



Creating Shared Value - The new concept of Corporate Social Responsibility

Peter Brabeck-Letmathe
Chairman Nestlé S.A.

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Slide 1: title

Thank you, Doctor von Grebmer, and thank you Ladies and Gentlemen, for giving me the opportunity to talk to you today. I'd like to explore a subject that's been growing in interest in recent years; and one that is, I believe, undergoing a fundamental transformation. It's a topic that goes under many names, perhaps most frequently, "Corporate Social Responsibility".

The reason for this is that many more businesses are recognising that they can only have long term success if they create value for shareholders and for society at large at the same time. This is one of the central lessons of the latest financial crisis. It calls for a fundamental change in the meaning of the societal responsibility of business

Slide 2: Nestlé and Food Security/Food Policy

Let's not forget the context of today's event at this point. The key element of IFPRI's mission is "To achieve sustainable food security and reduce poverty in developing countries".

That is not just a mission of fundamental interest to Nestlé as a major food manufacturer. Global Food Security will be one of the defining issues of the first half of this century. More than one billion people worldwide go to bed hungry every night. 200 million more people experienced malnutrition since the mid 1990s. This represents a reversal of nearly 30 years of progress. Every day the global demand for food increases while growth in our agricultural productivity per hectare goes down. The result is that growth in food production is not keeping up with population growth and demand. The declining availability of water is a fundamental factor in the food security dilemma. The goal we must achieve, feeding the population of the world, is

becoming more and more difficult to attain. As a result, it will take concerted action of multiple sectors to avoid a serious crisis in food availability.

And I think Food Security has great relevance to today's topic. Because if businesses – especially food companies – do not think long-term and look at the macro economic and social impacts of food security on society, and how they can play their part with other actors to impact it positively, they will be hard pressed to satisfy their shareholders over time with sustained growth. For me, Food Security is one of the most promising fields in which I believe that the Creating Shared Value concept can deliver real and tangible benefits; and where it can genuinely deliver more than some other concepts about the role of business in society.

Slide 3: “recession destroying value”

Corporate Social Responsibility has been traditionally viewed as a public company's moral obligation to “give back to society” and in many cases took the form of philanthropic donations. Apparently by writing a sizeable cheque for any charitable activity, a company compensated for something negative it created by running its day to day activities.

And one could be forgiven for believing that, in these times of economic downturn, this has never been more important. Despite more encouraging recent signs, the past two years have seen millions facing job losses, high debt burden and general insecurity.

At the same time, those same economic forces place tremendous pressure on companies to cut costs, including by cutting their charitable donations. According to Giving USA such gifts were down \$14.5 billion in 2008. So I ask you; how sustainable is it to equate the level of a company's responsibility to society with the size of the cheque that it writes, especially

when it is a publicly listed company and that money belongs to its shareholders – many of whom are themselves feeling the bite of recession?

This widespread interpretation of Corporate Social Responsibility is based on a presumption that business is a negative force in society and needs to demonstrate improvement. Fewer emissions. Less packaging. Fewer strikes and accidents. Quite a few CSR reporting standards have emerged in this vein, nearly all of them starting from this essentially negative premise. But if you are always trying to prove you are less bad, where is the incentive to excel rather than just mitigate risk?

Slide 4: CSV pyramid

Make no mistake; Nestlé does not shirk its duty in this respect, and sets itself exacting standards in improving its environmental sustainability performance. Compliance with local and international laws, norms and business principles is an essential foundation for the way we see our role in society. We have a strong and rigorously applied Code of Business Conduct that guides us in this respect.

The next “given” for us is a deep commitment to environmental sustainability: in short, to ensuring that we provide for the needs of today without compromising those of future generations.

Slide 5: Emissions/energy/Mainz

As part of our own environmental commitment, we have reduced our greenhouse gas emissions by almost half. And in order to put our environmental performance figures into perspective, I would like to add that our production increased by 68% over the same period. We have many different methods of achieving this. In Nescafé factories from Mainz in Germany to Bugalagrande in Colombia, for example, we are using spent

coffee grounds to supplement and replace more traditional fuels. While at our Graneros plant in Chile, we have switched from coal to natural gas, and sold the carbon credits to Japanese companies.

