

# Corporate Governance Report 2011



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

(2) The term Executive Committee, as used in the SIX Directive, is replaced by Executive Board throughout this document.

# Preliminary remarks

The Nestlé Corporate Governance Report 2011 follows the SIX Swiss Exchange Directive on Information relating to Corporate Governance and takes into account the Swiss Code of Best Practice for Corporate Governance. Additional information can be found in the Compensation Report (Appendix 1).

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Annual Report 2011, the 2011 Financial Statements that comprise the Consolidated Financial Statements of the Nestlé Group and the Financial Statements of Nestlé S.A., as well as the Articles of Association of Nestlé S.A., whose full text can be consulted in Appendix 2 or on [www.nestle.com](http://www.nestle.com).

The 2011 Consolidated Financial Statements of the Nestlé Group comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Where necessary, these disclosures have been extended to comply with the requirements of the SIX Swiss Exchange Directive.

## 1. Group structure and shareholders

### 1.1 Group structure

Please refer to the Annual Report 2011 for the overview of Directors and Officers.

#### 1.1.1 Description of the issuer's operational group structure

For the general organisation chart of Nestlé S.A., refer to page 23 of this document. The Group's Management structure is represented in the analysis by operating segments (refer to Note 3 of the 2011 Consolidated Financial Statements of the Nestlé Group).

#### 1.1.2 All listed companies belonging to the issuer's group

Please refer to page 48 of the Annual Report 2011 for Nestlé S.A.'s registered offices, its stock exchange listing and quotation codes and information on market capitalisation.

Please refer to the 2011 Consolidated Financial Statements of the Nestlé Group, page 120 for a list of the principal affiliated and associated companies, with an indication of their company names, registered office, share capital, place of listing, securities' ISIN numbers, their market capitalisation and the Company's participation.

#### 1.1.3 The non-listed companies belonging to the issuer's consolidated entities

Please refer to the 2011 Consolidated Financial Statements of the Nestlé Group, page 120 for the enumeration of the principal affiliated and associated companies, with an indication of their company names, registered office, share capital and the Company's participation.

### 1.2 Significant shareholders

On 31 December 2011, Nestlé S.A. held, together with a Nestlé subsidiary, 128 020 079 treasury shares representing 3.9% of the share capital, including 75 200 000 shares repurchased under Nestlé S.A.'s Share Buy-Back Programme of CHF 10 billion completed on 6 September 2011 (refer to Note 18 of the 2011 Consolidated Financial Statements of the Nestlé Group). During 2011, the Company published on the electronic publication platform of the SIX Swiss Exchange one disclosure notification pertaining to the holding of its own shares. This holding fell below the threshold of 5% on 22 June 2011 as a consequence of the capital reduction effected by the Company.

With respect to nominees, Chase Nominees Ltd, London, was a registered Nominee N (refer to point 2.6.3. below) of 346 904 083 shares, i.e. 10.5% of the shares of the Company as at 31 December 2011. At the same date, Citibank N.A., London, as a depository for the shares represented by American Depository Receipts, was the registered holder of 243 575 492 shares, i.e. 7.4% of the shares of the Company. Also on 31 December 2011, Nortrust Nominees Ltd, London, was a registered Nominee N of 112 866 475 shares of the Company, representing 3.5% of the shares.

Further, Mellon Bank N.A., Everett, was a registered Nominee N of 109 326 112 shares, i.e. 3.3% of the shares of the Company as at 31 December 2011.

### 1.3 Cross-shareholdings

The Company is not aware of cross-shareholdings exceeding 5% 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 330 000 000. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised share capital.

### 2.2 Conditional capital

The share capital may be increased in an amount not to exceed CHF 10 000 000 by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments. 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.

For a description of the group of beneficiaries and of the terms and conditions of the issue of conditional capital, refer to art. 3<sup>bis</sup> of the Articles of Association of Nestlé S.A.

### 2.3 Changes in capital

The share capital was reduced three times in the last three financial years as a consequence of several Share Buy-Back Programmes launched by the Company; the resulting cancellations of shares were approved at the Annual General Meetings of 23 April 2009, 15 April 2010 and 14 April 2011.

In 2009, the Annual General Meeting resolved to reduce the share capital by 180 000 000 shares to CHF 365 000 000.

In 2010, the share capital was further reduced by 185 000 000 shares to CHF 346 500 000. In 2011, the Annual General Meeting approved a reduction of the share capital by 165 000 000 shares to CHF 330 000 000.

For the breakdown of capital ("equity") for 2011, 2010 and 2009 see the changes in equity in the 2011 and 2010 Consolidated Financial Statements of the Nestlé Group.

### 2.4 Shares and participation certificates

Nestlé S.A.'s capital is composed of registered shares only. The number of registered shares with a nominal value of CHF 0.10 each, fully paid up, was 3 300 000 000 at 31 December 2011.

According to art. 11 par. 1 of the Articles of Association, each share recorded in the share register as a share with voting rights confers the right to one vote to its holder. See also point 2.6.1 below.

Shareholders have the right to receive dividends. 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 for granting exceptions

According to art. 5 par. 5 of the Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. The limitation on registration also applies to persons who hold some or all their shares through nominees pursuant to that article. 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 the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee (art. 5 par. 7 of the Articles of Association). The limitation on registration also applies to shares acquired or subscribed by the exercise of subscription, option or conversion rights (art. 5 par. 10 of the Articles of Association). See also art. 5 par. 6 and 9 of the Articles of Association and point 2.6.3 below.

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

Please refer to points 2.6.3 and 6.1.2 below.

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

Pursuant to art. 5 par. 6 and 9 of the Articles of Association, 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. Voting rights of Nominees are to be exercised on the basis of voting instructions received from the beneficial owners. Holdings of a Nominee N, or Nominees N acting as an organised group or pursuant to a common agreement, may not exceed 5% of the share capital of the Company. Holdings exceeding the 5% limit (respectively the limit fixed by the Board of Directors, see point 6.1.2 below) are registered without voting rights. The responsibility for disclosure of beneficial owners and their holdings resides with the nominees registered in the share register.
- Nominees A (“A” as Anonymous beneficial owner): registration without voting rights.

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

Please refer to point 6.1.3 below.

## 2.7 Convertible bonds and options

As at 31 December 2011, there were 8 500 000 outstanding put options, sold, in the context of global liquidity management, by a Nestlé subsidiary on Nestlé S.A. shares, which if exercised would represent 0.26% of the share capital of the Company.<sup>(a)</sup>

(a) Ratio (for all options) 1:1; 1 000 000 options: maturity 21 December 2012 / strike price CHF 47.00; 300 000 options: maturity 20 July 2012 / strike price CHF 51.00; 900 000 options, maturity 17 August 2012 / strike price CHF 51.00; 600 000 options: maturity 24 August 2012 / strike price CHF 51.00; 900 000 options: maturity 21 September 2012 / strike price CHF 51.00; 250 000 options: maturity 16 November 2012 / strike price CHF 51.00; 300 000 options: maturity 17 August 2012 / strike price CHF 52.00; 300 000 options: maturity 24 August 2012 / strike price CHF 52.00; 300 000 options: maturity 21 September 2012 / strike price CHF 52.00; 900 000 options: maturity 19 October 2012 / strike price CHF 52.00; 800 000 options: maturity 16 November 2012 / strike price CHF 52.00; 1 150 000 options maturity 23 November 2012 / strike price CHF 52.00; 800 000 options: maturity 21 December 2012 / strike price CHF 52.00.

### 3. Board of Directors

#### 3.1 Members of the Board of Directors

Name	Year of birth	Nationality	Education/Qualifications <sup>(a)</sup>	First election	Term expires
Peter Brabeck-Letmathe Chairman	1944	Austrian	Economics	1997	2013
Paul Bulcke CEO	1954	Belgian	Economics and Business Administration	2008	2014
Andreas Koopmann 1st Vice Chairman	1951	Swiss	Mechanical Engineering and Business Administration	2003	2014
Rolf Hänggi 2nd Vice Chairman	1943	Swiss	Law and Finance	2004	2014
Jean-René Fourtou	1939	French	Ecole Polytechnique	2006	2012
Daniel Borel	1950	Swiss	Physics and Computer Science	2004	2012
Jean-Pierre Meyers	1948	French	Economics	1991	2014
André Kudelski	1960	Swiss	Physics	2001	2013
Carolina Müller-Möhl	1968	Swiss	Political Science	2004	2012
Steven G. Hoch	1954	American/Swiss	International Relations and Economics	2006	2013
Näina Lal Kidwai	1957	Indian	Economics and Business Administration	2006	2014
Beat Hess	1949	Swiss	Law	2008	2014
Titia de Lange	1955	Dutch	Biochemistry	2010	2013
Jean-Pierre Roth	1946	Swiss	Economics and Finance	2010	2013
Ann M. Veneman	1949	American	Law and Political Science	2011	2014

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

#### a) Management tasks of the members of the Board of Directors

With the exception of Paul Bulcke, all members of the Board of Directors are non-executive members. Peter Brabeck-Letmathe is active Chairman and has certain responsibilities for the direction and control of the Group including the Nestlé Health Science Company and Nestlé's engagements with L'Oréal, Galderma and Laboratoires innéov.

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

With the exception of Peter Brabeck-Letmathe, 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.

#### c) Cross-involvement

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

### 3.2 Professional background and other activities and functions

#### **Peter Brabeck-Letmathe, Chairman**



Peter Brabeck-Letmathe joined the Nestlé Group's operating company as a salesman in Austria in 1968. Between 1970 and 1987, he held a series of responsibilities in Latin America. In 1987, he was transferred to Nestlé's International Headquarters in Vevey, Switzerland, as Vice President and was named Executive Vice President in 1992. At the Annual General Meeting of Shareholders in June 1997, Peter Brabeck-Letmathe was elected member of the Board of Nestlé S.A. In 1997, the Board of Directors of Nestlé S.A. appointed him Chief Executive Officer (CEO). In 2001, he was elected Vice Chairman and in 2005 Chairman of the Board of Directors. As of 10 April 2008, Peter Brabeck-Letmathe relinquished his function as CEO remaining Chairman of the Board of Directors.

As a Nestlé S.A. representative, he serves as Vice Chairman of L'Oréal S.A., France.

Peter Brabeck-Letmathe is also Vice Chairman of the Board of Directors of Credit Suisse Group, Switzerland, and member of the Boards of the Exxon Mobil Corporation, Texas, USA and of Delta Topco Limited, Jersey.

In addition, he is a member of the European Round Table of Industrialists, Belgium, a member of the Foundation Board of the World Economic Forum, Switzerland, as well as a member of the Foundation Board of the Verbier Festival, Switzerland.

#### **Paul Bulcke, CEO**



Paul Bulcke began his career in 1977 as a financial analyst for Scott Graphics International in Belgium before moving to the Nestlé Group in 1979 as a marketing trainee. From 1980 to 1996, he held various responsibilities in Nestlé Peru, Nestlé Ecuador and Nestlé Chile before moving back to Europe as Managing Director of Nestlé Portugal, Nestlé Czech and Slovak Republic, and Nestlé Germany. In 2004, he was appointed as Executive Vice President, responsible for Zone Americas. As of April 2008, Paul Bulcke was elected member of the Board of Directors of Nestlé S.A. and the Board appointed him Chief Executive Officer (CEO).

