 million, of which KPMG received CHF 4 million.

The Nestlé Group and KPMG have agreed on clear guidelines as to professional services which it is appropriate for KPMG to provide. These services include due diligence on mergers, acquisitions and disposals and tax and business risk assurance. These guidelines ensure KPMG's independence in their capacity as auditors to the Nestlé Group. As a result of Alcon's listing on the NYSE, KPMG is required to maintain its independence from the Nestlé Group in accordance with U.S. standards. KPMG monitors its independence throughout the year and confirms its independence to the Audit Committee annually.

#### 8.4 Supervisory and control instruments pertaining to the audit

Please refer to points 3.5.2, 3.5.3 and 3.6 below.

## 9. Information policy

### Investor Relations – Guiding principles

Nestlé is committed to managing an open and consistent communication policy with shareholders, potential investors and other interested parties. The objective is to ensure that the perception of those parties about the historical record, current performance and future prospects of Nestlé is in line with management's understanding of the actual situation at Nestlé. The guiding principles of this policy are that Nestlé gives equal treatment to shareholders in equal situations, that any price-sensitive information is published in a timely fashion and that the information is provided in a format that is as full, simple, transparent and consistent as possible.

### Methodology

Nestlé produces a highly detailed Management Report annually, which reviews the business and provides detailed audited financial statements for the year under review, according to the International Financial Reporting Standards (IFRS). This document is complemented by the Half-yearly Report.

Nestlé publishes its full-year and half-year results, and its first-quarter and nine-months' sales figures. Nestlé also publishes press releases at the time of any potentially price-sensitive event, such as significant acquisitions and divestments, joint venture agreements and alliances. Major announcements, such as results or corporate activity, are accompanied by a presentation which is broadcast "live" on the Internet and which anyone can choose to access, whether or not that person is a shareholder.

Nestlé has an active investor relations programme, including both group meetings and one-to-one meetings. This includes the Ordinary General Meeting, as well as presentations at the time of its full and half-year results. The Group also has a programme of roadshows, which take place in most financial centres around the world, and hosts themed events for institutional investors and investment analysts at which members of line management give an overview of their particular areas of responsibility. These meetings focus either on recently announced financial results, recent corporate activity or the longer-term strategy of the Group: they are not an occasion for the disclosure of new information which might encourage an investment decision.

