

Nestlé's Principles of Purchasing

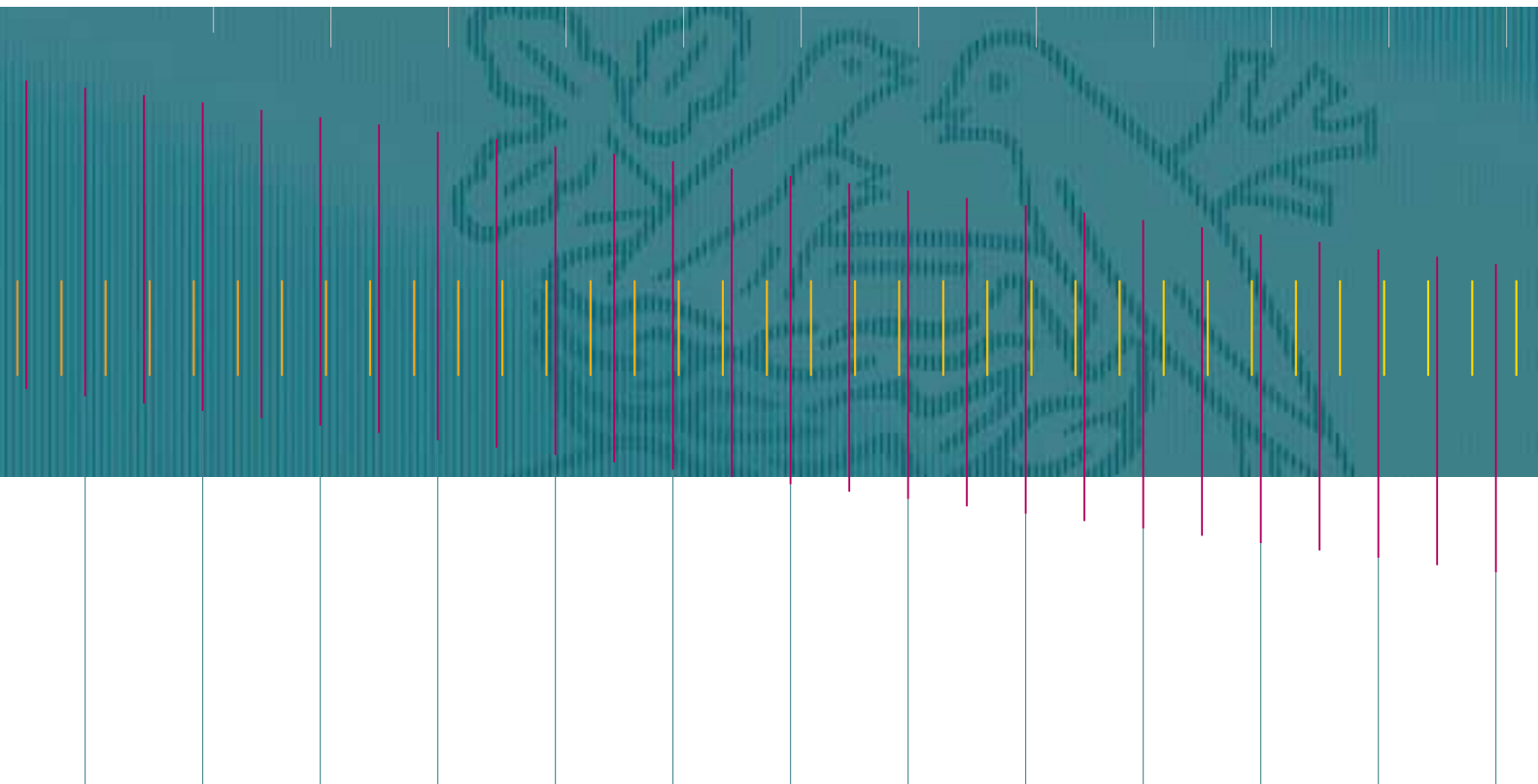


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Nestlé

The World Food Company

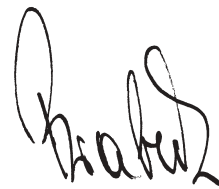


Foreword

The increasing globalisation of our business as well as that of our suppliers, against the background of an increasingly competitive operating environment, necessitates that we continually reassess and redefine the role of Purchasing within our organisation.

In order to achieve our business objectives whilst ensuring the desired quality and competitiveness of our products, as well as improvement of financial margins, Purchasing needs to be fully integrated in corporate strategies and as such must now be recognised as a group function rather than one limited to a market or business. This will enable us to maximise the scope of the function and, more importantly, leverage the aggregated purchasing spend to the highest appropriate level. Purchasing can therefore no longer be limited to raw and packaging materials but must also focus and play a leadership role in obtaining services and indirect materials (S&IM). Purchasing needs to operate as part of the overall supply chain, targeting total cost optimisation.