As a representative of Nestlé, Paul Bulcke serves as Co-Chairman of the Supervisory Board of Cereal Partners Worldwide, Switzerland.

Furthermore, Paul Bulcke is a Board member of Roche Holding Ltd., Switzerland as well as of the Consumer Goods Forum and co-chairs its Governance Committee.

#### **Andreas Koopmann, 1st Vice Chairman**



Andreas Koopmann began his career in 1979 as Assistant to the Chairman and CEO of Bruno Piatti AG, Switzerland, and from 1980 to 1982 was Assistant to the Group Executive at Motor Columbus AG, Holding, Switzerland. From 1982, he was at Bobst Group, starting as Vice President of Engineering and Manufacturing in Roseland, New Jersey, USA. In 1989, he returned to Switzerland, holding a number of senior positions in the company, including member of the Group Executive Committee in charge of Manufacturing. He was a member of the Board of Directors for Bobst Group from 1998 to 2002 and was appointed as CEO in 1995, a position he held until May 2009. As of 2010, Andreas Koopmann was appointed Chairman of Alstom (Suisse) S.A. and Country President.

Presently, he serves as Vice Chairman of Swissmem in Switzerland and as Board member of Credit Suisse Group, Switzerland, CSD Group, Switzerland and Georg Fischer AG, Switzerland.

#### **Rolf Hänggi, 2nd Vice Chairman**



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

From 1994 to April 2009, Rolf Hänggi also served as Chairman of Rüd, Blass & Cie AG, Bankers, Switzerland.

Presently, he is a member of the Board of Trustees of the Foundation Luftbild Schweiz, Switzerland; a member of the Foundation Board, Werner Abegg-Fonds, Switzerland until the end of the year 2011; and

also sits on the Advisory Board for the Mastercourse of Advanced Studies in Applied History at the University of Zurich, Switzerland.

### **Jean-René Fourtou**



Jean-René Fourtou began his career at Bossard & Michel in 1963. He became CEO of Bossard Consultants in 1972 and later Chairman and CEO of the Bossard Group from 1977 to 1986.

From 1986 to 1999, he served as Chairman and CEO of Rhône-Poulenc Group, and when Hoechst and Rhône-Poulenc merged to create Aventis in 1999, he became Vice Chairman of the Management Board and Managing Director of the company until 2002. Since 2005, he has been Chairman of the Supervisory Board of Vivendi, where he was Chairman and CEO from 2002 to 2005.

Jean-René Fourtou is Chairman of the Bordeaux University Foundation, France. He also serves as a Board member of Sanofi-Aventis, France and of Maroc Télécom, Morocco.

### **Daniel Borel**



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

Chairman of Logitech International S.A. As of January 2008, Daniel Borel handed over the office of Chairman remaining a member of the Board of Directors of Logitech International S.A.

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

### **Jean-Pierre Meyers**



From 1972 to 1980, Jean-Pierre Meyers was attached to the directorate of financial affairs at Société Générale. During the same time he was Assistant Professor at the Ecole Supérieure de Commerce in

Rouen, France. From 1980 to 1984, he was a Director of the bank Odier Bungener Courvoisier. Jean-Pierre Meyers has been a Board member of L'Oréal S.A., France, since 1987 and Vice Chairman since 1994. He

has also served as Vice Chairman of the Bettencourt-Schueller Foundation since 1988.

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

### **André Kudelski**



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

André Kudelski serves on the Board of Directors and the Audit Committee of Dassault Systèmes SA, France, and Edipresse Group, Switzerland. Furthermore, he is a Board member of HSBC Private Banking Holdings (Suisse) S.A. and Vice Chairman of the Board of Directors of the Swiss-American Chamber of Commerce.

### **Carolina Müller-Möhl**



Carolina Müller-Möhl started her career as a PR consultant. In 1999 she served as Vice Chairperson of the Board of Directors of Müller-Möhl Holding AG and became President of the Müller-Möhl Group in 2000.

Carolina Müller-Möhl is a Board member of NZZ Mediengruppe, Switzerland, and of SMG, Schweizerische Management Gesellschaft. She is also Chairperson of Hyos Invest Holding AG, Switzerland, and a Board member of Orascom Development Holding AG, Switzerland.

In addition, she is a member of the Foundation Board of Pestalozzianum, Switzerland, a member of the Advisory Board of the Swiss Economic Forum, a member of the Board of the Pestalozzi Foundation and a founding member and Co-President of the Forum Bildung. Furthermore, Carolina Müller-Möhl is also a member of the Foundation Board of Avenir Suisse, a think tank for economic and social issues.

She was nominated as a Young Global Leader 2007 by the World Economic Forum, and does a lot of work in the socio-political field, with a particular commitment to education policy and gender issues.



### Steven G. Hoch



Steven G. Hoch started his career in 1978 at the Chemical Bank in New York and Zurich, where he held a series of positions in commercial banking, principally advising multi-national companies. Steven G. Hoch was Senior Vice President and a member of the Management Committee at Bessemer Trust Company, N.A., New York, from 1990 to 1994, and a member of the Executive Committee and Head of Client Service at Pell Rudman Trust Company, Boston, from 1994 to 2002. In 2002, he founded Highmount Capital, LLC, a US-based investment management firm where he is a Senior Partner.

Steven G. Hoch is Chairman of the American Swiss Foundation, a trustee of the Woods Hole Oceanographic Institution, USA, and a member of the National Board of the Smithsonian Institution, USA.

### Naina Lal Kidwai



Naina Lal Kidwai started her career in 1982 and until 1994 was at ANZ Grindlays Bank Plc.

From 1994 to 2002, she was Vice Chairperson and Head of Investment Banking at Morgan Stanley India before moving to HSBC. Currently she is Country Head of the HSBC Group of Companies in India. In 2010, she was appointed to the Board of HSBC Asia-Pacific. She is Senior Vice President of the Federation of Indian Chambers of Commerce & Industry (FICCI).

She serves the Government of India on the Government-Industry Task Force and the Indo-German Consultative Group. She is Chairperson of the India Advisory Council of the City of London and the India Advisory Board of the Harvard Business School, where she is also a Global Advisor. Other engagements include, being on the Board of the Aspen Institute India, NCAER (National Council of Applied Economics Research) and NIBM (National Institute Bank Management). Her interests in the Environment include being on the Board of Shakti Sustainable Energy Foundation, the World Economic Forums' Global Agenda Council on Climate Change and TERI's Advisory Council.

Naina Lal Kidwai was given the Padma Shri Award by the Indian government in 2007, has been recognised in India and abroad with awards and been repeatedly ranked in global lists of Top Women in business.

### Beat Hess



Beat Hess started his career in 1977 at BBC Brown Boveri Ltd in Baden as Legal Counsel where he was promoted to General Counsel in 1986. From 1988 to 2003, he was Senior Group Officer, General Counsel and Secretary for ABB Ltd in Zurich. From 2003 until his retirement in January 2011, Beat Hess is Group Legal Director and a member of the Group Executive Committee of Royal Dutch Shell plc, The Hague, The Netherlands, responsible on worldwide level for legal and intellectual property services as well as for the Shell Compliance Office.

Beat Hess is a member of the Board of Holcim Ltd, Switzerland and he has been nominated for election to the Board of Sonova Holding AG. He is also a member of the The Hague Academy of International Law and a member of the Supervisory Board of the The Hague Institute for the Internationalisation of Law.

### Titia de Lange



Titia de Lange earned her doctoral and post-doctoral degrees in biochemistry in Amsterdam, London and San Francisco. In 1997, she was appointed Professor at the Rockefeller University, New York, where since 1999 she holds as well the Leon Hess Professorship. In 2006 she became Associate Director of the Anderson Cancer Center at that same University. Titia de Lange is also an elected member of the American National Academy of Sciences and has worked extensively with the National Institutes of Health. In addition to these research activities, she currently serves on many scientific advisory boards and award committees of universities and other research centres around the world, as well as on review panels and editorial boards. Furthermore, she has been awarded numerous honours and awards since 1980.

For Nestlé, Titia de Lange serves as a member of the Nestlé Nutritional Council (NNC) – a group of international experts who advise Nestlé on nutrition.

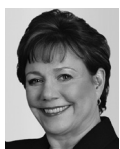
### **Jean-Pierre Roth**



Jean-Pierre Roth spent his whole career at the Swiss National Bank, which he joined in 1979. After various senior positions, he was appointed a member of the Swiss Governing Board in 1996 before becoming its Chairman in 2001 until 2009. From 2001 he was a member of, and since 2006 the Chairman of the Board of Directors of the Bank of International Settlements until his retirement in 2009. Jean-Pierre Roth also served as Swiss Governor of the International Monetary Fund from 2001 until 2009 and as a Swiss representative on the Financial Stability Board from 2007 until 2009.

As of 2010, Jean-Pierre Roth has been a member of the Board of Swatch Group AG and a member of the Foundation Board and Programme Committee of Avenir Suisse, Switzerland. Since 1 July 2010, he has served as Chairman of the Board of Directors of Geneva Cantonal Bank as well as a Board member of the global (re)insurance company Swiss Re.

### **Ann M. Veneman**



An attorney by training, Ann M. Veneman was Secretary of the United States Department of Agriculture (USDA) from 2001 to 2005. She then served a five-year term as the Executive Director of the United Nations Children's Fund. Earlier in her career she was in various positions in the USDA and also served four years as the Secretary of the California Department of Food and Agriculture. She is currently a member of the Boards of Alexion Pharmaceuticals, the Close Up Foundation, Malaria No More, and 4-H. She is also Co-Chair of Mothers Day is Every Day and on a number of advisory boards including BRAC, The Chicago Council Global Agriculture Development Initiative, and the Bipartisan Policy Council Nutrition and Physical Activity Initiative. She is a member of the Council on Foreign Relations, and the Trilateral Commission.

In 2009, she was named to the Forbes 100 Most Powerful Women list, and she has been the recipient of numerous awards and honours throughout her career.

Ann M. Veneman also serves as member of the Nestlé Creating Shared Value Advisory Board.

### **3.3 Elections and terms of office**

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

The Board of Directors elects, for a one-year term, the Chairman, the Chief Executive Officer (CEO), two Vice Chairmen and the members of the Committees.

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

For the principles of the selection procedure: see point 3.4.2 below (Nomination Committee).

For the time of first election and remaining term of office see point 3.1 above.

### 3.4 Internal organisational structure

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

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination Committee	Audit Committee
Peter Brabeck-Letmathe Chairman	• (Chair)		•	
Paul Bulcke CEO	•			
Andreas Koopmann 1st Vice Chairman	•	•	• (Chair)	
Rolf Hänggi 2nd Vice Chairman	•			• (Chair)
Jean-René Fourtou	•	•		
Daniel Borel		• (Chair)		
Jean-Pierre Meyers		•		
André Kudelski				•
Carolina Müller-Möhl			•	
Steven G. Hoch			•	
Nāina Lal Kidwai				•
Beat Hess				•
Titia de Lange				
Jean-Pierre Roth				
Ann M. Veneman				

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

The powers and responsibilities of each Committee are established in the applicable Committee Charter, which is approved by the Board. Each Committee is entitled to engage outside counsel.

