



Nestlé's approach to rural development aims to ensure thriving farmers and thriving communities while respecting natural capital. We work at both a farm and community level to improve yields, safeguard incomes, contribute investment and make a difference to people's quality of life. In addition, we help to drive social and environmental improvements through our Responsible Sourcing activity.



Rural development

Nestlé's approach to rural development aims to ensure thriving farmers and thriving communities while respecting natural capital. We work at both a farm and community level to improve yields, safeguard incomes, contribute investment and make a difference to people's quality of life. In addition, we help to drive social and environmental improvements through our Responsible Sourcing activity.



Factory impacts

Creating Shared Value in rural areas of the developing world is centred upon our work with farmers, complemented by our factory operations.



Farmer impacts

We purchase directly from more than 680 000 small-scale suppliers and aim to have a positive long-term impact on local communities.



Supply chain

We were identified as a sector leader in the 2011 Forest Footprint Disclosure Project for our pledge to eliminate deforestation from our supply chain.



Milk

The dairy industry is an important factor in rural economies. We continue to expand our milk district model in developing countries.



Coffee

Through The Nescafé Plan, we are working to double the amount of Nescafé coffee bought directly from farmers and their associations over the next five years.



Cocoa

We are aiming to source 11% of our global cocoa supply via The Cocoa Plan in 2012 and will be supporting community projects in cocoa-growing areas of West Africa.



Overview

Rural development and Creating Shared Value

Value for Nestlé: more secure supply of better quality raw materials; lower procurement costs; consumer preference for our products; profitable growth.

Value for society: advice and technical assistance for farmers; greater yields; higher quality crops; lower resource use; increased farmer income; employment and economic development opportunities; consumers aware our products are safe, of high quality and produced using sustainable practices.

Ensuring supply, driving rural development



*For example, the number of farmers we source from and train, or the number of plantlets we distribute.

Context and challenges

There are many challenges to be met through collective action by businesses including Nestlé, as well as policymakers, NGOs and civil society.

Goals

- Coffee – by 2015, we aim to double the amount of *Nescafé* coffee we buy directly from farmers.
- Cocoa – by 2012, we aim to increase the percentage of cocoa that we purchase through the Nestlé Cocoa Plan to 11% of our global supply.
- Responsible Sourcing Audits – in 2012 and beyond, we aim to extend our programme to all locations and all spend categories.
- Responsible Sourcing Traceability – in 2012 and beyond, we aim to extend our programme to 12 major raw and packaging materials.

Action

- Increased the scope of The Nestlé Cocoa Plan in Côte d'Ivoire.
- Scaled up activities in The *Nescafé* Plan.
- Expanded our milk districts.
- Developed a Responsible Sourcing Traceability programme for major raw materials, which complements the Responsible Sourcing Audit Programme.



Performance summary

- Sector leader in the 2011 Forest Footprint Disclosure Project in recognition of our work to tackle deforestation.
- More than 680 000 farmers reached by Nestlé rural development programmes.
- More than 200 000 farmers trained through our capacity-building programmes [KPI].
- 40 water and sanitation partnership projects underway across the world in 2011, and 126 factories provided clean drinking water to communities in 2010.
- Completed 1910 audits within our Responsible Sourcing Audit Programme.

Systems

We have clear policies and systems in place to support our rural development agenda.



Context and challenges

We continue to challenge ourselves on fundamental questions in rural development. Working towards answers – with partners and stakeholders in our value chain – helps to shape our approach. For example:

- Has the traditional role of buying products that farmers grow “at a market price” led to rural development and Creating Shared Value? Unfortunately, the situation in the world today is that too many of our supplying farmers are still living at the poverty level.
- Related to this, what is the role that companies need to play (beyond an arm’s length commercial transaction) in areas that have been traditionally seen as government responsibility? There needs to be a shared understanding of the role of companies in countries where the role of government is weak.
- How can we bring farmers – particularly small-scale farmers – into compliance? This is a significant challenge in its own right, and supplier compliance with environmental and social standards is only the first step towards sustainability and Creating Shared Value.

Other global challenges include:

Population growth

The world’s population is projected to grow by 38% compared to today. (Population Reference Bureau. 2010 World Population Data Sheet).

Our farmer programmes aim to build agricultural capacity, contributing to the global challenge of doubling food production by 2050.

Rural poverty

40% of the world’s population and an estimated 75% of the world’s poor live in rural areas (World Bank 2008). Education and health services are much less available in rural areas of most low-income countries than in their cities. Many areas lack safe drinking water and sanitation and nutritional deficiencies are common.

Through our support and assistance for small farmers and rural communities, we aim to develop our value chain, support economic growth and improve quality of life of communities around our operations.

Read *Reducing rural poverty* by Robert L. Thompson, available to download from www.nestle.com/csv

Agricultural production

Small farms (less than two hectares) occupy about 60% of the arable land (FAO census data).

Cocoa and coffee are key commodities for Nestlé and are mainly produced by smallholders. In order to ensure long-term supply we need to find ways to ensure that these farmers will consider their business attractive and profitable, and therefore maintain and enhance production.



Land availability

Only 11.5% of the world's surface is arable land and permanent crops and only about 10% of the surface is potentially arable land. 4 (FAOSTAT 2006).

Through The *Nescafé* Plan and the Nestlé Cocoa Plan we aim to help increase yields without increasing the area of land used.

Agriculture and water

By 2050, agricultural needs for water are predicted to increase by 140%.

Agriculture is a major user of water, and increasing pressure on water resources is a threat to food security and economic growth. Water projects, including farmer training in efficient water usage, are at the heart of our rural development agenda.



Our systems

We continue to develop and implement robust systems and policies to support our rural development goals to reduce rural poverty and ensure greater food security.

Organisational responsibilities

Our rural development activities come within the remit of our Executive Vice-President Operations, and ultimate responsibility rests with our Executive Board and Chief Executive Officer.

One of the main departments involved is Corporate Agriculture (CO-AGR), which provides in-depth expertise to support the definition of the business operations strategy, especially in the context of agriculture, rural development and water. With a network of more than 1000 field staff, CO-AGR supports the markets in implementing their direct sourcing programmes from farm to factory through our Sustainable Initiative at Nestlé (SAIN) and other programmes.

The strategic businesses take overall responsibility for activities in their areas, for example, the Confectionery SBU (Strategic Business Unit) is responsible for The Nestlé Cocoa Plan, and the Beverages SBU is responsible for The *Nescafé* Plan. The SBUs report to Patrice Bula, Head of Strategic Business Units, Marketing and Sales.

Farm-level and community-level impacts

We are building our capacity to measure Creating Shared Value impacts through our complex value chain. The work of developing metrics and systematic processes to reflect the rural development context is ongoing – including assessing operational aspects such as:

- the roles of different crops – in order to see the potential of commodities which are of interest to Nestlé;
- farmer income and sustainability performance of the farmers we are working with – in order to ensure that our actions (implementing sustainability standards, training farmers, distributing trees, and so on) are contributing to Creating Shared Value.

From a wider perspective, we have several initiatives underway to establish relevant key performance indicators that determine our impact on rural communities.



Sourcing and supplier development

Key policies and commitments

- The Nestlé Supplier Code
- The *Nescafé* Plan
- The Nestlé Cocoa Plan
- Nestlé commitment on no-deforestation
- Nestlé commitment on child labour in agricultural supply chains

Management and monitoring

- Nestlé Vendor Approval Process
- Responsible Sourcing Audit Programme
- Responsible Sourcing Traceability Programme

Environmental management in our factories

For a summary of policies and systems, see Environmental Sustainability.



Rural development impacts of our factories

We depend on a stable and economically secure supply chain as a key driver in our long-term business success. In this context, our factories are major engines for rural development through, among other things, the creation of employment, apprenticeships and training, the input into local infrastructure, and the provision of clean drinking water and treated wastewater.

Our principle is to source commodities, where possible, in the countries in which we have manufacturing facilities.

What is a “rural” factory?

The UN Statistics Division observes that countries handle the definition of urban and rural differently, so mapping Nestlé’s industrial presence in terms of its impact on rural areas is an inexact science. Nonetheless, we have defined our factories as “rural” if:

- they were originally located in an area defined as rural by national statistics concepts;
- they are located in an agricultural region;
- they are not located in or within five kilometres of a large centre of population (above 100 000 inhabitants).

Factories where the number of farms or other entities that directly supply our facilities with commodities exceeds the number of factory employees – such as our dairy factories – are also categorised as having a significant rural development impact.