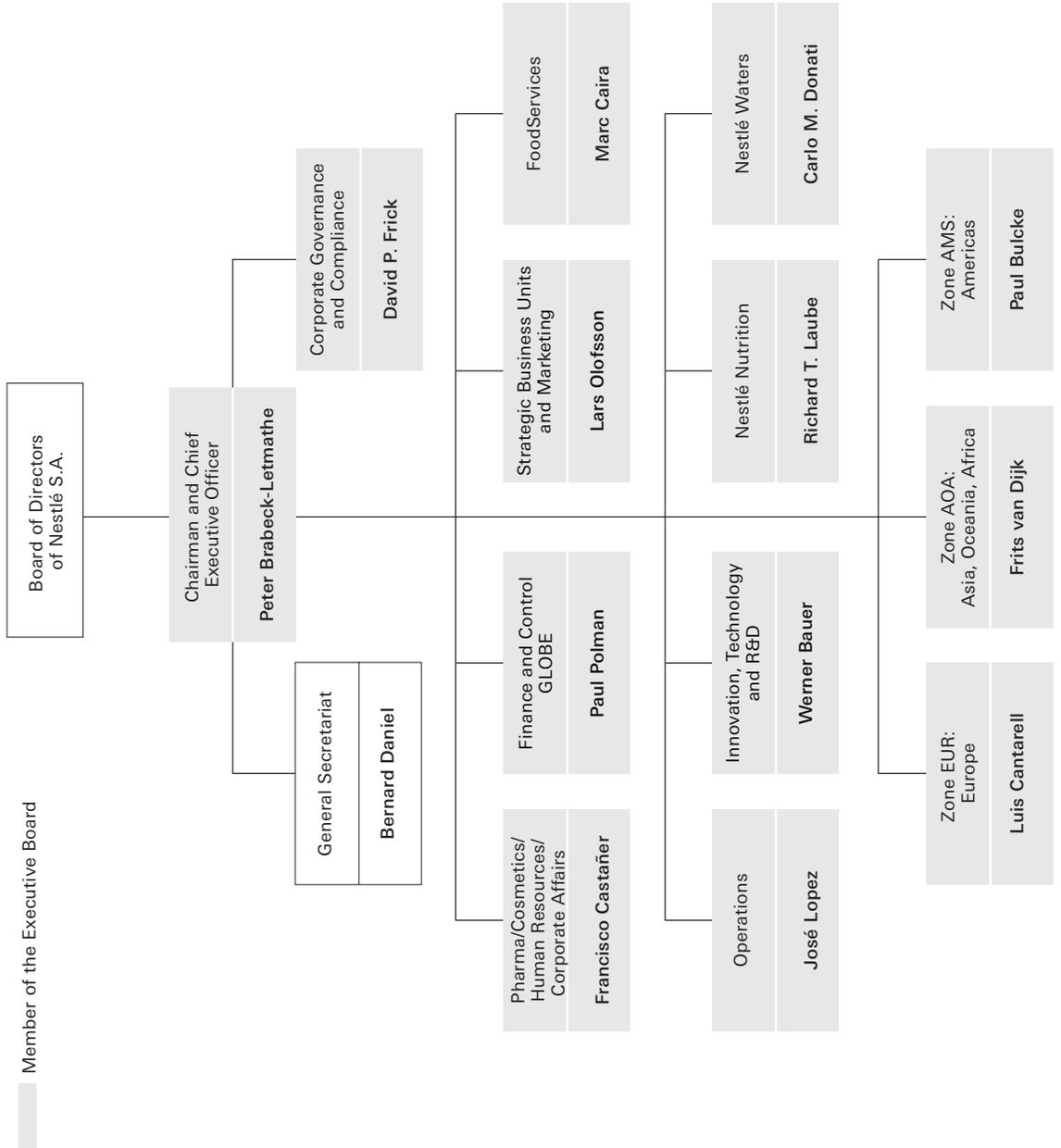
Nestlé utilises the World Wide Web ([www.nestle.com](http://www.nestle.com) and [www.ir.nestle.com](http://www.ir.nestle.com)) to ensure a rapid and equitable distribution of information. Nestlé does not just rely on people visiting the site to be updated on the latest developments within the Group: anyone can sign up on the site to be alerted automatically by Nestlé whenever there is a change to the investor relations web site; also press releases are distributed to major wire and news services. There are links to non-financial information that may be of interest to investors, including areas such as the environment, sustainability, the Nestlé Corporate Business Principles and the Nestlé Human Resources Policy.

The Nestlé Investor Relations Department can be contacted by anyone, either through the web site, or by telephone, fax, e-mail or letter.

### Contact

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**General Organisation of Nestlé S.A.**  
1 February 2007



# Articles of Association of Nestlé S.A.

Translation\*

## I. Name, Object, Duration Registered Offices

### Article 1 Corporate name

The Company is a company limited by shares incorporated and organised in accordance with the Code of Obligations of the Swiss Confederation.

Its name is:

Nestlé S.A.

Nestlé AG

Nestlé Ltd.

### Article 2 Object

1 The object of the Company is to participate in industrial, commercial and financial enterprises in Switzerland and abroad, particularly in the food and related industries.

2 The Company may itself establish such undertakings or participate in, finance and promote the development of undertakings already in existence.

3 The Company may enter into any transaction which, in the opinion of its Board of Directors, is conducive to its object or suitable for the investment of its available funds.

### Article 3 Duration

The duration of the Company is unlimited.

### Article 4 Registered offices

The registered offices of the Company are situated in Cham and Vevey, Switzerland.

## II. Share Capital

### Article 5 Share capital

The share capital is CHF 400 735 700 (CHF four hundred million seven hundred and thirty-five thousand seven hundred) divided into 400 735 700 fully paid up registered shares having a nominal value of CHF 1 each.

### Article 5<sup>bis</sup> Conditional share capital

1 By the exercise of conversion or option rights, the share capital of the Company may be increased by a maximum of CHF 10 000 000 (CHF ten million), by the issue of a maximum of 10 000 000 registered shares having a nominal value of CHF 1 each.

2 Holders of convertible debentures resulting from future convertible loans or of option rights resulting from future issues of bonds with warrants attached shall be entitled to acquire the new shares.

3 The preferential subscription right of the shareholders is withdrawn for these new shares.

4 The new shares shall be subject, as soon as they are issued by the exercise of conversion or option rights, to the restrictions set forth in Article 6.