The **Chairman's and Corporate Governance Committee** consists of the Chairman, the two Vice Chairmen, the CEO (Administrateur délégué) and other members as elected by the Board. It liaises between the Chairman and the full Board of Directors in order to act as a consultant body to the Chairman and to expedite whenever necessary the handling of the Company's business. The Committee periodically reviews the Corporate Governance of the Company and prepares recommendations for the Board. It also advises on certain finance-related tasks including the Company's financing and financial management.

While the Committee has limited authority as per the Board Regulations, it may in exceptional and urgent matters deal with business matters which

might arise between Board meetings. In all cases it keeps the Board fully apprised. It reviews the Board's annual work plan.

The **Compensation Committee** is chaired by an independent and non-executive member of the Board, the other members are one Vice Chairman and a minimum of two other non-executive members of the Board of Directors. All members are independent. The Compensation Committee determines the principles for remuneration of the members of the Board and submits them to the Board for approval. It oversees and discusses the remuneration principles for the Company and the Group. In addition, it proposes the remuneration of the Chairman, the CEO and approves the individual remunerations of the members of the Executive Board. It reports on its decisions to the Board and keeps the Board updated on the overall remuneration policy of the Group.

The **Nomination Committee** includes a Chairperson, who is an independent and non-executive member of

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

the Board; the other members are the Chairman of the Board of Directors and a minimum of two independent and non-executive members of the Board. The Nomination Committee establishes the principles for the selection of candidates to the Board, selects candidates for election or re-election to the Board and prepares a proposal for the Board's decision. The candidates to the Board must possess the necessary profiles, qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction into the business and affairs of the Company and the Group. If required, the Nomination Committee arranges for further training. It reviews, at least annually, the independence of the members of the Board and it prepares the annual self-evaluation of the Board and its Committees. It oversees the long-term succession planning of the Board.

The **Audit Committee** consists of a Vice Chairman, who chairs the Committee, and a minimum of two other members of the Board, excluding the CEO and any former member of the Executive Board. At least one member has to have recent and relevant financial expertise, the others must be familiar with the issues of accounting and audit. 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 controls through a direct link to KPMG (external auditors) and the Nestlé Group Audit (corporate internal auditors). The Audit Committee's main duties include the following:

- to discuss Nestlé's internal accounting procedures
- to make recommendations to the Board of Directors regarding the nomination of external auditors to be appointed by the shareholders
- to discuss the audit procedures, including the proposed scope and the results of the audit
- to keep itself regularly informed on important findings of the audits and of their progress
- to oversee the quality of the internal and external auditing
- to present the conclusions on the approval of the Financial Statements to the Board of Directors
- to review certain reports regarding internal controls and the Group's annual risk assessment.

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.

Meetings held in 2011	Frequency	Average duration (hours)
Board of Directors of Nestlé S.A.	8 times	3:40
Chairman's and Corporate Governance Committee	8 times	4:20
Compensation Committee	3 times	1:20
Nomination Committee	3 times	1:05
Audit Committee	3 times	2:10

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

The Board meets as often as necessary, at least quarterly, and on notice by the Chairman or by the person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman to call a meeting. All Committees provide a detailed report to the full Board at each meeting in a dedicated Chairmen's session.

The Board reserves at least one day per year to discuss the strategic long-term plan of the Company. In addition, every year the Board visits one operating company for three to five days, in 2011 Nestlé in Brazil. The average attendance at the Board meetings was 100%. Board meetings, with the exception of certain Chairman's and *in camera* sessions, are attended by all members of the Executive Board. In addition, selected members of the Executive Board and senior management participate in certain Committee meetings.

At each Board meeting the Chairmen of the various Committees report on their Committee's activities.

## 3.5 Definition of areas of responsibility

The governing bodies have responsibilities as follows:

### 3.5.1 Board of Directors <sup>(1)</sup>

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 for the Annual 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 the Vice Chairmen, of the Committee members and members of the Executive Board;
- e) the ultimate supervision of the Chairman 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 Annual Report, the Annual General Meeting and execution of its resolutions;
- g) the notification of the court in the event of overindebtedness;
- h) the discussion and approval of:
  - the Group's long-term strategy and annual investment budget;
  - major financial operations;
  - any significant policy issue dealing with the Company's or the Group's general structure or with financial, commercial and industrial policy;
  - Corporate Governance Principles of the Company;
  - the review of and decision on any report submitted to the Board;
  - the Group's annual risk assessment.

### 3.5.2 Executive Board

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

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

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

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

The Board of Directors, on a regular basis, is informed on material matters involving the Company's and the Group's business. The members of the Executive Board attend the Board of Directors meetings and report on significant projects and events. In addition, regular written reports are provided, including consolidated financial information, capital investment and strategy progress reports.

The Chairman and the CEO ensure the proper information flow between the Executive Board and the Board of Directors.

The Board of Directors receives regular and ad hoc reports from the Board's Committees, the Chairman, the CEO, as well as from the Executive Board. The minutes of Committee meetings are made available to the full Board. The Board pays a visit to a major market every year, where it meets members of senior management.

Furthermore, the Audit Committee reviews the financial performance and assesses the effectiveness of the internal and external audit processes as well as the internal risk management organisation and processes.

Members of the Executive Board and other senior management attend the Audit Committee meetings, except for certain *in camera* sessions.

Additional information and control instruments include:

- The external auditors, KPMG (auditors of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group), who conduct their audit in compliance with Swiss law and in accordance with Swiss Auditing Standards and with International Standards on Auditing.
- The Nestlé Group Audit function, the corporate internal auditors, which has a direct link to the Audit Committee. It comprises a unit of international auditors who travel worldwide, completing audit assignments.
- Group Risk Services, the corporate risk management unit, providing assistance to all corporate entities with regard to risk management, loss prevention, claims handling and insurance. A top-level risk assessment is performed once a year for all businesses. For more information, please refer to Note 23 of the 2011 Consolidated Financial Statements of the Nestlé Group.

- Group Compliance and other risk and control-related functions provide additional guidance and oversight. Risk and compliance activities are regularly coordinated through the Group Compliance Committee to ensure a holistic, entity-wide approach. For more information, please refer to page 8 of the Annual Report 2011.

## 4. Executive Board

### 4.1 Members of the Executive Board

Name	Year of birth	Nationality	Education/Current function
Paul Bulcke	1954	Belgian	Economics and Business Administration CEO
Werner Bauer	1950	German	Chemical Engineering EVP: Chief Technology Officer: Innovation, Technology and R&D
José Lopez	1952	Spanish	Mechanical Engineering EVP: Operations, GLOBE
John J. Harris	1951	American	Business Administration EVP: Nestlé Waters
James Singh	1946	Canadian	Business Administration EVP: CFO, Finance and Control, Legal, IP, Tax, Treasury, Global Nestlé Business Services
Laurent Freixe	1962	French	Business Administration EVP: Zone Europe
Chris Johnson	1961	American	Economics and Business Administration EVP: Zone Americas
Patrice Bula	1956	Swiss	Economics and Business Administration EVP: Strategic Business Units, Marketing, Sales and Nespresso
Doreswamy Nandkishore (Nandu)	1958	Indian	Electrical Engineering and Postgraduate in Management EVP: Zone Asia, Oceania and Africa
Wan Ling Martello	1958	American	Business Administration and Accountancy EVP: *
Marc Caira	1954	Canadian	Marketing Deputy EVP: Nestlé Professional
Jean-Marc Duvoisin	1959	Swiss	Economics and Political Science Deputy EVP: Human Resources
Kurt Schmidt	1957	American	Business Administration and Chemistry Deputy EVP: Nestlé Nutrition
David P. Frick	1965	Swiss	Law SVP: Corporate Governance, Compliance and Corporate Services

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

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

\* CFO as of 1 April 2012

## 4.2 Professional background and other activities and functions

### Paul Bulcke

Please refer to point 3.2 above.

### Werner Bauer



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

In 1990, Werner Bauer became Head of the Nestlé Research Center, Lausanne, moving on to become Head of Nestlé Research and Development in 1996. After serving as Technical Manager and then Market Head for Nestlé Southern and Eastern Africa Region, he moved to the position of Executive Vice President and Head of Technical, Production, Environment, Research and Development in 2002. In 2007, he was appointed Chief Technology Officer, Head of Innovation, Technology, Research and Development.

As a representative of Nestlé, Werner Bauer also undertakes the following duties: Chairman of the Supervisory Board of Nestlé Deutschland AG; Board member of L'Oréal S.A. in France; Chairman for both Life Ventures S.A. and Nutrition-Wellness Venture AG, Switzerland; Chairman of Sofinol S.A. in Switzerland. Furthermore, Werner Bauer is Chairman of the Nestlé Institute of Health Sciences, Switzerland, Board member of Nestlé Health Science S.A. and Board member of Galderma Pharma, Switzerland.

He is also Chairman of the Board of Trustees for the Bertelsmann Foundation and a member of the Bertelsmann Verwaltungsgesellschaft (BVG) in Germany. Werner Bauer is member of the Supervisory Board of GEA Group AG, Germany and is a Board member of "scienceindustries", Switzerland.

### José Lopez



José Lopez joined Nestlé in 1979 as Engineering Trainee. From 1983 to 1995, he completed various technical assignments in Spain, USA, Japan and France. In 1995, he was appointed Technical Manager of the Oceania Region, becoming in 1997 the Operations Director responsible for Technical, Supply Chain and

Exports. In 1999, José Lopez became Market Head responsible for the Malaysian/Singaporean Region; in 2003, he was appointed Market Head of Nestlé Japan. As Executive Vice President of Operations since 2007, José Lopez is responsible for Procurement, Manufacturing, Supply Chain, Quality Management, Health & Safety, Environment and Engineering. As of 2008, he has also been in charge of GLOBE (Global Business Excellence; IS/IT).

As a representative of Nestlé, José Lopez serves as Chairman of Nestec SA as well as of Nestrade SA and is a member of the Supervisory Board of Cereal Partners Worldwide, Switzerland.

Presently, José Lopez is Chairman of the Management Board of GS1 (formerly EAN International) in Belgium and a member of the Advisory Board of the University of Cambridge's Programme for Sustainability Leadership (CPSL).

### John J. Harris



John J. Harris began his career in 1974 as a Marketing Management Trainee at Carnation Company in the United States (acquired by Nestlé in 1985). From 1974 to 1987, John J. Harris held various positions in both Friskies PetCare and Carnation Products Division. In 1987, he was promoted to Vice President and General Manager of the Carnation Products Division.

In 1991, he was transferred to the Friskies PetCare Division as Vice President and General Manager and was instrumental in Friskies PetCare's acquisition of Alpo Pet Foods, announced in January 1995. In January 1997, John J. Harris was named Senior Vice President of Nestlé S.A. in Vevey responsible for the Nestlé Worldwide PetCare Strategic Business Unit. In March 1999, he returned to Nestlé USA as President of Friskies PetCare Company. In early 2001, he was nominated Chief Worldwide Integration Officer following the acquisition of Ralston Purina Company.