But it's not just society that benefits from our environmental standards; once again it is a Win-Win situation. As a business that is reliant along the entirety of its value chain upon high quality agricultural raw materials and sufficient water resources, our long-term success is dependent on a clean environment and sustainable use of resources.

Slide 6: CSV Pyramid (repeat)

For Nestle our challenge is to move beyond playing the role of "good corporate citizen". Instead, we should create a fundamental connection between shareholder value and community value. We need to integrate the improvement of the lives of families, workers and communities into our core business strategy. And this is why, when others talk about Corporate Social Responsibility, Nestlé concentrates on an approach we call Creating Shared Value. Allow me to expand on what we understand by that.

Creating Shared Value says that for our business to be successful in the long run, it must consider the needs of two primary stakeholders at the same time: the people in the countries where we operate and our shareholders.

Any business that thinks long-term and follows sound business principles creates value for society and shareholders through its activities, for example in terms of jobs for workers, taxes to support public services, and economic activity in general.

Slide 7: three focus areas

But Creating Shared Value goes one step further. A company consciously identifies areas of focus, where shareholders' interest and society's interest strongly intersect, and where value creation can be optimised for both. As a result, the company invests resources, both in terms of talent and capital, in those areas where the potential for joint value creation is the greatest, and seeks collaborative action with relevant stakeholders in society.

At Nestlé, we have analysed our value chain and determined that the areas of greatest potential for joint value optimisation with society are water, rural development, and nutrition.

These activities are core to our business strategy and operations, and we have joint programmes with over 100 organisations around the world in these three areas:

- Water: because the ongoing quality and availability of it is critical to life, the production of food and to our operations.
- Rural development: because the overall wellbeing of the farmers, rural communities, workers, small entrepreneurs and suppliers are intrinsic to our ability to continue to do business in the future.
- Nutrition: because food and nutrition are the basis of health and of our business – it's the reason why we exist.

As I hope to demonstrate, each of these has a particular relevance to IFPRI's mission "To achieve sustainable food security and reduce poverty in developing countries".

Slide 8: water stats / treatment plant

Turning first to the key focus area of Water, I would have to say this has to be our chief environmental priority – the continued availability of water is key to our continued ability to grow and serve the needs of our consumers.

We are making constant progress both in reducing the quantity we extract and in ensuring the quality of what we put back into the environment. Not only did we save 10 million cubic metres of water worldwide last year alone; we also continued our commitment to build water treatment facilities wherever insufficient municipal ones exist around our plants. We started this practice in Switzerland in the 1930s, and installed our first treatment plants in Brazil – for example - 12 years before there was any legislation requiring companies to do so.

Slide 9: Water Resources Group

In addition to our own direct operations, we are actively helping to manage water in the supply chain; moreover we are vocal advocates for the need for multi-stakeholder action on water. Examples of this include our work with the World Economic Forum and the UN Global Compact's CEO Water Mandate to move water up the global agenda; and our active participation in the recent 2030 Water Resources Group report, "Charting our Water Future" – one of the most comprehensive attempts to date to examine not only the cross-sectoral water challenges, but also to propose costed solutions.

Slide 10: Overall agriculture/supplier stats

Turning to the key Creating Shared Value focus area of Rural Development – one which I am sure is of special interest to us all here today - Nestlé

does not own agricultural land, but does have one of the largest private efforts to help farmers be more productive and climb out of poverty. We provide nearly 600 000 farmers, many of whom are women, with free advice, technical assistance, over \$30 million in micro credit per year and basic education including rural schools where they are not available. This is to help them produce greater yields of higher quality crops while conserving precious water, benefiting the environment and increasing their income.

