



Good Food, Good Life

# Corporate Governance Report 2003

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<sup>(1)</sup> The term senior management, as used in the SWX Directive, is replaced by Executive Board throughout this document

Dear Shareholder

Nestlé's commitment to sound Corporate Governance goes back to its very early days. To assure the highest level of responsible corporate conduct worldwide, in all of the Company's activities, the Nestlé Corporate Governance Principles were developed in the late 1990s and published in the year 2000.

The Nestlé Corporate Governance Report 2003, published together with the Management Report 2003 and the 2003 Financial Statements, is based on the requirements of the SWX Swiss Exchange. Our Corporate Governance Report 2002 was well received in the financial community, and we trust that it enhances information and transparency in an appropriate way. Therefore only few adaptations were made; in the present Report, we publish more detailed information on the role and function of the different committees of the Board of Directors.

We firmly believe that our shareholders' confidence is based first and foremost on trust in our people, our products, our brands and our solid results. We are committed to winning this trust anew every day in every country where our products are sold. Another element crucial to maintaining this confidence is the ability to deliver sustainable, capital-efficient long-term growth.



Rainer E. Gut  
Chairman of the Board



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

## **Preliminary remarks**

The Nestlé Corporate Governance Report 2003 follows the structure of the SWX directive. *Texts in italics indicate direct quotations from the SWX directive.*

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Management Report 2003, the 2003 Financial Statements that comprise the consolidated accounts of the Nestlé Group and the Annual report of Nestlé S.A. and the Articles of Association of Nestlé S.A., whose full text can be consulted in the Appendix 1 on page 25 of this document.

The information disclosed in the 2003 Financial Statements complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. Where necessary, these disclosures have been extended to comply with the requirements of the SWX Swiss Exchange Directive on Information Relating to Corporate Governance.

## **1. Group structure and shareholders**

### **1.1 Group structure**

Please refer to the Management Report 2003 for the overview of Directors and Officers (p. 6), the registered offices, the stock exchange listings and quotation codes (p. 88) and information on market capitalisation (p.14).

For the general organisation chart of Nestlé S.A. refer to page 24 of this document. The Group's management structure is represented in the segmental information (page 11 and Note 1 of the 2003 Financial Statements).

Please refer to the 2003 Financial Statements page 64 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 403 520 000.

The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised 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, please refer to article 5 bis of the Articles of Association of Nestlé S.A. (Appendix 1).

### **2.3 Changes in capital**

The share capital has not changed in the last three financial years. On 11th June 2001, the registered shares were split in a ten-for-one relationship from CHF 10 to CHF 1. For the breakdown of capital ("equity") for 2003, 2002 and 2001 see the Consolidated statement of changes in equity in the Consolidated accounts of the Nestlé Group 2003 and 2002.

### **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: 403 520 000. According to article 14, par. 1 of the Articles of Association (Appendix 1), each share confers the right to one vote. See also 2.6.1 of this Report. 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 (Appendix 1), 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 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 2.6.3 of this Report.

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

Please refer to 2.6.3 and 6.1.2 of this Report.

### 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. Limits of holdings for a Nominee N, or Nominees N acting as an organised group or pursuant to a common agreement, may not 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 6.1.3 of this Report.

## 2.7 Convertible bonds and options

Bond issues are detailed in Note 20 of the Consolidated accounts of the Nestlé Group 2003. 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 on page 17 and in Notes 22 and 26 of the Consolidated accounts of the Nestlé Group 2003.

### 3. Board of Directors

#### 3.1 Members of the Board of Directors<sup>(1)</sup>

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

Name	Year of birth	Nationality	Education
Rainer E. Gut Chairman	1932	Swiss	Swiss Matura Diploma and professional training in Switzerland, Paris, London
Peter Brabeck-Letmathe Vice Chairman and CEO	1944	Austrian	Degree in Economics
Vreni Spoerry (Mrs)	1938	Swiss	Degree in Law
Lord Simpson (George)	1942	British	Diploma in Business Administration and Certified Accountant
Jean-Pierre Meyers	1948	French	Degree in Economics
Peter Böckli	1936	Swiss	Attorney-at-law
Arthur Dunkel	1932	Swiss	Degree in Economics
Nobuyuki Idei	1937	Japanese	Degree in Political Science and Economics
André Kudelski	1960	Swiss	Degree in Physics
Vernon R. Young	1937	US and British	Degree in Nutrition
Andreas Koopmann	1951	Swiss	Degree in Mechanical Engineering and Business Administration

<sup>(1)</sup> For complete information: please refer to individual CVs on [www.nestle.com](http://www.nestle.com)