He was nominated Chief Executive Officer of Nestlé Purina PetCare Europe in 2002 and received added responsibility for Asia, Oceania and Africa in 2005.

Effective December 2007, John J. Harris was appointed Executive Vice President of Nestlé S.A. and Chairman and Chief Executive Officer of Nestlé Waters.



### **James Singh**



James Singh joined Nestlé Canada, Inc. in 1977 as a Financial Analyst. In 1980, he became Manager Financial Analysis and Planning, moving on to Director of Finance FoodServices and then Vice President Finance and Treasurer. In 1993, James Singh was appointed Senior Vice President Finance before taking his position as Executive Vice President and Chief Financial Officer of Nestlé Canada, Inc. in 1995. In 2000, he was transferred to Nestlé's International Headquarters in Vevey, Switzerland as Senior Vice President in charge of Mergers & Acquisitions, Joint Ventures, Divestments, Corporate Real Estate and Corporate Venturing Investments as well as for special strategic corporate projects. As of January 2008, James Singh has been appointed Executive Vice President and Chief Financial Officer with responsibility for Finance and Control, Legal, Treasury, Intellectual Property and Tax departments as well as the Global Nestlé Business Services.

As a representative of Nestlé, James Singh is Chairman of Nestlé Capital Advisers S.A. and of Nestlé International Travel Retail S.A.; he is a Board member of both Life Ventures S.A. and Nutrition-Wellness Venture AG.

Furthermore, James Singh was elected as a Director of the RTL Group in Luxembourg on 20 April 2011.

### **Laurent Freixe**



Laurent Freixe joined Nestlé France in 1986 as a sales representative and got increasing responsibilities in the field of sales and marketing. In 1999, he became a member of the Management Committee and was nominated Head of the Nutrition Division. In 2003, Laurent Freixe became Market Head of Nestlé Hungary. In January 2007, he was appointed Market Head of the Iberian Region taking responsibility for Spain and Portugal. As of November 2008, Laurent Freixe has been serving as Executive Vice President in charge of Zone Europe.

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

In addition, Laurent Freixe is a member of the Foreign Investment Advisory Council of Russia, a Board member of Association des Industries de Marque (AIM) in Belgium, member of the Board and Executive Committee of the CIAA, member of the Liaison Committee with the CIAA and member of the Executive Board of ECR Europe in Belgium.

### **Chris Johnson**



Chris Johnson started his career with Nestlé in 1983 as a marketing trainee at Carnation Inc. During his first eight years, he took on increasing responsibilities mainly in the commercial area, at Nestlé USA and then, from 1991, in Japan. Senior Area Manager for the Asian region of Nestlé Waters in Paris from 1995, he was then transferred to Taiwan in 1998 as Market Head. From 2000, Chris Johnson led the worldwide development and implementation of GLOBE (Global Business Excellence; IS/IT), the Strategic Supply Chain as well as eNestlé. He was appointed Deputy Executive Vice President in April 2001, and later moved back to Japan in 2007 as Market Head. As of January 2011, Chris Johnson has been serving as Executive Vice President in charge of Zone Americas.

As a representative of Nestlé, Chris Johnson is Chairman of the Board of Nestlé Brasil Ltda. as well as of Nescalin S.A. de C.V., Mexico and of Nestlé Mexico S.A. de C.V. He is also Co-Chairman of the Supervisory Board of Dairy Partners Americas and a member of the Supervisory Board of Cereal Partners Worldwide, Switzerland.

In addition, Chris Johnson is a Board member of the Swiss-Latin American Chamber of Commerce and Treasurer of the Swiss-American Chamber of Commerce.

### **Patrice Bula**



Patrice Bula joined Nestlé in 1980 and was entrusted with various responsibilities in Marketing and Sales in Kenya, Japan and Taiwan before being promoted to Market Head for Taiwan in 1992, Market Head for Czech Republic in 1995, then Head for the South and Eastern Africa Region in 1997. In 2000 he was appointed Head of Chocolate, Confectionery and Biscuits Strategic Business Unit based at Nestlé's International Headquarters in Vevey. In October 2003, Patrice Bula was transferred as Market

Head of Nestlé Germany and in August 2007 he took up the role as Market Head for the Greater China Region.

As of May 2010, Patrice Bula was appointed to the Executive Board of Nestlé S.A. as Executive Vice President with responsibility for the Strategic Business Units, Marketing and Sales, and Nespresso.

As a representative of Nestlé, Patrice Bula serves as Chairman of Nespresso S.A., as a Board member of both Life Ventures S.A. and Nutrition-Wellness Venture AG as well as of Beverage Partners Worldwide S.A., Switzerland. Furthermore, Patrice Bula is Chairman of the Board of Shanghai Totole Food Ltd. as well as of Shanghai Totole First Food Ltd, China and is a Board member of both Yinlu Food Group Companies and Hsu Fu Chi Group Companies, China.

### **Doreswamy (Nandu) Nandkishore**



Nandu Nandkishore joined Nestlé as a mid-career hire in 1989 in India where, over the next seven years, he took on increasing responsibilities, mainly in marketing. His international career started

in 1996 when he was transferred to Indonesia to run the Confectionery Business Unit.

In 2000, after a short period at Nestlé's International Headquarters in Vevey, Switzerland, he returned to Indonesia where he was promoted to Market Head of Indonesia in March 2003. In April 2005, Nandu Nandkishore became Market Head of Nestlé Philippines, which he ran until October 2009, when he returned to Nestlé's International Headquarters in Vevey, Switzerland to take up the role of Global Business Head, Infant Nutrition at Nestlé Nutrition.

In 2010, Nandu Nandkishore was nominated to the Executive Board of Nestlé S.A. as Deputy Executive Vice President in charge of Nestlé Nutrition – including Infant Nutrition, Performance Nutrition and Weight Management. As of October 2011, the Board of Directors appointed Nandu Nandkishore Executive Vice President responsible for Asia, Oceania, Africa and Middle East.

As a representative of Nestlé, he is Chairman of the Supervisory Board of both P.T. Nestlé Indonesia and P.T. Nestlé Indofood Citarasa Indonesia and a Board member of Nestlé (China) Ltd. and Hsu Fu Chi International Ltd., China. In addition, Nandu Nandkishore is a Board member of Osem Investments Ltd., Israel and a member of the Supervisory Board of Cereal Partners Worldwide S.A.

### **Wan Ling Martello**



Wan Ling Martello joined Nestlé S.A. as Executive Vice President in November 2011 and is the designated Chief Financial Officer effective 1 April 2012.

Wan Ling Martello came to Nestlé S.A. from Walmart Stores Inc., where she was EVP, Global eCommerce in 2010 and 2011. From 2005 to 2009 she was SVP, CFO & Strategy for Walmart International. Prior to Walmart, Wan Ling Martello built her career in the consumer packaged goods industry. She worked at Kraft in increasingly broader finance roles from 1985 to 1995. She was the Corporate Controller at Borden Foods during its turn-around years owned by KKR in 1995 until 1998. She was the CFO and then the President of the U.S. business of NCH, a former subsidiary of AC Nielsen from 1998 to 2005.

Wan Ling Martello serves on the Board of Committee of 100, a U.S. national organisation of Chinese American leaders, as well as the Board of Royal Neighbors of America. She is also a member of the Board of Trustees of the Museum of Chinese in America.

### **Marc Caira**



Marc Caira started at Nestlé Canada in 1977. In 1986, he was appointed Regional Sales Vice President and then, in 1990, Vice President FoodServices, eventually serving as President of FoodServices & Nescafé Beverages for Nestlé Canada from 1997 to 2000.

In October 2000, Marc Caira joined Parmalat Canada and became President and CEO of Parmalat North America in 2004.

In May 2006, Marc Caira returned to Nestlé and was appointed Deputy Executive Vice President in charge of FoodServices Strategic Business Division which became Nestlé Professional, a globally managed business unit, in 2009.

### **Jean-Marc Duvoisin**



Jean-Marc Duvoisin joined Nestlé in 1986, after a short period at the Centre he started his international career in the area of Sales & Marketing, first in Colombia, and then in Central America until 1997 as a Business Executive Manager in the Dairy, Infant Nutrition and Cereal sector. He came back to the Centre to Zone AMS as Operations Manager for two years after which he returned to Latin America where he assumed the role of Country Manager in 1999 in Ecuador. He

became Market Head of the Bolivarian Region (Colombia, Ecuador and Venezuela) in 2003 and Market Head of Mexico in 2004. From 2007, Jean-Marc Duvoisin held the position of Senior Vice President, Head of Corporate Human Resources. Effective January 2010, he was appointed to the Executive Board of Nestlé S.A. as Deputy Executive Vice President, Human Resources and Centre Administration.

As a representative of Nestlé, Jean-Marc Duvoisin serves as Chairman of Nestlé Pension Funds and as a Board member of Nestlé Capital Advisers S.A.

### **Kurt Schmidt**



Kurt Schmidt began his career in Marketing with the Kraft Food U.S. Refrigerated Products Group in 1985, before starting his international assignments as Head of Food & Beverages for Australia and New Zealand. In 1993, he was appointed to the position of Marketing Director for Kraft Jacobs Suchard in Hungary. In 2002, he joined Novartis and managed the Animal Health Business. Kurt Schmidt finally took over the position of President and Chief Executive Officer of Gerber, a division of Novartis, before joining Nestlé with the acquisition of Gerber Products Company.

In 2007, he became Regional Business Head for Infant Nutrition and responsible for the coordination of Nestlé Nutrition North America. As of September 2011, Kurt Schmidt was appointed Deputy Executive Vice President in charge of Nestlé Nutrition.

As a representative of Nestlé, he is a Board member of both Life Ventures S.A. and Nutrition-Wellness AG as well as of the Nestlé Nutrition Council.

Furthermore, Kurt Schmidt is Chairman of the International Association of Infant Food Manufacturers (IFM).

### **David P. Frick**



David P. Frick began his career in 1991 at the Meilen District Court in Zurich and as an assistant to the Banking Law Chair at Zurich University Law School.

From 1994, he was an attorney in the International Corporate and Litigation practice groups of Cravath, Swaine & Moore, the New York law firm.

In 1999, he became Group General Counsel and Managing Director of Credit Suisse Group, Zurich, where he was appointed a Member of the Executive

Board and served as the company's Head of Legal and Compliance.

David P. Frick joined Nestlé S.A. in 2006 and serves as Senior Vice President, Corporate Governance, Compliance and Corporate Services.

He is a member of the Board of Economiesuisse and chairs its Legal Commission. He also represents Nestlé at SwissHoldings and serves on the SIX Regulatory Board, the Committee on Extraterritoriality for the International Chamber of Commerce in Paris and the Legal Committee for the Swiss-American Chamber of Commerce.

## **4.3 Management contracts**

There are no management contracts with third parties at Nestlé.

## 5. **Compensations, shareholdings and loans**

Please refer to the Compensation Report, Appendix 1 of this document.

