

Corporate Governance Report 2007



Nestlé

Good Food, Good Life

including Compensation Report 2007

Paper

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Concept: Nestlé S.A., Group Governance

Design: Nestec Ltd., SGDU, Corporate Identity & Design, Vevey (Switzerland)

Printed in Switzerland

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⁽¹⁾ The full Board of Directors Regulations and Committee Charters are published on www.nestle.com

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

Preliminary remarks

The Nestlé Corporate Governance Report 2007 follows the structure of the SWX Swiss Exchange Directive on Information Relating to 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 Management Report 2007, the 2007 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.

The Consolidated Financial Statements of the Nestlé Group 2007 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 SWX Directive.

1. Group structure and shareholders

1.1 Group structure

Please refer to the Management Report 2007 for the overview of Directors and Officers, the registered offices, the stock exchange listing and quotation codes and information on market capitalisation.

For the general organisation chart of Nestlé S.A., refer to page 21 of this document. The Group's Management structure is represented in the segmental information (pages 13–14 and Note 1 of the Consolidated Financial Statements of the Nestlé Group 2007).

Please refer to the Consolidated Financial Statements of the Nestlé Group 2007, page 78, for the listing of principal affiliated and associated companies.

1.2 Significant shareholders

The Company is not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital, other than Nestlé S.A. itself, holding together with a Nestlé affiliate, 16 800 742 treasury shares, representing 4.3% of the share capital (refer to Note 21 of the Consolidated Financial Statements of the Nestlé Group 2007).

1.3 Cross-shareholdings

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

2. Capital structure

2.1 Capital

The ordinary share capital of Nestlé S.A. is CHF 393 072 500. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised share capital.

2.2 Conditional capital

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

2.3 Changes in capital

The share capital changed twice in the last three financial years; the cancellation of shares was approved at the Annual General Meetings of 6 April 2006 and 19 April 2007. In 2006, the share capital was reduced as a consequence of the CHF 1 billion share buy-back programme launched on 4 July 2005 by 2 784 300 shares from CHF 403 520 000 to CHF 400 735 700. In 2007, the share capital was further reduced by 7 663 200 shares to CHF 393 072 500 to complete the CHF 3 billion share buy-back programme launched on 17 November 2005. For the breakdown of capital ("equity") for 2007, 2006 and 2005 see the statement of recognised income and expense and changes in equity in the Consolidated Financial Statements of the Nestlé Group 2007 and 2006.

2.4 Shares and participation certificates

Nestlé S.A.'s capital is composed of registered shares only.

Number of registered shares with a nominal value of CHF 1.– each, fully paid up: 393 072 500.

According to article 14, par. 1 of the Articles of Association, each share confers the right to one vote. 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 on making exceptions

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

2.6.2 Reasons for granting exceptions in the year under review

Please refer to points 2.6.3 and 6.1.2 below.

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

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

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

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

Please refer to point 6.1.3 below.

2.7 Convertible bonds and options

Bond issues are detailed in Note 18 of the Consolidated Financial Statements of the Nestlé Group 2007.

The only options issued by Nestlé S.A. are employee options allocated under the Nestlé Management Stock Option Plan (MSOP). The features of this plan are detailed in Notes 15 and 21 of the Consolidated Financial Statements of the Nestlé Group 2007.

3. Board of Directors

3.1 Members of the Board of Directors*

Name	Year of birth	Nationality	Education	First election	Term expires
Peter Brabeck-Letmathe Chairman and CEO	1944	Austrian	Economics	1997	2012
Andreas Koopmann 1st Vice Chairman	1951	Swiss	Mechanical Engineering and Business Administration	2003	2008
Rolf Hänggi 2nd Vice Chairman	1943	Swiss	Law and Finance	2004	2008
Edward George (Lord George)	1938	British	Economics	2004	2011
Kaspar Villiger	1941	Swiss	Mechanical Engineering	2004	2009
Jean-Pierre Meyers	1948	French	Economics	1991	2011
Peter Böckli	1936	Swiss	Attorney-at-law	1993	2008
André Kudelski	1960	Swiss	Physics	2001	2011
Daniel Borel	1950	Swiss	Physics and Computer Science	2004	2009
Carolina Müller-Möhl	1968	Swiss	Political Science	2004	2009
Günter Blobel	1936	German	Medicine	2005	2009
Jean-René Fourtou	1939	French	Ecole Polytechnique	2006	2011
Steven G. Hoch	1954	American/Swiss	International Relations and Economics	2006	2011
Nāina Lal Kidwai	1957	Indian	Economics and Business Administration	2006	2011

* For complete information: please refer to individual CVs on www.nestle.com.

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

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

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

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

3.2 Professional background and other activities and functions

Peter Brabeck-Letmathe, Chairman and CEO



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

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

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

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

Andreas Koopmann, 1st Vice Chairman



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

Presently, he also serves as Vice Chairman of Swissmem in Switzerland.

Rolf Hänggi, 2nd Vice Chairman



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

Presently Rolf Hänggi also serves as Chairman of Rüd, Blass & Cie AG, Bankers, Switzerland. In addition, he is a member of the Board of Trustees of the Foundation Luftbild Schweiz, Switzerland; a member of the Foundation Board, Werner Abegg Fonds Foundation, Switzerland; and also sits on the Advisory Board for the Mastercourse of Advanced Studies in Applied History at the University of Zurich, Switzerland.

Edward George (Lord George)



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

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

Kaspar Villiger



Kaspar Villiger began his career as manager and joint owner of family firm Villiger Söhne AG in 1966. In parallel, he started a political career in 1972 as a member of the Swiss Liberal Democratic Party in Canton Lucerne. He was a member of the Swiss federal parliament and elected to the National Council in 1982 and to the Council of States in 1987. From 1989 to 1995 he was Defence Minister, and from 1995 to 2003 he was Finance Minister. He served as President of the Swiss Confederation in both 1995 and 2002.

