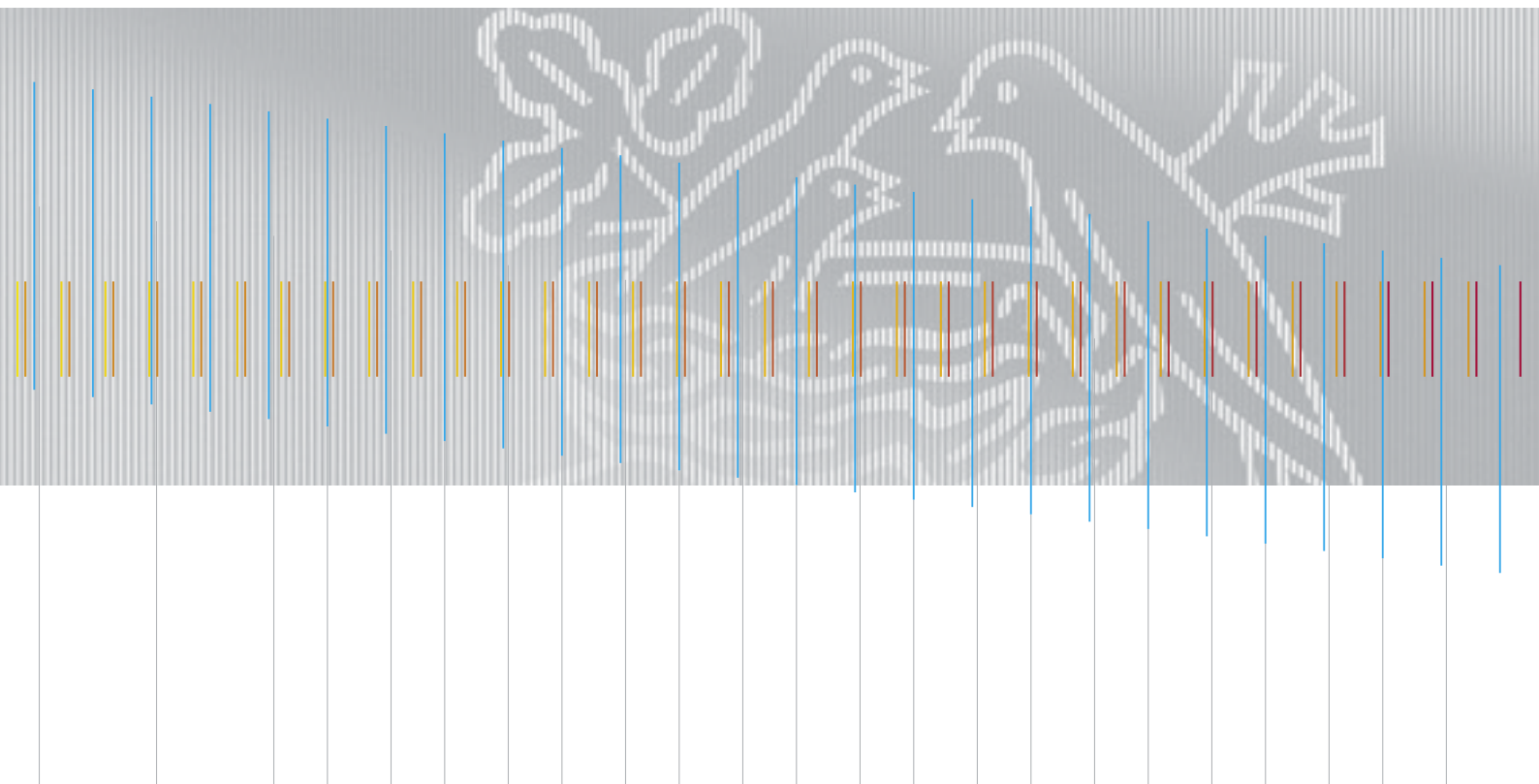




# Nestlé Corporate Business Principles





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Third Edition, September 2004

Nestlé

The World Food Company



Since Henri Nestlé developed the first milk food for infants in 1867, and saved the life of a neighbour's child, the Nestlé Company has aimed to build a business based on sound human values and principles.

While our *Nestlé Corporate Business Principles* were first published as a single document in 1998, most of the individual business principles contained in the document had existed for many years in individual form as a result of Nestlé's focus on principle-based business practices.