5 The right of the shareholders to subscribe in priority the convertible debentures or bonds with warrants attached when they are issued may be limited or withdrawn by the Board of Directors, if:

a) an issue by firm underwriting by a consortium of banks with subsequent sale to the public seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue;

or

b) the convertible debentures or bonds with warrants attached must be issued in connection with the acquisition of businesses or parts of businesses or with participations.

6 Any convertible debentures or bonds with warrants attached which the Board of Directors decides not to offer for prior subscription to the shareholders shall be subject to the following conditions:

a) Conversion rights may be exercised only during a maximum of 15 years, and option rights only during 7 years from the date of issue of the relevant loan.

b) The new shares shall be issued according to the applicable conversion or option conditions. The convertible debentures or bonds with warrants attached must be issued pursuant to the usual market conditions (including the usual market conditions with regard to protection against dilution). The conversion or option price must be not less than the average of the closing price of the shares paid on the SWX Swiss Exchange during the 5 days preceding the determination of the final issue conditions for the relevant debentures or bonds with warrants attached.

*\* This is an unofficial translation. In case of doubt or differences of interpretation the official French and German versions of the Articles of Association shall prevail over the English text.*

## Article 6 Shares; Share register; exercise of rights; restrictions under the Articles of Association

1 The Company shall issue registered shares or certificates covering several registered shares, which are issued in the name of the owner.

2 The share certificates shall be signed by two members of the Board of Directors. Both signatures may be affixed in facsimile.

3 The Company shall maintain a Share Register showing the name and address of the holders or usufructuaries. Any change of address must be reported to the Company.

4 The Share Register will contain two headings: "Shareholders without the right to vote" and "Shareholders with the right to vote". Only persons who have been duly entered under one of those two headings will be recognised by the Company as shareholders or usufructuaries. Only such persons will be authorised as against the Company to exercise the rights conferred by their shares, subject to the restrictions set forth in Article 6, par. 6, and Article 14 of the Articles of Association. Shareholders without the right to vote may neither exercise the right to vote conferred by the shares nor the other rights relating thereto. Shareholders with the right to vote may exercise all the rights conferred by the shares. The exercise of any right conferred by the shares implies adherence to the Articles of Association of the Company.

5 After the acquisition of shares, upon request of the shareholder to be recognised as such, any acquiring party shall be considered as a shareholder without the right to vote, until it is recognised by the Company as a shareholder with the right to vote. If the Company does not refuse the request to recognise the acquiring party within twenty days, the latter shall be deemed to be a shareholder with the right to vote.

6 Subject to Article 14, the following provisions shall be applicable:

- a) No natural person or legal entity may be registered as a shareholder with the right to vote for shares which it holds, directly or indirectly, in excess of 3% of the share capital, subject to Article 685d, par. 3 of the Swiss Code of Obligations. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent this limit, shall be counted as one person.

- b) The 3% limit set out above also applies to shares acquired or subscribed by the exercise of subscription, option or conversion rights attached to shares or other securities issued by the Company or by third parties.
  - c) The foregoing limit does not apply in the case of subscriptions of reserve shares issued by the Company or an acquisition through exchange of shares.
  - d) Subject to the provisions of letter e) below, the Board of Directors may refuse to enter the shares in the Share Register if, when requested to do so by the Board, the acquiring party has not specifically declared that the shares have been acquired in its own name and for its own account.
  - e) In order to facilitate the trading of the shares on the stock exchange, the Board of Directors may, by means of regulations or within the framework of agreements with stock exchange or financial institutions, allow fiduciary registrations and also depart from the 3% limit set out above.
  - f) After hearing the interested party, the Board of Directors may cancel, with retroactive effect, the registration of shareholders holding shares in contravention of the preceding rules.
- 7 The registrations appearing in the Share Register twenty days prior to the date of the General Meeting of shareholders shall determine the right to participate in and the right to represent shareholders at the General Meetings (art. 14).

## Article 7 Dematerialised shares

1 The Company may cease printing and supplying certificates. A shareholder shall however have the right to demand at any time that a certificate for his shares be printed and supplied at no cost.

2 Shares not represented by a certificate, and the rights attached to such shares but not represented by a certificate, may only be transferred by deed. In order to be valid, the deed must be notified to the Company.

3 Shares or the rights attached thereto not represented by a certificate, which a bank has been instructed by the shareholder to administer, may only be transferred through that bank and pledged in favour of such bank.