Today, roughly half our factories are located in the developing world. 73% of our developing-country factories – based on a 2010 sample of 422 of our factories – are located in rural areas.

The rural development impacts of a factory

Nestlé’s contribution to the rural economy extends from the very presence of our factories to the agricultural support and capacity-building farmer programmes we provide (as outlined in the following sections). Our facilities bring direct employment opportunities, greater access to Nestlé products for local consumers and other indirect economic benefits across the community – all without obligation or contractual commitment.

Moreover, in both our manufacturing sites and our interventions with farmers, our investment is sustained over the long term. We remain in communities – as a purchaser of locally grown agricultural commodities, employer, trainer and neighbour – for many decades, as many aspects of our impacts, such as building the capacity of local people to work in non-agricultural employment, take time and resources. This long-term, open approach helps to build trust and mutually beneficial relationships in the communities in which we operate.

A typical factory has touch points with a wide variety of aspects of society, from employment and infrastructure to environmental management, training and education. These effects are most prominent and noticeable in communities around factories in rural areas, where they help to bring positive developmental changes, but they are nonetheless present to some degree around all production sites, wherever they are located.



INVESTING IN INFRASTRUCTURE: Driver Leonel López González and transport coordinator Enrique Lozano Muñoz at the Lagos de Moreno dairy factory in Mexico, which provides employment and invests in transport infrastructure.

Factory impact survey

In 2010, we completed a major survey of our factories to quantify and qualify some of our rural development impacts. We intend to repeat the survey every few years. Key statistics from our 2010 survey are summarised below.

Summary of rural development impact of Nestlé's factories (2010)

	422 factories responding to survey ¹ (%)	162 factories in developing countries (%)	95 rural ² factories in developing countries (%)	67 urban factories in developing countries (%)
Sourcing from local/national supplier:				
Milk	33	36	48	18
Coffee	15	15	19	10
Cocoa	17	17	18	16
Training programmes in past five years:				
Literacy and numeracy	27	31	30	31
Entrepreneurship	28	33	34	33
Skilled trades	50	16	49	43
Formal apprenticeship	59	60	66	51
In past five years:				
Provided clean drinking water to local community	32	33	24	21
Contributed to local educational facilities	57	62	70	49
Invested in other local infrastructure	37	38	43	31
Nestlé-built water treatment plant	58	66	70	60

1. Based on data from questionnaires sent to all factory managers requesting details of each site's employment, purchasing, environmental and community impacts. 397 survey responses from 422 factories.

2. Our factories are defined as "rural" if: they were originally located in an area defined as rural by national statistics concepts; they are located in an agricultural region; they are not located in or within five kilometres of a large centre of population (above 100 000 inhabitants). Factories where the number of farms or other entities that directly supply our facilities with commodities exceeds the number of factory employees – such as our dairy factories – are also categorised as having a significant rural development impact.



Local manufacturing commitment

Our general principle is to manufacture, where possible, in countries from which we source commodities. Sourcing and manufacturing locally provides both direct and indirect income and employment opportunities to local people and helps to reduce transport-related environmental impacts for local consumption.

About half of our factories are in the developing world, and 73% of our developing-world factories are located in rural areas.

During 2011, Nestlé made significant industrial investments in rural areas of developing countries, including the following:

- A new breakfast cereal factory in **Malaysia** (a Cereal Partners Worldwide joint venture; see below) will source up to 80% of its raw materials from local suppliers.
- Two new factories in **South Africa** will create 230 jobs; a number of employees will also have the opportunity to receive training abroad with Nestlé engineers and technology specialists.
- A new state-of-the-art factory in **Nigeria** will create 180 jobs and provide indirect employment to hundreds more.
- Three investments in factories in **Indonesia** will benefit the regional economy by increasing the use of raw materials from local suppliers and creating employment.
- A new milk factory in **Brazil** will improve milk production in the region; additionally, with the support of the Brazilian State and the Municipality of Três Rios, Nestlé has started to collect data to develop productivity and quality improvement projects, further supporting milk production sustainability in the area.

At the official opening of a new Maggi production line, Nestlé China also announced that it will introduce its Healthy Kids Global Programme, which promotes nutrition education, a balanced diet and a healthy lifestyle.

New breakfast cereal factory to meet local demand in Malaysia

Cereal Partners Worldwide (CPW), a joint venture between Nestlé and General Mills, is investing CHF 35 million over two years in the construction of a new breakfast cereals factory located in Chembong, Negeri Sembilan, Malaysia.

The factory, due to begin production in 2012, will enable the local production of Nestlé breakfast cereals for consumers in Malaysia for the first time, and for export to Singapore, Indonesia and Thailand. It will source up to 80% of its raw materials from local suppliers, and will be built based on policies for environmental sustainability adopted by both partners in the CPW venture. This will create hundreds of direct and indirect employment opportunities.



Farmer programmes

Our approach

In many rural communities, a lack of investment in social and agricultural infrastructure seriously impacts the quality and quantity of raw materials upon which we rely.

Our approach includes purchasing directly from more than 680 000 small-scale suppliers (mainly of coffee and milk through Farmer Connect).

In addition, we work on capacity building and providing training in order to encourage sustainable production, protect the supply and quality of our raw materials, and have a positive, long-term impact on the local economy and standards of living.

Building capacity, technical assistance and training

Through our activities we enabled more than 45 000 farmers to access services amounting to USD 59.4 million worth of assistance, of which Nestlé provided USD 24.9 million of direct financial assistance.

1140 sourcing staff and agronomists and 10 625 support staff offer support, training and technical assistance to the farmers who supply us, and maintain ongoing dialogue with them, as well as with government agencies and NGO partners.

In 2011, 200 751 farmers around the world were trained through Nestlé capacity-building programmes [KPI] (2010: 144 900). There are no conditions attached to the technical assistance, advice and support we give to our suppliers, and the farmers who currently supply Nestlé directly are not obliged to take this up.

We have technical assistance schemes in place across 22 of our 31 fresh milk markets worldwide: 18 of these have additional water programmes with the farmers and 22 provide farmers with access to finance.

Long term, we seek to increase the training and support we provide to farmers. In general, such input – focused mainly on the efficient use and conservation of water, land conservation, access to clean water for farming communities, improving the status of women in rural communities and improving education – leads to greater yields of higher-quality and more varied crops for Nestlé, and increased income and higher standards of living for our suppliers.

Read more about building capacity in The Nestlé Cocoa Plan and The *Nescafé* Plan.



Multi-stakeholder programmes

We seek to leverage our impact by working with other major food industry players in rural development. This includes the Sustainable Agriculture Initiative of the Food Industry (SAI-Platform), which we founded with Danone and Unilever in 2002. As one of 27 members, we aim to promote sustainable agricultural practices at field level through six working groups (cereals, coffee, dairy, fruit, potatoes and vegetables, and water and agriculture).

Our work with the UN Development Programme in Pakistan, for example, involves a public-private partnership to deliver training and make financial assistance available to dairy farmers near our Kabirwala and Sheikupura factories (see case study below).

In Malaysia, we are working with the Sabah State Government and other community partners to protect water resources, protect biodiversity and reduce the impact of palm oil plantations in the Sabah region.

Local Cow Financing Scheme, Pakistan

As part of our commitment to dairy development growth in Pakistan, we have worked in partnership with Zarai Taraqiati Bank Limited (ZTBL) since 2007, offering micro-loans to small-scale farmers to enable them to purchase high yielding breeds of dairy cows. To date the dairy herd development programme has:

- reached 342 farmers;
- enabled the purchase of 3000 high-yielding dairy cows;
- added 27mt of milk to Nestlé's supply chain;
- preserved dairy breeds critical to the future development of Pakistan;
- engaged farmers in animal welfare and husbandry.

The scheme has been successful in stimulating market-based livelihoods, enabling farmers and their families to move beyond subsistence and save for the future. Furthermore, the programme creates direct employment opportunities. These economic benefits contribute towards improving the levels of trust and engagement between Nestlé and our communities.



Community engagement

Our approach

Nestlé has adopted a comprehensive approach to community engagement across both its factory operations and agricultural raw material sourcing. This is in line with our focus on rural development as part of our Creating Shared Value agenda, and involves a large number of specific initiatives. It involves:

- A high-level risk assessment of the significant potential and actual impacts of the Company's direct operations on local communities. Associated with this is the identification of the most vulnerable communities. These two analyses, which have been comprehensively updated during 2011, provide the focus for our future interventions.
- A focus on human rights impacts, with in-depth country-level community impact assessments in Colombia in 2010, and Nigeria, Angola and Sri Lanka in 2011.
- A focus on water, with Water Resource Reviews that assess impacts of our operations on local communities at a watershed level. Specifically in North America, Nestlé Waters has a community engagement framework in place.
- The incorporation of community-level responses into our Responsible Sourcing programme, The Nestlé Cocoa Plan and The *Nescafé* Plan, which address potential impacts of our operations.