We are now issuing this update of our *Nestlé Corporate Business Principles* for three basic reasons:

First, we have had six years of experience in using the *Nestlé Corporate Business Principles* as a management tool. They have been translated into over 40 languages and given to all our management worldwide, which has provided us with useful feedback about their application.

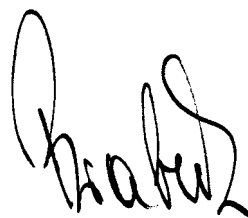
Second, additional relevant areas have been developed, which needed to be incorporated, including the *Nestlé Consumer Communication Principles* and the *Nestlé Corporate Guidelines for Contributions*.

Third, we are adding to the Nestlé Corporate Business Principles a new, tenth Principle of the UN Global Compact, dealing with anti-corruption. Nestlé added the first nine Principles of the Global Compact to our Corporate Business Principles in 2002. Our Business Principles are fully supportive of this new tenth Principle. Under the leadership of UN Secretary General, Mr. Kofi Annan, the Global Compact has served as an important platform for dialogue.

While our *Nestlé Corporate Business Principles* will continue to evolve and adapt to a changing world, our basic foundation is unchanged from the time of the origins of our Company, and reflects the basic ideas of fairness, honesty, and a general concern for people.

Given the growing public interest in the area of corporate social responsibility, we openly share these Principles, not only with all our employees, but also with anyone in the public who is interested in understanding the Principles on which this Company is based.

As CEO, I am committed to making sure that our Company is managed according to these basic Principles, and commend them to all our employees worldwide.



P. Brabeck-Letmathe  
Chief Executive Officer

The Nestlé

Corporate Business Principles



Nestlé is committed to the following Business Principles in all countries, taking into account local legislation, cultural and religious practices:

– Nestlé’s business objective, and that of management and employees at all levels, is to manufacture and market the Company’s products in such a way as to create value that can be sustained over the long term for shareholders, employees, consumers, business partners and the large number of national economies in which Nestlé operates;

– Nestlé does not favour short-term profit at the expense of successful long-term business development, but recognises the need to generate a healthy profit each year in order to maintain the support of our shareholders and the financial markets, and to finance investments;

– Nestlé recognises that its consumers have a sincere and legitimate interest in the behaviour, beliefs and actions of the Company behind brands in which they place their trust, and that without its consumers the Company would not exist;

– Nestlé believes that, as a general rule, legislation is the most effective safeguard of responsible conduct, although in certain areas, additional guidance to staff in the form of voluntary business principles is beneficial in order to ensure that the highest standards are met throughout the organisation;

– Nestlé is conscious of the fact that the success of a corporation is a reflection of the professionalism, conduct and the responsible attitude of its management and employees. Therefore recruitment of the right people and ongoing training and development are crucial;

– Nestlé operates in many countries and in many cultures throughout the world. This rich diversity is an invaluable source for our leadership. No single document can capture every legal obligation that may be required in each of these countries. Indeed, there may be conflicting legal requirements. Nestlé continues to maintain its commitment to follow and respect all applicable local laws in each of its markets. If an interpretation of anything contained in this document is construed as contrary to local laws, such interpretation should not be followed in that country.

## National Legislation and International Recommendations

Nestlé emphasizes that, as a minimum, its employees must comply with the laws applicable in the countries in which it operates.

Nestlé ensures that the highest standards of responsible 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.

Nestlé supports and publicly advocates the **United Nations Global Compact** and its ten principles, an initiative of the United Nations Secretary-General. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards and the environment.

Nestlé recognises that increasing globalisation is leading to the development of more and more international recommendations. Although, as a general rule, these recommendations are addressed to governments, they inevitably impact on business practices. Among others, Nestlé has incorporated relevant **International Labour Organisation Conventions**, and the **International (WHO) Code of Marketing of Breast-milk Substitutes** into its policies.

Nestlé endorses relevant 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 International Chamber of Commerce (ICC) Business Charter for Sustainable Development. Also, Nestlé uses the **Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises**, approved in June 2000, as a reference point for its Corporate Business Principles.

## Consumers

**Meeting Consumers' Needs:** Nestlé aims to create value that can be sustained over the long term by meeting consumer needs for nutrition, enjoyment, and quality they can trust.