## Article 8 Notices

Without prejudice to the special notice required under Article 696, par. 2, of the Swiss Code of Obligations, all notices required by law and all notifications to be made by the Company shall be considered duly made if published in the "Feuille Officielle Suisse du Commerce" in Berne.

### III. Organisation of the Company

#### A. General Meeting

##### Article 9 Powers of the General Meeting

1 The General Meeting of shareholders is the supreme authority of the Company.

2 Its decisions, if in accordance with the law and these Articles of Association, shall be binding on all shareholders.

##### Article 10 Ordinary General Meeting

The Ordinary General Meeting of shareholders shall be held each year within six months of the close of the financial year of the Company.

##### Article 11 Convening General Meetings

1 General Meetings shall be convened by the Board of Directors or, if necessary, by the Auditors, as well as in the other cases foreseen by law.

2 The Board of Directors shall, if so requested by a General Meeting or at the request in writing, specifying the items and proposals to appear on the agenda, of one or more shareholders with the right to vote representing in aggregate not less than one tenth of the share capital, convene an Extraordinary General Meeting. The Extraordinary General Meeting shall be held within forty days of such request.

##### Article 12 Notice of General Meetings

1 Ordinary or Extraordinary General Meetings shall be convened by notice appearing in the gazette referred to in Article 8 not less than twenty days before the date fixed for the Meeting.

2 The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and of the shareholders who demanded that a General Meeting of shareholders be convened (art. 11) or that items be included in the agenda (art. 20).

##### Article 13 Presiding officer; Minutes

1 The Chairman or any member of the Board of Directors shall preside at General Meetings.

2 Minutes of General Meetings shall be kept by the Secretary of the Board of Directors.

##### Article 14 Voting rights; Proxies

1 Each share confers the right to one vote. The right to vote is subject to the conditions of Article 6.

2 Each shareholder entered in the Share Register as a shareholder with the right to vote may have its shares represented at General Meetings by another shareholder entered as a shareholder with the right to vote.

3 At General Meetings no shareholder may, for the aggregate of the shares held or represented by him, exercise his voting right in excess of 3% of the total share capital. Legal entities that are linked to one another through shareholding, voting rights, management or in any other manner, as well as natural persons or legal entities acting in concert with a view to circumventing such a limit, shall be counted as one shareholder.

4 The foregoing limit does not apply to shares received and held by a shareholder pursuant to an acquisition as referred to in Article 6, par. 6, lit. c).

5 In order to permit the exercise of voting rights in respect of shares deposited with banks, the Board of Directors may by means of regulations or agreements with banks depart from the limit foreseen in this Article. It may also depart from such a limit within the framework of the regulations or agreements referred to in Article 6, par. 6, lit. e). In addition, this limit shall not apply to the exercise of voting rights pursuant to Article 689c CO regarding representation by a member of the corporate bodies and by an independent person.

##### Article 15 Quorum and decisions; 1. In general

1 General Meetings shall be duly constituted irrespective of the number of shareholders present or of shares represented, except as otherwise provided in the Articles of Association.

2 Subject to the provisions of Articles 16 and 17 below, General Meeting resolutions and elections shall be decided on a straight majority of the shares represented. In case of a tie, elections shall be decided by lot; on other matters the Chairman of the meeting shall have a casting vote.

3 This Article is subject to any contrary and mandatory provisions of the law.

##### Article 16 2. Special Quorum

1 Shareholders representing at least one half of the share capital shall have to be present in order to:

- change the corporate name,
- broaden or restrict the scope of the Company's business,
- transfer the registered offices,
- merge with another company,
- issue preference shares,
- cancel or modify the preferential rights attached to such shares,
- issue or cancel profit sharing certificates.

2 Whenever at a first General Meeting less than half of all the shares are represented, a second General

Meeting may be held immediately following the first at which, irrespective of the number of shares represented, decisions may validly be taken by a straight majority of the votes cast.

#### Article 17 3. Special Quorum and qualified Majority

1 Shareholders representing at least two thirds of the total share capital shall have to be present in order to amend the provisions of the Articles of Association relating to the registration of the voting right (Art. 6, par. 6), the limit on voting rights at General Meetings (Art. 14, par. 3, 4 and 5), the number of Directors (Art. 22) and the term of office (Art. 23), as well as to transfer the registered offices abroad, wind up the Company and remove more than one third of the Directors.