During 2012 we will further develop our understanding of our community impacts and our response to them, by continuing with the above approach and instigating:

- country and factory-level impact assessments for the highest potential impact issues and locations;
- the expansion, during 2012, of our CARE audit programme (independent, third-party assessments of Nestlé factories) to include the monitoring of community impacts, and implementation of programmes to address the impacts.

Respecting the rights of indigenous peoples

Nestlé respects the rights and title of indigenous peoples and local communities, enacted in the following key approaches:

Our community impact assessment aims to identify and quantify intangible/human rights risks in a transparent manner, enabling the Company to anticipate, understand and manage impacts on the social and physical environment. This assessment incorporates:

- land management (land passage) – honouring the land, passage and usage rights of a local or indigenous people on company-controlled land;
- intellectual property – obtaining informed consent of the creator/owner before using local artistic or copyrightable material or patenting a previously unpatented invention that has already been in use by a local or indigenous people.



In addition, Nestlé's Commitments on Deforestation and Forest Stewardship recognise and respect the rights and title of indigenous peoples and local communities.

The significant potential or actual negative impacts that the company has identified are:

1. Factory construction
2. Land acquisition process (for factories)
3. Closure of factories
4. Safety incidents/industrial accidents
5. Major employer within a region/community
6. Contracted service providers (security, clinical trials)
7. Social unrest
8. Water use
9. Pollution, smells, noise from factories
10. Health and wellness of community
11. Truck movements to/from factories, especially in urbanised areas
12. Intellectual property and traditional knowledge

The operations and associated communities with a significant potential or negative impact are:

- Factories identified as high risk due to their location in water scarcity areas.
- Operations in high human rights risk areas, identified based on the FTSE4Good list of countries of concern.
- Palm oil, paper packaging and soya are the commodities highlighted as particularly high risk for land conversion and potential community impacts.
- Pollution: a comprehensive database of factory impacts exists for all factories, including major fines for permit infractions/breaches of legislation.

Location of the operations with significant potential or negative impacts

The only prioritisation has been to focus on the high-risk countries as per the previous section, and to particularly focus on investments in new factories in these countries.



Prevention and mitigation

A high-level risk assessment of the significant potential and actual impacts of the Company's direct operations on local communities was performed at the corporate level (see Our approach above). In addition, as part of the markets human rights risk assessment process, 12 high-risk markets (consisting of 27 high-risk countries) identified potential impacts on local communities as medium or low risk, resulting in four specific action plans. (See Our People section: Identifying and managing human rights risks for more information on our overall human rights risk assessment and management system).

In-depth community impact assessments have been undertaken in Nigeria, Colombia (2010), Angola and Sri Lanka, covering existing and new factory sites, particularly in countries where Nestlé is building its first factories, or where there have been previous issues with local communities (See Our People section: Assessing and addressing human rights impacts for more information).

Water Resource Reviews (WRR) have been carried out, and recommendations made, at 11 factories.

In-depth community impact assessments have been undertaken in Nigeria, Colombia, Angola and Sri Lanka, covering new factory sites, particularly in countries where Nestlé is building its first factories, and in Colombia where there have been previous poor relations with communities.

Responsible Sourcing Guidelines are in place for the sourcing of palm oil, soya and paper packaging that include a commitment to FPIC (Free Prior & Informed Consent). Work is underway on the implementation of palm oil and paper packaging.

Level of compliance

Prevention and mitigation measures are in general implemented to achieve a standard beyond legal compliance. Responses on water stewardship are frequently of a voluntary nature as they go beyond the formal responsibilities of the Company, by taking an approach that seeks to work with other water users in the watershed. The commitment to FPIC by the company is one that goes beyond legislation.

Achievement

Prevention and mitigation measures are ongoing in many instances. The community impact assessments in Nigeria, Colombia, Angola and Sri Lanka have informed operational action plans, some of which have already been implemented, whilst other recommendations will be implemented over time.



Complaints handling and resolution

Nestlé is responsive to reports received from its markets relating to local community concerns about factory impacts. We aim to enhance our reporting on complaints handling and resolution and will communicate progress on this in future Creating Shared Value reports.

Nestlé Waters brings relief

When a natural disaster occurs, water sources and distribution systems are often polluted or damaged, resulting in an immediate need for safe drinking water. Nestlé Waters can play a vital role to provide affected communities with bottled water, financial donations and logistical support, in partnership with NGOs or local authorities. In 2011, we provided disaster relief in Japan, Turkey, Thailand and the United States, as well as some continued support in Haiti. In total we donated more than 3 million bottles of water in 2011.



Sourcing overview

Our supplier base

Nestlé is the world's largest food and beverage company, spending approximately CHF 21.7 billion on raw materials each year. We source materials from more than 5 million farms, many of them small farmers in poorer rural regions of the world.

Our supplier base includes:

- direct suppliers (approximately 165 000 companies);
- 680 000 individual farmers, who deliver materials to Nestlé's buying stations through our Farmer Connect model.

Our sourcing profile

Nearly 40% of Nestlé's raw materials expenditure goes towards the procurement of three key commodities – milk, coffee and cocoa. We also source a wide variety of other commodities, such as fruit, vegetables and cereals, some of which are sourced directly from farmers, while sugar, oil, meat, spices and other ingredients are often sourced through trade.

In total, we are supplied directly by more than 680 000 farmers.

We procure processed meat and fish products, but we do not buy animals reared by contract farmers or procured in the open market and we do not raise or process animals as part of our operations. For more details, including working to promote animal welfare, see Meat and fish.

In total, 3.9 million people around the world benefit economically as a result of Nestlé's commercial operations.

Read about:

- commitments and challenges in the agricultural chain including promoting human rights, tackling child labour and combating deforestation;
- our approach to sourcing and supplier compliance, including vendor approval process, implementation of the Nestlé Supplier Code, Responsible Sourcing Audits and Traceability.



Tackling child labour

Our commitments

Child labour has no place in our supply chain.

We are against all forms of exploitation of children, and are firmly committed to actions to tackle the issue of child labour in agricultural supply chains, in line with our commitments in the Nestlé Corporate Business Principles.

Our actions

We are committed to proactive, collaborative action through interventions targeting higher risk commodities and countries¹. In 2011, Nestlé became the first food company to work with the Fair Labor Association (FLA). We became a formal member of the FLA in 2012.

Cocoa supply chain

The FLA's independent experts are examining our cocoa supply chain in Côte d'Ivoire to investigate whether children are working on farms supplying our factories. This assessment work began in 2012.

Where evidence is found of child labour in the cocoa supply chain, the FLA will identify the root causes and advise Nestlé how to address them. We are committed to working with the FLA and other stakeholders including the government in Côte d'Ivoire to address any problems identified.

Hazelnut supply chain

As part of our Responsible Sourcing Audit Programme, our key hazelnut suppliers in Turkey have been audited by an independent third party, and we also commissioned the FLA to conduct farm-level assessments of working conditions of seasonal workers.

Vanilla supply chain

As part of our Traceability programme, we have conducted an investigation into our extended vanilla supply chain in Madagascar. In 2011, we worked with our suppliers to establish transparent supply chains back to the farm level. This serves as a basis for engaging with rural communities on best agricultural practices and the provision of education, nutrition and health to children. We have also led the creation of a multi-stakeholder initiative of businesses, governments and NGOs with the aim to develop a Code for Sustainable Vanilla Production.

Our approach

We understand that actions to tackle child labour are likely to achieve best results when approached in an holistic manner involving a range of factors – for example, labour and health and safety practices backed by school attendance.

The Nestlé Supplier Code includes a strict prohibition on child labour (as well as non-negotiable minimum standards on business integrity, health and safety, environmental and labour standards). Suppliers with whom we deal directly are audited by an independent third party.

Where cases of child labour are discovered, Nestlé will expect suppliers to approach each case separately and always seek to solve the problem in the best interest of the child or children involved.