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

Jean-Pierre Meyers



From 1972 to 1980 Jean-Pierre Meyers was attached to the directorate of financial affairs at Société Générale. During the same time he was Assistant Professor at the Ecole Supérieure de Commerce in Rouen, France. From 1980 to 1984 he was a Director of the bank Odier 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 a Board member of Rothschild Ophthalmological Foundation in France and a member of the Supervisory Board at Téthys S.A.S. in France.

Peter Böckli



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

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

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

André Kudelski



André Kudelski started his career in 1984 at Kudelski SA, Switzerland, as a research and development engineer. After working in Silicon Valley, he returned to Kudelski SA in 1986 and was appointed product manager for Pay-TV 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. He has been appointed Chairman of the Board of Directors of OPEN TV, a Nasdaq listed company, controlled by Kudelski.

André Kudelski serves on the Board of Directors and the Audit Committee of Dassault Systèmes SA, France, and Edipresse, Switzerland.

Furthermore, he is a Board member of HSBC Private Bank Holding.

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.

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

Carolina Müller-Möhl



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

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

In addition, she is also a member of the Foundation Board of Pestalozzianum Foundation, Switzerland, a member of the Advisory Board of the Swiss Economic Forum and Jury President Award, member of the Board of the Pestalozzi Foundation and nominated as a Young Global Leader 2007 by the World Economic Forum.

Günter Blobel



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

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

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

Jean-René Fourtou



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

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

Jean-René Fourtou is also Chairman of the Supervisory Board of Canal+ Group, France, Vice Chairman of the Supervisory Board of AXA Group, France, and Board member of Sanofi-Aventis, France, Capgemini, France, NBC Universal, USA and Maroc Télécom, Morocco.

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

Steven G. Hoch



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

Steven G. Hoch is also a Director 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.

Naïna Lal Kidwai



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

She serves the Government of India on the National Science and Technology Entrepreneurship Development Board, the National Integration Council and the Indo German Consultative Group. She is active on several committees of Chambers of Industry and Commerce and is on the National Council of the Confederation of Indian Industries and the National Executive Committee of FICC. She is a member of the Indian Advisory Council of the City of London. Her involvement with educational institutions includes the Global Board of Dean's Advisors of the Harvard Business School, the India Board of John Hopkins School of Advanced International Studies, USA, and the Advisory Boards of IIM Ahmedabad and IIT Mumbai. She is on the Board of Grassroots Trading Network for Women – a not-for-profit organisation to empower underprivileged women.

Naïna Lal Kidwai was awarded the Padma Shri by the Indian government in 2007.

3.3 Cross-involvement

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

3.4 Principles of election procedure

The 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 five years. Outgoing Directors are re-eligible. Each year the Board is renewed by rotation in a way that, after a period of five years, all members will have been subject to re-election.

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

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

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

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors

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

3.5.2 Tasks and area of responsibility for each committee of the Board of Directors

The members of the Board committees are elected for a one-year term by the Board of Directors, taking effect as of each Annual General Meeting. The Board of Directors appoints the Chairperson of each committee. A written charter approved by the Board determines the powers and duties of each committee. Each committee is entitled to engage outside counsel. For complete information please refer to the Board of Directors Regulations and Committee Charters on www.nestle.com.

The **Chairman's and Corporate Governance Committee** consists of the Chairman/CEO, the two Vice Chairmen and other members. It liaises between the Chairman/CEO and the Board of Directors in order to expedite whenever necessary the handling of the Company's business. This Committee acts as a consultant body for the Chairman/CEO and assists him in fulfilling his responsibilities. Upon proposal by the Chairman/CEO, it deals with business matters which fall within the authority of the Board of Directors.

The Chairman's and Corporate Governance Committee periodically reviews the Corporate Governance of the Company and prepares recommendations for the Board. It reviews, at least annually, the independence of the members of the Board.

The **Compensation and Nomination Committee** consists of one Vice Chairman and a minimum of two other members of the Board, excluding the Chairman/CEO. It draws up the principles for remuneration of the members of the Board and submits them to the Board for approval. It oversees and discusses the remuneration principles for the Company and the Group. In addition, it determines the remuneration of the Chairman/CEO and the individual remunerations of the members of the Executive Board. It also reports on its decisions to the Board, and keeps the Board updated on the overall remuneration policy of the Group.

Regarding nomination matters, the Compensation and 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 shall possess the necessary profiles, qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction into the business and affairs of the Company and the Group.

The **Audit Committee** consists of a Vice Chairman, who chairs the Committee, and a minimum of two other members of the Board, excluding the Chairman/CEO. At least one member must be a financial expert.

In discharging its responsibilities, the Audit Committee has unrestricted access to the Company's management, books and records.

The Audit Committee supports the Board of Directors in its supervision of financial control through a direct link to KPMG (external auditors) and the Nestlé Group Audit (corporate internal auditors). The Audit Committee's main duties include the following:

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

The Audit Committee regularly reports to the Board on its findings and proposes appropriate actions. The responsibility for approving the annual Financial Statements remains with the Board of Directors.

The **Finance Committee** consists of one Vice Chairman, who chairs this Committee, and of two members of the Chairman's and Corporate Governance Committee. It reviews the financial asset and liability framework of the Group, and prepares and updates for the Board's approval financial asset and liability risk management guidelines.

3.5.3 Work methods of the Board of Directors and its committees

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

Meetings held in 2007:	Frequency	Average duration (hours)
– Board of Directors of Nestlé S.A.	9 times	4
– Chairman's and Corporate Governance Committee	7 times	3
– Compensation and Nomination Committee	7 times	3
– Audit Committee	3 times	3
– Finance Committee	2 times	1

The Board reserves one full day per year to discuss strategic questions. Board and Committee meetings also took place during the annual visit to a Nestlé Market, in 2007 to Nestlé in Switzerland. The average attendance at the Board meetings was over 92%. Board meetings, with the exception of certain *in camera* sessions, are attended by all members of the Executive Board. In addition, certain 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.