Name	Professional Background <sup>(1)</sup>
Rainer E. Gut	Credit Suisse Group, CH, Chairman (1986–2000), Honorary Chairman (since 2000) Credit Suisse First Boston, CH, Chairman (1990–2000) Credit Suisse, CH, Chairman (1983–2000)
Vreni Spoerry	Member of the Swiss Parliament Council of States (1996–2003) National Council (1983–1995)
Lord Simpson	Warwick University, GB, Industrial Professor (since 1990) GEC/Marconi plc, GB, CEO (1996–2001) Lucas Industries plc, GB, CEO (1994–1996) British Aerospace plc, GB, Deputy CEO (1992–1994) Rover Group plc, GB, Chairman and CEO (1991–1994)
Jean-Pierre Meyers	L'Oréal S.A., FR, Vice Chairman (since 1994) Gesparal S.A., FR, Board member (since 1989) Bettencourt-Schueller Foundation, FR, Vice Chairman (since 1988)
Peter Böckli	Böckli Bodmer & Partner, Basel, CH (since 1981) University of Basel, CH, Professor for Business and Tax Law (1975–2001) Attorney-at-law in New York, Paris and Basel (1963–1981)
Arthur Dunkel	GATT, General Director (1980–1993) Universities of Geneva (since 1983) and Fribourg (since 1987), CH, Faculty of Economics, Associate Professor Swiss Federal Office of Foreign Economic Affairs, Delegate of the Swiss Government for Trade Agreements (1976)

<sup>(1)</sup> For Mr. Peter Brabeck-Letmathe, please refer to page 13

Name	Professional Background
Nobuyuki Idei	Sony Corporation, JP, Chairman and Group CEO (since 2000) Sony Corporation, JP, President and Representative Director (1995–1999) IT Strategy Council to Japan's Prime Minister, Chairman (since 2000)
André Kudelski	Kudelski Group, CH, Chairman and CEO (since 1991) Kudelski S.A., CH, Director of Pay-TV Division (1989–1990) Kudelski S.A., CH, Product Manager for Pay-TV products (1986–1989)
Vernon R. Young	Massachusetts Institute of Technology (MIT), US, School of Science, Professor of Nutritional Biochemistry (since 1977) Tufts University, USDA Human Nutrition Center on Aging, US, Senior Visiting Scientist (since 1988) Shriners Burns Hospital, US, Mass Spectrometry Laboratory, Director (since 1991)
Andreas Koopmann	Bobst Group SA, CH, CEO (since 1995), Board member (1998–2002), Executive Vice President (1994–1995), Member of the Group Executive Committee in charge of Manufacturing (1991–1994), Senior Vice President (1989–1991) Bobst Group Inc., US, Vice President Engineering and Manufacturing (1982–1989) Motor Columbus AG, Holding, CH, Assistant to a Group Executive (1980–1982)

**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**

- *Information on whether he/she was a member of management of the issuer or one of the issuer's group companies in the three financial years preceding the period under review.*
- *Information on whether he/she has important business connections with the issuer or one of the issuer's companies.*

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 Other activities and functions**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law</li> <li>• Activities in companies in which Nestlé holds a major strategic interest</li> </ul> | <ul style="list-style-type: none"> <li>• Permanent management and consultancy functions for important Swiss and foreign interest groups</li> </ul> |
|--|--|

Rainer E. Gut	<ul style="list-style-type: none"> <li>• Gesparal S.A., FR Vice Chairman</li> <li>• L'Oréal S.A., FR Board member</li> </ul>
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Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law

Permanent management and consultancy functions for important Swiss and foreign interest groups

- Activities in companies in which Nestlé holds a major strategic interest

Peter Brabeck-Letmathe

- **Alcon, Inc., CH**  
Vice Chairman
- **Cereal Partners Worldwide**  
Co-Chairman of the Supervisory Board
- **Dreyer's Grand Ice Cream Holdings, Inc., US**  
Vice Chairman
- **Gesparal S.A., FR**  
Board member
- **L'Oréal S.A., FR**  
Board member  
Avenir Suisse Foundation, CH  
Board member  
Credit Suisse Group, CH  
Vice Chairman  
Foundation for the International Federation of Red Cross and Red Crescent Societies, CH  
Member of the Foundation Board  
Roche Holding S.A., CH  
Board member
- **European Roundtable of Industrialists, BE**  
Member
- **Prince of Wales International Business Leaders Forum, GB**  
Deputy Chairman
- **World Economic Forum, CH**  
Member of the Foundation Board

Vreni Spoerry<sup>(1)</sup>

- **SV-Service AG, CH**  
Vice Chairman

Lord Simpson<sup>(2)</sup>

- **Alstom S.A., FR**  
Non-executive Director
- **Triumph Group, Inc., US**  
Non-executive Director

Jean-Pierre Meyers

- **Rothschild Ophthalmological Foundation, FR**  
Board member
- **Téthys S.C.A., FR**  
Member of the Supervisory Board

<sup>(1)</sup> As official function and political post, Mrs Vreni Spoerry was a member of the Swiss Parliament (Council of States) until November 2003

<sup>(2)</sup> As official function and political post, Lord Simpson is a member of the House of Lords (GB)

Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law

Permanent management and consultancy functions for important Swiss and foreign interest groups

- Activities in companies in which Nestlé holds a major strategic interest

Peter Böckli

Assivalor AG, CH  
Board member  
Doerenkamp-Stiftung, CH  
Secretary of the Board of Trustees  
Hason AG, CH  
Board member  
Holler-Stiftung, DE  
Member of the Board of Trustees  
Manufacture des Montres Rolex S.A., CH  
Vice Chairman  
UBS AG, CH  
Vice Chairman  
Vinetum AG, CH  
Board member

Arthur Dunkel

International Development Economics Associates (IDEAs), CH  
Chairman  
Institut des hautes études en administration publique (IDHEAP), CH  
Chairman