1. High risk commodities and countries are listed in a Guidance document, and reviewed regularly.



Key elements

- **Oversight.** We operate a Child Labour Action Group chaired by an executive board member, to identify measures, take decisions and monitor progress.
- **Responsibility for management of the issue.** This includes overall management responsibility for each high risk commodity by a named business unit, and management of the situation at the local level by the markets (country operations).
- **Targeting high-risk commodities and high-risk children.** This includes assessment of the risk to child rights; a clear strategy to address the issue and its root causes; a focus on vulnerable groups (the children of migrant workers, girls, orphans and trafficked children); proactive work with suppliers; and termination of all business with suppliers unwilling or unable to comply.
- **Improving understanding and competence.** This includes engaging specialist partners, providing staff training and guidelines to tackle child labour, and dialogue with civil society organisations.
- **Delivering transparency.** This includes communicating our commitments to suppliers and stakeholders; operating a complaints mechanism; monitoring progress; and reporting on actions and progress.

Working with the Fair Labor Association

In 2011, Nestlé worked with the Fair Labor Association (FLA), a non-profit, multi-stakeholder association that works with major companies to improve working conditions in their supply chains.

Following our collaboration on the hazelnut supply chain in Turkey to ensure sound labour conditions for the hazelnut workers back to the farm level, in 2011 we began a project in Côte d'Ivoire, where we buy most of our cocoa supplies.

Together with the FLA, we are working to tackle the issue of child labour across this supply chain, which is long and complex, making it difficult for food companies to establish exactly where the cocoa comes from and the conditions in which it was harvested.

Building on our efforts under the Cocoa Plan, the FLA will send independent experts to Côte d'Ivoire in 2012 and where evidence of child labour is found, the FLA will identify root causes and advise Nestlé how to address them in sustainable and lasting ways.

We became a formal member of the FLA in 2012; we were the first food company to do so.



Combating deforestation

Nestlé views the destruction of tropical rainforests and peatlands to cultivate crops such as palm oil as one of the most serious environmental issues facing us today. It is estimated that rainforest destruction contributes to around 20% of greenhouse gas emissions and the growing use of biofuels is a significant factor.

In 2010, we made a commitment to ensure that our products do not have a deforestation impact and announced a partnership with The Forest Trust (TFT) to eliminate deforestation from our supply chain. This covers a broad group of commodities.

Palm oil

Specifically on palm oil:

- Together with TFT, we have established Responsible Sourcing Guidelines (RSGs). In 2010 we started to map our palm oil supply chains and we are now assessing our suppliers' compliance with these guidelines and are providing technical support to those committed to achieving sustainability. Our actions focus on establishing traceable supply chains and on assessing and developing suppliers against the RSGs. We systematically identify and exclude companies owning or managing plantations linked to deforestation.
- We have committed to purchasing palm oil solely from sustainable sources by 2015.
- We have made strong progress towards that goal: In 2011, 54% of our palm oil purchases came from sustainable sources. Our target for 2012 is 80%.
- We are an active member of RSPO.

Palm oil is also used for the production of biofuels and Nestlé continues to advocate against the use of crops for fuel rather than food, as the growing use of biofuels is a significant factor in the destruction of rainforests.

Supplier selection

Any future decision regarding our selection of suppliers and supply strategy is based on their active engagement in building transparent supply chains in compliance with the Responsible Sourcing Guidelines, and our overarching principles set out in the Nestlé Supplier Code.

"For the first time ever, a global company is saying that it doesn't want its products to have a deforestation footprint, and it is taking action to live up to its words. This is the whole push behind our model – to get one end of the supply chain to take responsibility for what happens at the other."

Scott Poynton, Executive Director, The Forest Trust

"Nestlé's policy sends a very clear message to companies that are destroying forests and peatlands for new plantations. If you don't stop deforestation and protect peatlands, your days of supplying to global brands such as Nestlé are over."

Andy Tait, Senior Campaign Advisor, Greenpeace



Global zero-net deforestation

Nestlé also shares the Consumer Goods Forum commitment to global zero-net deforestation by 2020. Nestlé will work with industry platforms, government and civil society stakeholders on the broader global effort to tackle deforestation, and use its influence to support funding mechanisms and other practical schemes that will assist countries and local communities to conserve their natural assets.

Recognition for our commitments

Nestlé's innovative partnership work with The Forest Trust to combat deforestation connected to palm oil production was voted a Silver Winner in the Best Green Collaborative Initiative Award category at the 2011 International Green Awards™. We were also a runner up in the Ethical Corporation Responsible Business Award.

Project RiLeaf: supporting palm oil communities in East Malaysia

The Kinabatangan river in Sabah, Borneo, has significant biodiversity value, making it a focal point for conservation interests. But the region has also experienced large-scale logging and, more recently, the development of 350 000 hectares of palm oil plantations. The wider region is an important source of palm oil for Nestlé although to date there has been little progress to improve management practices.

As a consequence of our work on responsibly sourced palm oil and our proactive engagement with suppliers, Nestlé has begun an innovative programme that uses the river as the focal point for engagement with the palm oil industry. We aim to demonstrate new ways to lower the impact of palm oil cultivation while improving the natural capital of the region and facilitating rural development – an example of Creating Shared Value in operation.

Through agreements with the Sabah State Government and the University Malaysia Sabah, the Nestlé-led Project RiLeaf is trying to create a landscape and a business model where local people and palm oil production can co-exist in balance with nature.

To minimise water pollution from sedimentation and soil erosion, the reforestation of the riverbank has commenced. This involves engaging the local communities in growing, selling and planting seedlings of native forest trees to create a "green buffer zone" between river and plantations. Our target is to restore 2400 hectares of riverbank by the end of 2014 and an initial planting phase saw 27 000 seedlings planted by September 2011.

As a result, the local villagers get a new income stream from their seedlings, thousands of local smallholders have access to technical advice, leading to better yields and higher incomes, and the whole community will benefit from a cleaner river. We are also working to minimise their use of chemical fertilizers and pesticides, undertake technical trials to combat common palm oil diseases and improve agricultural practices, helping suppliers to meet our Responsible Sourcing Guidelines. Any positive findings will be freely shared with others in the industry.



Promoting human rights among our suppliers

Our commitments

Nestlé strives to ensure that our suppliers respect and uphold human rights across their workforces.

The Nestlé Supplier Code is our policy document which commits suppliers to comply with:

- our core integrity standards with regards to human rights (for example, forced labour, child labour, conditions of work, non-discrimination, freedom of association, health and water);
- investment and procurement practices;
- complaints and grievance practices.

We use the Sedex Members Ethical Trade Audit (SMETA) 4 Pillars tool to audit our suppliers' performance against the Nestlé Supplier Code. This tool covers labour, health and safety, environment and business practices areas of direct relevance to the assessment of our suppliers' human rights performance.

Human rights assessments

Working with the Danish Institute for Human Rights (DIHR), we have carried out assessments that cover, among other areas, our procurement and sourcing of raw materials.

We continue to tackle child labour and improve access to education in cocoa-growing areas, in association with the International Cocoa Initiative, and work with the Fair Labor Association on working conditions and child labour in the hazelnut supply chain.

In Colombia, Nestlé continues its ongoing dialogue with Alliance Sud, an advocacy group for six Swiss NGOs. After five years of engagement, during which the impact of our activities and our relationships with trade unions and local communities on national development and human rights was examined, a report was published in June 2011. Globally, the International Union of Food Workers (IUF) stopped its campaign against Nestlé in March 2011, when a solution to the labour conflict in Indonesia was found. Unfortunately, industrial relations in the Indonesian Panjang factory deteriorated again later in the year, which led to a resumption of the campaign.



Milk

In terms of value of products sold, Nestlé is the world's largest milk company. We sourced over 13.41 million tonnes of fresh milk equivalent from more than 30 countries in 2010.

The dairy industry is one of the most powerful engines for rural development and the majority of Nestlé's rural factories are within our milk districts.

The milk district model

Through our successful milk district model, which we first used in the 1870s and continue to use widely, we work directly with small-scale dairy producers and cooperatives to build a supply chain. The model has been adopted in many developing countries including Brazil, Chile, China, India, Mexico and Pakistan.

The essence of our milk district model is that farmers supply our milk factories directly, and Nestlé provides facilities and support to develop the local supply chain. This includes local collection, storage and chilling facilities, providing a reliable route to market and product quality assurance.

We also work at farm level: our agronomists and vets provide technical advice and training to farmers, and we provide access to financial assistance for them to expand their operations.

Value for Nestlé, farmers and communities

For Nestlé, this means a regular supply of high-quality milk to meet consumer demand, and by building close links with local dairy farmers, we can also advise them continuously on quality and farming practices in order to maintain and enhance standards.

For farmers, the milk district model means a higher, more rewarding price, regular payment, a secure route to market and access to local facilities and infrastructure including collection, storage, chilling and transport.