This document defines a set of well-balanced corporate principles for Purchasing, emphasising the need to optimise the relationship with our suppliers well beyond their traditional supply role (e.g. process improvement, market information/intelligence, technology, etc.), in line with our core values. This document does not try to answer the question "How to buy?" but rather to establish a set of principles to enable all who perform a purchasing activity to better understand the corporate purchasing philosophy. It also provides guidelines to all other functions that interface with Purchasing as well as our suppliers.

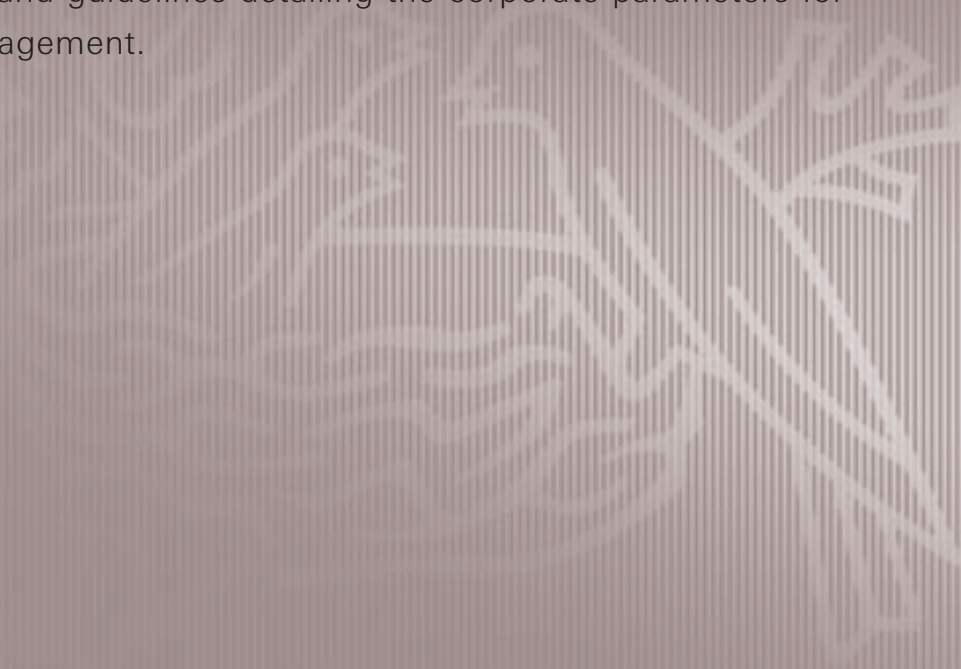


P. Brabeck-Letmathe
Chief Executive Officer

Nestlé's Principles of Purchasing

Significant changes have taken place in Nestlé and the purchasing profession since the first Principles of Purchasing were published in 1995. This revised document incorporates these changes and should be read in conjunction with other corporate publications such as: *Nestlé Corporate Business Principles*, *Nestlé on the Move*, *The Nestlé Policy on the Environment*, *Nestlé Human Resources Policy* and other relevant documents.

For Nestlé staff, impacted by Nestlé's exposure to tradeable markets, there exist specific frameworks and guidelines detailing the corporate parameters for commodity price risk management.



Introduction

The strategic sourcing of materials, goods and services most appropriate for the purpose for which they are intended at the lowest total cost of ownership.

Target Audience

This document is addressed to all persons, companies and organisations directly or indirectly interfacing with Nestlé's Purchasing function.

Objectives of Purchasing

To actively participate as the first link in an integrated supply chain approach with the objective of:

- Delivering a sustainable, quantifiable, competitive advantage for Nestlé while concentrating expertise and ensuring both quality supply and full satisfaction to all internal clients;
- Leveraging Nestlé's purchasing power;
- Fulfilling the company's requirements for materials, goods and services delivered in full, on time and efficiently;

- Contributing to the growth and profitability of the company, while seeking continuous improvement in the benefits provided by suppliers (e.g. lead time reduction or flexibility in supplies);
- Developing supplier relationships which emphasise value and thereby surpass the traditional notion of price (i.e. creating value beyond price);
- Fostering competition among suppliers;
- Continually monitoring the performance, reliability and viability of suppliers.

Scope of Purchasing

- To cover all Nestlé's spend with third parties (excluding trade spend).
- To act as an intelligence, i.e. knowledge source on all matters pertaining to the procurement of materials, services and supplies.

Organisation and Structure

Reporting Line

Purchasing should, wherever possible, be part of Supply Chain or Operations Management. Where it is not possible for Purchasing to report directly to Supply Chain or Operations Management, then it may exceptionally report to the Chief Financial Officer/Head of Finance and Administration.

Purchasing Roles

Two primary purchasing roles that encompass strategic and operational activities are used in Nestlé:

1. **Strategic Buyers** perform strategic activities such as market research or analysis, supplier profiling and selection, negotiation, sourcing and contract management, in collaboration with other professionals (e.g. engineers for machinery; logistics for transport; marketing for media).