2 Such decisions require a majority of three quarters of the shares represented at the General Meeting.

#### Article 18 Voting and elections

Without prejudice to the principle set forth in the first paragraph of Article 14, votes shall be taken on a show of hands unless a secret ballot be ordered by the Chairman of the meeting or requested by the majority of the shareholders present.

#### Article 19 Items not on the agenda

No resolution shall be passed at a General Meeting on matters which do not appear on the agenda except for:

- a resolution convening an Extraordinary General Meeting; or
- the setting up of a special audit.

It shall not be necessary to include in the notice convening a General Meeting items on which no vote will be taken.

#### Article 20 Rights of shareholders to complete agenda

One or more shareholders whose combined holdings represent an aggregate nominal value of at least 1 million francs may demand that an item be included in the agenda of a General Meeting; such a demand must be made in writing to the Board of Directors at the latest 45 days before the meeting and shall specify the proposals made.

#### Article 21 Specific powers of the General Meeting

The following powers shall be vested exclusively in the General Meeting:

- a) to approve the annual report and the annual financial statements of the Company;
- b) to approve the consolidated financial statements of the Group;
- c) to grant the release to the Board of Directors and to the management;
- d) to decide on the appropriation of profits resulting from the balance sheet of the Company and in particular to determine the amount of the dividend;
- e) to elect and remove the members of the Board of Directors, the Auditors of the annual financial statements of the Company and the Auditors of the consolidated financial statements of the Group;
- f) to adopt and amend the Articles of Association;
- g) to take all decisions which by law or under the Articles of Association are within the jurisdiction of the General Meeting.

#### B. Board of Directors

##### Article 22 Number of Directors

The Board of Directors shall consist of at least seven but not more than nineteen members who must be shareholders.

##### Article 23 Term of office

1 The members of the Board of Directors shall be elected for five years. Each year the Board shall be renewed by rotation, to the extent possible in equal numbers and in such manner that, after a period of five years, all members will have been subject to re-election.

2 In the event of an increase or a decrease in the number of Directors, the Board of Directors shall establish a new order of rotation. It follows that the term of office of some members may be less than five years.

3 If, before the expiry of their term of office, Directors should for any cause whatsoever be replaced, the term of office of the newly elected Directors shall expire at the end of the normal term of office of their predecessors.

4 Retiring Directors may be re-elected immediately.

5 A year shall mean the period running between one Ordinary General Meeting and the next.

#### Article 24 Organisation of the Board; Remuneration

1 The Board of Directors shall elect its Chairman and one or two Vice Chairmen. It shall appoint a Secretary and his substitute, neither of whom need be members of the Board of Directors.

2 The Board of Directors shall define in the By-laws pursuant to Art. 28, par. 2 its organisation and the assignment of responsibilities.

3 The members of the Board of Directors are entitled to a directors' fee for their activities, the amount of which is fixed by the Board of Directors.

#### Article 25 Convening meetings; Resolutions

1 The Board of Directors shall meet when convened by the Chairman.

2 The Chairman or any member of the Board designated by the Chairman shall immediately convene a meeting of the Board at the written and substantiated request of any member of the Board of Directors.

3 Resolutions and elections shall be decided on a straight majority of the members present at the meeting; in case of a tie the Chairman shall have a casting vote.

4 Unless a member requests discussion, resolutions of the Board may be properly taken in the form of a motion approved in writing (by letter, facsimile or otherwise) by a majority of the members of the Board.

#### Article 26 Powers of the Board in general

The Board of Directors shall conduct all the business of the Company to the extent that it is not within the jurisdiction of the General Meeting or not delegated pursuant to the By-laws as set forth in art. 28, par. 2.

#### Article 27 Specific powers of the Board

The Board of Directors has the following non-transferable and inalienable duties:

- a) the ultimate direction of the business of the Company, in particular the conduct, management and supervision of the business of the Company, and the provision of necessary directions;
- b) the determination of the organisation in the By-laws pursuant to art. 28, par. 2;
- c) the determination of accounting and financial control principles;
- d) the appointment and removal of the persons entrusted with the management and the granting of signatory powers to persons representing the Company;

- e) the ultimate supervision of the persons entrusted with the management of the Company, ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;
- f) the preparation of the Management Report in accordance with the provisions of the law;
- g) the preparation of General Meetings and the carrying out of its resolutions;
- h) the determination of the manner in which the dividend shall be paid;
- i) the opening and closing of branch offices;
- j) the notification of the court in case of overindebtedness.