Nobuyuki Idei

Bank of Japan, JP  
Advisory Board member  
General Motors Corporation, US  
Asian Advisory Counsel

André Kudelski

Dassault Systèmes S.A., FR  
Board member  
Groupe Edipresse, CH  
Board member  
Swiss-American Chamber of Commerce, CH  
Board member  
Swiss International Air Lines Ltd., CH  
Board member

Credit Suisse Group, CH  
Member of the Advisory Board

Vernon R. Young

National Academy of Sciences, US  
Standing Committee on Scientific Evaluation of Dietary Reference Intakes, Chairman  
University of Ulster, Coleraine, GB  
Centre for Molecular Biosciences, Chairman

Ajinomoto, Inc., JP/US  
Consultant  
Food and Agriculture Organisation (FAO)  
Consultant  
Nestlé Consultative Committee on Nutrition, CH  
Member  
World Health Organisation (WHO)  
Consultant  
Xanthus Inc., CA/US  
Member of the Scientific Advisory Board

Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law

Permanent management and consultancy functions for important Swiss and foreign interest groups

- Activities in companies in which Nestlé holds a major strategic interest

Andreas Koopmann

SIG Holding AG, CH  
Board member  
Swissmem, CH  
Vice Chairman

Credit Suisse Group, CH  
Vice Chairman of the Advisory Board

### 3.3 Cross-involvement

*Indication of cross-involvement among the boards of listed companies*

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

### 3.4 Elections and terms of office

#### 3.4.1 Principles of election procedure and limits on terms of office

The General Meeting of Shareholders has the competence to elect and remove the members of the Board. The term of office of members of the Board is up to 5 years. Outgoing Directors are re-eligible. The Board shall be renewed by rotation. (See Art. 23 of the Articles of Association, Appendix 1).

The terms of office of all Board members shall be structured in such a manner that a member's term expires no later than the Ordinary General Meeting following his 72<sup>nd</sup> birthday.

For the principles of the selection procedure: see point 3.5.2 below (Selection Committee).

#### 3.4.2 Time of first election and remaining term of office

	First election	Remaining term of office <sup>(1)</sup>
Rainer E. Gut Chairman	14.05.1981	2005
Peter Brabeck-Letmathe Vice Chairman and CEO	05.06.1997	2007
Vreni Spoerry	21.05.1992	2004
Lord Simpson	03.06.1999	2004
Jean-Pierre Meyers	30.05.1991	2006
Peter Böckli	27.05.1993	2008
Arthur Dunkel	26.05.1994	2004
Nobuyuki Idei	05.04.2001	2006
André Kudelski	05.04.2001	2006
Vernon R. Young	11.04.2002	2007
Andreas Koopmann	03.04.2003	2008

<sup>(1)</sup> until the General Meeting of shareholders

### 3.5 Internal organisational structure

#### 3.5.1 Allocation of tasks within the Board of Directors, members list, tasks and area of responsibility for each Committee:

	Committee of the Board <sup>(1)</sup>	Remuneration Committee <sup>(2)</sup>	Audit Committee <sup>(3)</sup>
Rainer E. Gut Chairman	• (Chair)	• (Chair)	
Peter Brabeck-Letmathe Vice Chairman and CEO	•		
Vreni Spoerry	•	•	• (Chair)
Lord Simpson	•	•	
Jean-Pierre Meyers			•
Peter Böckli			•
Arthur Dunkel			
Nobuyuki Idei			
André Kudelski			
Vernon R. Young			
Andreas Koopmann			

3.5.2 <sup>(1)</sup> The **Committee of the Board** liaises between the CEO and the Board of Directors by acting on behalf of the Board, so as to expedite the handling of the Company's business. It also acts as the **Selection**, the **Corporate Governance** and the **Finance Committee**.

The **Selection Committee** establishes the principles for the selection of the candidates to the Board and prepares a proposal for the Board's decision. The members of the Board shall possess the necessary qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction to the business and affairs of the Company and the Group. If appropriate, the Board arranges for further training of its members.

The **Corporate Governance Committee** periodically reviews principles of Corporate Governance and prepares recommendations for the Board.

The **Finance Committee** reviews the financial asset and liability management framework of the Group and prepares and updates for the Board's approval financial asset and liability risk management guidelines.

<sup>(2)</sup> The **Remuneration Committee** draws up the principles for remuneration of the members of the Board, and submits them to the Board for approval. It oversees and discusses with the CEO the remuneration principles for the Company and the Group. In addition, it determines the remuneration of the CEO and the individual remunerations of the members of the Executive Board. The two members other than the Chairman determine the Chairman's remuneration. The Remuneration Committee informs the Board of its decisions and keeps it updated on the overall remuneration policy of the Group.

<sup>(3)</sup> The **Audit Committee** consists of three Board members elected by the Board, excluding the Chairman and the CEO. The powers and duties of the Audit Committee are determined 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. The Audit Committee supports the Board of Directors in its supervision of financial control through close contact with the external auditors (auditors of the annual accounts of Nestlé S.A. and auditors of the Group's accounts), as well as with the internal audit department. It is governed by a specific Charter issued by the Board of Directors. 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 independent 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.