3.6 Definition of areas of responsibility

The governing bodies have responsibilities as follows:

3.6.1 Board of Directors

The Board of Directors is the ultimate governing body of the Company. It is responsible for the ultimate supervision of the Group. The Board attends to all matters which are not reserved to the 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/CEO and the Vice Chairmen, of the committee members and members of the Executive Board;
- e) the ultimate supervision of the Chairman/CEO and the members of the Executive Board, in particular with respect to their compliance with the law, the Articles of Association, the Board Regulations and instructions given from time to time by the Board;
- f) the preparation of the Management Report, the 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.

3.6.2 Executive Board

The Board of Directors delegates to the Chairman/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 Board of Directors' Regulations.

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

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

The Board of Directors, on a regular basis, is informed on material matters involving the Company's and the Group's business. Members of the Executive Board attend the Board of Directors meetings and report on significant projects and events. Regular written reports are also provided. The Chairman/CEO ensures the proper information flow between the Executive Board and the Board of Directors.

The Board of Directors receives regular reports from the Board's committees, the Chairman, 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, 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.

Other risk and control-related functions provide additional guidance and oversight.

4. Executive Board

4.1 Members of the Executive Board

Name	Year of birth	Nationality	Education / Current function
Peter Brabeck-Letmathe	1944	Austrian	Economics Chairman and CEO
Francisco Castañer	1944	Spanish	Economics EVP; Pharmaceutical & Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Lars Olofsson	1951	Swedish	Business Administration EVP; Strategic Business Units, Marketing and Sales
Werner Bauer	1950	German	Chemical Engineering EVP; Chief Technology Officer: Innovation, Technology and R&D
Frits van Dijk	1947	Dutch	Economics EVP; Zone Asia, Oceania, Africa, Middle East
Paul Bulcke	1954	Belgian	Economics and Business Administration EVP; Zone USA, Canada, Latin America, Caribbean
Carlo M. Donati	1946	Swiss	Economics EVP; Nestlé Waters (until 1 December 2007)
Luis Cantarell	1952	Spanish	Economics EVP; Zone Europe
Paul Polman	1956	Dutch	Economics and Business Administration EVP; Finance and Control, GLOBE, Global Nestlé Business Services, Legal, IP, Tax
José Lopez	1952	Spanish	Mechanical Engineering EVP; Operations
John J. Harris	1951	American	Business Administration EVP; Nestlé Waters (as of 1 December 2007)
Richard T. Laube	1956	Swiss/ American	Organisational Development and Evaluation Research Deputy EVP; Nestlé Nutrition
Marc Caira	1954	Canadian	Marketing Deputy EVP; FoodServices Strategic Business Division
David P. Frick	1965	Swiss	Law SVP; Corporate Governance, Compliance and Corporate Services

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

For complete information: please refer to individual CVs on www.nestle.com

4.2. Professional background and other activities and functions

Peter Brabeck-Letmathe

Please refer to point 3.2 above.

Francisco Castañer



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

Lars Olofsson



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

Werner Bauer



Werner Bauer began his career in 1975 as an Assistant Professor in Chemical Engineering at the University of Erlangen-Nürnberg. In 1980, he was appointed Professor 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 Alcon, Inc., Switzerland; Board member of L'Oréal S.A. in France; member of the Supervisory Board of Cereal Partners Worldwide, Switzerland; Vice Chairman for both Life Ventures S.A. and Nutrition-Wellness Venture AG, Switzerland; Chairman of Sofinol S.A. in Switzerland. He is also a member of the Board of Trustees for the Bertelsmann Foundation in Germany, and is a Board member of the Swiss Society of Chemical Industries.

Frits van Dijk



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

Paul Bulcke



Paul Bulcke began his career in 1977 as a financial analyst for Scott Graphics International in Belgium before moving to the Nestlé Group in 1979 as a marketing trainee. From 1980 to 1996 he held various marketing, sales and division functions in Nestlé Peru, Nestlé Ecuador and Nestlé Chile before moving back to Europe as Managing Director of Nestlé Portugal. Between 1998 and 2003 he was Managing Director of firstly Nestlé Czech and Slovak Republic, and then Nestlé Germany, before being appointed, in 2004, to his present post as Executive Vice President, responsible for Zone Americas.

As a representative of Nestlé, Paul Bulcke serves as Chairman of both Nestlé Brazil Ltda., and Nestlé Chile S.A. He is also a Board member of Beverage Partners Worldwide S.A., Switzerland, a member of the Supervisory Board of Cereal Partners Worldwide, Switzerland; and Co-Chairman of the Supervisory Board of Dairy Partners Americas (Switzerland and New Zealand). Paul Bulcke is also a board member of the Swiss-Latin American Chamber of Commerce.

Carlo Donati



Carlo Donati began his career at Nestlé in 1973 as a marketing trainee. From 1976 to 1979 he was product manager and assistant to the CEO at Nestlé India before becoming product manager at Nestlé Portugal. From 1980 onwards, Carlo Donati held a series of senior positions in Africa. In 1993, he was transferred to Nestlé's Headquarters as Regional Assistant/Deputy for the Africa and Middle East Zone of operations, moving on from that position in 1996 to become Divisional Manager of Nestlé Italiana, and then Managing Director of Nestlé India in 1998. After five years as Region Head of Nestlé South Asia Region, Carlo Donati was appointed, in 2005, Executive Vice President, Nestlé Waters (until 1 December 2007).

Carlo Donati represents Nestlé's interests as Chairman of both Nestlé Waters SAS, and Nestlé Waters MT (Management & Technology) SAS in France.