There is also value for the local community, both in direct employment opportunities at our milk factories and indirect opportunities for local contractors and agents in our milk collection and chilling centres.

Nestlé Dairy HUB Project, Pakistan

The Nestlé Dairy HUB Project, Pakistan has been increasing milk production and farm profitability among small-scale farmers since October 2009. The project is implemented at three Dairy Hubs in the fertile Mian Channu district of Lower Punjab. Each Hub (which covers 10-12 villages) houses a team of five supervisors, including veterinary and gender specialists (the majority of farmers are women) to deliver training and technological assistance to farmers in crop and animal husbandry techniques; milk quality control; artificial insemination methods; preventative vaccinations and deworming, and nutrition and effective fodder planning.



This holistic approach to dairy farming has had a profound effect on the region's dairy farmers and their communities over three years:

- the number of farmers participating in the project has increased from 275 to 1298;
- annual milk collection has increased three-fold;
- reproductive performance has improved among cows and buffalo;
- calf survival rates have risen from 50% to over 90%;
- the cost of milk collection has been reduced by increasing milk density in the area;
- vulnerability to seasonal fodder shortages is reduced through the fodder planning programme.

Due to these successes, HUB will be rolled out across Pakistan more widely.



Coffee

In 2011, we purchased 89 392 tons of green coffee through our Farmer Connect programmes in Vietnam, Thailand, China, Indonesia, the Philippines, Côte d'Ivoire and Mexico, maintaining our industry-leading position in terms of direct purchases of green coffee. We also provided technical assistance and training to more than 16 000 coffee farmers involved in these programmes during 2011.

Through The *Nescafé* Plan, we will increase this volume by 2015 to approximately 180 000 tonnes a year. These coffees will be 4C compliant in accordance with The Code of Conduct of The Common Code for the Coffee Community (4C). This is a multi-stakeholder association of which Nestlé is a founding member and which we strongly support. 4C is a unique organisation with members across trade and industry, producers, civil society and companies active in the coffee supply chain.

The Nestlé Supplier Code is an integral part of any green coffee contract. Our Nestlé Quality Control Centres (NQCCs) carry out quality assurance before shipment and also periodic spot-checks on exporters and their premises to ensure compliance. We are continuing to expand our technical assistance programme, which incorporates training on aspects contained within the Supplier Code and covers more than 10 000 farmers a year.

The coffee supply chain

The coffee supply chain is extremely complex and 80% of the farmers are smallholders. Around 25 million smallholders depend directly on coffee farming for their livelihoods, and a further 100 million people are involved in the industry as a whole.

Through Farmer Connect, our direct buying system, tens of thousands of farmers and small-scale intermediaries deliver coffee directly to our buying stations. Through this system, they secure a higher price and gain access to technical assistance. This is a "win-win-win" partnership, as it:

- helps farmers to increase yields and to diversify their activities, giving them higher incomes and improving their living standards;
- provides Nestlé with a reliable supply of high-quality raw materials;
- brings sustained growth for the local economy.

It also helps to train the next generation of coffee growers, and ensures that coffee remains a commercially attractive crop to grow.



The Nescafé Plan

In August 2010, we launched The Nescafé Plan, which brings together Nestlé's pledge to sustainable coffee farming, production and consumption under one umbrella.



The Plan has a set of global objectives which aim to help the Company further optimise its coffee supply chain, including an increase in direct purchasing as well as technical assistance programmes for coffee farmers.

By 2015, we will have:

- doubled the amount of directly procured Nescafé coffee bought from around 170 000 farmers every year;
- ensured all *Farmer Connect* coffee meets the 4C code of conduct.

By 2020, we will have:

- invested CHF 500 million in coffee projects: CHF 350 million in support of The Nescafé Plan and CHF 150 million for Nespresso;
- procured 90 000 tonnes of Nescafé coffee grown according to Rainforest Alliance (an international NGO) and Sustainable Agriculture Network (SAN) principles;
- distributed 220 million high-yield, disease-resistant coffee plantlets to farmers.

Marketing certified coffee to consumers

Currently, there are no plans to market certified coffee to consumers (ie, coffee carrying a certification seal on the label). We believe that our own Responsible Sourcing platform, which combines in-house codes and guidelines, capacity-building teams for key commodities and suppliers, NGO and industry partnerships and third-party certifications, offers a more targeted approach than certification alone.

For example, Nestlé is supplying high-yield coffee plantlets to farmers to replace their ageing low-yield trees. No coffee certification scheme currently covers this aspect of capacity building, which is critical to ensuring farmers' long-term supply capabilities and the quality of our coffee supply chain.

Nescafé's approach is to assist farmers in improving the quality and productivity of their crop in a sustainable manner. We are using the 4C verification code of conduct and the SAN standard to measure, monitor and verify progress Nestlé has also developed in conjunction with the Rainforest Alliance and the 4C Association the Nescafé Better Farming Practice – read more about Sustainable coffee platforms.



Sustainable coffee platforms

Nestlé participates in a number of sustainable coffee initiatives. These include the Coffee Working Group of the Sustainable Agriculture Initiative of the Food Industry (SAI-Platform), and the 4C Association, of which we are a founding member. Nestlé follows the 4C voluntary code of conduct to improve efficiency, profitability, transparency and sustainability in the production, processing and trading of coffee through training and verification.

In 2011, we joined the Coffee Task Force in Vietnam, a group that we are leading. This is part of a major public-private partnership under the World Economic Forum, which is working on sustainable agricultural growth in Vietnam. Special attention is being given to improve productivity and quality, environmental sustainability and the expansion of opportunities for smallholder farmers.

We are actively involved in the IDH Coffee programme on a pre-competitive basis. This programme aims to further increase sustainable coffee production in a pre-competitive manner and make coffee farmers more resilient in an ever-changing market.

Nestlé has developed an innovative partnership with Federación Nacional de Cafeteros in Colombia called FedeNest. The additional cost element generated by 4C Compliance directly flows through to the farmers, and there is also an aspect of funding generated that provides additional benefits and services to farmers. These types of initiatives will be replicated with trade partners in a wide range of origins.

We are also involved with other sustainable coffee verification and certification schemes such as Rainforest Alliance, Fairtrade, UTZ Certified and organic.



TRAINING PROGRAMME: A classroom at the Nestlé Experimental and Demonstration Farm in Tagum, The Philippines.



SUSTAINABLE PRODUCTION: Farmers in Nicaragua learn how to increase the quality of their crops and eliminate practices that harm the environment.



Nespresso

In a year when *Nespresso* is approaching the 10th anniversary of its unique sourcing programme focused on sustainable quality, the *Nespresso* AAA Sustainable Quality™ programme is going from strength to strength. The direct relationships developed with farmers are leading to loyalty among AAA producers. Moreover, there has been a significant expansion of the number of specific initiatives designed to address the three key challenges of the sector, namely:

- processing consistently highest quality coffees;
- producing sustainably;
- optimising farm productivity.

Goals and performance

The *Nespresso* objective is to source 80% of its coffee from its AAA Sustainable Quality™ programme and Rainforest Alliance Certified™ farms by the end of 2013.

By the end of 2011, *Nespresso* is on track with 60% of the coffee utilised coming from the AAA programme.

About the *Nespresso* AAA Sustainable Quality™ programme

Launched in 2003 in partnership with the Rainforest Alliance and designed to help secure the long-term sustainable production of coffees that meet the specific *Nespresso* taste and aroma profile (only around 1–2% of the coffees in the world), the programme has developed into a significant and innovative initiative in the speciality coffee sector, attracting major partners who recognise the AAA approach as an effective model for Creating Shared Value for all stakeholders.

The partnership with the Rainforest Alliance and the integration of the indicators of their Sustainable Agriculture Network (SAN) standards into the AAA approach has put wise management of water resources at the heart of the programme. 26 of the indicators of the standard are directly related to best practices in water treatment, irrigation and other measures that conserve water.

Central America

In Guatemala in 2011, the Huehuetenango cluster (around 450 farmers) completed the second year of a partnership with Root Capital to provide financial and business literacy training to farmers' associations. Root Capital is an NGO non-profit social investment fund that is pioneering finance for grass roots businesses in rural areas of developing countries. The evidence is that this approach is also leading to stronger relations with the producers. Also in Guatemala in 2011, the Fraijanes cluster (composed of five cooperatives and around 200 farmers), became fully compliant with Rainforest Alliance standards.