S&IM Strategic Buyers can remain within their functional area, as long as there is a line of responsibility to the relevant Head of Purchasing. This will ensure that they are informed of and contribute to purchasing strategies, training, budgets, etc.

2. **Operational Buyers** perform operational activities such as sending purchase orders, call-off against catalogue, etc. These activities may be performed by members of any organisational unit requiring goods or services.

Global/Zone/Region/Local

To meet function's objectives, Purchasing is organised geographically or by business through a network of buyers (virtual) on a global/zone/region/local basis.

Global/zone/region purchasing is defined as:

The aggregation of purchasing up to the highest appropriate level, for any material category or supplier(s) with the purpose of:

- Determining and executing a sourcing strategy;
- Leveraging Nestlé's purchasing power;
- Better managing the supplier base;
- Focusing expertise and avoiding duplication of resource.

With this in mind it is likely that Purchasing will be increasingly organised on a network basis. This will require the clear definition of roles, tasks, and responsibilities.

Purchasing remains local by exception, where it meets specific business requirements e.g. agricultural products like fresh milk, meat, vegetables, etc. These materials are often best bought where they originate and/or will be processed.

Shared Service Centre

Through widening the geographic and business scope to maximise category leverage, Purchasing must, wherever possible, be shared across companies, divisions and markets. The concept of a Shared Service Centre for Purchasing is both valid and appropriate, but should replace, not be in addition to, the existing purchasing structure.

- Contributing to new product development;
- Channelling supplier's technology and resources for the benefit of Nestlé;
- Safeguarding quality standards;
- Maintaining a market view, product knowledge and, wherever possible, benchmarking competition;
- Ensuring confidentiality of proprietary know-how belonging to both Nestlé and suppliers.

Accountability

The Strategic Buyer is accountable for the following:

- Development of reliable suppliers;
- Determination and subsequent implementation of sourcing strategies and tactics;
- Price and total cost management of materials, goods and services purchased, including involvement in the determination of physical stock objectives;
- Establishing and managing contracts and frame agreements;

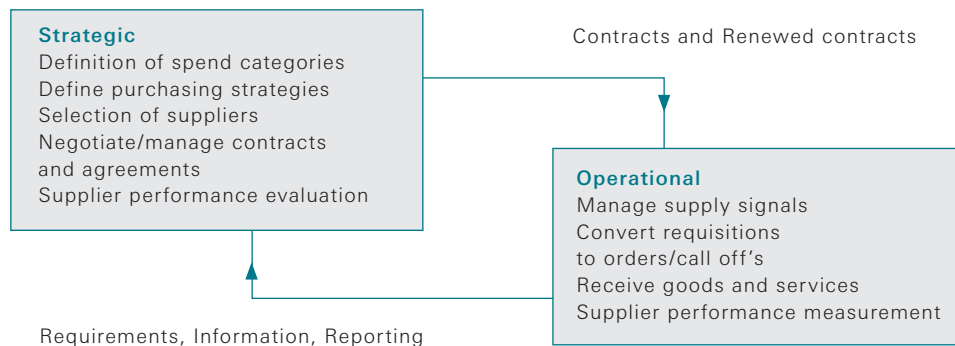
Limits of Authority

Each Nestlé organisation is responsible for determining limits of authority for its buyers. The main criteria for a buyer's authority are:

- Predefined range of products/services;
- Valid for a period of time;
- Limited to a monetary value;
- A combination of any of the above.

Buyers should neither authorise nor make payments. Any exception to this principle must be with Management approval.

The Purchasing Roles



Planning & Strategies

To leverage Nestlé's purchasing volume as a strength in a business environment where the impact and importance on many spend categories is increasing, requires that planning and strategy determination, receive as much consideration today as at anytime in the past. It is necessary to understand that supply markets are not and will not always be in surplus or excess, so the assurance of long term competitive supply through sound purchasing planning and strategy implementation is key to the realisation of Nestlé's growth and profitability objectives.

Planning

The successful execution of a purchasing strategy demands that the analysis has been performed with:

- Confidence in the accuracy of the information provided;
- Clarity in the way the information is presented;
- Completeness of the information to be considered.

As Nestlé seeks the aggregation of volume to the highest appropriate level, purchasing planning takes on a heightened level of importance because the number of customers/stakeholders and specifications make the planning exercise more complex.

Planning must also address the resources and expertise that will be needed to implement the chosen purchasing strategy. The trend to outsource (see Subcontracting/ Outsourcing) both the initial conversion of raw materials, the manufacture of certain semi-finished or finished products and

some services, requires that the original expertise in purchasing these materials and services is now needed to manage suppliers fulfilling a higher added-value process. In addition, consideration must be given to decide the specific value drivers of the subcontracting initiative for which Nestlé needs to control either the sourcing or pricing (or both).