As the result of this and our 460 factories, whole regions in rural areas gain from wider employment and economic development opportunities. And we can assure our consumers that the agricultural raw materials used in their products are safe, of high quality and produced using sustainable agricultural practices.

Nestlé is just one stakeholder among many in the area of food security, and we seek to work with other major stakeholders - governments, NGOs, FAO, IFPRI, agricultural institutes and farmers' organisations - in helping to address what we believe to be one of the most serious and basic problems facing us tomorrow: how to feed the world.

Slide 11: Milk districts

Over the decades, we have helped millions of milk and coffee farmers to become better suppliers, and in this way to overcome poverty and to advance economically. We first arrived in Brazil and South Africa, for example, in the 1920s. We identified a ready market for safe, quality milk products – and invested not only in the industrial infrastructure to process this fragile commodity and bring it to population centres far from the source of production; we also brought with us the Swiss milk collection district system, which had been pioneered among mountain farmers operating in correspondingly challenging conditions. The result was that we were able

to assure the quality and quantity of our supply, despite numerous social and geographical challenges; and both farmers and Nestlé thrived over time. And here I'd like to emphasise the long-term nature of the shared benefit. From humble beginnings in the 1920s, our Brazil milk district is now larger than the country of Switzerland. Meanwhile, our learnings on milk districts have been replicated in more than 30 countries around the world, from India to the Philippines, Colombia to Chile, and from South Africa and Morocco to – most recently – Uganda, Kenya and Rwanda.

Our Creating Shared Value impact on rural communities is not restricted to our milk districts. Globally, most of our 460-odd factories are situated in rural areas in developing countries; and they have a far reaching influence on family incomes, on the quality of life of the people who live in the area; and on the future of the next generation. In this way, we secure our supply of better quality raw materials, which in turn leads to a higher quality end product and guarantees that consumers prefer our products over those of our competitors.

Slide 12: Abidjan (cocoa plan)

One of the key Creating Shared Value commitments in Rural Development we made during the past year- and one that is especially relevant in the context of Food Policy and Food Security - is our new Regional Development Centre in Abidjan, Côte d'Ivoire. Among other activities, the Centre will concentrate on research into improving the yield and productivity of indigenous agricultural raw materials and produce. A well established project on sustainable cassava growing is one example. More recently, a three-year project to reduce mycotoxin contamination levels in cereal grains and legumes - beans, peas, etc. - was launched in Côte d'Ivoire, Ghana and Nigeria and will be progressed via the RD Centre.

However, it is in Cocoa that the greatest benefits will be felt – through the work of this centre, in conjunction with Nestlé’s plant science base in Tours, France, the company will distribute one million high-yield cocoa plantlets each year going forward from 2012.

In addition to its work in Côte d’Ivoire, Nestlé is training plant scientists in other cocoa-producing countries, such as Indonesia and Ecuador in accelerated cocoa tree propagation.

Slide 13: Feira de Santana plant

Let’s now examine the Key Focus Area of Nutrition. The factory you can see here is at a place called Feira de Santana, in the economically challenged Nordeste province of Brazil. It provides about 125 jobs directly and many more to the suppliers and contractors who work with Nestlé in the region. It cost initially 60 million Swiss Francs to build, and it was the first Nestlé factory to specialise in producing what we call Popularly Positioned Products – products specifically formulated and packaged to provide great taste and nutrition at prices that are affordable for those on low incomes.

Slide 14: Ate Voce/affordable fortified milks (Sri Lanka, Guinea)

Many of these products are nutritionally fortified, which brings an essential benefit to the end consumer. But there’s one more important benefit in the case of Popularly Positioned Products. Consumers in the segments for which these products are designed cannot be reached via more conventional distribution chains – such as the supermarkets one would shop at in Europe. They are reached through Mom and Pop shops in their neighbourhoods, or even by door to door delivery. Over the past couple of years we have created over 6000 jobs in Brazil – mostly among women - as part of the “Nestlé Ate Vocé” scheme – by providing microfinance, uniforms, and pushcarts for these micro entrepreneurs.