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

The following meetings were held in 2003:

- Board of Directors 5 times\*
- Committee of the Board 8 times\*
- Audit Committee 3 times
- Remuneration Committee 3 times\*

\* including one meeting during the Board visit to Nestlé Mexico

The Board reserved one full day to discuss strategic questions; one meeting took place during the annual visit to a Nestlé Market, in 2003 to Nestlé Mexico. The average duration of the meetings held, excluding the full-day meeting, was 3 hours. The average attendance at the Board Meetings, excluding absences for health reasons, was over 90%.

## 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 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 and of the Vice Chairman/Vice Chairmen, of the Board committees and of the CEO and members of the Executive Board;
- e) the ultimate supervision of the 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, upon proposal by the CEO, of:
- the Group’s long-term strategy and annual investment budget;
  - major financial operations;
- i) the discussion and approval of:
- 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 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 CEO chairs the Executive Board, which comprises all Executive Vice Presidents and Deputy Executive Vice Presidents, 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 structure of the Board of Directors’ information and control instruments vis-à-vis the issuer’s Executive Board, such as internal auditing, risk management systems and management information systems (MIS):*

	Internal	External
Auditing	Corporate Internal Audit	KPMG
Risk Management	Enterprise Risk Management Programme (ERM)	–

The basic principles of the Enterprise Risk Management Programme (ERM) are:

- ERM analyses and quantifies risks/opportunities and defines efficient solutions and strategies
- ERM assesses all types of risks: financial, strategic, operational, hazards, etc.

## 4. Executive Board<sup>(1)</sup>

### 4.1 Members of the Executive Board

#### a) Name / Year of birth / Nationality / Function

Name	Year of birth	Nationality	Current Function
Peter Brabeck-Letmathe	1944	Austrian	Vice Chairman of the Board of Directors and CEO
Michael W. O. Garrett	1942	British & Australian	EVP: Zone Asia, Oceania, Africa, Middle East
Carlos E. Represas	1945	Mexican	EVP: Zone USA, Canada, Latin America, Caribbean
Francisco Castañer	1944	Spanish	EVP: Pharmaceutical & Cosmetic Products, Liaison with L’Oréal, Human Resources, Corporate Affairs
Frank Cella	1940	American	EVP: Strategic Business Units, Marketing (retired on 31.12.2003)
Wolfgang H. Reichenberger	1953	Swiss & Austrian	EVP: Finance, Control, Legal, Tax, Purchasing, Export
Lars Olofsson	1951	Swedish	EVP: Zone Europe
Werner Bauer	1950	German	EVP: Technical, Production, Environment, Research & Development
Frits van Dijk	1947	Dutch	EVP: Nestlé Waters

<sup>(1)</sup> For complete information: please refer to individual CVs on [www.nestle.com](http://www.nestle.com)

Name	Year of birth	Nationality	Current Function
Chris Johnson	1961	American	Deputy EVP: GLOBE Programme, Information Systems, Strategic Supply Chain, eNestlé
Luis Cantarell	1952	Spanish	Deputy EVP: Nutrition Strategic Business Division
Paul Bulcke	1954	Belgian	as of 01.01.2004 Deputy EVP: Latin America (except Mexico), Caribbean as of 01.07.2004: EVP Zone USA, Canada, Latin America, Caribbean
(as of 01.01.2004)			
Ed Marra	1952	Canadian/American	EVP: Strategic Business Units, Marketing

(EVP: Executive Vice President)

b) Education		Joined Nestlé in
Peter Brabeck-Letmathe	Degree in Economics	1968
Michael W. O. Garrett	Degree in Business Administration	1961
Carlos E. Represas	Degree in Economics and Marketing	1968
Francisco Castañer	Degree in Economics	1964
Frank Cella	Degree in Economics	1963
Wolfgang H. Reichenberger	Degree in Economics	1977
Lars Olofsson	Degree in Business Administration	1976
Werner Bauer	Degree in Chemical Engineering	1990
Frits van Dijk	Degree in Economics	1970
Chris Johnson	Degree in Economics and Business Administration	1983
Luis Cantarell	Degree in Economics	1976
Paul Bulcke	Degree in Economics and Business Administration	1979
as of 01.01.2004		
Ed Marra	Degree in Business Administration	1981

### c) Activities previously carried out for Nestlé or its Group companies

Peter Brabeck-Letmathe	Executive Vice President, Strategic Business Group II, Nestlé S.A., CH (1992–1997) Senior Vice President, Culinary Products Division, Nestec S.A., CH (1987–1991) Chairman and Managing Director, Nestlé Venezuela S.A. (1983–1987)
Michael W. O. Garrett	Executive Vice President for Asia and Oceania, Nestec S.A., CH (1993–1996) Managing Director, Nestlé Japan Ltd. (1990–1992) Managing Director, Nestlé Australia Ltd. (1985–1990)
Carlos E. Represas	Executive Vice President, Nestlé North America (US/CA), Nestlé S.A., CH (1994–1996) Managing Director, Nestlé México S.A. de C.V. (1983–1994) Managing Director, Nestlé Venezuela S.A. (1980–1983)
Francisco Castañer	Managing Director, Nestlé España S.A. (1986–1996) Deputy Managing Director, Nestlé España S.A. (1984–1986) General Manager, Alimentos Refrigerados S.A. (Nestlé Group), ES (1982–1984)
Frank Cella	Chairman and Managing Director, Nestlé Canada, Inc. (1991–1999) Senior Vice President, Nestlé USA, Inc. (1989–1991) Chief Operating Officer, Nestlé Canada, Inc. (1985–1989)