The realisation of the importance of the S&IM spend categories will result in Purchasing allocating more attention to them. The task of planning a S&IM purchasing initiative may well require a different skill set and knowledge base to that traditionally expected of a Strategic Buyer.

Strategies

The evaluation of different purchasing strategies can only take place once a detailed spend analysis has been completed. Strategic considerations need to focus on the long-term management of the supply base and must take into account:

- Business sector objectives;
- Total cost of ownership;
- Supply market and its evolution;
- Appropriate purchasing approach (e-Auctions, tenders, negotiations);
- Value creation opportunities;
- Realisation that while cost containment/ reduction is critical as a tactical move to achieve short term objectives, the strategic emphasis focuses on ensuring that suppliers commit themselves to work with Nestlé (production capacity reservation, R&D investment, technology and process-driven

improvements and, where appropriate, the sustainability of the supplier's business);

- Emphasis on price management through competitive bidding;
- Key stakeholder's involvement and their support.

Purchasing must contribute to Nestlé's long-term success by having suppliers deliver value. This translates to the realisation of a sustainable and unique market advantage and/or opportunity.

Specifications: Rationalisation and Standardisation

The next quantum leap in purchasing benefits and savings will be achieved from Purchasing's ability to work with suppliers to have fewer and standardised specifications. Specification rationalisation will not only allow higher volume price leverage but also, and more importantly, expose efficiencies throughout the supply chain, resulting in lower costs.

Subcontracting/Outsourcing

A key strategy in sourcing products and services is Subcontracting (also known as co-manufacturing & co-packing or contract-manufacturing & contract-packing)/ Outsourcing. The responsibility of Subcontracting activities relating to manufacturing rests with Technical and Production. Normally a Strategic Buyer (see definition

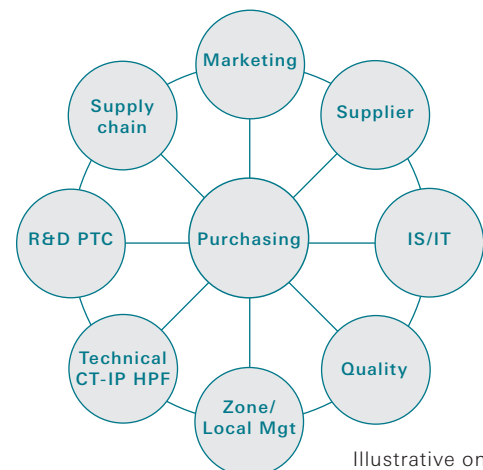
in Organisation and Structure, page 6) will lead this process and manage cross-functional teams to safeguard the commercial relationship as well as to ensure optimum terms and conditions for Nestlé.

Subcontractors and Outsourcing contractors are required to adhere to Nestlé's Corporate Business Principles and to this document.

Cross-Functional Teamwork

Different initiatives with colleagues from various functions within the Technical Division are proof that Purchasing must continue to work within and expand the use of cross-functional teams. Management's expectations from Purchasing, especially in the S&IM categories, will only be achieved by a cross-functional effort. Depending on the scope of the project, such teams may also involve suppliers and third-party expertise.

The Network Organisation



Illustrative only

Sourcing

Nestlé actively pursues close and strong relationships with suppliers based on sound business practices and mutual trust. The relationship should be dynamic in nature and must ensure the long-term competitiveness of the supplier.

Nestlé acknowledges and encourages the role suppliers can play in innovation, creativity and the identification of new business proposals, which will improve and add value and growth to both companies. Nestlé also considers suppliers as an important information source and relies on their objectivity and expertise. As the relationship progresses, it may well evolve into that of a preferred supplier.

Purchasing will, in most cases, retain the overall responsibility for the relationship and interface with suppliers.

Supplier Selection

In compliance with *Nestlé's Corporate Business Principles*, Nestlé selects suppliers based on the following criteria:

- Ability to offer a competitive value proposition;
- Reputation, financial situation and record with Nestlé;
- Ownership, management structure and competence;
- Innovation, service level and transparency;
- Already approved or subject to formal approval prior to first delivery;
- Minimum corporate social responsibility standards;

- Ability and willingness to work with our preferred tools, processes and solution providers;
- Sustainable business practices.

Supplier Management

To better manage the supplier base and reduce transactional costs, Nestlé may request suppliers to:

- Offer their products or services via e-Requisitioning (catalogues);
- Accept payment by P-card;
- Deliver materials through a vendor managed inventory (VMI) or consignment stock initiative;
- Collaborate using e-Supply Chain tools;
- Other similar initiatives.