Luis Cantarell



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

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

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

Paul Polman



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

Paul Polman joined Nestlé in 2006 and serves as Executive Vice President Finance and Control, also in charge of GLOBE, Global Nestlé Business Services, Legal, Intellectual Property and Tax.

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

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

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 as of 2007, José Lopez is responsible for Procurement, Production, Quality, Safety, Environment and Supply Chain.

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

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 1997, 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.
He was also Chairman of the Pet Food Institute's Board of Directors.

Richard T. Laube



From 1980 to 1986, Richard T. Laube was a brand manager for Procter & Gamble, firstly in Geneva, Switzerland, and then in Cincinnati, USA. In 1987, he moved to Osaka, Japan, as Paper Brands Marketing Director for P&G Far East Inc. and then to Germany in 1992 as General Manager and Vice President of P&G Pharmaceutical, Deutschland. After three years as Managing Director of P&G do Brasil, Richard T. Laube became President of Roche Consumer Health in 1999, and was appointed a member of the Roche Corporate Executive Committee in 2001.
Richard T. Laube joined Nestlé S.A. in April 2005 and became Deputy Executive Vice President, Corporate Business Development, and in November 2005 was appointed Deputy Executive Vice President in charge of Nestlé Nutrition.
Richard T. Laube also represents Nestlé as Chairman of both Life Ventures S.A. and Nutrition-Wellness Venture AG in Switzerland.
In addition, Richard T. Laube is a Board member of the wholly-owned Jenny Craig affiliates.

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.

David P. Frick



David P. Frick began a legal career in 1991 with a clerkship in the Meilen District Court in Zurich and in 1993 became assistant to the Banking Law Chair at Zurich University Law School.
From 1994 to 1999, he was an attorney in the International Corporate and Litigation practice groups of Cravath, Swaine & Moore, the New York law firm, before becoming Group General Counsel and Managing Director of Credit Suisse Group, Zurich, in 1999. In 2003, David P. Frick was appointed as a Member of the Executive Board at Credit Suisse Group and became the company's Head of Legal and Compliance in 2005.
David 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 also represents Nestlé at SwissHoldings.
David P. Frick serves on 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, along with an indication of statutory group clauses and rules on granting exceptions, particularly in the case of institutional voting rights representatives

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

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

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

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

Further details regarding exceptions to voting restrictions are described under art. 14, par. 4–5 of the Articles of Association.

6.1.2 Reasons for granting exceptions in the year under review

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

6.1.3 Procedure and conditions for abolishing statutory voting rights restrictions

Shareholders representing at least two thirds of the share capital must be present at a General Meeting in order to amend the provisions of the Articles of Association relating to the registration of voting rights and the limit on voting rights at General Meetings. Such a resolution requires a majority of three quarters of the shares represented at the General Meeting (art. 17 of the Articles of Association). See also art. 14, par. 5 of the Articles of Association. See, however, art. 36 of the Articles of Association as adopted by the Annual General Meeting of 6 April 2006 and section "Corporate Governance and Compliance" of the Nestlé Management Report 2007.

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

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

6.2 Statutory quorums

Please refer to art. 16 and 17, par. 1 of the Articles of Association. See, however, art. 36 of the Articles of Association as adopted by the Annual General Meeting of 6 April 2006 and the section "Corporate Governance and Compliance" of the Nestlé Management Report 2007.

6.3 Convocation of the General Meeting of shareholders

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

6.4 Agenda

Please refer to art. 20 of the Articles of Association.

6.5 Registrations in the Share Register

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

7. Changes of control and defence measures

7.1 Duty to make an offer

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

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

7.2 Clauses on changes of control

There are no such agreements.

8. Auditors

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

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

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

8.2 Auditing fees

The total of the auditing fees paid to the auditors for 2007 amounts to CHF 56 million, of which KPMG, in their capacity as Group auditors, received CHF 53 million.

8.3 Additional fees

The total of the fees paid to the auditors for 2007 related to additional services amounts to CHF 17 million, of which KPMG received CHF 6 million.

8.4 Supervisory and control instruments pertaining to the audit

KPMG presents to the Audit Committee an overview of issues found during the interim audit, as well as a detailed report on the Group's full-year financial results. In 2007, KPMG participated in three Audit Committee meetings at the end of which they met with the Audit Committee without the Group's management being present.

The Group's 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 Board of Directors reviews periodically the selection of the auditors in order to propose their appointment to the Annual General Meeting of Nestlé S.A. The Audit Committee assesses the effectiveness of the work of the auditors in accordance with Swiss law. The lead auditor is rotated every seven years in accordance with Swiss law.

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

9. Information policy

Investor Relations – guiding principles

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

Methodology

Nestlé produces a detailed Management Report annually, 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). This document is complemented by the Half-yearly Report.

Nestlé publishes its full-year and half-year results, and its first-quarter and nine-months' sales figures; 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 or corporate activity, are accompanied by a presentation which is broadcast "live" on the Internet and which anyone can choose to access, whether or not that person is a shareholder.

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.

