

NESTLÉ S.A.

SENSE AND SUSTAINABILITY: THE LIMITS AND REACH OF CORPORATE RESPONSIBILITY – CHATHAM HOUSE, LONDON

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Session: Is climate change the most significant corporate responsibility challenge facing companies?

Slide 1 - Cover Slide

Slide 2 – Setting the scene: Nestlé and emissions management

Good afternoon ladies and gentlemen. It is a pleasure for me to be part of this discussion on climate change and corporate responsibility and to have the opportunity to share with you my thoughts on what action steps a company like Nestlé can take to make the most positive impact.

Climate change is no doubt one of the most important challenges facing the world today. A number of recent reports and studies such as the Stern Review and the report by the Intergovernmental Panel on Climate Change reinforce the argument that climate change is a reality and that current developments are linked to human activities.

Slide 3 – Setting the scene: The importance of water management

For Nestlé, concern for the environment and for our environmental footprint has long been a priority. Our Nestlé Environmental Management System, aligned with ISO 14001, helps us monitor and evaluate our performance on an ongoing basis. Efforts are being made to minimise our energy consumption. Compared to 2002, energy consumption was reduced by more than 28 % (from 3.08 to 2.21 gigajoules per tonne product). We are also working hard to reduce our emissions, investing an average of CHF 40 million annually. Thanks to measures such as the use of cleaner fuel with lower sulphur content, switching to gas, and ensuring that boiler operations are optimised, the air acidification potential from Nestlé manufacturing operations was reduced by 40,4% (measured in kg sulphur oxide (SO₂) equivalents per tonne product) between 2002 and 2006. In terms of CO₂ emissions, between 2002 and 2006 we reduced our emissions by 31.9 % (from 155 to 106kg CO₂ per tonne product), this in spite of a 22.5% increase in production volume! In addition to our internal management systems we are also currently (2006 and 2007) going through an external audit of all our 481 factories reviewing, amongst others, their environmental performance.

These environmental efforts include our bottled water products. Although there is always room for improvement, progress has already been made. We continue to focus on packaging reduction, from 2002 to 2006 the amount of packaging used per Nestlé Waters product was reduced by 26%, saving an equivalent of 354 thousand tonnes of packaging material (in 2006, compared to the relative amount that was used in 2002). In addition, we continue to explore alternative packaging solutions, such as the use of RPET. Also in terms of transportation we are making progress, more systematically evaluating alternatives that are better for the environment. The majority of our transport, however, is local, with over 90 % of our products consumed in the country of production.

As a food manufacturer we do not have the same environmental footprint as a number of other industries, for example the food processing sector represents only

2.2% of all emissions in the EU 15. Still, as just mentioned, we have our challenges and areas for improvement which we are working to address and will continue to do so.

Climate change is certainly an important global issue that needs to be addressed urgently. However, what has increasingly emerged as a key corporate responsibility area for Nestlé to address, an issue where we can make more of a difference, is water. Water may not have a direct impact on climate change, but it is certainly one of the first resources to be impacted by any changes in temperatures and other consequences related to climate change (changes in rainfall, melting glaciers leading to increased flood risk and reduced water supplies etc). As such, in parallel to working to reverse the current changes in climate, we need to improve the way we manage water today, a resource that is already under pressure and that will be further endangered by changes in climate. You are all familiar with the UN Millennium Development Goals (MDGs), targeting a 50% reduction in the number of people without access to water and sanitation by 2015. Today, about 1.1 billion people lack access to safe drinking water, 2.4 to proper sanitation facilities. 5000 children die from water related diseases every day (UNDP), and as the World Wildlife Fund wrote in their report “Rich countries, poor water” (late 2006), the developing world is not alone in facing the water challenge, industrialised countries such as the UK and France are also experiencing increasing water problems from over consumption and pollution. Dealing with the water issue is crucial not only for the current generation, but will also impact the consequences that climate change may have on future generations!

Seen from this perspective, and keeping in mind that Nestlé as a food producer is completely dependent on water for its activities, water is one of the most significant corporate responsibility challenges for Nestlé today. Farmers supplying our factories with raw materials need water to grow their crops, we need water in our operations, for our bottled water activities and to clean and cook, and consumers need water to prepare their meals. Responsible management of water is key for our common future, and it is an area where we as a corporate water user can make more of an impact.