Wolfgang H. Reichenberger

Managing Director, Nestlé Japan Ltd. (1999–2001)  
Managing Director, Nestlé New Zealand Ltd. (1996–1999)  
Senior Vice President, Finance, Nestlé S.A., CH (1993–1996)

Lars Olofsson

Chairman and Managing Director, Nestlé France S.A. (1997–2001)  
Managing Director, Nestlé Norden AB, SE (1995–1996)  
General Manager, France Glaces Findus S.A. (1992–1995)

Werner Bauer

Managing Director, Nestlé South & East Africa, ZA (2000–2002)  
Technical Manager, Nestlé South & East Africa, ZA (1998–2000)  
Head, Nestlé Research & Development, Nestec S.A., CH (1996–1998)

Frits van Dijk

Managing Director, Nestlé Japan Ltd. (1995–1999)  
Managing Director, Nestlé Malaysia, Bhd. (1988–1995)  
Marketing Director, Nestlé Philippines, Inc. (1985–1987)

Chris Johnson

Managing Director, Nestlé Taiwan Ltd. (1998–2000)  
Senior Area Manager, Asia Region, Perrier Vittel S.A. (Nestlé Group), FR (1995–1997)  
Business Unit Manager, Refreshment Beverages, Nestlé Japan Ltd. (1993–1995)

Luis Cantarell

Senior Vice President, Nutrition Strategic Business Division, Nestec S.A., CH (2001–2002)  
Managing Director, Nestlé Portugal S.A. (1998–2001)  
Head of Coffee, Culinary, Foodservices, Nestlé España S.A. (1996–1998)

Paul Bulcke

Managing Director, Nestlé Germany AG (2000–2003)  
Managing Director, Nestlé Cesko s.r.o. and Nestlé Slovensko s.r.o. (1998–2000)  
Managing Director, Nestlé Portugal S.A. (1996–1998)  
Marketing, Sales and Division Functions, Nestlé Peru S.A., Nestlé Ecuador S.A. and Nestlé Chile S.A. (1980–1996)

as of 01.01.2004

Ed Marra

Managing Director, Nestlé Canada, Inc. (2000–2003)  
President, Beverage Division, Nestlé USA, Inc. (1996–2000)  
Executive Vice President, Marketing and Sales, Nestlé USA, Inc. (1993–1996; General Manager as of 1996)



#### 4.2 Other activities and functions

Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law

Permanent management and consultancy functions for important Swiss and foreign interest groups

- Activities in companies in which Nestlé holds a major strategic interest

Peter Brabeck-Letmathe

(see point 3.2 above)

Michael W. O. Garrett

- Cereal Partners Worldwide  
Member of the Supervisory Board
- Nestlé India Ltd, IN  
Board member
- OSEM Investment Ltd, IL  
Chairman  
Europe-Asia Economic Forum (Evian Group), CH,  
Chairman  
Swiss-Japanese Chamber of Commerce, CH  
Board member
- APEC (Asia-Pacific Economic Cooperation) Food System, US  
Member of Advisory Committee  
Lausanne Tokyo Business Leaders' Club, CH  
Member  
Sir William Tyree Foundation of the Australian Industry Group, AU  
Visiting International Fellow  
World Economic Forum, CH  
Member of Food Governors

Carlos E. Represas

- Beverage Partners Worldwide S.A., CH  
Co-Chairman of the Board
- Cereal Partners Worldwide  
Member of the Supervisory Board
- Dairy Partners Americas, CH/NZ  
Co-Chairman of the Board
- Dreyer's Grand Ice Cream Holdings, Inc., US  
Board member
- Nestlé Holdings, Inc., US  
Chairman
- Nestlé México S.A. de C.V., MX  
Chairman  
Vitro S.A. de C.V., MX  
Board Director
- Global Advisory Council of the Conference Board of New York, US  
Member

Francisco Castañer

- Alcon, Inc., CH  
Board member
- Galderma Pharma S.A., CH  
Board member
- Gesparal S.A., FR  
Board member
- L'Oréal S.A., FR  
Board member

Frank Cella

- Beverage Partners Worldwide S.A., CH  
Board member
- Life Ventures S.A., CH  
Board member
- Nestlé Nespresso S.A., CH  
Chairman
- York University, CA  
Member of the International Advisory Council to the Business and Environment Program

Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law

Permanent management and consultancy functions for important Swiss and foreign interest groups

- Activities in companies in which Nestlé holds a major strategic interest

Wolfgang H. Reichenberger

- Alcon, Inc., CH  
Board member
- Gesparal S.A., FR  
Board member
- Life Ventures S.A., CH  
Chairman
- Nestlé Deutschland AG, DE  
Member of the Supervisory Board
- Montreux Palace S.A., CH  
Board member
- Industrie-Holding, CH  
Member
- Swiss-American Chamber of Commerce, CH  
Board member
- Swiss Association of Financial Executives, CH  
Member
- SWX Swiss Exchange, CH  
Admission Board, Member of the Executive Committee
- Venture Incubator AG, CH  
Board member