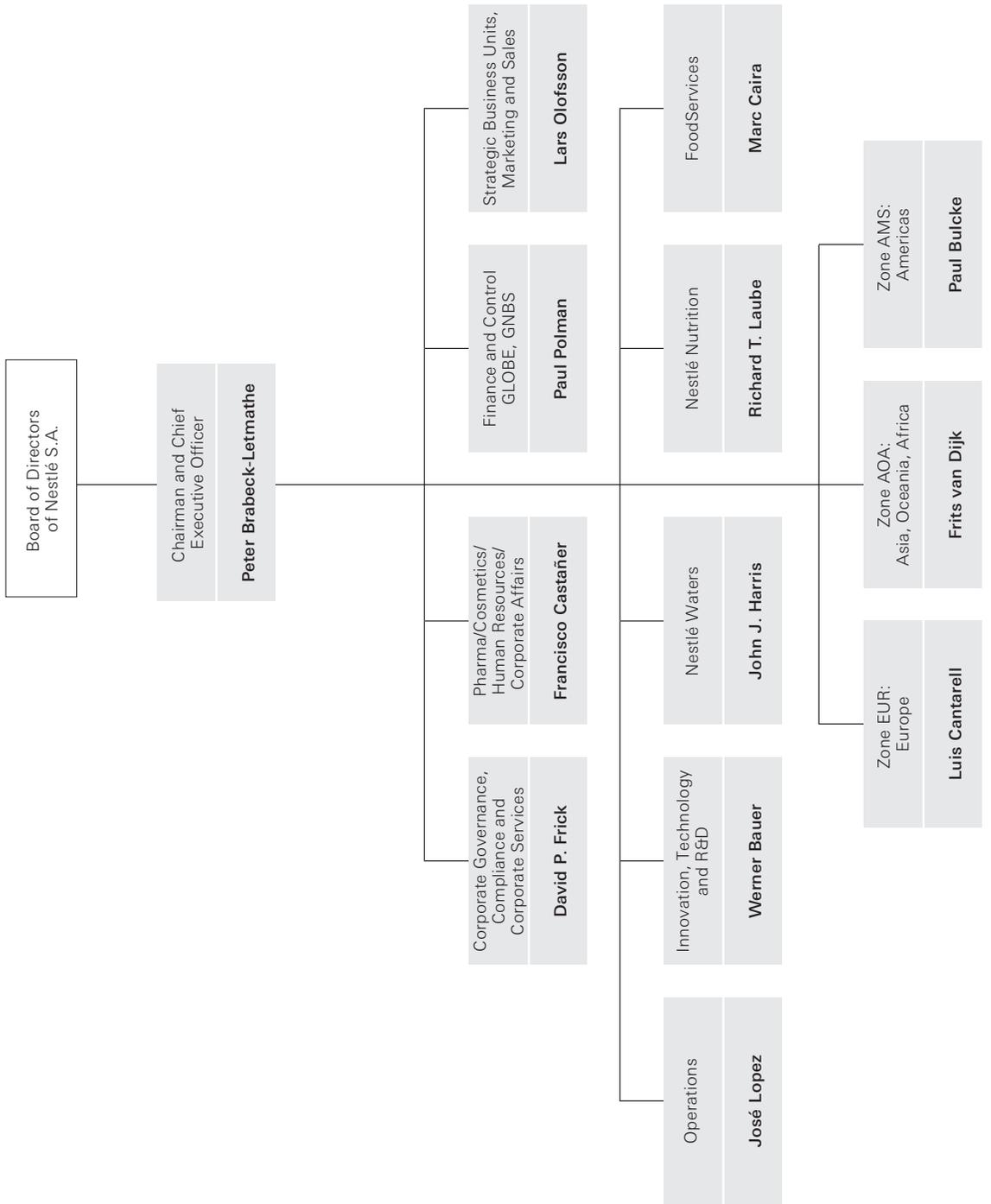
The Company utilises the World Wide Web (www.nestle.com) to ensure a rapid and equitable distribution of information. Nestlé does not just rely on people visiting the site to be updated on the latest developments within the Group: anyone can sign up on the site to be alerted automatically by Nestlé whenever 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.

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

Contact

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General Organisation of Nestlé S.A.
31 December 2007



Compensation Report 2007

Introduction

Executive compensation has become a subject attracting much attention from shareholders, politicians and the general public.

In 2002, the SWX Swiss Exchange “Directive on information relating to Corporate Governance” was introduced and required listed companies to disclose a certain amount of information on compensation, shareholdings and loans of members of the Board of Directors and senior management. At the same time, Economiesuisse’s “Swiss Code of Best Practice for Corporate Governance” came into effect. Over the years, both of these reference documents were extended and refined. Nestlé has always complied with applicable requirements.

For 2007, Annex 1 of the “Swiss Code of Best Practice” became effective. It provides ten recommendations related to compensation of members of the Board of Directors and senior management. Also, new provisions in the Swiss Corporate Law came into effect, which require more detailed reporting on top management compensation in the Annex to the financial statements of Nestlé S.A.

In light of these developments and in line with its strategy of continuous improvement of the information provided to shareholders, the Board of Directors of Nestlé S.A. decided to publish for the first time a comprehensive Compensation Report, explaining the philosophy, the elements and the processes of our compensation programmes. This report covers specifically the compensation of the members of the Board of Directors and the Executive Board of Nestlé S.A.

This Compensation Report is an integrated part of the Corporate Governance Report of the Company. As recommended in Annex 1 of the “Swiss Code of Best Practice” it will be submitted to the Annual General Meeting for approval in connection with the approval of the Financial Statements.

The success of our Company depends to a large extent on our ability to attract and retain the best performing people and to provide a stimulating and motivating environment. The Nestlé Compensation Policy and its application are based on this conviction.



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

The objective of this Compensation Report 2007 is to inform our shareholders of the compensation system in use at Nestlé and its application, particularly concerning the members of the Board of Directors and the Executive Board.

Compensation and Nomination Committee (CNC)

The members of the CNC and its Chairperson are appointed by the Board of Directors for a period of one year. The CNC is governed by the Compensation and Nomination Committee Charter and is comprised of the First Vice Chairman and a minimum of two other members of the Board of Directors, excluding the Chairman/CEO.

On 31 December 2007, the composition of the CNC was as follows:

- Chairman: Prof. Dr Peter Böckli
- Members: Mr Andreas Koopmann
Edward George (Lord George)
Mr Daniel Borel

The CNC met three times during 2007 in its capacity as a Compensation Committee and held four additional meetings in its capacity as a Nomination Committee.