Nestlé is a consumer-driven company, and we tailor our products to suit local tastes and desires in the 100-plus countries where we are present. We are committed to listening to our consumers, and interact with hundreds of thousands of consumers per year through our consumer hotlines, websites, and other means. Additionally, we are committed to meeting consumer preferences, and we carry out extensive consumer testing on our products to make sure that consumers will prefer our products to those of the competition.

**Communication with Consumers:** Nestlé is very conscious of its role in communicating responsibly to consumers, particularly as it influences following a healthy diet and lifestyle. We are particularly sensitive to the need to help children develop sound dietary habits. Nestlé companies therefore follow detailed Consumer Communication Principles (issued in 2003, available on request), derived from the Basic Principles listed below. All advertising is reviewed by local Nestlé company management for its appropriateness, and all television advertising is reviewed on an ongoing basis at Corporate Headquarters.

**Nestlé's Communication with consumers is based on the following Basic Principles:**

1. Nestlé consumer communication should reflect moderation in food consumption, and not encourage over-eating. This is especially important regarding children.
2. Wherever possible, we should show children in healthy energetic pursuits and avoid the portrayal of an inactive lifestyle combined with unhealthy dietary patterns.
3. Nestlé consumer communication must be congruent with healthy, balanced diets. Our advertising must not imply the replacement of meals with indulgence or snack foods, nor encourage heavy snacking.
4. Nestlé is committed to advertising to children in a way that does not undermine the authority, responsibility, or judgment of parents or care providers. It must not encourage "pester power".
5. Nestlé advertising to children must not portray children in unsafe situations nor encourage them to accept invitations from people they do not know.

6. Nestlé consumer communication about health benefits of products must have a sound nutritional basis.
7. Nestlé consumer communication should not exploit violence, bad manners, or profanity. Its content must reflect good taste in a given country and culture. It should not depict attitudes that are discriminatory or offensive to religious, ethnic, political, cultural, or social groups.
8. Nestlé communications must not show or encourage the consumption of our products in a way that could be considered dangerous.
9. Regarding advertising placement, it is against our principles to sponsor television and radio programmes or magazines whose strategy for attracting viewers or readers relies on exploiting violence, sex, or encouraging offensive behavior toward others.
10. Nestlé consumer communication should not portray competitors' products inaccurately, nor denigrate them.

## Infant Health and Nutrition

When Henri Nestlé developed his milk food for babies over 130 years ago, it saved the life of a baby who could not be breast-fed. Nestlé's invention responded to the need for a nutritionally safe alternative to breast milk. Today, Nestlé research and development creates high quality infant formula products for use when an alternative to breast milk is needed that is specifically nutritionally adapted. Nestlé also offers superior complementary (weaning) foods.

Henri Nestlé also insisted that every mother able to breast-feed should do so. This principle is still the cornerstone of Nestlé policy today, and is in line with the aim of the International (WHO) **Code of Marketing of Breast-milk Substitutes**, which was adopted by the **World Health Assembly** in 1981.

The International Code recognises a legitimate market for breast-milk substitutes and provides recommendations to governments on how its marketing should be regulated.

Therefore Nestlé:

- encourages and supports breastfeeding as the best start in life;
- carries out research and development aimed at the constant improvement of infant formula products for use when a safe alternative to breast milk is needed;
- ensures that its infant food marketing practices conform strictly to national legislation, regulations, or other measures taken by governments to give effect to the aim and principles of the International Code.

In addition, in all developing countries, whether or not their governments have taken action to fully implement the International Code, Nestlé:

- gives detailed instructions to its staff on how to implement the International Code;
- provides a summary of its policy for the information of employees and the public in the form of the *Nestlé Instructions*, which is translated into many languages;
- regularly conducts training of employees to ensure complete understanding of the Company's responsibilities under the International Code;
- develops its infant formula labels and educational materials in line with the International Code, after field research and consultation with health authorities
- has an internal ombudsman system enabling employees to alert the Company on potential non-compliance with the International Code in a confidential way, outside line management structures. In each country the designated ombudsman investigates and reports alleged violations of the International Code directly to a member of the Nestlé S.A. Executive Committee at the Company's global headquarters;
- conducts audits on a regular basis of its companies' infant formula marketing practices.