We recently conducted a review of our work on water, to identify areas of best practice and areas where we could improve and do more. I would like to take this occasion to tell you about what we learnt in more detail:

There are four main areas in which Nestlé act to improve water management:

- Leveraging areas where we have direct control over our own manufacturing operations.
- Promoting water as a healthy beverage and sensitizing consumers about water issues.
- Encouraging farmers to promote good water management and bringing clean water to communities.
- Scaling up and engaging: offering Nestlé experience in the global water management arena.

I'll treat each of these four areas in turn.

Slide 4 – Water management: How can Nestlé contribute?

First, we leverage areas in which we have direct control over our own manufacturing operations. This is where we can have the most direct impact on water management:

- It is a Nestlé objective to lower the ratio of water used per kilo of product by at least 3% per year. While Nestlé production volume almost doubled in the past decade, the amount of water used was reduced by 29%. Waste water was down 37%.

Slide 5 – Leveraging areas of direct control: Improving operational water efficiency

- Nestlé requires continuous improvement of water efficiency and reduction of waste in all its operations. The Nestlé Environmental Management System (NEMS) helps us monitor and evaluate our environmental performance, including water. In 2006, over 200 factories met the water efficiency improvement targets.
- We make further enhancements to tried and tested policies and processes so that we can improve further. For example, we expect to achieve ISO 14001 certification worldwide by 2010 in our factories.
- As a result, water consumption has been significantly reduced, for Nestlé overall as well as for Nestlé Waters: The figures clearly illustrate this; between 2002 and 2006, consumption of water for bottled water was reduced by 30% and by 27% for the other Nestlé products.
- As the CEO of Nestlé Waters the way we manage the water resources we operate is of particular importance to me. Our approach begins once again with a comprehensive management system; a dedicated Water Resources Department is in charge of this task which includes the identification and selection of a water resource, the installation and maintenance of equipment and material necessary to protect and monitor it, and the on-going monitoring of the source. Monitoring includes hydrogeological assessments of the sites, frequent testing of the source water quality and regular review of environmental conditions and parameters such as water levels in production boreholes, spring flow and rain fall data. Although we can not control the water use of others, good water management is essential for the future of our business. As such it is in our key interest to promote good water management inside and beyond our own operations.

Slide 6 – Leveraging areas of direct control: Key facts and figures

- To help prioritize our water management efforts, we have identified which factories are in so-called water-stressed countries (based on the Water Poverty Index) (49 out of the 481 factories are in 13 countries which are under water-stress). By evaluating the water performance of these factories we have identified those where additional water-use efficiency is possible. These factories will receive special attention, to assist local factory management to further understand the challenges, to prompt local stress assessments that generate new water-saving projects, and to assure that local management is informed about and involved in community activities related to water. (Nestlé Waters is also using this WPI, combined with an assessment of more local parameters – this is under development).

Slide 7 – Leveraging areas of direct control: Waste water treatment

- Perhaps our most long standing impact in water management is in the area of waste water treatment. Nestlé aims to ensure that water leaves its plants as clean as it was when it entered. Today, Nestlé operates 160 treatment plants worldwide; either because in-house treatment is more efficient or, mainly in developing countries, because local infrastructure does not exist or does not meet Nestlé's stringent environmental standards.
- We realised back in the 1920s that clean water availability is just as much about what you put back into the environment, as it is about what you take out in the first place . Our first waste water treatment plant was built in 1930; and frequently when we establish ourselves in developing countries in particular, we're the first to develop treatment plants. In fact, local authorities frequently ask us to open our plants to other businesses and even government departments, to share our knowledge with them as they scale up their own efforts.

Slide 8 – Water, health and consumer awareness: Water as a healthy beverage

Second, I would like to talk to you about our relations with consumers around water and our role in promoting water as a healthy beverage; and sensitizing consumers about water issues.