Approval/Accreditation

The extent or degree of approval/accreditation as a supplier to Nestlé depends on the sophistication or sensitivity of the material, product or service, the supplier's reputation and record with Nestlé, as well as their ability to offer competitive terms and conditions. The following elements of the supplier's business environment are considered key assessment requirements before formal approval is given:

- Management structure and competence;
- Financial situation;
- Ownership;
- Ethics, business principles/conduct (see in Standards of Business Conduct, page 15);
- Competitiveness and price/cost transparency.

If a material, product or service is required, the supplier's technical competence in the following areas is evaluated:

- Manufacturing and/or service capability/capacity;
- Process controls;
- Quality assurance programmes (safety and legal compliance, good manufacturing practices);
- Sustainable environmental practices (see page 17);
- Research and Development (R&D) emphasis.

Quality Management

Superior quality is a competitive advantage and a joint effort by all parties in the value chain is needed.

Suppliers are therefore considered an important link in this chain. To achieve Nestlé's objective of offering consumers high quality nutritional products, we expect suppliers to guarantee the quality of the material/goods they supply or the service they provide. Whenever possible, Nestlé's goal is to be able to rely on our suppliers' competence and ability to implement jointly defined "Quality Management" and "Supplier Quality Assurance (SQA)" programmes.

Suppliers must therefore be fully aware of Nestlé's quality and safety standards, understand our quality policy; share our objectives and work together to achieve them. In particular we consider it our supplier's responsibility to ensure the traceability of all materials used in their own production or process.

Supplier Audit

Suppliers of raw and packaging materials must be incorporated into a formal assessment scheme covering audits and inspections of their quality records. Formal audits of the supplier's quality assurance system and technical capabilities must be carried out, with focus on the First Priority Level aspects of the Nestlé Quality System.

Suppliers need to be open and responsive to Nestlé's requirements and provide all necessary information on the composition and manufacture of their products. This includes information on any additives and processing aids used, allergenic substances (intended addition, indirect addition by carry-over or possibility of cross-contamination), individual components of packaging materials, or in changes to the manufacturing conditions of the product.

Systems

The timely and accurate availability of systematised information is both a tool and support for an efficient purchasing operation.

Communication

Purchasing is fully integrated in the corporate communication system, thus ensuring that it:

- Is advised promptly of short, medium and long-term goals/plans regarding production/product range/policies, investments, new or revised specifications, etc.;
- Has improved negotiation and decision-making ability as a result of better, real-time information/data;
- Can rapidly inform management and business colleagues of unexpected operating constraints, changing supply market conditions and opportunities, forecasted price variances, supply issues (inventory, quality), etc.

Purchasing Intranet

The Purchasing Intranet is a web-based communication tool used internally within the Nestlé purchasing community to share information about market prices, supplier information, organisations, spend information, templates and best practices. It is regularly updated and continually evolves to meet the needs of Nestlé.

e-Procurement

Nestlé encourages and promotes the use of electronic tools to optimise the value chain to lower costs, create efficiencies, drive

product availability and enhance customer service. Nestlé considers two dimensions to e-Procurement:

1. Transactional tools i.e. e-Requisitioning (catalogues), e-Sourcing, e-Tenders, electronic ordering and invoicing, P-Cards;
2. e-Collaborative tools i.e. collaborative planning, forecasting and replenishment (CPFR) and VMI using electronic messaging.

Purchasing evaluates and promotes the use of e-Procurement tools both within the company and within the supplier base. This is much more a matter of philosophy (and business excellence) rather than one of technology.

Information Systems/Technology (IS/IT)

Purchasing's task will be greatly facilitated by standard IS/IT infrastructure, common business applications and best practices. Visibility of standardised, real-time purchasing data/information will permit aggregated spend category analysis. This will help identify opportunities and define more effective purchasing strategies with the objective of achieving lower total cost.

Personnel

The success of Purchasing is directly linked with the integrity, capability, professionalism and competence of the human resource.

The following critical areas must therefore be considered amongst others:

Selection

The profile of the candidate must match the demands of the post to be filled and corporate values as laid down in *The Nestlé Management and Leadership Principles*.

Other selection criteria will include strong work ethic, honesty, technical knowledge, entrepreneurial qualities, initiative, communication skills, negotiation skills and result-oriented.

No discrimination on the basis of origin, nationality, religion, race, gender, disability or age will occur during selection. Individuals with high potential will be primary/priority candidates, in order to upgrade both the position and the function.

Skills

Skills beyond managing transactions and prices are required to meet the growing complexity and impact of the purchasing role. Indeed, contributing to results through project work and special assignments becomes more frequent, reaching beyond conventional boundaries to help achieve enhanced group performance.

For Purchasing staff in senior positions, leadership and people management skills such as the ability to motivate and to develop people within a result-oriented rather than a task-oriented organisation are especially important.

Training

Purchasing personnel should receive formal training as well as coaching by superiors and "on-the-job learning". Self-learning through e-Learning is promoted whenever possible, as well as participation in specific purchasing programmes.