Nestlé is a founding member of the **International Association of Infant Food Manufacturers (IFM)**, which was formed to facilitate industry dialogue with WHO and governments, and to encourage responsible marketing standards for the infant food industry.

## Human Rights

Nestlé fully supports the **United Nations Global Compact's** two guiding principles on human rights.

Nestlé therefore:

Supports and respects the protection of international human rights within its sphere of influence (Principle 1)

and

Ensures that its own companies are not complicit in human rights' abuses (Principle 2)

Nestlé aims to provide an example of good human rights' practices throughout its business activities and has an interest in encouraging the improvement of social conditions, which are an important factor for sustainable development. Nestlé also recognises that governments are ultimately responsible for the establishment of a legal framework for protecting human rights within their markets. Nestlé expects each market to respect and follow the local laws and regulations concerning human rights' practices.

## Human Resources and the Workplace

Nestlé fully supports the **United Nations Global Compact's** four guiding principles on labour.

Nestlé therefore upholds:  
Freedom of association and the effective recognition of the right to collective bargaining (Principle 3)

The elimination of all forms of forced and compulsory labour (Principle 4)

The effective abolition of child labour (Principle 5)

The elimination of discrimination in respect of employment occupation (Principle 6)

Nestlé also respects the local laws and regulations applicable to human resources in each of its markets. Human Resource Policy is also set by the local markets, which must follow local legal requirements.

Nestlé regards its personnel as its most valuable asset. Involvement at all levels starts with open communication, whether on specific aspects of the business, or about the activities of the Company in general. Suggestions for changes and proposals for improvements of Nestlé's practices are encouraged.

The Company's business practices are designed to:

- establish staff relations based on trust, integrity and honesty;
  - maintain respect for basic human values, attitudes and behaviour;
  - respect employees' privacy;
  - comply with applicable data protection regulations and apply Nestlé standards in those countries where specific legislation is not yet in place;
  - promote a sense of integrity among all employees all over the world, and apply a number of common rules while at the same time adapting the expression of these rules to local customs and traditions;
  - encourage continuous improvement through training, and the improvement of professional skills at all levels in the organisation;
  - offer career opportunities based upon merit, irrespective of colour, age, national origin, religion, gender, disability, veteran status, or any other protected class as defined by local law. Professional skills, experience, and the capacity and willingness to apply *The Nestlé Basic Management and Leadership Principles* are the main criteria for promotion;
- offer competitive salaries and benefits. Working hours, wages and overtime pay comply with applicable local laws and are competitive with those offered by similar companies;
  - limit overtime to a reasonable level;
  - create a safe and healthy working environment for each employee;
  - respect the right of employees to form representative organisations and to join – or not to join – trade unions, provided this right is freely exercised, and establish a constructive dialogue with these unions;
  - refrain from any action restricting the employee's right to be, or not to be, affiliated to a union;
  - treat every employee with respect and dignity, and not tolerate any form of mobbing, harassment or abuse;
  - forbid the use of forced labour or involuntary prison labour.

## Child Labour

It is generally acknowledged that the causes of child labour are complex and include poverty, differing stages of economic development, social values and cultural circumstances.

Nestlé believes policy development must take into account the social and legal situation of individual countries.

Action to eliminate child labour must be guided by the best interests of the child, as ill-considered policies and commercial measures can make the situation worse for children.

Therefore, Nestlé:

– is against all forms of exploitation of children. The Company does not provide employment to children before they have reached the age to have completed their compulsory education, as defined by the appropriate authorities. Nestlé expects its industrial suppliers and business partners to apply policies that have the same standards as the Company's Business Principles and reserves the right to audit their compliance.

– abides by national laws in all countries in which it has operations and complies with the **International Labour Organisation (ILO) Convention 138 on the Minimum Age for Employment** and the **ILO Convention 182 on the Worst Forms of Child Labour**. The ILO recommendations are based on the **United Nations Convention of the Rights of the Child (Article 32)**;

– offers its co-operation with the relevant United Nations agencies, governments and the business community in their efforts to deal with the problem of child labour, which include the encouragement of universal primary education and all aspects of economic development worldwide.

