



The Nestlé approach to Sustainability: Creating Shared Value

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Mr José Lopez, Executive Vice President, Operations, Nestlé S.A.

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Ladies and Gentlemen, first of all let me say how honoured I am to be invited to speak at the CIAA congress at a key point in the evolution of our industry; and in its relationship with society in Europe and beyond. Looking at the title of this year's congress – “Generating Growth, Serving Consumers, Respecting the Environment” - there is a clear understanding within our industry about the convergence of Competitiveness and Sustainability, and the need to build consumer confidence in this and other areas. From Nestlé's point of view, this is very encouraging, because it is consistent with our own approach of Creating Shared Value for our shareholders and the societies where we operate.

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I'm here this morning to give the Nestlé perspective and experiences on some of the key topics we're facing as an industry, together with our many stakeholders. So first of all, just to put things in context, here are a few key facts about us.

The company started in Switzerland in 1867, 140 years later, our 2007 sales passed the 100bn Swiss Franc mark, and our “Nestlé model” consistently delivers 5-6% organic growth and EBITA improvement each year - even in times of economic uncertainty. Our key competitive advantages are our R&D capabilities, our Global Presence, our People, Culture and Values; and of course our strong portfolio of products and brands -, from Nescafé to Nesquik, from Perrier to Aquarel, from Maggi to Buitoni. And all of this underpins our strategic transformation into the world's recognised leading nutrition, health and wellness company. In addition, we take our role in society very seriously. More often than not this has included working closely with others; a process that today is reflected in our active involvement with CIAA and many of its specific areas of focus.

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Next, a few words on Nestlé's Creating Shared Value process. It may not be right for everyone, but I believe that an intrinsic part of the process of operating as a responsible company is to define carefully a relevant interpretation of your company's role in society. For us, Creating Shared Value is the most relevant articulation of our relationship with the societies in which we operate. The very basis of this approach is Compliance with laws, rules and codes of conduct. For us this is a non negotiable area. The next “given” for us, is Sustainability – which has many interpretations. The one we follow is “Development which meets the needs of the present without compromising the ability of future generations to meet their own needs.” But we think there's a third level – that goes beyond sustainability - to create simultaneously value for shareholders and for society in a manner that is integrally linked to our core

business strategies and operations. We call this Creating Shared Value. And while that might be applicable to a number of industries, in a company like ours, we think there's a special need to focus on how this is done in regard to nutrition, water and rural development. I should also stress that this is core business strategy. It is not about philanthropy. Simply put, Creating Shared Value generates growth: Creating Shared Value means thinking long term, while at the same time delivering strong annual results. One of the fundamental Nestlé Corporate Business Principles is that "we will not sacrifice long-term development for short-term gain". We aim for and have achieved consistent improvements in annual performance.

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Since Trade and Competitiveness is one of the key CIAA themes, it's appropriate at this point to ask whether we as an industry can grow for ever. Competitive growth is key to the CIAA strategy; and clearly key to Nestlé. The challenges are accentuated not just in the current economic situation, however, but also against a backdrop of a growing realisation of the absolute imperative to grow sustainably, so that our industry has the opportunity to serve its consumers in future generations.

The world's population is not only growing, but also becoming increasingly urbanised. In 2008, for the first time in history, more people are living in cities than in rural areas. It follows that we have to become much smarter in the way we use our resources to feed people. Basically, we believe that economic growth is still possible by reducing waste (in a broad sense) and adding more value.

Did you know that, according to estimates, the total food losses from farm to mouth amount to at least 60%? Amazing! This results from 40% agricultural raw materials being lost after the harvest during storage, processing and transportation, 2% losses in trade, and one third of purchased food wasted by consumers. In other words, the world currently produces at least 2.5 times more food than is actually eaten. This provides huge opportunities to improve food value chains and to provide the same consumer benefit at a comparable price point with significantly fewer resources. Basically, we need to "walk the talk" and a good place to start is waste reduction. Our own experience in this respect translates into some relatively basic strategies, systematically applied across our businesses. Let's look at our direct operations first.