American-Swiss Foundation, CH  
Member of the Swiss Advisory Council

Lars Olofsson

- Cereal Partners Worldwide  
Member of the Supervisory Board
- Nestlé Entreprises S.A.S., FR  
Chairman
- Nestlé France S.A.S., FR  
Board member
- Nestlé Suisse S.A., CH  
Chairman
- Association des Industries de Marque (AIM), BE  
Vice Chairman
- Telia AB, Farsta, SE  
Board member

Foreign Investment Advisory Council, RU  
Member

Werner Bauer

- Alcon, Inc., CH  
Board member
- Cereal Partners Worldwide  
Member of the Supervisory Board
- Life Ventures S.A., CH  
Co-Chairman
- Rychiger AG, CH  
Chairman
- Bertelsmann Foundation, DE  
Member of the Board of Trustees
- Swiss Society of Chemical Industries, CH  
Board member

Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law

Permanent management and consultancy functions for important Swiss and foreign interest groups

- Activities in companies in which Nestlé holds a major strategic interest

Frits van Dijk

- Blaue Quellen AG, DE  
Board member
- Nestlé Entreprises S.A.S., FR  
Board member
- Nestlé Waters S.A.S., FR  
Chairman
- Perrier America Spring Water Holding, US  
Board member

Chris Johnson

Global Commerce Initiative (GCI), BE  
Board member  
EAN International, BE  
Member of the Management Board

Luis Cantarell

- Laboratoires Innéov SNC, FR  
Co-Chairman
- Life Ventures S.A., CH  
Board member
- Sofinol S.A., CH  
Chairman and Director

Paul Bulcke

(none)

as of 01.01.2004

Ed Marra

Food Industry Association, CA  
Member of the Executive Committee  
Food and Consumer Products Manufacturers of Canada, CA  
Member of the Executive Committee and Board of Directors  
Grocery Industry Foundation, CA  
Board member

#### 4.3 Management contracts

*Key elements of management contracts between the issuer and companies (or natural persons) not belonging to the group, including the names and domiciles of companies, the delegated management tasks and the form and extent of compensation for fulfilling these tasks*

There are no such management contracts at Nestlé.

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

### **5.1 Content and method of determining the compensations and of the shareholding programmes**

The responsibility for determining the remuneration of the members of the Board of Directors and of the members of the Executive Board lies with the Remuneration Committee of the Board of Directors.

The principles and elements of compensations for and shareholdings of acting and former members of the Nestlé Board of Directors and Executive Board are the following:

#### **Members of the Board of Directors**

Members of the Board of Directors receive an annual remuneration, members of the Committee of the Board as well as members of the Audit Committee receive an additional remuneration. Members of the Board of Directors also receive an annual expense allowance. The Chairman of the Board is entitled to a salary, a bonus and share options, as is the Delegate of the Board (CEO).

Half of the remuneration of the members of the Board of Directors and the total additional remuneration of the members of the Committee of the Board are 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 2-year blocking period.

#### **Members of the Executive Board**

The total annual remuneration of the members of the Executive Board comprises a salary, a bonus (based on the individual's performance and the achievement of the Group's objectives) and share options.

Half of the bonus of the members of the Executive Board is paid through the granting of Nestlé S.A. shares at the average price of the last 10 trading days of January of the year of allocation. These shares are subject to a 3-year blocking period.

<sup>(1)</sup> See Note 22 of the Consolidated accounts of the Nestlé Group 2003 for further details

### **5.2 Compensations for acting members of governing bodies**

5.2.1 The total of all compensations 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 is as follows:

5.2.2 The amount is:

- For the executive member of the Board of Directors and members of the Executive Board: CHF 17 852 636.
- For non-executive members of the Board of Directors: CHF 3 940 476.

5.2.3 No severance payment was made to any person giving up their function in a governing body during 2003.

### **5.3 Compensations for former members of governing bodies**

CHF 144 501 was conferred during 2003 on a former member of the Executive Board who gave up his function during the year preceding the year under review.

### **5.4 Share allotment in the year under review<sup>(1)</sup>**

The number of Nestlé S.A. shares allotted to the following parties during 2003 is as follows:

- To the executive member of the Board of Directors and members of the Executive Board: 15 107 shares, nominal value CHF 1 each.
- To non-executive members of the Board of Directors: 6 848 shares, nominal value CHF 1 each.

### **5.5 Share ownership**

The number of Nestlé S.A. shares held by the following parties on 31st December 2003 is as follows:

- By the executive member of the Board of Directors, members of the Executive Board and parties closely linked to such persons: 94 429 shares.
- By non-executive members of the Board of Directors and parties closely linked to such persons: 347 962 shares.

## 5.6 Options

Overview of the options and warrants<sup>(1)</sup> on Nestlé S.A. shares held by the following parties on 31st December 2003:

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

Grant date (options) <sup>(2)</sup>	Duration	Exercise price	Number of options outstanding
01.02.2003	7 years	CHF 278.55	126 200
01.03.2002	7 years	CHF 367.35	114 450
01.03.2001	7 years	CHF 343.20	82 750
01.01.2000	7 years	CHF 281.90	57 300
01.01.1999	7 years	CHF 260.90	52 120

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

Grant date (options) <sup>(2)</sup>	Duration	Exercise price	Number of options outstanding
01.01.2000	7 years	CHF 281.90	95 590

Grant date (warrants) <sup>(3)</sup>	Duration	Exercise price	Number of warrants outstanding
15.06.2000	5 years	CHF 360.00	553 000
24.06.1999	5 years	CHF 320.00	359 000

## 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

5.8.1 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 31st December 2003.