## 6. **Shareholders' participation**

### 6.1 **Voting rights and representation restrictions**

#### 6.1.1/ **All voting rights restrictions and rules /**

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

Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto (art. 5 par. 2 of the Articles of Association).

No person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register. 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 such a limit shall be counted as one shareholder (art. 11 par. 2 of the Articles of Association; see art. 11 par. 3 of the Articles of Association, for exceptions to this voting restriction).

To permit the exercise of voting rights in respect of shares deposited with banks, in line with art. 11 par. 4 of the Articles of Association, the Board of Directors may and has granted exceptions to certain banks to vote shares deposited by their clients which in aggregate are in excess of 5% of the share capital.

In order to facilitate trading of the shares on the Stock Exchange, the Board of Directors has issued regulations and authorised certain nominees to exceed the 5% limit to be registered as nominees with voting rights.

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

A resolution to amend the provisions of the Articles of Association relating to:

- (i) restrictions on the exercise of voting rights and the change or removal of such restrictions, or
- (ii) the limitation on registration or the limitation on voting rights and the change or removal of such limitations requires a majority of two thirds of the shares represented and the absolute majority of the nominal value represented at the General Meeting (art. 13 of the Articles of Association). See also art. 11 par. 4 of the Articles of Association.

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

There are no restrictions to the legal regime provided by Swiss Law. Shareholders with voting rights may have their shares represented by the proxy of their choice.

### 6.2 **Statutory quorums**

Please refer to art. 13 of the Articles of Association.

### 6.3 **Convocation of the General Meeting of shareholders**

Nestlé S.A. statutory rules (art. 7 to 9 of the Articles of Association) do not differ from applicable legal provisions. An Extraordinary General Meeting requested by one or more shareholders whose combined holdings represent at least 10% of the share capital as recorded in the commercial register must be held as promptly as practicable following such request (art. 8 par. 2 of the Articles of Association).

### 6.4 **Inclusion of item on the agenda**

One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital as recorded in the commercial register may request that an item be included in the agenda of the General Meeting by making the request in writing to the Board of Directors at the latest 45 days before the meeting and specifying the agenda items and the proposals made (art. 9 par. 2 and 3 of the Articles of Association).

### 6.5 **Inscriptions into the share register**

The relevant date to determine the shareholders' right to participate in the General Meeting on the basis of the registrations appearing in the share register is set by the Board of Directors in the invitation to the General Meeting.

## **7. Change 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 art. 32 of the Swiss Stock Exchange Act are applicable.

### **7.2 Clauses on change of control**

There are no such agreements.

## **8. Auditors**

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

KPMG Klynveld Peat Marwick Goerdeler SA were first appointed on 22 May 1993, and KPMG SA (replacing KPMG Klynveld Peat Marwick Goerdeler SA) were first appointed on 23 April 2009 as auditors of Nestlé S.A.

On 14 April 2011 KPMG SA (hereafter "KPMG") were appointed as auditors of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group for a term of office of one year.

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

### **8.2 Auditing fees**

The total of the auditing fees paid to the auditors for 2011 amounts to CHF 41 million, of which KPMG, in their capacity as Group auditors, received CHF 39 million.

### **8.3 Additional fees**

Fees paid to the auditors for 2011 related to additional services amount to CHF 8 million, of which KPMG received CHF 1.5 million for tax services and CHF 1.5 million for other various non-audit services (mainly IS/IT advisory support).

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

KPMG presents to the Audit Committee a detailed report on the conduct of the 2011 Financial Statements audit, the findings on significant financial accounting and reporting issues together with the findings on

the internal control system as well as an overview of issues found during the interim audit.

In 2011, KPMG participated in all three Audit Committee meetings at the end of which they met with the Audit Committee without the Group's management being present.

Nestlé Group Audit (corporate internal auditors) met three times with the Audit Committee. In addition, the head of internal audit regularly met with the Chairman of the Audit Committee for interim updates.

The Audit Committee reviews annually the appropriateness of retaining KPMG as the auditor of the Nestlé Group and Nestlé S.A., prior to proposing to the Board and to the Annual General Meeting of Nestlé S.A. the election of KPMG as auditors. The Audit Committee assesses the effectiveness of the work of the auditors in accordance with Swiss law, based on their understanding of the Group's business, control, accounting and reporting issues, together with the way in which matters significant at Group level or in the statutory accounts are identified and resolved.

The Audit Committee is also informed on the work of KPMG through regular briefings of its Chairman. The lead auditor is rotated every seven years in accordance with Swiss law. Audit fees are ultimately approved by the Audit Committee.

The Group and KPMG have agreed on clear guidelines as to audit 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 and IS/IT advisory support. These guidelines ensure KPMG's independence in their capacity as auditors to the Group. KPMG monitors its independence throughout the year and confirms its independence to the Audit Committee annually.

## 9. Information policy

### Investor Relations – guiding principles

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

### Methodology

Nestlé produces each year a detailed Annual Report, which reviews the business. It also provides detailed audited Financial Statements for the year under review, prepared according to the International Financial Reporting Standards (IFRS). These are complemented by the Half-Yearly Report.

Nestlé publishes its full-year and half-year results, and its first-quarter and nine-months' sales figures; it also publishes press releases at the time of any potentially price-sensitive event, such as significant acquisitions and divestments, joint venture agreements and alliances. Major announcements, such as results of 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.

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

Specifically on governance topics, the Company engages into an active dialogue with investors through

regular Chairman's roundtables, surveys and bilateral exchanges which are reported to the Chairman's and Corporate Governance Committee or the Board.

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

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

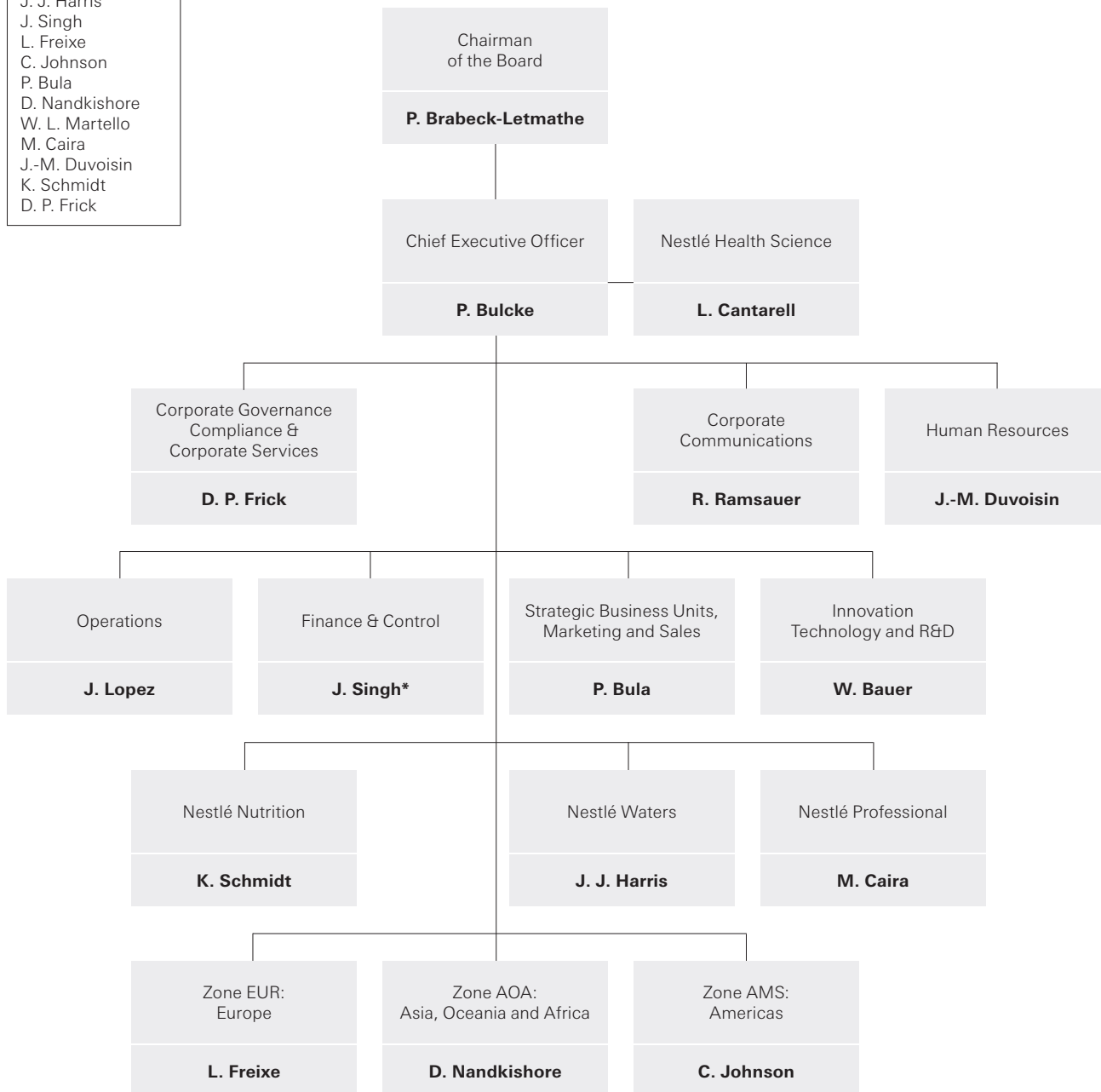
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# General Organisation of Nestlé S.A.

31 December 2011

Executive Board
<b>P. Bulcke</b>
W. Bauer
J. Lopez
J. J. Harris
J. Singh
L. Freixe
C. Johnson
P. Bula
D. Nandkishore
W. L. Martello
M. Caira
J.-M. Duvoisin
K. Schmidt
D. P. Frick



\*W. L. Martello as of 01.04.2012





# Appendix 1: Compensation Report 2011



# Compensation Report 2011

## Introduction

The future success of Nestlé is dependent on its ability to attract, motivate and retain good people. Among the various programmes to support this ambition is a competitive remuneration policy. Nestlé believes in a performance culture as well as good corporate governance and corporate social responsibility.

Therefore, remuneration at Nestlé is based on the following principles:

- pay for performance to support the short-term and long-term objectives;
- compensation aligned with long-term Group strategy and shareholders' interests;
- coherence in our remuneration plans and levels throughout the Company;
- appropriate balance of fixed and variable remuneration depending on hierarchical level to ensure a direct participation in results achieved.

As last year, the Compensation Report shall be submitted to the advisory vote of the shareholders at the next Annual General Meeting.

## Changes to the compensation system

The Compensation Committee has decided on the following material changes to our compensation system for 2012:

- as anticipated in last year's report, the Compensation Committee has decided to introduce a second performance measure to our Performance Share Unit Plan (PSUP). The currently used relative performance measure of Total Shareholder Return versus peers, which is an external one, will be supplemented by an absolute, internal performance measure in the form of Earnings per Share. The vesting level of the PSUP will be determined with equal weight by each of these two measures;
- the Board has decided to change the compensation structure of the CEO as from 2012. The target Short Term Bonus as well as the Long Term Incentives will be reduced from 200% to 150% of the Annual Base Salary, which will be increased proportionally. This change will result in a lower ratio between fixed and variable remuneration.