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Through our global presence, Nestlé factories are a major engine of rural development and of new environmental standards, particularly in developing countries. Our principle is to manufacture, where possible, in countries from which we source commodities. Regional manufacture for regional markets means capacity building and technology transfers; it also means that our products have lower transportation costs and less environmental impact. Today, about half our 500 factories around the world are in the developing world, located primarily in rural areas. Our global presence also reflects our long-term approach to investment. For example, Nestlé has operated in South Africa since 1927, in Brazil since 1921 and in Malaysia since 1912. Among Nestlé's most recent industrial investments are the world's largest milk processing plant in Pakistan, a Popularly Positioned Product

plant in Brazil, and a milk processing plant in Inner Mongolia. All these facilities have been equipped from their inception with up-to-date environmental technologies, such as plants to treat the water used in manufacturing processes before returning it clean to the ecosystem. Our Nestlé Environmental Management System helps us to achieve continuous performance improvement and contributes towards sustainable development. In addition, we have, to date, 171 factories throughout the world which are ISO 14001 certified and we aim to certify all our factories by 2010.

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Let's just zero in on water management for a moment. For us, if there's an environmentally related issue that's more important than all the rest, it's water. Water stress is without doubt going to be the most critical issue facing the food industry in the very near future. Which is why we are committed to becoming the most efficient water user among food manufacturers.

Reduction of water consumption has been part of management practice at plant level for many years: since 1998, Nestlé has increased its food production volume by 76%; over the same period we have reduced our water withdrawal by 28%; we aim to reduce annual consumption per tonne of product further by 2%-3% over the next five years.

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Similar efforts have been made to improve our energy efficiency: we have been able to reduce our energy usage by 47% per tonne of product from 1998 to 2007; our objective is to achieve annual energy savings of 1%-2% per tonne of product over the next five years. In addition, we also use renewable energy sources, such as coffee grounds generated in our coffee factories. In turn, these efforts enable us to reduce significantly our carbon footprint: we have halved our greenhouse gas emissions per tonne of product from 1998 to 2007.

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There is a particular area in our operations where I would like to clarify things, namely packaging. Its environmental impact is often misunderstood. First, packaging reduces waste – and that's good for the environment. It reduces waste by protecting our food products during transportation and storage – both in the retail environment and at home. Packaging is also essential for food safety and freshness, and it also provides consumers with nutritional and environmental information at point of purchase. Used packaging is visible and, therefore, draws attention.

But, in reality, packaging represents a minor part of the total environmental footprint of food products. According to our continuous improvement policy, Nestlé has adopted an integrated approach on packaging: reducing materials used where feasible; providing meaningful information to consumers about recycling and recovery; developing recyclable packaging from renewable resources; and supporting the development of public recycling schemes. As an example, we have reduced the volume of packaging material used per litre of bottled water by 22% over the last 6 years, saving 257 000 tonnes of packaging material. And going forward, we are committed to maintaining continuous improvement in our environmental

performance beyond our own operations, encouraging, for example, our business partners to apply the ISO 14001 standard. Our industry is connected with those rural areas from which most of our core raw materials come – and by extension with the ecosystems that support those areas; and the livelihoods of the people who live in them. As such, our role in sustainable development does not begin and end at the factory gate.

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Nestlé has a long history of helping farmers to be more efficient and prosperous suppliers, while respecting tradition and cultural diversity. This has a positive long-term impact on economic and environmental development and standards of living, sometimes helping entire regions to increase agricultural productivity and economic performance. This often begins by helping farmers through agricultural programmes that share good environmental and water management practices. Our team of 675 agronomists and approximately 5000 extension workers currently offers support and training assistance to over 600,000 farmers. There are no conditions attached to the assistance we give and farmers are not obliged to sell their produce to Nestlé. Many of them, however, do sell to us directly; which enhances their revenue.