5.8.2 The total amount conferred is as follows:

- Executive member of the Board of Directors and members of the Executive Board<sup>(4)</sup>: CHF 381 398.
- Non-executive members of the Board of Directors<sup>(5)</sup>: CHF 216 750.

Closely linked parties did not receive any loans.

Loans are generally reimbursed over a 3-year period and are interest-free.

<sup>(1)</sup> Until the end of 2000, the remuneration of the Board of Directors was partly comprised of warrants on Nestlé S.A. shares. Those warrants were issued by a financial institution and purchased by Nestlé S.A. at the time to be granted to non-executive members of the Board of Directors. Nestlé S.A. has no direct connection with these warrants.

<sup>(2)</sup> The subscription ratio is one option for one share in all cases

<sup>(3)</sup> The subscription ratio is 500 warrants for ten shares in all cases

<sup>(4)</sup> 9 beneficiaries

<sup>(5)</sup> 1 beneficiary

## 5.9 Highest total compensation

For the member of the Board of Directors upon whom the highest total compensation was conferred during 2003, the elements are as follows:

- Compensations: CHF 6 955 109 (in cash)
- Share allotment: 8 747 shares
- Option allotment: 55 000 options

## 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 shareholder 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, Appendix 1).

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, Appendix 1). See also article 14, par. 5 of the Articles of Association (Appendix 1).

#### 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 shareholder representative.

### 6.2 Statutory quorums

Please refer to articles 16 and 17, par. 1 of the Articles of Association (Appendix 1).

### 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 33⅓% 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 22nd May 1993, Klynveld Peat Marwick Goerdeler SA (hereafter referred to as KPMG SA), was first appointed as auditor of Nestlé S.A. On 11th April 2002 at the 135th General Meeting of Shareholders of Nestlé S.A., KPMG SA was reappointed as auditor of Nestlé S.A. and of the Consolidated accounts 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 SA. The first year that Mr. S. Cormack, in his capacity as auditor in charge, signed the Nestlé S.A. and the Consolidated accounts of the Nestlé Group was for the year ending 31st December 1998. Mr. S. Cormack was also a signatory to the 1997 accounts, together with Mr. W. Tannett and B. Mathers.

#### **8.2 Auditing fees**

The total of the auditing fees paid to the auditors for 2003 amounts to CHF 38 million, of which KPMG, in their capacity as Group auditors, received CHF 33 million.

#### **8.3 Additional fees**

The total of the fees paid to the auditors for 2003 related to additional services amounts to CHF 14 million, of which KPMG received CHF 10 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.

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

Please refer to 3.5.2, 3.5.3 and 3.6 of this Report.

### **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, as it relates to shareholders, 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's communication strategy makes use of traditional and modern communication tools.

#### Printed material

Nestlé produces a highly detailed Management Report annually, which reviews the business both geographically and by product group, and provides detailed audited financial statements for the year under review, according to the International Financial Reporting Standards (IFRS). The document also reviews Nestlé's latest initiatives resulting from its commitment to the highest levels of corporate citizenship wherever it is present around the world. 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. Press releases are issued quarterly. Nestlé also publishes press releases at the time of any other potentially price-sensitive information, 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.

#### Personal communication

Nestlé runs a programme of investor 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 takes place in most financial centres around the world and includes attendance at events organised by the financial community. Investors and potential investors, as well as financial analysts, are also welcomed on an almost daily basis, outside our quiet periods, at the Head-office in Vevey, where they will meet either with line management or the investor relations professionals. Periodically Nestlé may host themed events for institutional investors and investment analysts at which members of line management give an

overview of their particular areas of responsibility. These roadshows, financial community presentations and meetings at Vevey focus either on recently announced financial results or corporate activity or on the longer-term strategy of the Group: they are not an occasion for the disclosure of new information which might encourage an investment decision. Presentations made at these events are published on the Group's web site.

#### The World Wide Web

Nestlé also 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. Thus, press releases and presentations are available on the web site as soon as they are published and remain on the site as a library of background information on the Group. The Management Report including Financial Statements is also posted on the web site as soon as possible after its publication. 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.

The web site also provides answers to questions that investors frequently ask and enables those who do not have access elsewhere to monitor the Nestlé S.A. share price, as well as the performance of their investment in Nestlé. There are also 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*.

Individuals have access through the web site directly to named individuals at the Investor Relations Department, either by telephone, fax, email or letter.

#### Recognition

Nestlé has been recognised for the quality of its investor relations: the Group was highly



commended for the last four years at the Investor Relations Awards for Best Investor Relations By A Non-Eurozone Company.