- As a leading provider of bottled water Nestlé has a responsibility to inform consumers about the importance of hydration and the role of water in a healthy diet. To be able to do so, Nestlé Waters supports a number of scientific studies, which include research on water and obesity, one of the most serious and widespread health problems today, examining the potential role of water as a healthy diet option.
- Some would say, what's the point of bottled water; isn't it better to invest in reliable tapwater systems that are in the end cheaper for consumers, especially those in developing countries? To this, I would say: Today, 90% of our sales are generated in the US and Europe, in countries which in most cases have a good quality and distribution of tap water. Bottled water comes in such limited volume that it can not replace a households need for water expect when in temporary situations when other water systems are not functioning and bottled water can provide a safe, reliable, quality alternative. Our main competition is other beverages; we are part of the beverage market, with a similar supply chain. I doubt whether anyone would be better off should there no longer be any bottled water to be found on the shelves!

Slide 9 – Water, health and consumer awareness: Sensitising tomorrow's consumers and disaster relief

We also engage with the broader public on water issues.

- Through the Water Education for Teachers (WET) non-profit organization, launched in the United States in 1984 and first sponsored by Nestlé Waters in 1992, Nestlé is helping to provide educational resources to teachers in 23 countries. The goal is to facilitate and promote awareness, appreciation, knowledge and stewardship of water resources. This is a worldwide programme

- to encourage future generations to use water responsibly that has reached 400,000 teachers and millions of schoolchildren around the world.
- Also, in case of emergency Nestlé works with NGO partners to provide safe drinking water in response to humanitarian disasters (nearly two million litres for Hurricane Katrina, the Tsunami and the Pakistan earthquake, working with NGOs such as the Red Cross and AmeriCares).

Slide 10 – Water management, agriculture & communities: Influencing better water management

Third, encouraging farmers to promote good water management and bringing clean water to communities.

Agriculture, as we all know, accounts for around 70% of the use of the world's fresh water resources. Nestlé doesn't own any farmland, but it's here, more than anywhere else, that our needs converge with those of society in the field of water availability and water management, now and in the future. It's here as well that we're often able to channel our community investments most effectively, with respect to making clean water available.

To maintain consumer confidence in the high quality of our products, Nestlé must be assured a long-term supply of safe and high-quality agricultural raw materials. Increasing water scarcity in many regions of the world threatens this supply and may also create social and economic risks for farmers and communities. Nestlé addresses this risk proactively by turning the attention of its agronomists to the water problem.

- One example, from China, where we're coaching milk farmers in effluent management, so that not only do they protect water resources in one of the world's most water-stressed countries; but they also provide themselves with a sustainable fuel source for cooking and heating.
- More recently, Nestlé has made water a central contribution area of its Sustainable Agriculture Initiative Nestlé (SAIN), which was launched in 2002 to optimize the supply chain "from farm to factory." We're already making some exciting inroads in this area through our 850+ agricultural extension workers, who interface with more than 400,000 farmers around the world, principally in respect of milk, coffee and cocoa; but also through our partnerships with intergovernmental agencies, other companies and NGOs.
- And we're introducing water management aspects in our milk districts. One of the best examples of that is in Pakistan, where we're working with UNDP to empower 5,000 female livestock workers, who are sharing water management best practice as part of the animal husbandry techniques they're introducing in dairy farms across the country, using Nestlé-developed techniques as a model.

Slide 11 – Water management, agriculture & communities: Improving community access to clean water

Nestlé directly engages in clean water projects, which include helping local communities to overcome barriers to access safe and clean water. We currently engage in more than 36 water related community projects. Let me give you some examples:

- In our milk districts in India we have a comprehensive programme of providing clean water wells in our milk district villages. We select communities where full engagement by the local government can be relied upon; and where we can site the wells in the schools. This is so that the children have a safe and clean supply of water; so that water education is included in their schooling as part of the agreement; and so that they are enthused and empowered to take good care of this resource for future generations. At the present time, 71 drinking water facilities have been completed, reaching around 25 000 school children.
- We're now using the techniques we've tested in India in our new partnership with the International Federation of Red Cross and Red Crescent Societies – making water and sanitation a key element in our 3 million Swiss Franc partnership with them over the coming years. We've already identified key areas for investment, for example in Mozambique, where the first wells to bring much-needed clean water to 15,000 villagers were inaugurated in November 2006.