2011 also marked an important step forward for AAA in Central America. A significant multilateral partnership between *Nespresso*, the coffee supplier ECOM, Rainforest Alliance and the International Finance Corporation has supported over 5000 AAA coffee growers in the region. Started in 2006 in Mexico, Costa Rica, Guatemala and Nicaragua, focusing mainly on under-performing farms, this programme has been very effective. By the end of 2011, about half of these farms were already producing sustainable coffee, adhering to water management and conservation practices as well as all the other SAN standard criteria.



Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
---------------------------------	-----------	--------------------------	-------	------------------------------	------------	------------

South America

The progress in Brazil, the second biggest producer of AAA coffee after Colombia, is also encouraging. In the Mogiana region, after a second round of audits, the AAA programme had led to the creation of the largest area of coffee cultivated in compliance with the SAN standard in Brazil, covering almost 46 large farms and more than 6000 hectares. At least 20% of this area is preserved as forest to protect water resources and encourage biodiversity.

In Colombia, one of the most important coffee sourcing countries for Nespresso and the country with the highest number of individual AAA farmers, the two main priorities of the AAA programme are to join the efforts of the local coffee authorities to regain the declines in productivity of recent years and to address water management, one of the main issues of the coffee industry in the region.

At the end of 2011, 37 000 farmers in Colombia have already joined the AAA programme. Nespresso has been working closely with the Federación Nacional de Cafeteros de Colombia and other partners to create innovative and efficient solutions to address water conservation issues.

The first of these has led to the installation of around 17 000 water treatment units (since 2008) including 2700 in 2010/11. The second initiative has been the co-financing and implementation of a central mill in Jardín, Antioquia. The water infrastructure in this new mill is designed to reduce the water consumption by half and treat 100% of the waste water.

The first AAA coffee from the central mill in Jardín was produced in 2011, and included in the first AAA Limited edition grand cru, Dhjana, launched in September.

Extending the the Nespresso AAA Sustainable Quality™ programme

As well as the initiatives above, Nespresso has extended the AAA programme from Latin America and Central America into Asia, and has taken the first steps in bringing the programme to India.



QUALITY: In Colombia, Nespresso agronomist Liliana Franco Rodríguez (right) helps coffee farmer Luis Alfonso Ángel Jaramillo to meet the standards of the Nespresso AAA Sustainable Quality Program.



Cocoa

Cocoa, the most important ingredient of chocolate, provides an income to more than 4.5 million farmers in remote, rural locations across the world.

To enhance our ability to continue to do business in the future, make better quality chocolate and satisfy consumer preference, it is vital that we ensure the wellbeing of the cocoa farmers that supply us and the communities in which they live.

We therefore decided to launch a range of initiatives to improve farm profitability, cocoa quality and traceability in the cocoa supply chain, and in 2009 we brought them together under one programme – The Nestlé Cocoa Plan.

The Nestlé Cocoa Plan

The Nestlé Cocoa Plan is driving forward the way we source cocoa globally. Through it, we are working with small-scale farmers to ensure the supply of high-quality, sustainably sourced cocoa, supporting community development and meeting certified ethical and environmental standards. We are:

- investing CHF 110 million in cocoa plant science and sustainability initiatives from 2010-2019;
- distributing 1 million high-yielding, disease-resistant cocoa plantlets each year from 2012, which helps to address the issue of declining quality and yields are linked to old and dying cocoa plants;
- training 30 000 cocoa farmers on farming and post-harvest practices;
- supporting other social projects in cocoa-growing areas.

In committing CHF 110 million to The Nestlé Cocoa Plan from 2010-2019, Nestlé's investment will focus on plant science and sustainable production in Côte d'Ivoire and Ecuador (the world's largest sources of cocoa and fine cocoa respectively). This investment builds on the CHF 60 million already invested in the preceding 15 years.

Focus areas

To help cocoa farmers to run profitable farms, respect the environment, have a good quality of life and give their children a better education, The Nestlé Cocoa Plan focuses on four key areas:

- **training farmers** on agricultural best practice to increase their yields, reduce cocoa disease, adopt better agricultural farming practices and produce a better quality crop;
- **investing in plant research** to propagate disease-resistant plantlets to improve the quality, quantity and sustainability of cocoa production;
- **improving the supply chain** by buying from cooperatives and paying a premium for high-quality cocoa;
- **improving social conditions** in cocoa-growing areas by working with partners to tackle child labour, improve education opportunities, and to improve water and sanitary conditions.



THE PLAN IN ACTION: Nestlé's R&D centre in Abidjan is developing a new facility that will supply over 10 million high-quality plantlets to cocoa farmers in 10 years



Certification

The Cocoa Plan works with leading certification programmes UTZ CERTIFIED and Fairtrade with the aim of implementing a sustainable cocoa supply chain to benefit both farmers and consumers. Nestlé is a member of the UTZ CERTIFIED Good Inside Cocoa programme, which is aimed at promoting sustainability in mainstream cocoa production through independent certification of improved agricultural, social and environmental practices. Nestlé is committed to buying an increasing amount of certified beans in the coming years:

- Canada: in 2011, 10% of the cocoa purchased for our *KitKat*, *Aero*, *Coffee Crisp* and *Smarties* brands was UTZ CERTIFIED; by 2014, we want to purchase only certified cocoa for these product lines;
- Australia and New Zealand: in 2011, 100% of the cocoa purchased for *KitKat* was UTZ CERTIFIED; in 2012, we want to extend this percentage to 100% for our *Smarties* and *Club* brands;
- Europe (Excluding Belarus, the Ukraine, Russia and the UK): 10% of cocoa purchased for our *KitKat* 4-Finger was UTZ CERTIFIED in 2011; we are working to purchase 100% UTZ CERTIFIED cocoa for all our *KitKat* products by 2014. In the UK, *KitKat* 4-Finger is 100% Fairtrade certified.

Performance

In 2011 we:

- sourced 6% of our global cocoa supply via The Nestlé Cocoa Plan;
- trained 19 115 cocoa farmers to improve productivity and sustainability;
- distributed 824 000 higher-yielding, disease resistant-plantlets;
- helped 10 of our partner cocoa cooperatives to achieve UTZ certification, with a further six expecting to achieve certification in early 2012;
- launched The Nestlé Cocoa Plan in Indonesia;
- began new collaborations with the Fair Labor Association, the World Cocoa Foundation and the Sustainable Trade Initiative (IDH).

Targets

Our targets for 2012 are to:

- source 10% of our global cocoa supply via The Nestlé Cocoa Plan;
- deliver more than one million disease-resistant cocoa plantlets to farmers;
- partner with the World Cocoa Foundation ECHOES programme in West Africa to start a programme to build or refurbish 40 schools over four years, provide complementary activities such as adult livelihoods education, and provide 140 family support scholarships for children's education and women's entrepreneurship.

Recognition for The Nestlé Cocoa Plan

Our achievements through The Nestlé Cocoa Plan were recognised when Nestlé Professional United Kingdom was named winner of the Sustainable Sourcing category in the Foodservice Footprint Awards in the UK.



Training farmers

Globally we trained over 19 000 cocoa farmers in 2011, an increase of more than 13 000 compared to the previous year.

Training for farmers in Côte d'Ivoire

6400 farmers were trained in Côte d'Ivoire as part of The Cocoa Plan between October 2010 and September 2011.



As part of our global partnership with Olam International in Côte d'Ivoire, we have worked to educate more than 1000 farmers from eight cooperatives on issues such as best pre- and post-harvest practice, child labour awareness and pest management.

Capacity building training also took place in May 2011, with 31 cooperative managers attending. The topics included governance, credit management, organisational skills and regeneration of ageing farms.

Despite the security situation in the country, which impeded upcountry travel and the effective training of many farmers, The Cocoa Plan resulted in a 55% increase in planned production volumes. This has enabled more than USD 500 000 of premiums and bonuses to be paid, thus boosting incomes and helping farmers to overcome the hardship of the post electoral crisis. The strong performance has allowed four cooperatives to proceed to UTZ certification, further improving revenue and livelihoods.

From October 2011 to September 2012, we aim to train a minimum of 15 000 farmers.



- Creating Shared Value at Nestlé
- Nutrition
- Rural development**
- Water
- Environmental sustainability
- Compliance
- Our people

Investing in plant research

Further research into, and distribution of, cocoa plants has a major impact on the ability of cocoa farmers to grow more, higher-quality crops over the long term, and thus sustain a higher income.

In terms of cocoa plants, we aim to distribute 12 million high yielding and disease resistant cocoa plants to farmers by 2020.

In Côte d'Ivoire, our largest supplier of cocoa, we aim to distribute 1 million plants in 2012.