**Contact**

The Investor Relations Department at Nestlé can be contacted via [www.ir.nestle.com](http://www.ir.nestle.com) or as follows:

Investor Relations

Nestlé S.A., Avenue Nestlé 55

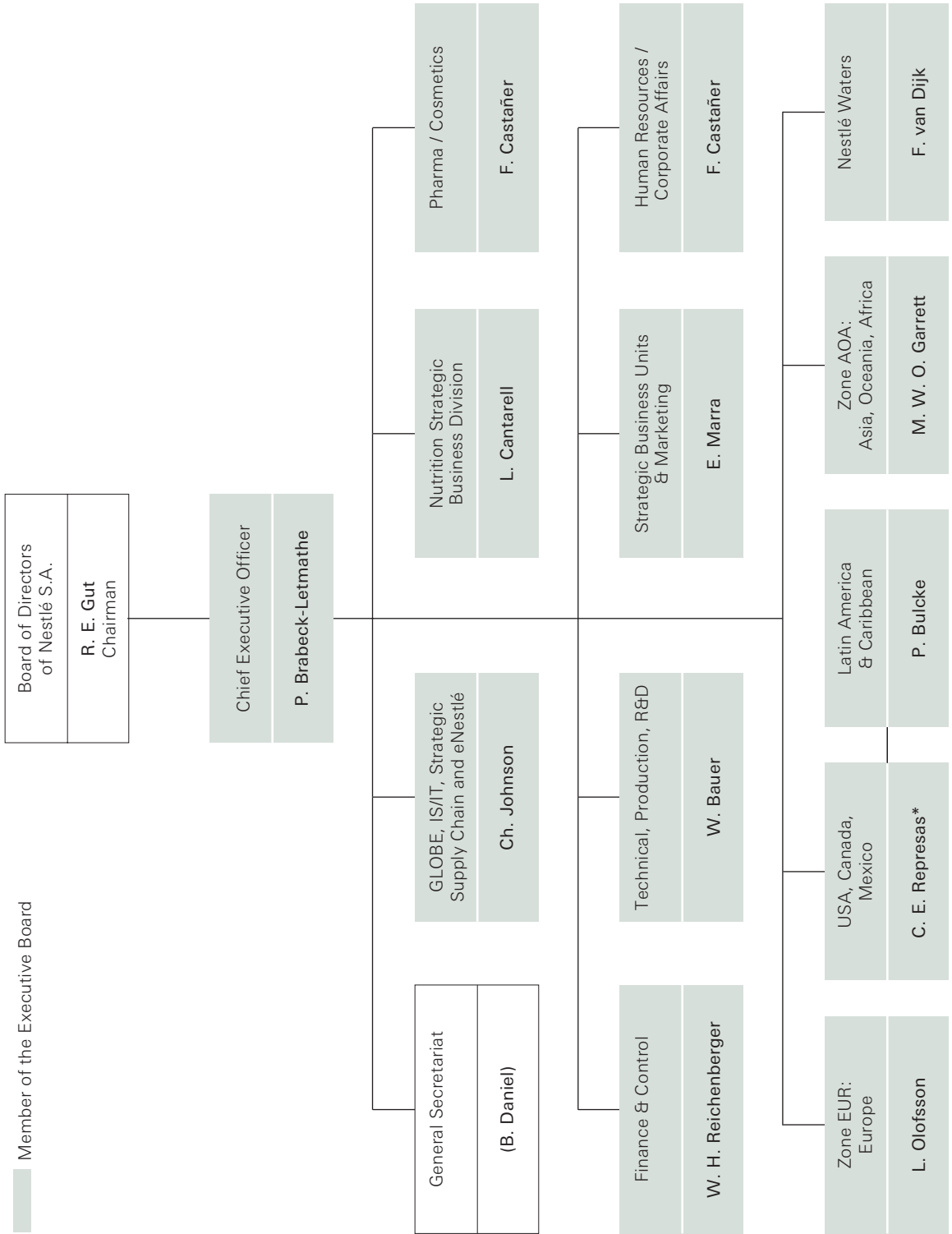
CH-1800 Vevey

Telephone + 41 21 924 35 09

Fax + 41 21 924 28 13

e-mail [ir@nestle.com](mailto:ir@nestle.com)

**General Organisation of Nestlé S.A.**  
1st January 2004



\* as of 01.07.2004: P. Bulcke

# 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 403 520 000 (CHF four hundred and three million five hundred and twenty thousand) divided into 403 520 000 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

*\* 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.*

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.

**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.



# Nestlé Corporate Governance Principles

September, 2000

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 all the national economies in which it operates.

Nestlé’s commitment to sound Corporate Governance goes back to its very early days. Nestlé published for the first time, in September 2000, its Corporate Governance Principles. Today, these are incorporated in the Management Report.

These reflect and highlight our ongoing commitment to ensure the highest level of responsible corporate conduct in all of our Company’s activities.



Rainer E. Gut  
Chairman of the Board



Peter Brabeck-Letmathe  
Vice 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;
- 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; these include the ICC Business Charter for Sustainable Development (1991), the OECD Guidelines for Multinational Enterprises (1976), and the OECD Principles of Corporate Governance (1999).

## 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 over-indebtedness.

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 sub-committees:

- the Committee of the Board, which consists of the Chairman, the Vice Chairman/Vice Chairmen, the CEO and other member(s) of the Board. It has a wide delegation of responsibilities from the Board and also functions as a Nomination Committee;
- the Audit Committee, which consists of non-executive Board members only;

- the Remuneration Committee, which consists of the Chairman, Vice Chairman/Vice Chairmen or, in the case of only one Vice Chairman, together with a member of the Committee of the Board.

#### 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.