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For example, Nestlé's Doi Tung Experimental and Demonstration Farm helps hundreds of farmers in northern Thailand to grow Arabica coffee. They receive practical training on coffee fertilisation, irrigation and harvesting techniques, which helps their coffee to command a higher price. We have taken a similar approach in Yunnan Province, China, where Nestlé has set up a training centre, demonstration farm, nursery and buying station. Helping entire regions, often begin with helping farmers Part of our Nespresso brand's success is closely linked to quality.

Only about 2% of the world's speciality grade coffees meet the specific profile of Nespresso's Grands Crus. So to ensure a consistent supply in the future, we encourage and reward farmers who grow such grades, developing lasting, mutually beneficial relationships. For the non-coffee specialists in the audience, "AA" has always stood for the highest-quality coffee, but in 2003, Nespresso incorporated an additional "A" for sustainability. The resulting Nespresso Triple A Sustainable Quality Programme draws on our relationships with suppliers and partners to help ensure our coffee is produced to the highest quality standards but also considers the social and economic value for farming communities and its environmental sustainability. We do not only set out the practices required by the Triple A standard. We also analyse the data from the independent verification process and we provide technical training and assistance to farmers. We pay farmers a premium price for their Triple A coffee and we invest in wider community projects.

This is a perfect example of how our ability to market and sell premium quality products directly benefits our suppliers, in this case coffee farmers. It's also telling for us to see that there is a real convergence in this example between quality, sustainability and consumer confidence: by fulfilling a

promise of superior quality to our consumers, those consumers mandate us as part of that promise to ensure the highest sustainability as well as quality standards.

Incidentally, Triple A and many of our other coffee sustainability initiatives include a component related to water management. On some of these coffee farms, for example, we introduce washing techniques that can save anything between 60 and 90 per cent of the water necessary for this task.

That's important, when you consider that 70% of the world's water is used in agriculture; we've already established that this water is in increasingly short supply; so where better to make a difference than through water management in agriculture?

However, the further you go from your factory gates, the less control you have over the outcome, even when you're trying to set a good example. It has struck us that sometimes we need to go even further than purely practical measures, and become vocal advocates for more sensible policies. For example when we see unsustainable subsidies on the price farmers pay for water, and even less unsustainable policies that promote the cultivation of crops destined for biofuels, thereby placing ever greater stress on available land and water resources.

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We know that continued investment in R&D is key to further reducing waste and adding more value – both in environmental and nutritional terms. For us, this means leveraging our own Nestlé R&D network – which we fund at a level of some 1.9 billion Swiss francs per year; collectively, though, we have to recognise that not all companies in this industry are the same scale; so as CIAA, we need to ensure that our sector remains competitive. That means being a partner in identifying areas requiring public research funding; or perhaps ensuring that funding for food related programmes (research, innovation) reflects the changing needs of the agro-food industry and helps contribute to its effectiveness.

Among the areas we should be prioritising we need to focus on sustainability of food production; for example the potential impact of water scarcity, resources depletion and climate change on primary food production in the EU and on the supply of food from non-EU countries needs to be better understood.

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Let's now review the importance of research and how it shapes Nestlé's worldwide strategy to offer products that have proven superiority in consumer taste preference and nutritional value. Nestlé continually invests in the innovation and renovation of its large product portfolio. Some headlines: in terms of product innovation concerning public health sensitive nutrients, worldwide, Nestlé has reduced over 200,000 tonnes of sugar and 34,000 tonnes of trans fatty acids between 2003 and 2006; and 5,000 tonnes of salt during the period 2005 - 2006. But as we know, nutritional enhancement is as much about what you put in as what you take out, so Nestlé also focuses on adding positive nutritional components to its products.