## Business Partners

“Nestlé insists on honesty, integrity and fairness in all aspects of its business and expects the same in its relationships with all business partners and suppliers of materials, goods and services.

For that reason, our company has always endorsed efforts to fight corruption. Throughout our global operations, we are guided by the **International Chamber of Commerce** rules on extortion and bribery in international business transactions (1996); the **OECD Recommendations on Bribery and International Business Transactions** of May 1994 and the **OECD Convention** to counteract corruption, which was signed by all the member countries and by Argentina, Brazil, Bulgaria, Chile and Slovakia in 1997 (the signatories undertake to consider corruption of foreign officials a penal act under their national law); Nestlé also supports **OECD** efforts to have non-member nations adhere to the **OECD** recommendations for fighting against corruption.

Nestlé believes that its support for these international measures also demonstrates its support at a very practical level for the principle of the UN Global Compact, added in June 2004, which deals with anti-corruption. “Business should work against corruption in all its forms, including extortion and bribery” (Principle 10).

### Conflicts of Interest

Nestlé requires its management and employees to avoid even the appearance of impropriety in its business dealings on behalf of the Company. What constitutes a conflict of interest is defined by each market in accordance with these principles and local laws and practices.

### Relationship with Suppliers

Nestlé aims to deal only with reputable suppliers who are willing to apply Nestlé quality standards. Supplier relationships are benchmarked and evaluated with the objective of striving for continued improvement in the areas of quality, service, etc. As a relationship between a supplier and Nestlé strengthens and progresses, it may evolve into one of preferred supplier status.

Key suppliers with which Nestlé has a contractual relationship are audited in order to ensure that they comply with the *Nestlé Corporate Business Principles* or that they are working actively to achieve compliance. Whenever instances of non-compliance are brought to the Company’s attention, Nestlé will demand that corrective measures be initiated.

Nestlé personnel will maintain the highest standards of integrity and professional competence in all business relationships. Sanctions will be applied in the event of misconduct or abuse of established corporate standards and guidelines.

### Competition

Nestlé supports free enterprise and therefore competes fairly and recognises other companies’ equal rights to do so. The Company supports the development of competition laws to protect this principle.

In particular:

- Nestlé sets its commercial policy independently and does not fix prices in agreement or collusion with competitors;

- Nestlé does not allocate customers, territories or product markets in agreement or collusion with competitors;
- Nestlé deals fairly with its customers and suppliers, in accordance with competition laws;
- Nestlé will look towards mergers and acquisitions as a means to improve its effectiveness, not to restrict competition;
- Nestlé's trade payments are based on customer efficiencies and services provided.

## External Relations

**Authorities:** Nestlé supports ongoing dialogue between all industry sectors in which it is active and the appropriate government and regulatory authorities at both national and international levels, in order to promote and implement relevant legislation, regulations and/or agreements which protect the rights of the consumer while ensuring a healthy, competitive environment.

**Business Relations:** Nestlé's business relations are based on the principles of mutual trust, fairness and professionalism in the context of a free-market economy.

**Academic/Professional Relations:** Nestlé encourages two-way communication and co-operation with academic and professional bodies to foster continual updating of knowledge for mutual benefit, leading to the constant improvement of the Group's products, policies and services.

**Financial:** Nestlé communicates openly, directly and accurately and takes advantage of appropriate communication tools to ensure that information is available

simultaneously to the financial community and general public. No individual or institution is given preferential treatment.

**Local Communities:** In addition to the direct investment and employment provided throughout the world, Nestlé contributes in many countries to the well-being of local communities in other ways. The personal involvement of Nestlé people in many projects, together with financial assistance and sharing of know-how with local organisations helps to develop long-term community relations and mutual understanding.

**Non-Governmental Organisations:** Nestlé engages in dialogue with non-governmental organisations that have a record of constructive engagement and principled behaviour. We encourage discussion that can result in improved understanding and collaboration in the economic, social and environmental betterment of the community. Nestlé is involved in project partnerships with a significant number of non-governmental organisations.

**Internet Privacy Policy:** The Internet is changing the way of doing business. It concerns business-to-business relations and also the Company's interaction with consumers. In this respect Nestlé S.A. has an Internet Privacy Policy which is available on the Corporate Website. This policy aims to protect the privacy of the users; it covers, for instance, the accessing, deleting or correcting of information, the security of information, and relates also to tracking technologies. Nestlé supports industry self-regulation and respects the local laws of the markets it serves in this domain.