Training must be focused on improving professional and human skills, knowledge and competence for the current position and, where appropriate, for developing and preparing the individual for future advancement.

Development

Ongoing interaction between the employee and his/her manager is required through frequent feedback, objective criticism and formal planning for continuous improvement. Managers will control less but place greater emphasis on coaching and supporting to achieve the required objectives.

Participation in cross-functional teams, project assignments outside Purchasing and lateral professional development will create new challenges and expand knowledge. Development goes hand in hand with training, but neither is a substitute for the other.

Involvement and Motivation

An involved and highly motivated Purchasing team will result in an efficient and effective function, and can represent a competitive advantage. Key elements include:

- Clear accountabilities and definition of roles;
- Clear communication of objectives and performance feedback;
- Management recognition;
- Equity in compensation with other functions; internal career moves within or outside purchasing must be clearly defined to complement the move towards a flat and flexible structure.

Standards of Business Conduct

Purchasing is committed to following the *Nestlé Corporate Business Principles* in all countries, taking into account international/local laws and cultural practices, and Nestlé's suppliers are expected to do the same.

Child Labour

Nestlé is against all forms of exploitation of children. Nestlé does not provide employment to children before they have reached the age to have completed their compulsory education, as defined by the appropriate authorities, and expects its suppliers to apply the same standards.

Nestlé abides by national laws in all countries in which it has operations and complies with the International Labour Organisation (ILO) Convention 138 on the Minimum Age for Employment and the ILO Convention 182 on the Worst Forms of Child Labour.

Business Ethics

No Nestlé personnel should ever use their authority or office for personal gain, but rather seek to uphold the reputation of themselves and Nestlé by:

- Maintaining an unimpeachable standard of integrity in all their business relationships;
- Encouraging the highest possible standard of professional competence amongst those for whom they are responsible and optimising the use of resources to provide the maximum benefit to Nestlé;

- Complying with the letter and the spirit of the law of the applicable country, respecting good professional practice and contractual obligations;
- Rejecting any business practice which might reasonably be deemed improper;
- Respecting scrupulously the confidentiality of information received which is the property of Nestlé and never using such information for personal gain. At the same time, information given in the course of duty should be true and fair and never designed to mislead.

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

- The International Chamber of Commerce revised rules on extortion and bribery in international business transactions, which recommend governments to prohibit extortion and bribery for any purpose (adopted by the ICC Executive Board on March 26, 1996);
- OECD Recommendations on Bribery and International Business Transactions of May 1994 and the OECD Convention to counteract corruption, which was signed by all the member countries and by Argentina, Brazil, Bulgaria, Chile and Slovakia in 1997

(the signatories undertake to consider corruption of foreign officials a penal act under their national law);

– Nestlé also supports OECD efforts to have non-member nations adhere to the OECD recommendations for fighting against corruption.

Hospitality

Modest hospitality is an accepted courtesy in a business relationship. However, the recipient should not allow him/herself to be in a position where they might be deemed by others to have been influenced in making a business decision as the consequence of accepting such hospitality. The frequency and scale of hospitality accepted should not be significantly greater than Nestlé would be likely to provide in return.

Business Gifts

Other than the customary gifts of token value given on religious, festive or other occasions, gifts should not be accepted. If a case arises when it is not easy to decide what is or is not acceptable, the offer should be declined or advice sought from Management.

Conflict of Interest

Nestlé requires management and employees to avoid any appearance of impropriety in business dealings on behalf of the company. Each Nestlé organisation defines what constitutes a conflict of interest in accordance with this principle and local laws and practices.

Any personal interest, which may impinge or might reasonably be deemed by others to influence on impartiality in any matter relevant to his/her duties, should be declared. Shareholding or other financial interest in suppliers who are not publicly listed (stock market) shall be declared in a central register, details of which will be kept confidential by Management.

Nestlé personnel with commitment authority are asked to sign and acknowledge a copy of the "Standards of Business Conduct" (also known as "Conflict or Declaration of Interest statement", "Standards of Conduct and Business Ethics", "Code of Ethics", etc.). If necessary, assistance can be sought from the Purchasing Department in Vevey (Nestec).

Sanctions

These will be applied in the event of misconduct or abuse of established ethical standards and guidelines.

Sustainability and Environmental Practices

Nestlé's primary business is selling high quality, safe and nutritional food products that meet the needs of consumers throughout their lives.

To accomplish this, Nestlé interacts, both directly and indirectly, at different steps along the way – from producing and purchasing of its raw materials, to manufacturing, packaging, distribution and finally to the consumer. Systematic management of our environmental performance is an essential factor in Nestlé's sustainable development strategy.

Nestlé needs suppliers who are committed to, and have familiarised themselves with *The Nestlé Policy on the Environment* (available on <http://www.nestle.com/> and the International Chamber of Commerce's *Business Charter for Sustainable Development* (Publication ref. 210/356A).