## Governance

The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. It approves the compensation of the members of the Board, its Chairman, the CEO and the Executive Board as a whole.

The governance for setting the compensation of the members of the Board of Directors and the Executive Board is defined as follows:

Compensation of	Recommended by	Approved by
Chairman of the Board, CEO and Executive Board as a whole	Compensation Committee	Board of Directors <sup>(a)</sup>
Non-executive members of the Board of Directors	Compensation Committee	Board of Directors <sup>(b)</sup>
Members of the Executive Board	CEO together with Chairman	Compensation Committee

(a) Chairman as well as CEO not voting on own compensation.

(b) Members not voting on own compensation to the extent that Committee fees are concerned.

## Compensation Committee (CC)

The CC is governed by the Compensation Committee Charter. The Committee consists of the Chairperson who is an independent and non-executive member of the Board, one of the Vice Chairmen of the Board and two other non-executive members of the Board.

The members of the CC and its Chairperson are appointed by the Board of Directors for a period of one year. On 31 December 2011, the composition of the CC was as follows:

Chairman	Members
Mr Daniel Borel	Mr Andreas Koopmann
	Mr Jean-René Fourtou
	Mr Jean-Pierre Meyers

## Compensation 2011 for the members of the Board of Directors

### Board membership fees and allowances

With the exception of the Chairman and the CEO, each member of the Board of Directors receives a Board membership fee of CHF 280 000 and an Expense Allowance of CHF 15 000. These figures have remained unchanged since 2006.

Members of a Board Committee receive the following additional fees:

	Chair	Members
Chairman's and Corporate Governance Committee	– (a)	CHF 200 000
Compensation Committee	CHF 100 000	CHF 40 000
Nomination Committee	CHF 100 000	CHF 40 000
Audit Committee	CHF 150 000	CHF 100 000

(a) The Chairman and the CEO receive no Committee fee.

### Committee membership on 31 December 2011

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination Committee	Audit Committee
Peter Brabeck-Letmathe	• (Chair)		•	
Paul Bulcke	•			
Andreas Koopmann	•	•	• (Chair)	
Rolf Hänggi	•			• (Chair)
Jean-René Fourtou	•	•		
Daniel Borel		• (Chair)		
Jean-Pierre Meyers		•		
André Kudelski				•
Carolina Müller-Möhl			•	
Steven G. Hoch			•	
Nāina Lal Kidwai				•
Beat Hess				•
Titia de Lange				
Jean-Pierre Roth				
Ann M. Veneman				

The above fees and allowances cover the period between the Annual General Meeting 2011 and the Annual General Meeting 2012. Board membership and the Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. As anticipated in last year's report, the blocking period was extended from two years to three years.

The number of Nestlé S.A. shares is determined by taking the closing price of the share on the SIX Swiss Exchange on the ex-dividend date of the respective financial year, discounted by 16.038% to account for the blocking period of three years. In 2011 the value was CHF 43.83.

## Summary of compensation

	Cash in CHF <sup>(a)</sup>	Number of shares	Discounted value of shares in CHF <sup>(b)</sup>	Total remuneration
Peter Brabeck-Letmathe, Chairman <sup>(c)</sup>	1 600 000	122 606	5 373 821	6 973 821
Paul Bulcke, Chief Executive Officer <sup>(c)</sup>	–	–	–	–
Andreas Koopmann, 1st Vice Chairman	325 000	5 939	260 306	585 306
Rolf Hänggi, 2nd Vice Chairman	330 000	6 035	264 514	594 514
Jean-René Fourtou	275 000	4 981	218 317	493 317
Daniel Borel	205 000	3 640	159 541	364 541
Jean-Pierre Meyers	175 000	3 066	134 383	309 383
André Kudelski	205 000	3 640	159 541	364 541
Carolina Müller-Möhl	175 000	3 066	134 383	309 383
Steven G. Hoch	175 000	3 066	134 383	309 383
Naïna Lal Kidwai	205 000	3 640	159 541	364 541
Beat Hess	205 000	3 640	159 541	364 541
Titia de Lange	155 000	2 682	117 552	272 552
Jean-Pierre Roth	155 000	2 682	117 552	272 552
Ann M. Veneman	155 000	2 682	117 552	272 552
<b>Total for 2011</b>	<b>4 340 000</b>	<b>171 365</b>	<b>7 510 927</b>	<b>11 850 927</b>
Total for 2010	4 185 000	127 407	8 867 028 <sup>(d)</sup>	13 052 028

(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.

(b) Nestlé S.A. shares received as part of the Board membership and the Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

(c) The Chairman and the Chief Executive Officer receive neither Board membership or Committee fees nor expense allowance.

(d) Including the fair value of stock options granted to the Chairman in 2010.

During 2011, one new Board member (Ms Ann M. Veneman) joined the Board.

Peter Brabeck-Letmathe, in his capacity as active Chairman, received a cash compensation as well as Nestlé S.A. shares, which are blocked for three years. This in particular reflects certain responsibilities for the direction and control of the Group including the Nestlé Health Science Company and the direct leadership of Nestlé's interests in L'Oréal, Galderma and Laboratoires innéov. He also represents Nestlé at the European Round Table of Industrialists and at the Foundation Board of the World Economic Forum (WEF). All corresponding compensation is included in the disclosed amount. His total compensation was:

	2011		2010	
	Number	Value in CHF	Number	Value in CHF
Cash compensation		1 600 000		1 600 000
Blocked shares (discounted value)	122 606	5 373 821	80 475	3 526 424
Stock options (fair value at grant) <sup>(a)</sup>	–	–	477 600	3 199 920
<b>Total compensation</b>		<b>6 973 821</b>		<b>8 326 344</b>

(a) As anticipated in last year's report, compensation for the Chairman of the Board is paid in the form of cash and Nestlé S.A. shares, which are blocked for three years. The use of stock options was discontinued.

**Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties on 31 December 2011**

	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>
Peter Brabeck-Letmathe, Chairman	2 237 853	2 733 600
Andreas Koopmann, 1st Vice Chairman	72 973	–
Rolf Hänggi, 2nd Vice Chairman	72 440	–
Jean-René Fourtou	27 754	–
Daniel Borel	225 426	–
Jean-Pierre Meyers	1 425 574	–
André Kudelski	50 036	–
Carolina Müller-Möhl	168 008	–
Steven G. Hoch	213 844	–
Nāina Lal Kidwai	16 216	–
Beat Hess	15 816	–
Titia de Lange	5 414	–
Jean-Pierre Roth	5 414	–
Ann M. Veneman	2 682	–
<b>Total as at 31 December 2011</b>	<b>4 539 450</b>	<b>2 733 600</b>
Total as at 31 December 2010	4 048 300	3 093 600

(a) Including blocked shares.

(b) The ratio is one option for one Nestlé S.A. share.

**Loans**

There are no loans to non-executive members of the Board of Directors.

## Principles of compensation for members of the Executive Board

### Principles

The compensation programmes for members of the Executive Board are based on three major objectives:

#### Pay for performance

As a direct reflection of this objective, the Total Direct Compensation package for the members of the Executive Board includes a fixed Annual Base Salary and a variable part, which is a combination of a Short-Term (Annual) Bonus and Long-Term Incentives. For the members of the Executive Board, the variable and performance-related part was between 50% and 75% of the Total Direct Compensation. The criteria and objectives which are used are reflecting performance as well as the quality and sustainability of such performance and risk considerations. All variable compensation includes maximum award limits.

#### Alignment with long-term company strategy and shareholders' interests

Executive compensation is aligned with company strategy and shareholders' interests. Part or all of any Short-Term Bonus is paid in the form of Nestlé S.A. shares instead of cash. Long-Term Incentives are provided in the form of Performance Share Units (PSUs), Stock Options on Nestlé S.A. shares or Restricted Stock Units (RSUs). All share-based elements have restriction periods of three years. This way of compensating presents a balance between annual and Long-Term Incentives and underlines the close connection and alignment between the interests of the members of the Executive Board and the shareholders.

#### Compensation to be internationally competitive

To ensure that the remuneration of the members of the Executive Board is internationally competitive, the Compensation Committee is using the following benchmarks:

- STOXX Europe 50 companies (without financial industry companies): this is our primary benchmark and includes the largest European companies which are of a size comparable to Nestlé;
- European Fast Moving Consumer Goods companies: this is a secondary benchmark and includes large and medium sized European companies which are operating in the same industry sector as Nestlé;
- Swiss Market Index (SMI) companies: as another secondary benchmark this index includes industrial companies which are headquartered in Switzerland and reflects Swiss remuneration practices.

Nestlé targets its remuneration to be between the median and the 75th percentile of the benchmark. Whenever appropriate, the benchmark values are adjusted for the size of Nestlé.

Periodically, the Compensation Committee uses the services of Towers Watson, a reputed international compensation consultancy, to provide a detailed market comparison. The results of the study confirmed that Total Direct Compensation is broadly in line with the market median, adjusted for the size of Nestlé.

### Elements of Executive Board compensation

The total compensation package consists of the following elements:

#### 1. Annual Base Salary

The Annual Base Salary is the foundation of the total compensation. It also serves as the basis for determining the second element, the Short-Term Bonus, and the third element, the Long-Term Incentives. It is reviewed annually by the Compensation Committee based upon the individual contribution and with the objective to keep it competitive against our chosen peer groups.

#### 2. Short-Term Bonus

The Short-Term Bonus or annual bonus is expressed as a bonus target, which is a percentage of the Annual Base Salary. The objectives to be reached are set at the beginning of each year; they include collective as well as individual objectives and reflect the Company's strategy. Collective objectives are Nestlé Group measurable operational objectives including most importantly organic growth, real internal growth (RIG), operating profit performance, market shares, capital expenditure and additional specific objectives used by the Board to evaluate performance. They also include certain non-financial targets related to elements of our strategic roadmap. Individual objectives are determined by the CEO for each member of the Executive Board related to that individual area of responsibility and again include financial and non-financial targets. In case an executive reaches all objectives in full, the bonus payout will correspond to the targeted level. If one or more objectives are not reached, the bonus is reduced. Accordingly, payment reflects the achievement of targets.

For the CEO, 100% of the target is made up by Nestlé Group objectives as described above. For the other members of the Executive Board, 30% of the target is allocated to Nestlé Group objectives and 70% is determined on the basis of individual (quantitative and qualitative) as well as other collective objectives (e.g. objectives of the Zone, Globally

Managed Business or Function). For competitive reasons Nestlé does not further specify the details of its objectives.

In 2011, the following target levels were applicable (expressed in % of Annual Base Salary):

- CEO: 200%
- Executive Vice President: 100%
- Deputy Executive Vice President: 80%.

The bonus payout can reach a maximum of 130% of the target. There is no guarantee for the payout of a minimum bonus.

A minimum of half of the CEO's bonus is payable in the form of Nestlé S.A. shares. Other members of the Executive Board can elect to receive part or all of their bonus in the form of Nestlé S.A. shares instead of cash. Nestlé S.A. shares taken instead of cash are subject to a three-year blocking period. For purposes of the conversion of cash into shares, the conversion value of a Nestlé S.A. share is determined as the average closing price of the last ten trading days of January of the year of the payment of the bonus. The value of these shares is determined by taking the conversion value discounted by 16.038% to account for the three-year blocking period.