For example, we have introduced whole grain into all our breakfast cereals. This translates to 2.2 billion extra servings of wholegrain in consumer diets without any

change in eating habits. Again, science is key in this domain. In 2007 about 6,500 Nestlé products were reformulated. To analyse the nutritional value of our products, in the context of a balanced diet, we have established a rigorous methodology based on public health recommendations and consumer science, called the Nestlé Nutritional Profiling System which has been progressively applied across our worldwide product portfolio since 2004. It is a dynamic approach, whose criteria are regularly reviewed by teams of nutrition experts and product specialists to incorporate the latest thinking and developments in nutrition, health and wellness.

These criteria are established using the available recommendations for dietary intakes, issued by the World Health Organisation (2003) and the dietary reference intakes published by the US Institute of Medicine (2006) and/ or local country values where appropriate. We have long articulated our vision to become the world's leading nutrition health and Wellness Company: we know that our commitment to research and development is leading to our recognition as such.

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Over the past decade awareness of the sustainability issues described above has significantly increased among the general public in many countries. As a consequence, these considerations have moved from a specialist discipline, and fringe societal movement, to an increasingly mainstream concern. This is even more true of consumer awareness around nutrition and health issues. In the environmental sustainability arena in particular, we are facing a lot of initiatives which are not really consistent – and this is an understatement. This is normal in an area which is still in its infancy.

The danger, however, is that the consumer gets confused or even misled. Because of “green washing” behaviour of some actors, there is even a risk that consumers lose their confidence in all companies, and not only in their environmental messages but in their communication at large. On this subject, Nestlé understands its role as leader in communication and advocacy. This is the reason for our engagement within CIAA and of my presence today. I believe that it is our responsibility not only to take action, but also to inform our consumers properly about our Corporate activities concerning sustainability and, increasingly, about how brands and products contribute: “To talk the walk”.

This must be expressed in a way that is relevant to consumers: many studies exist, all showing a growing interest for this type of information; there is a risk, however, that in the short term, price takes precedence over getting the message across convincingly. Our internal research shows that, in general, the most important issue for consumers is first and foremost the benefit for themselves and their family; then for their communities, and finally for the world.

In addition, we know from our research that consumers do not want judgmental information but rather empowering information. We endeavour to meet these needs in our own consumer communications around sustainability. We state in our Nestlé Policy on Environmental Sustainability that information and claims regarding sustainability programs and activities (social, economic or environmental) must be

meaningful. They must accurately reflect the product and its related lifecycle, be based on solid scientific evidence, and comply with applicable legislation and regulations.

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Nestlé has plenty of experience in delivering relevant and resonant consumer information – for instance on nutrition: we are already providing comprehensive nutrition labelling, including Guideline Daily Amounts on all our products in Europe, to make healthier food choices easier. This builds on our existing Nutritional Compass information system, which is designed specifically so that consumers can find the right nutrition information for making informed healthy choices.

Nestlé supports the creation of a regulatory environment that endorses the Guideline Daily Amounts (GDA) scheme. Recent EUFIC research has shown that over half of all consumers in 6 European countries correctly interpret and use GDAs. We believe GDAs deliver simple, at-a-glance, objective information that enables the consumer to understand and evaluate both an individual food product and its place within the daily diet. There is however a serious concern about the principle of admitting national schemes for additional labelling, because this would lead to a distortion of the Internal Market.

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Having communicated nutritional information on-pack for some time, Nestlé is increasingly communicating product related environmental information, on its packaging (for example the NaturNes example shown here) and through other means as well: the Nespresso Triple A project you also saw before is highlighted on the brand Internet site. We are investigating various additional options to combine in a very simple – but not simplistic - manner both types of information on other products.

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In fact, we need to be aware, as we go about this, that some Member States are currently developing initiatives on consumer information, be it related to nutrition labelling or environmental communication. France is developing legislation in the environmental communication area as part of the “Grenelle de l’Environnement”; the UK has issued guidelines on Carbon labelling; the European Commission has published its Action Plan on Sustainable Consumption and Production and Sustainable Industrial Policy.