## Protection of the Environment

Since its early days Nestlé has been committed to environmentally sound business practices throughout the world and continues to make substantial environmental investments. In this way Nestlé contributes to sustainable development by meeting the needs of the present without compromising the ability of future generations to meet their own needs. *The Nestlé Policy on the Environment* underlines this commitment.

Nestlé also adheres to the **International Chamber of Commerce (ICC) Business Charter for Sustainable Development**. This Charter requires the establishment of policies, programmes and practices for conducting operations in an environmentally sound manner.

Nestlé fully supports the **United Nations Global Compact's** three guiding principles on environment.

Nestlé therefore:

**Supports a precautionary approach to environmental challenges** (Principle 7)

**Undertakes initiatives to promote greater environmental responsibility** (Principle 8)

**Encourages the development and diffusion of environmentally friendly technologies** (Principle 9)

Nestlé:

- integrates environmental policies, programmes and practices into each business as an element of management in all its functions;
- develops, designs and operates facilities and conducts its activities taking into consideration the efficient and sustainable use of renewable resources, the minimisation

of adverse environmental impact and waste generation, and the safe and responsible disposal of residual wastes;

- respects and complies with existing laws and regulations in local markets concerning environmental issues;

- applies Nestlé internal standards suitable to local conditions in those regions where specific environmental legislation is non-existent or insufficient;

- improves environmental protection relevant to its activities on a continuous basis;
- provides appropriate information, communication and training to build internal and external understanding about its environmental commitment and action;

- supports professional associations such as the **International Chamber of Commerce** in their work relative to environmental protection, as well as efforts to set up environmental management guidelines;

- establishes environmental objectives, monitors progress, checks results and defines future actions. This activity, carried out by Nestlé specialists, ensures the continuous improvement of environmental performance throughout the supply chain, from producing and purchasing of raw materials, to manufacturing, packaging, distribution and finally to the consumer.

## The Nestlé Water Policy

Water is a universal resource that is indispensable for life. Nestlé recognises that the responsible management of world-wide water resources is an absolute necessity. Preserving both the quantity and the quality of water is not only an environmental challenge, but also one that spans agricultural, economic, political, social, cultural and emotional considerations.

As a leading food and beverage company, Nestlé considers water to be a key priority for the manufacturing of its food products, for their preparation by consumers, and for bottled waters. To play its part in assuring a long-term, high-quality, adequate global water supply, Nestlé supports the sustainable use of water, strictly controls its use in the Company's activities, and strives for continuous improvement in the management of water resources.

The *Nestlé Water Policy* complements The *Nestlé Policy on the Environment* and includes the following:

1. Water is essential for nutrition. Nestlé, through Nestlé Waters, provides a wide range of pure, safe, wholesome and convenient bottled waters of high quality to meet the increasing and varied needs of consumers throughout the world. Protection of springs and their surroundings is of primary importance in this endeavour.
2. Nestlé directs its world-wide research and development network towards:
  - the innovation and renovation of its products and processes, including manufacturing methods that minimise water consumption and waste water generation;
  - scientific research conducted at the Nestlé Product Technology Center Water (NPTCW) that is centred on the physiological and qualitative aspects of water.
3. Agricultural raw materials are dependent on water. Although, in general, Nestlé is not involved in the production of raw materials, it supports and encourages sustainable, environmentally sound farming methods, including best possible practices for water use and conservation and gene technology in this context. As a raw material for food processing, water must satisfy both local legal requirements and internal quality criteria.

4. Nestlé strives to achieve optimal performance in its manufacturing activities, including water management:
  - without compromise to the safety and quality of its products, fresh water use is reduced as much as possible and, wherever feasible, water is reused and recycled;
  - used water is treated and returned to the environment according to local legislation; where none exists, internal Nestlé standards are applied.
  
5. The Nestlé Environmental Management System (NEMS) ensures the continuous improvement of Nestlé's environmental performance, including management of water resources: objectives are established, progress is monitored, results are checked and corrective and preventive actions are implemented.
  