Slide 12 – Scaling up and engaging: Stakeholder engagement

Fourth, Scaling up and engaging: Offering Nestlé experience in the global water management arena.

Nestlé engages with a wide variety of people and organizations to improve the state of water management throughout the world. Focus is on projects to improve local water management, to establish better standards of water resource management, to improve education about water conservation and to participate in the debate on the impacts of agricultural and other policies on water resources.

- In South Africa, we've started to engage with local communities, including farmers, local government and NGOs, as regards water management in dairy farms, as part of our commitment to Black Economic Empowerment in agricultural communities.
- On a more global scale, our Chairman and CEO has long been involved with the World Economic Forum's Water Initiative, which essentially seeks to engage its members in promotion of best practice water use technologies, techniques and strategies; participation in multi-stakeholder water resource management strategies within watersheds or specific regions; and participation in broader national and multinational) water policy and governance dialogues.
- Peter Brabeck also hosted the WEF open forum at Davos in 2006 on the topic of "Water: Property or Human Right?", sharing views and insights with water experts from the public, private and NGO sectors in a lively and multi-faceted discussion, reflecting the enormous complexity of the topic.
- Nestlé was one of the few global food and beverage companies actively present at last years World Water Forum in Mexico – presenting its commitments on water and sharing experience with other participants.
- For the development of our water report – where you can find more information about our engagement on water, and which should be available in the back of the room – we also sought to get some wider stakeholder feedback to our work and engaged AccountAbility International to identify, clarify and synthesise the views of key stakeholders on water issues. This is just the start of a broader commitment to share experience and feedback on water; but AccountAbility found those key stakeholders ready to engage with us on water issues. They're

looking for us to address water issues beyond our direct operational impact and to take a lead in the international debate on related subjects.

I have to say I found these conclusions very encouraging; most people have an opinion about the role of private corporations in water, whether positive or negative. Still, we find that many may not be aware of the less visible ways that water matters to a corporation, that water is an issue not only for water distribution and bottled water companies but for all companies. Also, many may not think of business as a credible voice on water. Clearly, corporations have work to do in sharing more of what they are accomplishing, in showing that there is expertise and experience that can be placed in service of others.

In short, everyone has a role to play in water management.

Slide 13 – Nestlé’s overall commitment on water

Speaking for ourselves, we will continue contributing our experience and what we have learned from others to the debate on water management. We believe we have a lot to contribute, and we know we have a lot to learn.

We can summarise our commitments on water in the following way – an approach we launched at the World Water Forum in Mexico this time last year.

We will:

- W ork to continue reducing the amount of water used per kilo of food and beverage produced.
- A ssure that our activities respect local water resources.
- T ake care that water discharged into the environment is clean.
- E ngage with agricultural suppliers to promote water conservation among farmers.
- R each out to others to collaborate on water conservation and access, with a particular focus on women and children.

Ladies and Gentlemen, though it operates all over the world, Nestlé is a company with its roots in Swiss pragmatism. We like practical, action-oriented approaches in our company, reflecting our Swiss roots – hence the simple Commitments I just outlined. When it comes to water and climate change I would rather not have to put one issue before the other. Both have major implications on our future and both require all actors, individuals, companies and governments, to assume our respective responsibilities. And you cannot speak about one without mentioning the other. In fact, as some have mentioned (World Water Council and Jeffrey Sachs), creating a similar process as the Intergovernmental Panel on Climate Change for water could be a good idea! For Nestlé, responding to the climate change challenge is both about continuing our efforts to reduce our environmental footprint, but also to be a responsible water manager. Water is essential for all life, for human health and economic development, for the environment and a healthy global eco-system. Whatever way the international community now addresses the climate challenge, making a parallel effort to preserve our common water resources is essential.

To quote our Chairman and CEO, Peter Brabeck-Letmathe, *"No one partner can do it all, but together we can influence, alter, protect, and preserve the vital resource of water for future generations"*.

Thank you for your attention.

Slide 14 – The Nestlé Water Management Report

END OF SPEECH