Governance

The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. It also approves the compensation of the Chairman/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	Compensation and Nomination Committee	Board of Directors/CEO*
Members of the Executive Board	Chairman/CEO	Compensation and Nomination Committee
Non-executive members of the Board of Directors	Compensation and Nomination Committee	Board of Directors**

* Chairman not voting on own remuneration.

** Not voting on own remuneration to the extent that Committee fees are concerned.

Members of the Board of Directors

Board member and committee fees

Each member of the Board of Directors receives a fee of CHF 280 000 per annum. In addition, each member of the Board of Directors receives an Expense Allowance of CHF 15 000 per annum.

Additional fees for members of Board committees (per annum)

	Chair	Members
Chairman's and Corporate Governance Committee	N/A*	CHF 200 000
Compensation and Nomination Committee	CHF 150 000	CHF 50 000
Audit Committee	CHF 150 000	CHF 100 000

* The Chairman receives no extra fee for chairing the Committee.

Members of the Chairman's and Corporate Governance Committee forming the Finance Committee (which is a sub-committee of the former) receive no additional fees.

Committee membership on 31 December 2007

	Chairman's and Corporate Governance Committee	Compensation and Nomination Committee	Audit Committee	Finance Committee
Peter Brabeck-Letmathe	• (Chair)			
Andreas Koopmann	•	•		
Rolf Hänggi	•		• (Chair)	• (Chair)
Edward George (Lord George)	•	•		•
Kaspar Villiger	•		•	•
Jean-Pierre Meyers			•	
Peter Böckli		• (Chair)		
André Kudelski			•	
Daniel Borel		•		

The above fees and allowances cover the period between the Annual General Meeting 2007 and the Annual General Meeting 2008. The Board membership and the Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a two-year blocking period. The number of Nestlé S.A. shares is determined by taking the ex-dividend closing price of the Nestlé S.A. share at the date of the payment of the dividend, during the respective financial year discounted by 11% to account for the blocking period of two years. In 2007, the value was CHF 429.87.

Summary of remuneration

	Fees (cash in CHF)	Fees (No. of Nestlé S.A. shares)	Expense allowance (in CHF)
Peter Brabeck-Letmathe	240 000	497	15 000
Andreas Koopmann	265 000	549	15 000
Rolf Hänggi	315 000	653	15 000
Edward George (Lord George)	265 000	549	15 000
Kaspar Villiger	290 000	601	15 000
Jean-Pierre Meyers	190 000	394	15 000
Peter Böckli	215 000	446	15 000
André Kudelski	190 000	394	15 000
Daniel Borel	165 000	342	15 000
Carolina Müller-Möhl	140 000	290	15 000
Günter Blobel	140 000	290	15 000
Jean-René Fourtou	140 000	290	15 000
Steven G. Hoch	140 000	290	15 000
Naïna Lal Kidwai	140 000	290	15 000
Total remuneration	2 835 000	5 875	210 000

Shares held by each member of the Board of Directors and closely related parties on 31 December 2007

	Number of Nestlé S.A. shares*
Peter Brabeck-Letmathe	See page 30
Andreas Koopmann	4 756
Rolf Hänggi	4 522
Edward George (Lord George)	3 286
Kaspar Villiger	3 810
Jean-Pierre Meyers	141 135
Peter Böckli	13 433
André Kudelski	3 385
Daniel Borel	11 785
Carolina Müller-Möhl	1 767
Günter Blobel	1 081
Jean-René Fourtou	759
Steven G. Hoch	23 788
Nāina Lal Kidwai	669
Total	214 176

* Includes shares subject to a two-year blocking period

Non-executive members of the Board of Directors and closely related parties did not hold any stock options on 31 December 2007.

Loans

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

Senior Executive Compensation System

For the purpose of this report, senior executives include, for the business year 2007, the Chairman/CEO as well as the other members of the Executive Board.

The total compensation package consists of the five following key 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 CNC 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. Collective objectives are Nestlé Group operational objectives such as organic growth, real internal growth (RIG), EBIT performance, a certain level of capital expenditure and others. Individual objectives are determined by the Chairman/CEO for each member of the Executive Board. 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. In case of overachievement of the objectives, the payout can reach a maximum of 150% of the target. There is no guaranteed minimum bonus payout.

3. Long-Term Incentives

Each year, members of the Executive Board are eligible to receive Long-Term Incentives in the form of stock options under the Management Stock Option Plan (MSOP) and restricted stock units under the Restricted Stock Unit Plan (RSUP). For this purpose, a target value is set at the time of the grant and the respective number of options and restricted stock units is then allocated to each member of the Executive Board. Grants under both

plans vest, subject to three years service conditions. The exercise price for the stock options corresponds to the weighted average Nestlé S.A. share price of the last ten trading days preceding the grant date. Upon vesting, the options have an exercise period of four years before they expire. The restricted stock units are made available to participants in the form of freely disposable Nestlé S.A. shares or the equivalent amount in cash at the Company's discretion.

4. Other benefits

Nestlé limits other benefits to a minimum. Typical elements are a car allowance (there are no company cars provided to the members of the Executive Board) and a contribution towards health insurance premiums, 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. There are no contractual provisions concerning severance payments or change of control provisions for the members of the Executive Board ("Golden Parachutes").

5. Pension benefits

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

Benchmarks

The design and the value of these elements are periodically reviewed and compared with competitive practice in the market place. The first three elements, Annual Base Salary, Short-Term Bonus and Long-Term Incentives, make up the Total Direct Compensation. To determine the competitive positioning of the Nestlé situation, the CNC takes as the primary benchmark the Dow Jones Euro Stoxx 50 companies (without financial services). As secondary benchmarks, it uses a group of major European companies in the Fast Moving Consumer Goods Sector and the Swiss Market Index (SMI).

In 2007, Nestlé used the services of Towers Perrin, a reputed international compensation consultancy, to provide a detailed market comparison. The results of this study confirmed that Total Direct Compensation is broadly in line with the market median, adjusted for the size of Nestlé.