Our R&D Centres in Abidjan, Côte d'Ivoire and Tours, France, work with other research institutes around the world to propagate higher-yielding, disease-tolerant cocoa plantlets.

The trees can produce typically 50%–200% more cocoa (up to 1500 kg of cocoa beans per hectare). In Ecuador, we are propagating fine cocoa Arriba varieties for use in our premium chocolate brands.

Improving cocoa quality in Ecuador

Following an increased demand for Ecuadorian cocoa from our factories in Europe, a study was undertaken in 2010 through The Nestlé Cocoa Plan to map supply routes in Ecuador and address the problem of inconsistent quality of cocoa provided.

To help build supplier loyalty and deliver consistent quality, the work has involved training farmers in good agricultural practices to increase productivity and income by a dedicated Nestlé team of agronomists. Nestlé has distributed quality cocoa trees as well as provided farmer training in tree propagation and grafting methods to further increase tree availability. Some 1400 farmers were trained in 2010 and 2011; with more than 270 000 cocoa plants distributed to farmers in the same period.



BUILDING LOYALTY AND DELIVERING QUALITY: We have worked with farmers in Ecuador to address the problem of inconsistent quality.



Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
---------------------------------	-----------	--------------------------	-------	------------------------------	------------	------------

Improving the supply chain

The journey from the cocoa bean to chocolate is typically long and complex, and improvements in the supply chain benefit both Nestlé and the farmer cooperatives we use. Simplifying the process and reducing the need for middlemen can increase farmers' profits whilst improving the quality of cocoa that Nestlé receives.

In Cote d'Ivoire we are putting in place systems to give traceability from cooperative to factory. Through our partnership with Olam, we have introduced a system to enhance traceability at the eight cooperatives in Côte d'Ivoire that supply us. Each of the cooperatives has been trained to maintain a farmer database that allows them to trace which cocoa bags have been supplied to individual, numerically identified farmers. The cooperatives have also signed a partnership agreement to ensure a greater respect of child labour regulations, with spot checks carried out by the programme partners.

Working with Noble, another of our supply chain partners in Côte d'Ivoire, we aim to more than double our tonnage of cocoa from 2011 to 2012. As a result of The Nestlé Cocoa Plan programme, one cooperative working with Noble has only produced the highest quality Grade One cocoa beans and is determined to produce no standard cocoa – a clear indication of the level of good agricultural practices being adopted.

We are committed to improving the supply chain through The Nestlé Cocoa Plan, and continue to source more and more cocoa from trusted suppliers. Between October 2010 and September 2011, we purchased 27 000 tonnes of cocoa globally, an increase of 15 500 on the previous year. Our target for 2012 is to source more than 40 000 tonnes.

Working with our supply chain partner Olam, we have built three solar cocoa driers for two cooperatives in Côte d'Ivoire. These use locally available materials – wood, bamboo and polythene – and use the sun to dry the cocoa while protecting it from rain. This speeds up the drying process and improves the quality of the cocoa from the cooperative, helping the farmers earn a higher price.

Extending The Nestlé Cocoa Plan to Indonesia

In July 2011 we launched The Nestlé Cocoa Plan in Indonesia, the world's third largest coffee producing country. The initiative seeks to increase cocoa productivity at farmer level by 30%, helping to improve the lives of approximately 10 000 Indonesian cocoa farmers and their communities by 2015. Led by Nestlé Indonesia and supported by the Nestlé Research and Development Center in Tours, France, there will be an investment of more than CHF 3.4 million over four years by Nestlé and partners to train farmers, provide plant expertise and support supply chain transparency. It also aims to improve livelihoods by focusing on projects related to nutrition education, water and rural development.

To help progress the plan, we have recently signed a partnership agreement with the Sustainable Trade Initiative to facilitate investment and regular stakeholder dialogue to discuss topics of mutual interest and concern. The Cocoa Productivity and Quality Programme Facility (CPQP) – part of the Sustainable Trade Initiative – will help large numbers of smallholder cocoa farmers to move out of poverty and make the transition to running viable businesses for sustainable cocoa production.



THE COCOA PLAN IN ACTION: Farmers outside the Nestlé experimental and demonstration farm in Mamuju



Improving social conditions

Living conditions in rural cocoa-farming communities are often poor, but through the Cocoa Plan we will continue to work with a number of partners to improve access to healthcare, education, water and sanitation.

Tackling the issue of child labour in the agricultural supply chain is a specific requirement of Nestlé’s Supplier Code, and in 2011 we became the first food company to work with the Fair Labor Association (FLA) – a non-profit, multi-stakeholder association – to look together at how we can better eliminate the use of child labour in our cocoa supply chain in Côte d’Ivoire. Building on our efforts under the Cocoa Plan, the FLA will send independent experts to locations where there is evidence of child labour to identify root causes and advise Nestlé on how to address them in sustainable and lasting ways. Nestlé also became a member of the FLA in 2012; the first food company to do so.

We are also a founding participant of the International Cocoa Initiative (ICI), which is working to end child labour practices and ensure that children in cocoa-growing communities are not exploited and have access to education, and we continue to work with the International Federation of Red Cross and Red Crescent Societies (IFRC) to help fund clean water and sanitation in schools in cocoa-growing areas of Côte d’Ivoire to a further 50 communities.

Children’s education in Côte d’Ivoire

In October 2011, Nestlé began a partnership programme with the World Cocoa Foundation (WCF) aimed at improving the educational infrastructure for children in cocoa-supplying regions in Côte d’Ivoire – with the aim of reducing child labour.

Nestlé is investing USD 1.5 million in the programme over four years, focusing on 20 communities in rural Côte d’Ivoire. The Nestlé investment will be leveraged by the resources and the activities of the four-year, USD 8 million USAID extension of the WCF ECHOES programme.

Depending on initial baseline educational assessment, the implementation of the programme is expected to include the construction of 40 new schools and establishment or refurbishment of water and sanitation services for schools. In these same target communities, the WCF ECHOES programme will support through the provision of family support scholarships to pay for children’s education and enable women’s entrepreneurship and agricultural and livelihood education, including literacy training.

Intended to impact the lives of 16 000 people (10 000 children and young people, and 6000 family and community members), the programme will make school attendance a more attractive and viable option for parents and children, thereby encouraging reductions in child labour.



ENCOURAGING EDUCATION: Nestlé is working with the International Cocoa Initiative (ICI), to end child labour practices and ensure that children in cocoa-growing communities have access to education



Creating Shared
Value at Nestlé

Nutrition

Rural
development

Water

Environmental
sustainability

Compliance

Our people

Framework for action

We are pleased to be part of a new partnership (comprising joint financial commitment from industry and the U.S. Department of Labor), in support of the principles of the 2001 Harkin Engel Protocol to achieve a significant reduction in the worst forms of child labour in cocoa-farming communities in West Africa. For further information on this initiative, see www.responsiblecocoa.com.



Animal welfare

Context

Nestlé does not raise or process animals as part of our operations.

We do operate two dairy demonstration farms in Pakistan, with 430 cows and heifers, and three buffalo, with the purpose of offering training to local farmers of the Punjab as part of our rural development programme. Care for animals is an important element of the training on our demo farms in Pakistan, which includes a comprehensive farm manual capturing best practices in dairy farming, animal health and welfare.

These topics are equally integral to our farmer training across 17 other markets, which has been provided to a total of 33 346 farmers.

The meat and fish supply chain

We procure processed meat and fish products in the form of oils, powders, frozen and fresh produce – we do not buy animals reared by contract farmers or procured in the open market.

Goals

In line with our comprehensive approach to Responsible Sourcing, Nestlé is working to ensure that verifiable standards of animal welfare are upheld by our providers of meat and fish products, used in our range of Purina petfoods and other products. Nestlé's key suppliers of animal-based products are audited against leading ethical practices by an independent third party. Animal welfare will also be addressed as part of our new Responsible Sourcing Guidelines for animal-based products, to be launched in 2012, covering extended supply chains (see Other commodities).

Systems, actions, performance

As part of our Responsible Sourcing Audit Programme, Nestlé key vendors supplying animal-based ingredients are audited against leading ethical practice guidelines.

During this ethical audit, compliance against local laws (including laws protecting animal welfare) and international standards is verified. If the supplier's factory encompasses a slaughterhouse as a part of its operations, animal welfare with regards to the slaughter of animals is verified and non-compliances are raised if found.

Meat and dairy products are also among the priority categories addressed in the framework of the Nestlé Responsible Sourcing Traceability Programme.