#### Article 28 Delegation of powers

1 The Board of Directors may appoint from amongst its members a Committee entrusted with the preparation and execution of its decisions or the supervision of specific parts of the business. The Board of Directors shall ensure that it is kept properly informed.

2 The Board of Directors may in accordance with the By-laws delegate all or part of the management to one or more of its members, to the Committee, or to third parties.

#### Article 29 Management; Power to sign on behalf of the Company

The Board of Directors may authorise Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Vice Presidents, "Fondés de pouvoirs", "Mandataires commerciaux" and other officers to sign on behalf of the Company. Authority may be granted to sign individually or jointly.

#### C. Auditors

##### Article 30 Number of Auditors; Term of office

The General Meeting shall appoint, for a term of three years, one or more Auditors of the annual financial statements of the Company and one or more Auditors of the consolidated financial statements of the Group, which shall be independent from the Company and meet the special professional standards required by law.

##### Article 31 Rights and duties of Auditors

The Auditors shall verify the annual financial statements of the Company, as well as the consolidated financial statements of the Group, and shall submit their reports to the General Meeting. Their rights and duties shall be as laid down by the Swiss Code of Obligations.

#### **IV. Business Report and Appropriation of profit resulting from the balance sheet**

##### **Article 32 Financial year**

The financial year shall commence on the first day of January and shall end on the thirty-first day of December.

##### **Article 33 Management report**

For every financial year the Board of Directors shall prepare a management report consisting of annual financial statements of the Company, of the annual report and consolidated financial statements of the Group.

##### **Article 34 Appropriation of profit resulting from the balance sheet of the Company**

Subject to any mandatory provisions of the law, the General Meeting shall be free to determine the appropriation of the profit resulting from the balance sheet of the Company.

#### **V. Reserve**

##### **Article 35 Use of the general reserve**

The General Meeting shall determine how the general reserve shall be used.

#### **VI. Transitional Provision**

##### **Article 36 Transitional Provision**

1 The Board of Directors is mandated to draft a proposal for a complete revision of the Articles of Association of the Company.

2 The revision of the Articles of Association of the Company will be submitted to the shareholders at the Annual General Meeting 2007 or later. The shareholders' resolution on such revision shall be passed by two thirds of the votes represented at that meeting; the supermajority and quorum requirements of Arts. 16 and 17 shall not apply to such a vote.

*Articles of Association amended by the Ordinary General Meeting of 6 April 2006*

# Nestlé Corporate Governance Principles

Since its foundation in 1866, Nestlé has:

- built consumers' trust through the quality of its products;
- respected the social, political and cultural traditions of all countries in which it operates;
- taken a long-term approach to strategic decision-making, which recognises the interests of its shareholders, consumers, employees, business partners and industrial suppliers as well as those of local communities and all the national economies in which it operates.

Nestlé's commitment to sound Corporate Governance goes back to its very early days. In September 2000, Nestlé published the first version of its Corporate Governance Principles. Since 2002, Nestlé has been publishing an annual Corporate Governance Report as an integral part of the Management Report. These documents reflect and highlight our ongoing commitment to ensure the highest level of responsible corporate conduct in all of our Company's activities.



Peter Brabeck-Letmathe  
Chairman of the Board  
and Chief Executive Officer

## Preamble

### Legislations and International Recommendations

Nestlé:

- complies with the laws and regulations applicable in the countries in which it operates;
- ensures that the highest standards of conduct are met throughout the organisation by complying in a responsible way with the Nestlé Corporate Business Principles, which guide Company activities and relationships worldwide in each sector of business interest;
- is aware that increasing globalisation is leading to the development of more international recommendations. Although, as a general rule, these recommendations are addressed to governments, they inevitably have an impact on business practices. Nestlé takes such recommendations into account in its policies;
- pursues a strategy of being in line with proven best practice;
- generally endorses commitments and recommendations for voluntary self-regulation issued by competent sectoral organisations, provided they have been developed in full consultation with the parties concerned.

## The Principles

They cover four areas:

- I. The rights and responsibilities of shareholders
- II. The equitable treatment of shareholders
- III. The duties and responsibilities of the Board of Directors
- IV. Disclosure and transparency

These are based on Swiss legislation and SWX Swiss Exchange regulations, since Nestlé S.A. has its registered offices in Switzerland (Cham and Vevey), as well as on Nestlé S.A.'s Articles of Association.