A survey conducted with Hewitt Associates in 2005 showed a good level of competitiveness of the Nestlé Pension Benefits against our peer companies.

Pay for Performance

The compensation system at Nestlé has traditionally been based on rewarding the members of the Executive Board (and indeed all Senior Managers in Nestlé) based on individual and collective performance. The latter can be expressed as Group, Business unit or functional performance.

Division into fixed and variable remuneration

	As % of Annual Base Salary
Annual Base Salary	100%
Short-Term Bonus Target	from 45% to 200%
Long-Term Incentive Target	from 55% to 200%

The last two elements make up the variable portion, which therefore represents almost two thirds of Total Direct Compensation when objectives are reached at the targeted level, or more in cases of overachievement.

The CNC approves the Annual Base Salary and the allocation of Long-Term Incentives to Executive Board members. Furthermore, it validates the level of achievement of individual as well as the company objectives which in turn determine the Short-Term Bonus payout.

Elements of Executive Board Compensation

Short-Term Bonus

For the Chairman/CEO, 100% of the target is made up by Nestlé Group objectives. 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 or other collective objectives (e.g. objectives of the Zone, Globally Managed Business or Function).

The maximum of the bonus payout can reach 130% of the target for the Chairman/CEO and 150% of the target for the other members of the Executive Board. There is no guarantee for the payout of a minimum bonus.

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. For purposes of the conversion of cash into shares, the 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. Nestlé S.A. shares taken instead of cash are subject to a three-year blocking period.

Restricted Stock Unit Plan (RSUP)

Part of the Long-Term Incentives is provided in the form of Restricted Stock Units (RSU). The RSUP, in addition to the Chairman/CEO and the Executive Board, covers approximately 1800 senior managers and executives throughout the Nestlé Group. Allocations are made according to predefined ranges by management level. RSUs vest for members of the Executive Board following a restricted period of three years and are then delivered either in the form of Nestlé S.A. shares at the rate of one share for each RSU or by paying the equivalent amount in cash.

Management Stock Option Plan (MSOP)

Another part of the Long-Term Incentives is provided in the form of stock options. This MSOP is currently applied to the Chairman/CEO and the members of the Executive Board. The stock options granted have a vesting period of three years, followed by an exercise period of four years. They are valued at grant according to the Black-Scholes method.

Share Ownership Policy

Nestlé does not have a share ownership policy requiring members of the Executive Board to own 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 generally applicable Nestlé Corporate Expatriation Policy.

Contracts of Employment and Severance Payments

Members of the Executive Board are 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 will continue. There are no severance or change of control provisions ("Golden Parachutes").

Actual Compensation 2007 for Members of the Executive Board

The total compensation paid to members of the Executive Board in 2007 was CHF 49 620 852.

Total compensation for members of the Executive Board (in CHF)

	2007
Annual Base Salary	14 018 333
Short-Term Bonus (cash)	5 958 387
Short-Term Bonus (discounted value of Nestlé S.A. share)	9 752 863
Restricted Stock Units (fair value at grant)	11 249 575
Management Stock Options (Black-Scholes value at grant)	7 810 110
Other benefits	831 585
Total	49 620 852

The Company also made contributions of CHF 5 146 990 towards future pension benefits of the Executive Board's members in line with Nestlé's pension benefits policy described above.

The above compensation table includes the following:

Number of Nestlé S.A. shares granted:	24 517
Number of Restricted Stock Units granted under the RSUP:	24 250
Number of stock options granted under the MSOP:	115 500

The total compensation of the Executive Board increased compared to the previous year in light of changes on the Executive Board, a new valuation methodology used for the options (Black-Scholes instead of tax value), the peer reviews described above and the strong performance of the Nestlé Group in 2007.

Explanations

- Two new members were appointed during the year, Mr José Lopez on 1 February 2007 and Mr John J. Harris on 1 December 2007. Mr Carlo Donati retired on 1 December 2007. On 31 December 2007, the Executive Board was made up of 13 members.
- Other benefits include car allowance, contribution towards health insurance premiums and expatriate benefits (if applicable).
- RSUs 2007 are disclosed at the fair value based on the Nestlé S.A. share on 31 January 2007 adjusted for the restricted period of 3 years, which amounted to CHF 463.90.
- MSOs 2007 are disclosed at the Black Scholes value of the time of grant which corresponds to CHF 67.62.
- 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 2007, discounted by 16.038% to account for the three-year blocking period.
- Please also refer to Note 15 of the Consolidated Financial Statement of the Nestlé Group 2007.

Compensation for former Members of the Executive Board

A total of CHF 96 637 was conferred during 2007 to one former member of the Executive Board.

Highest total Compensation for a Member of the Executive Board

The highest total compensation for a member of the Executive Board was conferred to Peter Brabeck-Letmathe, Chairman and CEO. For the financial year 2007, it amounted to CHF 17 440 958.

Compensation for the highest paid member of the Executive Board (in CHF)

	2007
Annual Base Salary	3 150 000
Short-Term Bonus (cash)	341 778
Short-Term Bonus (discounted value of Nestlé S.A. shares)	6 457 090
Restricted Stock Units (fair value at grant)	2 760 205
Management Stock Options (Black-Scholes value at grant)	4 260 060
Other benefits	3 180
Board fees (including Nestlé S.A. shares and annual expense allowance)	468 645
Total	17 440 958

The Company made a contribution of CHF 1 252 600 towards future pension benefits of the Chairman/CEO in line with Nestlé's pension benefit policy described above.

The above compensation table includes the following:

Number of Nestlé S.A. shares granted:	16 232
Number of Restricted Stock Units granted under the RSUP:	5 950
Number of stock options granted under the MSOP:	63 000

The total compensation of the highest paid member of the Executive Board increased compared to the previous year in light of a new valuation methodology used for the options (Black-Scholes instead of tax value), the peer reviews described above and the strong performance of the Nestlé Group in 2007.