But we also do this in many other countries around the world, selling affordable, fortified milk powders. By the end of 2009 we had launched such products in over 60 countries, from Sri Lanka to Guinea, bringing 17 billion servings of affordable milk products, fortified with micronutrients that are present in insufficient quantities in local diets, to consumers in an accessible way and generating income for distributors in the process.

Slide 15: Healthy Kids

We also want to share our nutrition expertise with organizations helping children to improve their nutrition and physical activity. So we have created the Nestlé Healthy Kids Global Programme, which aims to have a nutrition education or physical activity program in every one of the 120 countries where Nestle has a company. We now reach about 10 million children through 30 such programmes worldwide, and that number should at least double in the next few years.

Slide 16: EPODE/Healthy Thai Kids/ Nutrir

This will help us share expertise we've learned through partnerships like EPODE – Ensemble Prévenons l'Obésité des Enfants – initially a French initiative to reduce childhood obesity in two small Northern French communities, which 15 years later is one of the only such interventions proven to be effective; and which now reaches 2.5 million people in hundreds of towns in France, Spain and Belgium.

Clearly, there is no one size fits all solution to nutrition education; we have many other nutrition education initiatives around the world adapted to local conditions – programmes such as Healthy Thai Kids, a programme in conjunction with the Ministry of Public Health and Education, that has reached over 10,000 schools throughout Thailand.

Meanwhile, Brazil's "Nutrir" programme reaches 1.2 million schoolchildren aged 5-14. This programme was created and developed to prevent malnutrition and obesity in children and adolescents of lower income families.

Slide 17: Nestlé model

Did we do all these initiatives in Nutrition, Water and Rural Development to be charitable? No – we did it because it makes sound business sense. While European growth is at best stagnant, we are seeing growth in the high single figures, sometimes even double figures, in developing markets. It's a tremendous opportunity for us; provided we get our product offering right with these consumers. I think it's a powerful example of how we are tangibly creating value for the people we interact with at various stages in the value chain; and growing our own business at the same time.

Indeed, as we have been seeing from some of the examples I mentioned, Creating Shared Value means thinking long-term, but at the same time, it doesn't excuse us from delivering strong results year after year. One of the fundamental Nestlé Corporate Business Principles states that we should not favour short-term profit at the expense of successful long-term business development. We concentrate on what we call the Nestlé model, which commits us to achieve annual organic growth of 5-6% over the long term, as well as a continuous improvement of the EBIT margin in constant currencies. We avoid temporary, short term business and social solutions. For example we have decided not to be listed on certain stock exchanges, which demand quarterly reporting, because we believe that this can lead to an orientation of the company's thinking which is too short – termist.

Slide 18: 10 year Nestlé model performance

So let's see the result: for our shareholders, it's good news. Over the last decade, we continued on average to deliver the Nestlé Model, with an annual average organic growth of 6.2% and RIG of 3.5% and an annual average EBIT margin improvement of 30 basis points. This clearly demonstrates that the Nestlé organisation is quite capable of delivering performance within the framework of our objectives, in spite of the varying economic and business conditions.

Slide 19: Globescan

But Independent research into the Nestlé brand has shown that the Creating Shared Value approach is successful in the eyes of other stakeholders. Around the world – and particularly in developing countries – we are seen in large measure as fulfilling our responsibilities to society. The strength of the Nestlé brand, including its good performance in this area, is decisive for the success of our business. We have strengthened our performance in the eyes of our stakeholders by conscientiously and consistently updating our compliance against the most recent and relevant norms; and by taking an equally painstaking approach to our performance in environmental sustainability.

Slide 20: HBR article

The term „Creating Shared Value” was developed jointly with Harvard Professors Michael Porter and Mark Kramer. It was first articulated in the award-winning 2006 Harvard Business Review article on Competitive Advantage and Corporate Social Responsibility. Building on that, Porter and Kramer produced a report on our business in Latin America, because they thought that the Nestlé example was among the strongest examples to substantiate the Creating Shared Value theory.