6. As part of its broader commitment towards the good of the community, Nestlé:
  - in co-operation with health authorities, promotes to consumers the importance of using safe water for food and drink preparation;
  - provides education, supports initiatives and fosters awareness on the importance of water resource conservation among employees, governments, local communities, schools, industry, consumers and other stakeholders.

## Agricultural Raw Materials

Agricultural raw materials, principally milk, coffee, cocoa, cereals, vegetables, fruit, herbs, sugar and spices, are vital factors affecting the quality and costs of Nestlé manufactured food products and, as a consequence, the Company's business performance. Sourcing strategies and production methods are subject to an ever-changing environment. New technological developments in the field of agriculture, changes in agricultural policies or trade regulations, new technologies in food processing, and evolving consumer preferences, mean that Nestlé must adapt its sourcing strategies accordingly. This is a continuous process.

Governments and/or political institutions regulate farming and the trade of farm products. Because of the effect of such regulation on pricing, availability, domestic and international trade, and on the economic, social and ecological aspects of farming and consequently on food safety and quality aspects, Nestlé engages in constructive dialogue with government institutions (primarily through professional organisations such as the Sustainable Agriculture Initiative, SAI), and co-operates with local authorities.

In this context Nestlé:

- supports farming practices and agricultural production systems that are sustainable; that is those practices and systems that satisfy long-term economic, ecological and social requirements;
- sources its agricultural raw materials either through trade channels or directly from farmers and is not engaged itself in its own commercial farming activities;
- supports mechanisms that contribute to a more regular income for farmers;
- where appropriate, provides agricultural assistance to farmers in order to:
  - transfer know-how
  - ensure ongoing supply at competitive conditions
  - obtain raw materials that meet quality and safety specifications
- supports an agricultural production system that is economically viable, socially acceptable and ecologically sound and therefore encourages sustainable farming practices;
- supports the application of new technologies and advances in agricultural science, including the opportunities offered by today's bioscience when their positive effect on food safety, environment, agricultural practices and production efficiency are scientifically confirmed and accepted by consumers;
- recognises the importance of genetic diversity as a pillar for future developments in agriculture and life science, and supports its preservation as a public good.

## Agricultural raw materials procured directly from farms

The decision to establish or maintain a direct procurement system depends on a number of factors.

They include:

- company requirements in terms of quality, safety, quantity and cost;
  - proprietary characteristics of individual raw materials;
  - reliability in supply and the local conditions for sustainable production.
- Direct procurement provides the following benefits to farmers and co-operatives:
- an understanding of Nestlé's quality and safety requirements;
  - objective and transparent evaluation of raw material quality;
  - transparent price policy providing farmers a reference level of prices for their raw materials, thus leaving them with the choice as to where to sell their produce;
  - quality premiums that encourage farmers to achieve and maintain high quality standards;
  - addressing the perceived consumer quality expectations.

If warranted, Nestlé may assist farmers to improve their quality, yield and economic competitiveness.

## Compliance

Nestlé is committed to the application of its Corporate Business Principles in all countries where it operates, provided, however, that they are not in conflict with relevant local legislation.

Nestlé's compliance with its Corporate Business Principles is regularly monitored by its internal auditors on the basis of clear auditing instructions, which are certified by the external auditing firm **KPMG**, and published for all employees to consult on the Nestlé S.A. Intranet.

Findings and recommendations are reported through the Board Audit Committee to the Nestlé S.A. Board of Directors.

The *Nestlé Corporate Business Principles* are regularly reviewed and updated.

# Appendices



September, 2000

## Nestlé Corporate Governance Principles

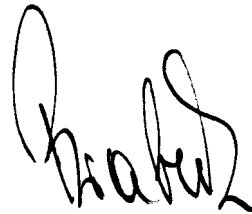
Since its foundation in 1866, Nestlé has:

- 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 all the national economies in which it operates.

Nestlé's commitment to sound Corporate Governance goes back to its very early days. Today, as both legislation and international recommendations indicate growing public interest in the issue, we take the opportunity to publish the *Nestlé Corporate Governance Principles*. These reflect and highlight our ongoing commitment to ensure the highest level of responsible corporate conduct in all of our Company's activities.



R. Gut  
Chairman



P. Brabeck-Letmathe  
Chief Executive Officer

# Preamble

## Legislation and International Recommendations

Nestlé:

- complies with the laws 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

and are based on Swiss legislation, 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/ 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/ 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.