Where legislation is needed, full harmonisation has been shown to be one of the cornerstones of the European food industry’s success in Europe. I believe that in many cases, self-regulation is a valid alternative to legislation and, as shown through our experience in multi-stakeholder approaches in the EU Platform on Diet, Physical Activity and Health, self regulation is implemented faster and more cost effectively than legislation. This experience should also be applied in complex areas such as sustainability, where we are still at the beginning of the debate. I am pleased to note

that the European Action Plan on Sustainable Consumption and Production and Sustainable Industrial Policy includes, not only new pieces of legislation, but also voluntary commitments from business; however it gives a pre-eminent role to a particular supply chain actor, our friends the retailers, in the “Retail Forum”, as it is known. For CIAA and Nestlé, this is of great concern because it doesn't fit with the realities of our business. We favour instead true multistakeholder approaches and we volunteer to work together with other food chain stakeholders - on an equal footing - to develop common practices.

I'm pleased to see that CIAA is therefore establishing The Food Chain Sustainable Consumption Roundtable, gathering – on an equal footing – suppliers, manufacturers, retailers, consumers, EU and national policy makers, researchers and NGOs. This Roundtable should, as a priority, work towards uniform environmental product assessment methodologies in order to ensure that environmental information provided to consumers on a voluntary basis is scientifically reliable and comparable across the EU. The main deliverable will be an “EU Code of Conduct on Environmental Product Assessment and Voluntary Communication to Consumers”. The Roundtable should be led by the relevant EC directorates.

I believe this approach has an excellent pedigree: our inspiration comes from the EU Platform for action on diet, physical activity and health launched in 2005 and chaired by the EU Commission (DG Sanco) unanimously recognised as a success. Indeed, to date, the Platform involves 34 EU organisations ranging from food industry (CIAA), retail, agricultural cooperatives to consumer protection NGOs. Its members have worked on more than 200 commitments covering a very wide range of activities, including actions in key fields such as consumer information, including labelling; education; physical activity promotion; Marketing, advertising targeting children, labelling and product reformulation. CIAA will consider this model together with business partners in the sphere of environmental sustainability.

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Finally, ladies and gentlemen, it's clear to me that the food industry has a key role to play in the convergence of growth, sustainability and nutrition. As an industry, we are already showing that we can respond to consumer demand for health and nutrition more scientifically, more rapidly and more efficiently. We can lead initiatives on environmental protection – and we can bring our consumers with us as we do so. We can do this individually, in ways that will enhance the promises of our brands to our consumers; and we can do it collectively, as an industry and in partnership with our many stakeholders, in ways that make our impact truly scalable.

Ladies and Gentlemen, I firmly believe that the food and drink industry is intrinsically good for human kind. We are working in a noble activity which contributes to making life on this planet possible while, if we act sustainably, conserving its resources for future generations. That's just one of the reasons why I'm proud to work for Nestlé, because we've achieved leadership through meeting and adapting to consumer demand. But I'm also proud to work in this industry, Europe's largest industrial sector, foremost employer and exporter, which, in addition, contributes significantly to

preserving our environment by reducing waste and optimising use of agricultural resources.

There is, realistically, no other option if we are to feed the growing world population. The times when Voltaire's Candide could claim "Il faut cultiver notre jardin" (we must work on our own back garden) are over, at least in a literal sense. Actually, I do agree with the spirit of Candide's statement, in that work is necessary if you want to make progress. For the food industry to grow, prosper, invest, innovate and realise its vision, it will need soundly based economic, social and environmental development.

The surrounding business environment should be one of encouragement, with policies appropriate to sectors and business size. The industry in turn will provide significant and worthwhile employment prospects. In delivering this vision the food industry will need to manage very carefully the sustainability and impact of its operations, whilst being transparent about its products and production methods.

Today, I believe that Candide would rather say "Il faut faire la guerre au gaspillage." - or "we must declare war on waste".

Thank you.

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