Explanations

- Other benefits relates to a contribution towards health insurance premiums.
- RSUs 2007 are disclosed at the fair value based on the Nestlé S.A. share on 31 January 2007 adjusted for the restricted period of 3 years, which amounted to CHF 463.90.
- MSOs 2007 are disclosed at the Black Scholes value of the time of grant which corresponds to CHF 67.62.
- 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 2007, discounted by 16.038% to account for the three-year blocking period.
- Please also refer to Note 15 of the Consolidated Financial Statement of the Nestlé Group 2007.

Shares and stock options held by members of the Executive Board

Total number of stock options held on 31 December 2007 by members of the Executive Board

Grant date	Vesting date	Expiry date	Exercise price in CHF	Stock options outstanding
01.02.2007	01.02.2010	31.01.2014	445.00	111 500
01.02.2006	01.02.2009	31.01.2013	379.50	97 475
01.02.2005	01.02.2008	31.01.2012	309.20	51 400
01.02.2004	01.02.2007	31.01.2011	329.10	164 500
01.02.2003	01.02.2006	31.01.2010	278.55	75 300
01.03.2002	01.03.2005	28.02.2009	367.35	48 000
01.03.2001	01.03.2004	29.02.2008	343.20	–
Total				548 175

Number of Nestlé S.A. shares and stock options held on 31 December 2007 by each member of the Executive Board and closely related parties

Name	Shares*	Stock options
Peter Brabeck-Letmathe	82 314	333 600
Francisco Castañer	5 904	26 500
Lars Olofsson	1 788	35 500
Werner Bauer	9 003	39 300
Frits van Dijk	2 522	39 000
Paul Bulcke	2 631	25 000
Luis Cantarell	560	20 700
Paul Polman	3 231	11 000
José Lopez	–	4 000
John J. Harris	–	–
Richard T. Laube	7 443	8 700
Marc Caira	10	4 875
David P. Frick	155	–
Total	115 561	548 175

* Includes shares subject to a three-year blocking period

Loans to members of the Executive Board

On 31 December 2007, there were no loans outstanding to any member of the Executive Board.

Additional fees and remuneration

No additional fees and remunerations were conferred to any member of the Executive Board during 2007.

Current Articles of Association of Nestlé S.A.

*Translation **

I. Name, Object, Duration Registered Offices

Article 1 Corporate name

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

Its name is:

Nestlé S.A.

Nestlé AG

Nestlé Ltd.

Article 2 Object

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

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

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

Article 3 Duration

The duration of the Company is unlimited.

Article 4 Registered offices

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

II. Share Capital

Article 5 Share capital

The share capital is CHF 393 072 500 (CHF three hundred and ninety million seventy two thousand five hundred) divided into 393 072 500 fully paid up registered shares having a nominal value of CHF 1 each.

Article 5^{bis} Conditional share capital

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

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

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

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

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

- a) an issue by firm underwriting by a consortium of banks with subsequent sale to the public seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue;
- or
- b) the convertible debentures or bonds with warrants attached must be issued in connection with the acquisition of businesses or parts of businesses or with participations.

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

- a) Conversion rights may be exercised only during a maximum of 15 years, and option rights only during 7 years from the date of issue of the relevant loan.
- b) The new shares shall be issued according to the applicable conversion or option conditions. The convertible debentures or bonds with warrants attached must be issued pursuant to the usual market conditions (including the usual market conditions with regard to protection against dilution). The conversion or option price must be not less than the average of the closing price of the shares paid on the SWX Swiss Exchange during the 5 days preceding the determination of the final issue conditions for the relevant debentures or bonds with warrants attached.

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

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

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

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

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

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

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

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

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

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

7 The registrations appearing in the Share Register twenty days prior to the date of the General Meeting of shareholders shall determine the right to participate in and the right to represent shareholders at the General Meetings (art. 14).

Article 7 Dematerialised shares

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

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

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

Article 8 Notices

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

III. Organisation of the Company

A. General Meeting

Article 9 Powers of the General Meeting

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

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

Article 10 Ordinary General Meeting

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

Article 11 Convening General Meetings

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

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

Article 12 Notice of General Meetings

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

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

Article 13 Presiding officer; Minutes

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

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

Article 14 Voting rights; Proxies

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

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

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

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

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

Article 15 Quorum and decisions; 1. In general

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

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

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

Article 16 2. Special Quorum

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

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

2 Whenever at a first General Meeting less than half of all the shares are represented, a second General Meeting may be held immediately following the first at

which, irrespective of the number of shares represented, decisions may validly be taken by a straight majority of the votes cast.

Article 17 3. Special Quorum and qualified Majority

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

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

Article 18 Voting and elections

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

Article 19 Items not on the agenda

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

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

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

Article 20 Rights of shareholders to complete agenda

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

Article 21 Specific powers of the General Meeting

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

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

B. Board of Directors

Article 22 Number of Directors

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

Article 23 Term of office

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

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

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

4 Retiring Directors may be re-elected immediately.

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

Article 24 Organisation of the Board; Remuneration

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

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

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

Article 25 Convening meetings; Resolutions

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

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

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

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

Article 26 Powers of the Board in general

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

Article 27 Specific powers of the Board

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

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

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

Article 28 Delegation of powers

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

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

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

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

C. Auditors

Article 30 Number of Auditors; Term of office

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

Article 31 Rights and duties of Auditors

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

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

Article 32 Financial year

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

Article 33 Management report

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

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

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

V. Reserve

Article 35 Use of the general reserve

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

VI. Transitional Provision

Article 36 Transitional Provision

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

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

Articles of Association amended by the Ordinary General Meeting of 19 April 2007