## Corporate Guidelines for Contributions

### Up to now...

By the very nature of its products and activities, Nestlé has, since its early days, been solicited for donations to help the lives of deprived persons and victims of both man-made and natural disasters.

The growth and strength of the company's business has resulted in an increase in the number of such requests for support as well as a widening in terms of diversity.

As a good corporate citizen, our company has increased its support in many different areas related to social and community fields in the countries and regions where we operate.

In the course of the past decades we have defined our fields of support according to the following areas, related to our activities:

- social and humanitarian actions (including product donations), in line with the traditions established by Henri Nestlé and Julius Maggi
- science (research, congresses and conferences)
- associations and institutions dedicated to the public good
- culture (in Switzerland in liaison with the Nestlé Art Foundation since it was founded in 1991)

### ... as from now

At the beginning of the 21st century, we are changing our business orientation from a "Respected, Trustworthy Food Company" to a "Respected, Trustworthy Food, Nutrition, Health and Wellness Company". Our corporate donations must therefore be adapted to reflect this evolution.

Given the nature of our company, it is recommended that at least half of the annual donation budget managed by our Group's companies should be aimed at programmes devoted to nutrition, health and wellbeing of children and youth (aged 5-18).

The choice and selection of requests to support should take into particular consideration the originality and specificity of our contribution as a company, without which the project would not see the light of day.

In addition, and in accordance with local conditions, any specific or institutional communications should stress the support that our company brings to the project as nutrition specialists.

The voluntary involvement of our staff in certain activities fosters the pride to work for a company engaged in the community, aiming at more than growth and profits.

Put simply, the guiding principles can be summarised as follows:

- priority areas: nutrition, health, wellbeing of children and youth
- pertinent local contributions

The choice of priority areas is a part of our company's overall philosophy and valorises our knowledge, experience and humanitarian concern.

## Summary of Nestlé Infant Formula Marketing Policy

Nestlé follows governments' implementation of the **World Health Organisation's International Code of Marketing of Breast-milk Substitutes** in all countries. Nestlé recognises that the International Code was passed as a universal recommendation to all governments to implement in national measures "as appropriate to their social and legislative framework" (Article 11.1). Therefore, in all countries Nestlé follows national measures that implement this International Code.

Nestlé furthermore:

- supports efforts by governments to implement the International Code through legislation, regulation, or other appropriate measures;
- believes that parents have the right to choose how their babies are to be fed on the basis of adequate and objective information;
- encourages and supports exclusive breastfeeding as the best choice for babies during the first months of life;
- encourages sustained breastfeeding after the introduction of complementary foods;
- advises mothers of the consequences of incorrect or inappropriate use of infant formula.

In addition, in developing countries<sup>1</sup>, Nestlé applies unilaterally the **World Health Organisation's International Code of Marketing of Breast-milk Substitutes** whether or not the government fully implements the International Code. Nestlé policy, therefore, forbids its operating companies to:

- advertise infant formula or otherwise promote to the public;
- distribute free infant formula samples to mothers;

- donate free infant formula for use by healthy new-born babies except in exceptional social cases (e.g. where the government policy allows manufacturers to respond to a specific medical request, for example if the mother dies in child birth);
- permit their staff whose responsibilities include the marketing of infant formula to make direct contact with mothers except in response to consumer complaints;
- give incentives to their infant food marketing personnel based on infant formula sales;
- give financial or material incentives to health professionals for the purpose of promoting infant formula;
- use pictures of babies on their infant formula packs;
- allow educational material relating to the use of infant formula to be displayed publicly in hospitals and clinics.

Nestlé will take disciplinary measures against anyone employed by the Company who knowingly violates Company policies.

Nestlé invites government officials, health professionals, and consumers to draw to its attention any Nestlé infant formula marketing practices, in developing countries, that they consider are not in conformity with the above commitment.

<sup>1</sup> Not including: USA, Canada, New Zealand, Australia, Switzerland, EU member states; and in Asia: Japan, Republic of Korea, Singapore, Taiwan and Hong Kong. In these developed countries, Nestlé respects National Codes, regulations and/or other applicable legislation which implement the International (WHO) Code, including the EU Directive on Infant Formula.