### 3. Long-Term Incentives

Members of the Executive Board are eligible to receive Long-Term Incentives in the form of Stock Options under the Management Stock Option Plan (MSOP) and Performance Share Units under the Performance Share Unit Plan (PSUP). The target grant value for Long-Term Incentives in 2011 was 200% of the Annual Base Salary for the CEO and 100% of the Annual Base Salary for the other members of the Executive Board. One half of the Long-Term Incentives grant was provided in the form of Stock Options and the other half in the form of Performance Share Units. The fair value of Long-Term Incentives at grant is determined by using generally accepted pricing models.

The Management Stock Option Plan (MSOP) provides non-tradable options on Nestlé S.A. shares. Each option gives the right to purchase at the exercise price one Nestlé S.A. share. The exercise price for the Stock Options corresponds to the average Nestlé S.A. share price of the last ten trading days preceding the grant date. The Stock Options vest three years after the grant. Upon vesting, the options have an exercise period of four years before they expire.

The Performance Share Unit Plan (PSUP) was introduced at the beginning of 2009 and provides units which entitle participants to receive freely disposable Nestlé S.A. shares at the end of the three-year restriction period.

The level at which PSUs vest is determined by the degree by which the performance measure of the PSUP has been met. For 2011, the performance measure was the relative Total Shareholder Return of the Nestlé S.A. share compared to the STOXX Europe 600 Food & Beverage Index. In 2011 the range at which PSUs shall vest was between 0% to 200% of the initial grant, thus providing alignment with strategy and shareholders' interests.

The Restricted Stock Unit Plan (RSUP) provides units which entitle participants to receive freely disposable Nestlé S.A. shares at the end of the three-year restriction period on a one for one ratio.

### 4. Other benefits

The Company limits other benefits to a minimum. Typical elements are a car allowance (there are no Company cars provided to the members of the Executive Board), a contribution towards health insurance premiums as well as long-service awards in line with Company policy, as offered to other employees. Those Executive Board members who have been transferred to Switzerland from other Nestlé locations can receive benefits in line with the Nestlé Corporate Expatriation Policy.

### 5. Pension benefits

Executive Board members domiciled in Switzerland are affiliated to the Nestlé Pension Plan in Switzerland like all other employees. The Plan is designed as a defined contribution plan with a retirement pension objective, expressed as a percentage of the Annual Base Salary.

This means that the pensionable earnings include the Annual Base Salary, but not the variable compensation (Short-Term Bonus or Long-Term Incentives). Any part of the Annual Base Salary which exceeds the ceiling prescribed by the Swiss Pension Law is covered directly by the Company.

### Share ownership policy

The Company does not have a share ownership policy requiring members of the Executive Board to own and hold Nestlé S.A. shares.

### Loans

The Company does not, as a rule, grant loans, except that it may provide advances free of interest and generally repayable over a three-year period to members of the Executive Board who have been transferred to Switzerland from other Nestlé locations in line with the Nestlé Corporate Expatriation Policy.



## Contracts of employment and severance payments

Members of the Executive Board are normally subject to a generally applicable notice period of six months. During this time, unless there was termination for cause, entitlement to Annual Base Salary and pro-rated Short-Term Bonus continue. There are no severance or change of control provisions (“golden parachutes”).

## Benchmarks

See above principles of compensation for members of the Executive Board.

## Compensation 2011 for members of the Executive Board

The total compensation paid to members of the Executive Board in 2011 was CHF 43 513 350.

### Compensation for members of the Executive Board in CHF

	2011	2010
Annual Base Salary	13 059 165	13 481 667
Short-Term Bonus (cash)	8 147 915	10 407 086
Short-Term Bonus (discounted value of Nestlé S.A. share)	6 173 378	7 199 363
Stock Options (fair value at grant)	7 050 204	7 217 910
Performance Share Units (fair value at grant)	7 196 609	7 563 929
Restricted Stock Units (fair value at grant)	447 864	379 819
Other benefits	1 438 215	2 559 678
<b>Total</b>	<b>43 513 350</b>	<b>48 809 452</b>
% Fixed/Variable	33.3 – 66.7	32.9 – 67.1

The Company also made contributions of CHF 3 883 588 towards future pension benefits of the Executive Board's members in line with Nestlé's Pension Benefit Policy described above (2010: CHF 3 689 774).

The above compensation table includes the following:

	2011	2010
Number of Nestlé S.A. shares granted	137 645	164 294
Number of Stock Options granted under the MSOP	1 272 600	1 077 300
Number of Performance Share Units granted under the PSUP	134 190	135 530
Number of Restricted Stock Units granted under the RSUP	9 475	7 560

## Explanations

- On 31 December 2011, the Executive Board consisted of fourteen members.
- Mr Chris Johnson was appointed member of the Executive Board effective 1 January 2011.
- Mr Patrice Bula was appointed member of the Executive Board effective 1 May 2011.
- Mr Kurt Schmidt was appointed member of the Executive Board effective 1 September 2011.
- Ms Wan Ling Martello was appointed member of the Executive Board effective 1 November 2011.
- Mr Luis Cantarell left the Executive Board to take over the position of President and CEO of Nestlé Health Science, effective 1 January 2011.
- Mrs Petraea Heynike retired on 1 May 2011.
- Mr Frits van Dijk retired on 1 October 2011.
- Other benefits include car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2012, discounted by 16.038% to account for the three-year blocking period.
- Stock Options granted in 2011 are disclosed at the fair value at grant date which corresponds to CHF 5.54.
- Performance Share Units granted in 2011 are disclosed at the fair value at grant, which corresponds to CHF 53.63.

- Restricted Stock Units granted in 2011 are disclosed at the fair value at grant, which correspond to CHF 48.75 and CHF 44.98 for the grants in March and October respectively.
- The valuation of equity compensation plans mentioned in this report differs in some respect from compensation disclosures in Note 11 of the 2011 Consolidated Financial Statements of the Nestlé Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS).
- Please also refer to Note 20.1 of the 2011 Consolidated Financial Statements of the Nestlé Group.

#### Compensation for former members of the Executive Board

A fee of CHF 300 000 was conferred during 2011 to a former member of the Executive Board in compensation for ongoing services provided to the Company.

#### Highest total compensation for a member of the Executive Board

In 2011, the highest total compensation for a member of the Executive Board was conferred to Paul Bulcke, the CEO.

		2011		2010
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 000 000		2 000 000
Short-Term Bonus (cash)		856 045		520 019
Short-Term Bonus (discounted value of Nestlé S.A. share)	64 095	2 874 661	89 672	3 929 427
Stock Options (fair value at grant)	361 000	1 999 940	298 500	1 999 950
Performance Share Units (fair value at grant)	38 040	2 040 085	37 530	2 094 549
Other benefits		28 884		28 548
<b>Total</b>		<b>9 799 615</b>		<b>10 572 493</b>
% Fixed/Variable		20.7 – 79.3		19.2 – 80.8

The Company also made a contribution in 2011 of CHF 949 676 towards future pension benefits in line with Nestlé's Pension Benefit Policy described above (2010: CHF 1 031 504).

#### Explanations

- Other benefits include a car allowance and a contribution towards health insurance premiums.
- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2012, discounted by 16.038% to account for the three-year blocking period.
- Stock Options 2011 are disclosed at fair value at the time of grant which corresponds to CHF 5.54.
- Performance Share Units 2010 are disclosed at fair value at grant, which corresponds to CHF 53.63.
- Please also refer to Note 20.1 of the 2011 Consolidated Financial Statements of the Nestlé Group.

## Shares and stock options held by members of the Executive Board

Total number of management stock options held on 31 December 2011 by members of the Executive Board

Grant date	Vesting date	Expiry date	Exercise price in CHF	Stock options outstanding
03.03.2011	03.03.2014	02.03.2018	52.58	1 170 700
05.03.2010	05.03.2013	04.03.2017	53.29	775 050
01.02.2009	01.02.2012	31.01.2016	40.53	985 500
01.02.2008	01.02.2011	31.01.2015	47.38	342 000
01.02.2007	01.02.2010	31.01.2014	44.50	155 000
01.02.2006	01.02.2009	31.01.2013	37.95	60 000
<b>Total</b>				<b>3 488 250</b>

## Shares and stock options ownership of the members of the Executive Board and closely related parties on 31 December 2011

	Number of shares held <sup>(a)</sup>	Number of stock options held <sup>(b)</sup>
Paul Bulcke, Chief Executive Officer	325 853	1 396 800
Werner Bauer	210 288	362 200
José Lopez	53 001	347 500
John J. Harris	16 759	279 800
James Singh	47 357	306 700
Laurent Freixe	29 166	240 700
Chris Johnson <sup>(c)</sup>	5 350	81 300
Patrice Bula <sup>(d)</sup>	28 950	69 600
Doreswamy (Nandu) Nandkishore	47 080	68 600
Wan Ling Martello <sup>(e)</sup>	–	–
Marc Caira	39 100	245 350
Jean-Marc Duvoisin	43 862	115 200
Kurt Schmidt <sup>(f)</sup>	–	–
David P. Frick	25 707	–
<b>Total as at 31 December 2011</b>	<b>872 473</b>	<b>3 513 750</b>
Total as at 31 December 2010	1 033 203	3 257 500

(a) Including shares subject to a three-year blocking period.

(b) The ratio is one option for one Nestlé S.A. share.

(c) As from 1 January 2011

(d) As from 1 May 2011

(e) As from 1 November 2011

(f) As from 1 September 2011

## Loans to members of the Executive Board

On 31 December 2011, there was an outstanding amount of CHF 91 192 for advances granted to two members of the Executive Board in line with the Nestlé Corporate Expatriation Policy (of which CHF 66 664 to Chris Johnson, Head of Zone Americas).

## Additional fees and remuneration

No additional fees and remunerations were conferred to any member of the Executive Board during 2011.



# Appendix 2: Articles of Association of Nestlé S.A.

As revised on 14 April 2011



# Articles of Association of Nestlé S.A.

As revised on 14 April 2011.

*Translation\**

## I. General

### Article 1

#### **Corporate name; registered offices; duration**

- 1 Nestlé S.A. (Nestlé AG) (Nestlé Ltd.) (hereinafter "Nestlé") is a company limited by shares incorporated and organised in accordance with the Swiss Code of Obligations.
- 2 The registered offices of Nestlé are in Cham and Vevey, Switzerland.
- 3 The duration of Nestlé is unlimited.

### Article 2

#### **Purpose**

- 1 The purpose of Nestlé is to participate in industrial, service, commercial and financial enterprises in Switzerland and abroad, in particular in the food, nutrition, health, wellness and related industries.
- 2 Nestlé may itself establish such undertakings or participate in, finance and promote the development of undertakings already in existence.
- 3 Nestlé may enter into any transaction which the business purpose may entail. Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.

## II. Share capital

### Article 3

#### **Share capital**

The share capital of Nestlé is CHF 330 000 000 (three hundred and thirty million Swiss francs) divided into 3 300 000 000 fully paid up registered shares with a nominal value of CHF 0.10 each.