And as a result of that we initiated a multi-year plan that will enable us to measure Creating Shared Value more precisely and extensively. I invite you to take a look at our current Creating Shared Value report, where you can already find a wide range of Key Performance Indicators. Copies are available here for you to take away; and on March 16th you will be able to see a whole new set of KPIs in our 2009 report, which will be available via our corporate website at www.nestle.com/csv

Slide 21: CSV Global Forum panel

As we have seen, Creating Shared Value is a basic business principle, not philanthropy or an add-on. To help promote more widely the adoption of this approach to doing business, in April last year we co-sponsored the first Creating Shared Value Forum, along with the UN Office for Partnerships and the Swiss Mission to the UN. The discussion of how a company's long-term business strategy can profitably incorporate the concept of shared value generated a great deal of excitement among our global audience.

Slide 22: Advisory Board

Part of that appeal had to do with the quality of the 13-person advisory board of world experts that we have assembled to guide our Creating Shared Value strategy. Including such luminaries as your own esteemed former DG, Joachim von Braun, Harvard's Michael Porter, CK Prahalad – the author of “the Fortune at the Base of the Pyramid”; and Columbia University's Jeffrey Sachs- their sharp insights gave us all plenty to think about as we chart our journey.

But we didn't just talk in New York. We made our own concrete commitments aimed at creating new partnerships with governments, NGOs and small enterprises, and launched three important new initiatives.

I already touched on the first and second - our new Research and Development Centre in Abidjan, Côte d'Ivoire; and the Nestlé Healthy Kids Global Programme.

Slide 23: CSV prize

In addition to these important commitments, we have also created the Nestlé Prize in Creating Shared Value, which will award financial support of up to CHF 500,000 (\$466,000) to individuals, NGOs, or small enterprises offering innovative solutions to nutritional deficiencies, access to clean water, or progress in rural development. Nestlé will award the prize every two years, starting in May of this year.

These new initiatives – the Nestlé Healthy Kids programme, the Nestlé Prize in Creating Shared Value and the new R&D Centre in Abidjan, all of them with a direct relevance to Food Security - come against a backdrop of a deep economic recession, with destruction of value for both shareholders and the public of historic proportions. We announced these initiatives because we believe that the financial and ensuing economic crises revealed once more a basic business axiom: if you fail to work on behalf of the public interest and take shortcuts that place the public at risk, you will also fail your shareholders.

Slide 24: Nestlé dialogue partners

The positive reaction we have received concerning these commitments has shown us that the world is thirsty for new ideas in these fields that are

above all practical. And Civil Society is increasingly eager to dialogue intelligently, sensibly and sensitively to share and develop those ideas.

It was this openness to dialogue on the part of UN agencies, NGOs, and global experts that was for me one of the most encouraging outcomes from the New York event. And this has been replicated in regional forums which we have since run, partnering with local UN and other civil society organisations to host events in Brazil and Mexico amongst others.

And in other cases – such as the first FAO Private Sector summit I co-chaired in Milan last November – it was quite clear that the three focus areas we have chosen for our Creating Shared Value approach: nutrition, water and rural development – all intersect in the context of the Food Security issue. You cannot solve the world’s nutrition issues if you do not secure sustainable agricultural supply through Rural Development. And you cannot achieve sustainable Rural Development unless you solve the crisis of water and agriculture. Speaking for Nestlé, I can say that we are committed to do our utmost to influence each of these areas for the joint benefit of the societies where we operate – and, by assuring our own ability to continue to grow – for the benefit of our shareholders, too.

In closing, it has been clear from our engagements to date that while no single company can solve the entire world’s problems, every company can make an impact along its own unique value chain in a way that is sustainable and, no less important, justifiable to its shareholders. I am hopeful that we have reached a watershed moment in our collective thinking about traditional corporate responsibility on the one hand, and Creating Shared Value on the other.

Slide 25: CSV logo

Thank you for your attention

Document available on www.nestle.com