Raw Materials

Nestlé supports sustainable farming practices that, by definition, satisfy long-term economic, ecological and social requirements. These requirements are best achieved through integrated production methods.

Nestlé applies the following principles when sourcing raw materials:

- All raw materials must meet both legal and internal quality criteria, including limits on possible environmental contaminants;

- Whenever possible, preference is given to raw materials that are produced by environmentally sound farming methods (e.g. integrated crop management);
- Farmers are encouraged to apply sustainable farming methods. Where appropriate, Nestlé provides assistance in crop production and dairy farming. Such assistance includes the provision of recommendations for the conservation of natural resources (soil, water, air, energy, biodiversity) and/or techniques for reducing adverse environmental impact.

Packaging Materials

Nestlé is committed to reducing the environmental impact of packaging, without jeopardising the safety, quality or consumer acceptance of its products.

Nestlé seeks packaging solutions that:

- Result in the lowest possible weight and volume of packages whilst still maintaining pack integrity;
- Take into account new packaging materials and processes that reduce the impact on the environment of unnecessary transportation;
- Avoid the use of substances that can adversely impact the environment during packaging production and disposal;

- Decrease packaging waste at all stages in the supply chain, including package manufacturing, utilisation and disposal;
- Increase the use of recycled materials wherever possible, and increase the recyclability and compatibility of packages with existing waste management schemes.

Manufacturing

For Nestlé, manufacturing is an extremely important part of the supply chain. It is here that Nestlé believes the best opportunity to maximise eco-efficiency exists, i.e. to maximise the production of goods while, at the same time, minimising consumption of resources and reducing waste and emissions.

Nestlé requires that the supplier's production and that of their suppliers:

- Minimises the negative impact on the environment (noise, air pollution, odours, energy, unnecessary transportation);
- Minimises the amount of waste produced and disposed of (gases, solids, liquids, waste water, etc.);
- Avoids all undesirable substances entering their manufacturing process (e.g. heavy metals in pigments & printing inks, etc.).

Whenever possible, delivery of all materials/goods to Nestlé sites should be carried out by energy-efficient, economic, and pollution-controlled means of transportation.

Suppliers are encouraged to use environmentally sound business practices and will be audited accordingly (see in Sourcing, page 10).

Legal

Purchasing involves entering into agreements with third parties to purchase or to facilitate the purchase of goods or services, leading in some cases to legally binding commitments on behalf of the contracting Nestlé entity. It is therefore very important that where these commitments arise they are clear, precise and in writing.

Written Agreements

The elimination of potential misunderstandings must be in the mutual interest of all business partners. It is therefore Nestlé corporate policy that commitments are confirmed to our suppliers in writing. Changes to initially agreed contract terms and conditions must also be documented in writing.

It is recognised that, to be binding under legal principles, a commitment to purchase does not necessarily need to be in writing. However, while written orders/instructions may not always be possible (e.g. verbal orders using P-Cards, verbal orders to brokerage firms to intervene on “futures” markets, etc.), verbal commitments and agreements should be avoided because their existence and terms may be difficult to evidence.

Quality Conformity

Nestlé expects suppliers to guarantee that the materials/goods and services supplied are free from defects and fit for the purpose for which they are intended. Nestlé also considers it to be normal business practice

that suppliers agree to replace, repair and rectify defective goods and services within a reasonable time period and pay for other damages caused by their non-performance, which may jeopardise the quality or image of our products.

As one of Nestlé's key principles, Nestlé will always try to find a responsible, acceptable solution in case of an unexpected problem; however, Nestlé will not compromise its position if this might adversely affect the quality and/or safety reputation of our branded products.

Non-Conforming Goods/ Services and Claims

As mentioned in Sourcing, Quality Management, page 11, suppliers must be fully aware of Nestlé's quality standards. If the material/service has been correctly selected and all the conditions (specification, transport, storage, quantities, etc.) have been adequately discussed and managed by the supplier, there should be few occasions of non-conformity.

If and when a non-conforming delivery/service to Nestlé is discovered, Nestlé may stop its initial or further use and the supplier will be notified.

Nestlé will discuss the non-conformity with the supplier so that parties may decide on the necessary corrective action.

Dispute Resolution Clauses

Dispute resolution procedures specified in purchase agreements may provide for disputes to be resolved by mediation or arbitration with the necessary assistance of a mediator, neutral advisor or arbitrator depending, amongst many factors, on the nature of the goods/services in question, the parties' commercial relationship, the supplier's location and Nestlé markets involved. However, use of arbitration may not always be desirable for Nestlé, and in such cases (or where a dispute cannot be settled by arbitration), the contract should provide that the dispute be submitted to the jurisdiction of the appropriate courts of law. This will usually be the place where the contracting Nestlé entity is located. Nestlé will not sign contracts with unacceptable dispute resolution clauses.