### Article 3<sup>bis</sup>

#### **Conditional share capital**

- 1 The share capital of Nestlé may be increased in an amount not to exceed CHF 10 000 000 (ten million Swiss francs) by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each, which shall be fully paid up, through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments.

2 The shareholders have no preferential rights to subscribe for these new shares. The current owners of conversion rights and/or option rights shall be entitled to subscribe for the new shares.

3 The new shares shall be subject, as soon as they are issued following the exercise of conversion and/or option rights, to the restrictions set forth in art. 5.

4 The Board of Directors may limit or withdraw the right of the shareholders to subscribe in priority to convertible debentures, debentures with option rights or similar financial market instruments when they are issued, if:

- a) an issue by firm underwriting by a consortium with subsequent offering to the public without preferential subscription rights seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue; or
  - b) the financial market instruments with conversion or option rights are issued in connection with the financing or refinancing of the acquisition of an enterprise or parts of an enterprise or participations or new investments.
- 5 Any financial market instruments with conversion or option rights which the Board of Directors decides not to offer directly or indirectly for prior subscription to the shareholders shall be subject to the following conditions:
- a) Conversion rights may be exercised only for up to 15 years, and option rights only during 7 years from the date of issue of the relevant financial market instruments.
  - b) The new shares shall be issued according to the applicable conversion or option conditions. The respective financial instruments must be issued at the relevant market conditions.
  - c) The issue of new shares upon exercise of option or conversion rights shall be made at conditions taking into account the market price of the shares and/or comparable instruments with a market price at the time of issuance of the relevant convertible debenture, debenture with option rights or similar financial market instrument.

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

#### Article 4

##### **Share certificates; intermediated securities**

1 Nestlé may issue its registered shares in the form of single certificates, global certificates or uncertificated securities. Under the conditions set forth by statutory law, Nestlé may convert its registered shares from one form into another form at any time and without the approval of the shareholders. Nestlé shall bear the cost of such conversion.

2 If registered shares are issued in the form of single certificates or global certificates, they shall be signed by two members of the Board of Directors. Both signatures may be affixed in facsimile.

3 The shareholder has no right to demand a conversion of the form of the registered shares. Each shareholder may, however, at any time request a written confirmation from Nestlé of the registered shares held by such shareholder, as reflected in the share register.

4 Intermediated securities based on registered shares of Nestlé cannot be transferred by way of assignment. A security interest in any such intermediated securities cannot be granted by way of assignment.

#### Article 5

##### **Share register**

1 Nestlé shall maintain a share register showing the name and address of the holders or usufructuaries. Any change of address must be reported to Nestlé.

2 Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto.

3 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 voting rights, until it is recognised by Nestlé as a shareholder with voting rights. If Nestlé does not refuse the request to recognise the acquiring party within twenty days, the latter shall be deemed to be a shareholder with voting rights.

4 An acquirer of shares shall be recorded in the share register as a shareholder with voting rights provided he expressly declares to have acquired the shares in his own name and for his own account.

5 No person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. All of the foregoing does not apply in the case of the acquisition of an enterprise, or parts of an enterprise or participations through exchange of shares or in the cases provided in art. 685d par. 3 of the Swiss Code of Obligations.

6 The Board of Directors shall promulgate regulations relating to the registration of fiduciaries or nominees to ensure compliance with these Articles of Association.

7 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 the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee within the meaning of paragraphs 4 and 5 of this article.

8 After hearing the registered shareholder or nominee, the Board of Directors may cancel, with retroactive effect as of the date of registration, the registration of such shareholder or nominee if the registration was effected based on false information. The respective shareholder or nominee shall be informed immediately of the cancellation of the registration.

9 The Board of Directors shall specify the details and promulgate the necessary regulations concerning the application of this art. 5. Such regulations shall specify the cases in which the Board or a corporate body designated by the Board may allow exemptions from the limitation on registration or the regulation concerning nominees.

10 The limitation on registration provided for in this article shall also apply to shares acquired or subscribed by the exercise of subscription, option or conversion rights.

### **III. Organisation of Nestlé**

#### **A. General Meeting**

##### **Article 6**

##### **Powers of the General Meeting**

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

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

- a) to adopt and amend the Articles of Association;
- b) to elect and remove the members of the Board of Directors and the Auditors of Nestlé;
- c) to approve the annual report and the consolidated financial statements;
- d) to approve the annual financial statements as well as the resolution on the use of the balance sheet profit, in particular, the declaration of dividends;
- e) to grant release to the members of the Board of Directors and the persons entrusted with management; and
- f) to take all decisions which by law or under these Articles of Association are within the powers of the General Meeting.

#### Article 7

##### **Annual General Meeting**

The Annual General Meeting shall be held each year within six months of the close of the financial year of Nestlé. The meeting shall be convened by the Board of Directors.

#### Article 8

##### **Extraordinary General Meeting**

1 Extraordinary 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 voting rights whose combined holdings represent at least one tenth of the share capital as recorded in the commercial register, convene an Extraordinary General Meeting. The Extraordinary General Meeting shall be held as promptly as practicable following such request.

#### Article 9

##### **Notice of General Meetings; Agenda**

1 Annual or Extraordinary General Meetings shall be convened by notice in the "Swiss Official Gazette of Commerce" not less than twenty days before the date fixed for the meeting. Shareholders may in addition be informed by ordinary mail.  
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 requested that a General Meeting be convened (art. 8 par. 2) or that items be included in the agenda (art. 9 par. 3).  
3 One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital of Nestlé as recorded in the commercial register may request that an item be included in the agenda of a General Meeting. Such a request must be made in writing to the Board of Directors at the latest 45 days before the meeting and shall specify the agenda items and the proposals made.  
4 No resolution shall be passed at a General Meeting on matters which do not appear on the agenda except for:  
a) a resolution convening an Extraordinary General Meeting;  
or  
b) the setting up of a special audit.

#### Article 10

##### **Presiding officer; Minutes**

1 The Chairman or any member of the Board of Directors shall preside at General Meetings and carry all procedural powers.  
2 Minutes of General Meetings shall be kept by the Secretary of the Board of Directors.

#### Article 11

##### **Voting rights; Proxies**

1 Each share recorded in the share register as share with voting rights confers one vote on its holder.  
2 At General Meetings no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register. 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 such a limit, shall be counted as one shareholder.  
3 The foregoing limit does not apply to shares received and held by a shareholder pursuant to an acquisition of an enterprise, or parts of an enterprise or participations as referred in art. 5 par. 5.  
4 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 referred to in art. 5 par. 6 and par. 9. In addition, this limit shall not apply to the exercise of voting rights pursuant to the statutory rules on institutional shareholder representatives.



## Article 12

### **Quorum and decisions**

- 1 General Meetings shall be duly constituted irrespective of the number of shareholders present or of shares represented.
- 2 Unless provided otherwise by law or the Articles of Association, shareholders' resolutions and elections shall be decided by an absolute majority of the shares represented.
- 3 Votes shall be taken either on a show of hands or by electronic voting unless a vote by written ballot is ordered by the Presiding officer of the meeting. The Presiding officer may at any time order to repeat an election or resolution, if he doubts the results of the vote. In this case, the preceding election or resolution is deemed not having taken place.
- 4 If the first ballot fails to result in an election and more than one candidate is standing for election, the Presiding officer shall order a second ballot, in which a relative majority shall be decisive.

## Article 13

### **Special quorum**

The approval of at least two thirds of the shares represented and the absolute majority of the nominal value represented at a General Meeting shall be required for resolutions with respect to:

- a) a modification of the purpose of Nestlé;
- b) the creation of shares with increased voting powers;
- c) restrictions on the transfer of registered shares and the change or removal of such restrictions;
- d) an authorised or conditional increase in share capital;
- e) an increase in share capital through the conversion of capital surplus, through a contribution in kind or for the purpose of an acquisition of assets, or a grant of special benefits upon a capital increase;
- f) the restriction or withdrawal of the right to subscribe;
- g) a change of the registered offices of Nestlé;
- h) the dissolution of Nestlé;
- i) restrictions on the exercise of voting rights and the change or removal of such restrictions;
- j) the limitation on registration (art. 5 par. 4 to 7) and the limitation on voting rights (art. 11 par. 2, 3 and 4) and the change or removal of such limitations;
- k) the change of the corporate name of Nestlé; and
- l) other matters as provided by statutory law.

## B. Board of Directors

### Article 14

#### **Number of Directors**

The Board of Directors shall consist of at least seven members.

### Article 15

#### **Term of office**

- 1 The members of the Board of Directors shall be elected for a term of office of three years by the General Meeting. 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 three years, all members will have been subject to re-election. Directors shall be elected individually.
- 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 three years.
- 3 Members of the Board of Directors whose term of office has expired shall be immediately eligible for re-election.
- 4 A year shall mean the period running between one Annual General Meeting and the next.

### Article 16

#### **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 substitutes, neither of whom need be members of the Board of Directors.
- 2 The Board of Directors shall define in the Board regulations pursuant to art. 19 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 17

#### **Powers of the Board in general**

The Board of Directors shall conduct all the business of Nestlé to the extent that it is not within the powers of the General Meeting or not delegated pursuant to the Board regulations as set forth in art. 19 par. 2.

## Article 18

### **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 Nestlé, in particular the conduct, management and supervision of the business of Nestlé, and the provision of necessary directions;
- b) the determination of the organisation in the Board regulations pursuant to art. 19 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 Nestlé;
- e) the ultimate supervision of the persons entrusted with the management of Nestlé, ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;
- f) the preparation of the business 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; and
- j) the notification of the court in case of overindebtedness.

## Article 19

### **Delegation of powers**

1 The Board of Directors may appoint from amongst its members standing or ad hoc committees 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 Unless otherwise provided by law, the Board of Directors may in accordance with the Board regulations delegate all or part of the management to one or more of its members, to one or more board committees, or to third parties.

## C. Auditors

### Article 20

#### **Number of Auditors; Term of office**

The General Meeting shall appoint, for a term of one year, one or more auditors of the annual financial statements of Nestlé and the consolidated financial statements of the Group, which shall be independent from Nestlé and meet the special professional standards required by law. The Auditors of Nestlé may be re-elected.

## Article 21

### **Rights and duties of Auditors**

The Auditors shall verify the annual financial statements of Nestlé and the consolidated financial statements of the Group. The Auditors shall submit their reports to the General Meeting. Their rights and duties shall be as set out in the Swiss Code of Obligations.

## **IV. Business report and appropriation of profit resulting from the balance sheet**

### Article 22

#### **Financial year**

The financial year shall commence on 1 January and shall end on 31 December.

### Article 23

#### **Business report**

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

### Article 24

#### **Appropriation of profit resulting from the balance sheet**

The profit shall be allocated by the General Meeting within the limits set by applicable law. The Board of Directors shall submit its proposals to the General Meeting.

## **V. Announcements, Communications**

### Article 25

#### **Notices**

All notices and communications to be made by Nestlé shall be considered duly made if published in the "Swiss Official Gazette of Commerce", unless the law provides otherwise.

*Articles of Association amended by the Annual General Meeting of 14 April 2011*