## I. The rights and responsibilities of shareholders

The shareholders' rights are protected by law, by the Articles of Association, and by the Corporate Governance Principles, which are also intended to ensure the sustainable development of Nestlé S.A.

Nestlé S.A.'s basic shareholders' rights and responsibilities include the right to:

- secure methods of ownership registration;
- obtain relevant information on Nestlé S.A. on a regular and timely basis;
- participate in, and vote at, General Meetings of the shareholders in person or in absentia (by proxy), subject to the Nestlé S.A.'s Articles of Association;
- approve the Management Report and the annual Financial Statements of Nestlé S.A.;
- approve the Consolidated Financial Statements of the Group;
- grant the release to the Board of Directors (hereafter referred to as the "Board") and to the Management;
- decide on the appropriation of profits resulting from the balance sheet of Nestlé S.A., in particular determine the amount of the dividend;
- elect and remove the members of the Board, and the Auditors of the annual financial statements and of the consolidated financial statements;
- adopt and amend the Articles of Association;
- take all decisions, which by law or under its Articles of Association, are within the jurisdiction of the General Meeting;
- participate in decisions in extraordinary meetings;
- be informed sufficiently ahead of time of the date, location and agenda of General Meetings;
- place items on the agenda and ask questions at General Meetings in accordance with the Articles of Association, and – for the questions – subject to reasonable limitations inasmuch as the topics are related to business activities.

Any Nestlé S.A. shareholder has the right to request effective redress of violation of his/her rights in accordance with Swiss law.

## II. The equitable treatment of shareholders

### Vote

Nestlé S.A. applies the principle "one share – one vote". As far as the voting rights are concerned, they are limited to 3% (own shares have no voting rights). Any Nestlé S.A. shareholder can obtain information about voting rights.

Changes in voting rights are submitted to the shareholders' vote.

### Processes and Procedures

Processes and procedures for the General Meeting of Shareholders allow for equitable treatment of all shareholders.

Nestlé S.A.'s procedures are designed to facilitate the shareholders to cast votes.

### Dealings

Insider trading is prohibited and specific "close periods" have been defined for people concerned.

## III. The duties and responsibilities of the Board

The Board ensures the strategic guidance of Nestlé S.A. and the effective monitoring of its management. The Board is accountable to the shareholders.

In order to fulfil their duties and their responsibilities, Board members receive and can request accurate, relevant and timely information.

Board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of Nestlé S.A.

Board members provide equal treatment to shareholders in similar situations.

The Board has the following non-transferable and inalienable duties to:

- a) provide the ultimate governance of Nestlé S.A. and issue the necessary instructions;
- b) determine the organisation;
- c) discuss and approve the strategy;
- d) organise accounting and financial control as well as financial planning;
- e) provide the ultimate supervision of the persons entrusted with the management, and grant signatory powers to persons representing the Company;
- f) ultimately supervise the persons entrusted with the management of the Company, ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;
- g) evaluate the persons in top management;
- h) prepare the management report in accordance with provisions of the law;

- i) prepare General Meetings and carry out its resolutions;
- j) notify the court in case of overindebtedness.

The Chairman's role is to supervise Nestlé S.A.'s governance structure and to look after the shareholders' relations and interests in particular.

The Board consists of non-executive members who delegate the management of Nestlé S.A. to the Chief Executive Officer who is also a Board member. It also delegates special duties/responsibilities to specific Committees.

Members of the Board and management disclose any personal interest in any transaction of significance for the business of Nestlé S.A.

The Board has the following Committees:

- the Chairman's and Corporate Governance Committee
- the Compensation and Nomination Committee
- the Audit Committee
- the Finance Committee

#### IV. Disclosure and transparency

Nestlé S.A. aims to ensure that shareholders have access to relevant, up-to-date and consistent information in a timely and consistent fashion. This information should allow shareholders as well as prospective investors to make informed judgements about the Nestlé S.A. shares.

Nestlé S.A. pursues a policy of disclosure and transparency. This policy may be modified only when it is necessary to protect the Company's competitive, commercial or legal position.

Nestlé S.A. complies with all legal and regulatory requirements applicable where its shares are listed. Nestlé S.A. will monitor all changes and take part whenever possible in discussions preceding such changes in legislation and listing regulations.

Nestlé S.A. fulfils its obligation to make information that is relevant to the market publicly available in simultaneous fashion; independent auditors elected by the shareholders conduct the annual audit in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.