Compliance with Laws and Regulations

Nestlé expects suppliers to comply with all applicable laws and regulations in the countries where they operate, including local and national laws and regulations, as well as applicable international laws without limitation.

Competition Law

Nestlé supports free enterprise and therefore competes fairly and ethically, and recognises other company's right to do so. Nestlé supports the development of competition laws to protect this principle.

Record Retention

Record retention is an important business and legal obligation, governed by local and statutory requirements. Nestlé complies with and retains all records as per the requirements of these laws.

Confidentiality of Information

All information exchanged should be true, fair and within all ethical and legal standards. Nestlé recognises the need for confidentiality of proprietary information. Confidential information should be protected and not disclosed to any third parties without the information provider's formal agreement.

Corporate Position

Gene Technology

Gene technology has the potential to increase food production, improve quality as well as nutritional value, and to support sustainable agricultural practices. In some instances, positive health effects have also been confirmed. For those reasons:

- Nestlé supports a responsible application of gene technology for food production based on sound scientific research;
- Nestlé concurs with the shared opinion of WHO, FAO, OECD and numerous independent scientific bodies that such crops are safe;
- Nestlé strictly adheres to national laws and regulations regarding their labelling;
- Nestlé takes into consideration local needs, cultural differences and consumer preferences as well as attitudes concerning the use of ingredients derived from genetically modified crops. Provided their safety is proven, as required for all ingredients, Nestlé will continue to use ingredients derived from genetically modified crops wherever appropriate.

Wherever mandated by local law, Nestlé organisations only use non-genetically modified products. In such countries, suppliers must provide specific sourcing documentation e.g. Identity Preservation programmes and laboratory analysis to prove that their products are non-genetically modified.

Traceability

Traceability is a preventive or precautionary measure to enable efficient withdrawal or recall procedure to be initiated where required for safety or other reasons. Traceability includes tracking inside our company supply chain, i.e. from the reception of raw and packaging materials, production of finished products to delivery to customers.

The principle of traceability requires that for every consumer pack, it must be possible to:

- Identify or trace the manufacturer and the factory;
- Retrieve all relevant processing and quality records;
- Identify the supplier and the consignment for all raw and packaging materials used in its manufacturing process. The consignment must be identified by suppliers' lot codes or Nestlé designated lot codes that can be traced to the supplier and by delivery date in the case of some bulk ingredients;
- Trace or locate all other units of the same lot in the distribution chain.

Traceability of incoming materials is of utmost importance to Nestlé. In dealing with suppliers, Purchasing must insist on knowing the origin of incoming materials and require suppliers to communicate the origin of their materials.

Authorities

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

Purchasing staff must strive to generate a relationship with governing authorities founded on trust and mutual respect, and to act as advisers in those areas of corporate interest.

Academic/Professional Relations

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

Purchasing staff should be encouraged and made available when required to participate in conferences and give lectures.

Performance Evaluation

Two criteria are of equal importance:

- The measurement of the efficiency of suppliers;
- The evaluation of the effectiveness of Purchasing.

Benchmarking

With the trend towards closer relationship with suppliers, benchmarking becomes an essential tool for measuring performance and highlighting opportunities. The concept of benchmarking should:

- Be seen as a continuous process of evaluation;
- Ensure that results are quantifiable and actionable;
- Be supported by a direct management commitment;
- Be clearly defined in terms of:
 - “what” is to be compared e.g. quality, specifications, cost, stock levels, delivery delays, material rejection, previous performance levels, etc.;
 - “who” to be compared with e.g. other Nestlé operations, suppliers, competitors and industry standards at national or global level.

Best practices

Only by following or using best practices will Nestlé achieve full competitiveness and excellence. Purchasing practices must be modified, improved or adapted, so as to produce the internal changes that will result in increased efficiency and effectiveness. By following or copying best practices available and working with suppliers, Purchasing can pro-actively seek change and realise the desired breakthrough.

Efficiencies

In a Purchasing context, efficiency is a synonym for productivity and is measured on the capacity to obtain results with the minimum use of resources as possible. Efficiencies are also the execution of specific programs implemented through benchmarking. For example the use of e-Sourcing, e-Requisitioning (Catalogues), e-Supply Chain and P-Cards are recommended in order to bring economic benefits and efficiency.

Effectiveness

Purchasing effectiveness is measured by the function's ability to "do it right first time" and achieving maximum value within the parameters of the total cost of ownership concept.

Cost Saving Initiatives

A cross-functional approach and continuous improvement in areas such as quality, service, logistics, etc, must generate cost saving initiatives where purchasing's contribution will be defined, targeted and monitored. Purchasing is committed to facilitate and deliver agreed cost reduction targets.

Only uniform and standard cost saving calculations/methods should be used. New cost saving calculations/methods should only be used after approval by Nestec.