Nestlé is currently mapping its supply chains and is identifying key social, environmental and economic aspects – to be addressed by Responsible Sourcing Guidelines and related strategies by 2012. As a part of this, we are looking to develop robust guidelines with regards to animal welfare to ensure the sustainable and ethical sourcing of meat and fish products.

Today, the Nestlé Supplier Code already requires our suppliers to comply with all applicable laws and regulations, including animal welfare legislation. We also expect our suppliers to communicate these requirements to their own suppliers, back to the farm level. We will report further on the development of our Responsible Sourcing Guidelines with regards to animal welfare in 2012.



Other commodities

In 2010, we identified the first 12 priority categories to be covered by the Nestlé Responsible Sourcing Traceability Programme, which seeks to ensure we can identify risk and assure Responsible Sourcing across key product areas.

Following strategy implementation for palm oil and pulp and paper in 2010, in 2011 we established Responsible Sourcing strategies for sugar, soya, seafood, vanilla and hazelnuts.

In 2012, we will implement Responsible Sourcing strategies for cocoa, meat, coffee, dairy and shea.

Responsible sourcing of sugar

In 2011, Nestlé started working with Proforest, an independent, not-for-profit organisation specialising in natural resources sustainability to help develop and implement Nestlé Responsible Sourcing Guidelines (RSGs) for sugar. The RSGs define the social and environmental performance requirements, including on water management, for sugar production and guidance on implementation.

In 2012, we will begin to map our global sugar supply chains and start assessing priority suppliers against the RSGs. Nestlé will support suppliers who are not yet able to meet the RSGs, but have committed to become compliant.

Responsible sourcing of soya

In 2011, we partnered with Conservation International, a global environmental non-profit organisation, to develop and implement RSGs for soya. These will implement Nestlé's commitment on no-deforestation and forest stewardship in the field of soya sourcing.

In 2012, we will start mapping our global soya supply chains and start assessing and developing priority suppliers against the RSGs. Nestlé will support suppliers how are not yet able to meet the RSGs, but who commit to compliance over time.

Responsible sourcing of natural vanilla

Nestlé is working with its suppliers of natural vanilla and with the support of independent third parties to establish traceability and promote responsible practices in the production and sourcing of natural vanilla from Madagascar, the world's largest producer.

Our work focuses on improving the socio-economic conditions of small-scale farmer and rural communities through an enhancement of practices at producer base and a focus on education, health and nutrition.

Responsible sourcing of hazelnuts

As part of our Responsible Sourcing Audit Programme, our key hazelnut suppliers in Turkey have been audited by an independent third party, and we also commissioned the FLA to conduct farm-level assessments of working conditions of seasonal workers.



Responsible sourcing of pulp and paper

Nestlé is further progressing in its Action Plan on Responsible Sourcing of pulp and paper in partnership with The Forest Trust. The partnership was launched in 2010 and supports Nestlé's commitment on no-deforestation and forest stewardship.

RSGs for pulp and paper have been developed and in 2011 Nestlé's paper supply chains in the priority markets Indonesia, China, India, Europe, USA and Brazil were mapped. During 2012, key suppliers will be assessed against the RSGs and action plans developed.

Millet: Introducing a new crop in central Spain

Nestlé Nutrition uses many different cereals as raw materials in its infant cereal factories in Europe. Wheat and rice are the main cereals used, with rye, barley, durum wheat and millet being used in smaller quantities.

In order to ensure the safety and quality of the finished products, all of the cereals are contracted with suppliers and farmers. All agricultural inputs including fertilisers and pesticides are controlled by Nestlé. Storage and transport are also checked to ensure traceability and avoidance of storage pests and diseases.

Africa and Asia are the main growing regions for millet while in Europe, millet is only grown in small volumes, making it difficult for Nestlé Nutrition to source locally.

To respond to these challenges, Nestlé Nutrition Europe and our procurement teams partnered with a local mill and surrounding farmers in the Valladolid region of Spain in order to assess the possibility of introducing millet as a new crop to the region. After initial trials in 2008, the first deliveries were made to Nestlé Nutrition factories in 2010.

Through the combined efforts of farmers, miller and Nestlé, there have been several Creating Shared Value benefits:

- ensured supply of compliant baby food raw materials to Nestlé Nutrition;
- reduced transport and storage needs as the millet is grown close to the mill;
- a reduction in pest and disease risk, pesticide use and soil erosion, as well as increased soil fertility. This is due to the fact that the new crop can be introduced to the local crop rotation as an alternative to wheat and barley;
- better utilisation of local milling capacity and by introducing an alternative crop, further business development is also supported;
- farmer net income has been increased by 30% compared to wheat.



Hazelnuts

As part of Nestlé's Responsible Sourcing Programme, in 2011 we started collaborating with the Fair Labor Association (FLA) to assess the working conditions in the extended hazelnut supply chain in Turkey vs. the Nestlé Supplier Code, the FLA Code of Conduct, ILO Conventions and Turkish law. The assessment team visited a total of 26 farms, 3 tent settlements established by the Turkish government and 15 grower accommodations provided by farm owners. Almost 400 interviews were conducted with farm workers and other stakeholders — from local government and union organizations to growers, labor contractors and crackers. Some of the findings include:

1. Presence of illegal foreign workers;
2. Lack of employment records;
3. Compensation discrimination;
4. Harassment;
5. Under-age workers; and
6. Lack of supply chain transparency

The Fair Labor Association report has established a valuable evidence base that will benefit Nestlé and also other buyers, the Turkish hazelnut export sector, government and civil society in developing effective strategies for concrete improvement in labour conditions where shortcomings have been identified.

The FLA report has made short- and long-term recommendations:

For the Government:

1. Creation/enforcement of labour law for agricultural activities employing less than 50 workers;
2. Improvement of coordination among local authorities;
3. Regulation of recruitment processes related to seasonal migrant labour;
4. Addressing the issue of migrant worker transportation; and
5. Raising awareness among all stakeholders about child labour risks and the creation of educational, cultural and sporting facilities in government-provided accommodations.

For International buyers:

1. Adoption of and adherence to a Code of Conduct in the agriculture sector;
2. Inclusion of a Code of Conduct in supplier contracts;
3. Monitoring throughout the supply chain to ensure adherence in a multi-year process;
4. The creation of annual targets with specific key performance indicators;
5. Possible consolidation of the supply chain;
6. Bottom-up approach, incl. raising awareness and increasing capacity at village and farm level;
7. Development of public-private partnerships to eradicate child labour;
8. Creation of management systems to identify and respond to non-compliances/risks;
9. Training for stakeholders throughout the supply chain.



Nestlé Action Plan:

Nestlé supports all recommendations put forward in the Fair Labor Association report. Together with the FLA we have developed a multi-year action plan to integrate the recommendations into our sourcing strategy, supported by KPIs and timelines to track progress. We will provide regular updates on progress in implementing the plan. Nestlé also reaches out to relevant private and public stakeholders to engage in collaborative action to promote sound labour practices in the Turkish hazelnut sector as a whole.

More information:

For more information on our work with the FLA, visit the Fair Labor Association website.



Vendor approval process

To better assess and guide suppliers in their manufacturing practices, Nestlé built and fully implemented an innovative Vendor Approval Process in 2011. This aims to provide straightforward and consistent processes and rules to assure long-term sourcing and promote supplier development.

Ultimately, the Vendor Approval Process helps us to achieve a more transparent global network of approved suppliers, a more consistent approach to assessing standards across key criteria, and greater opportunities to share best practice in supplier development across different sourcing regions.



Supplier practices are assessed, approved (where appropriate) and developed across four main areas:

Financial

By assessing standards for key operational criteria such as financial stability, supplier dependence (on Nestlé) and contingency planning, we seek to ensure mutually beneficial long-term relationships with our suppliers.

Responsible sourcing

Our Responsible Sourcing Audit Programme assesses supplier compliance against the Nestlé Supplier Code.

Food safety and quality

In 2010–11, Nestlé Food Safety and Quality auditors reassessed and approved 100% of our high-risk vendors.

Technical/Ensuring supply/R&D

These areas of vendor assessment evaluate the robustness of the Nestlé/supplier relationship.

Implementing the Nestlé Supplier Code

Driving compliance, sustainability and Creating Shared Value

We seek to source raw materials responsibly by helping suppliers to develop sustainable and ethical practices. This is important in our overall approach to rural development because through our Responsible Sourcing activity, we want to help develop the agricultural supply chain and safeguard and enhance farmer incomes, thereby contributing to farms and communities thriving over the long term.

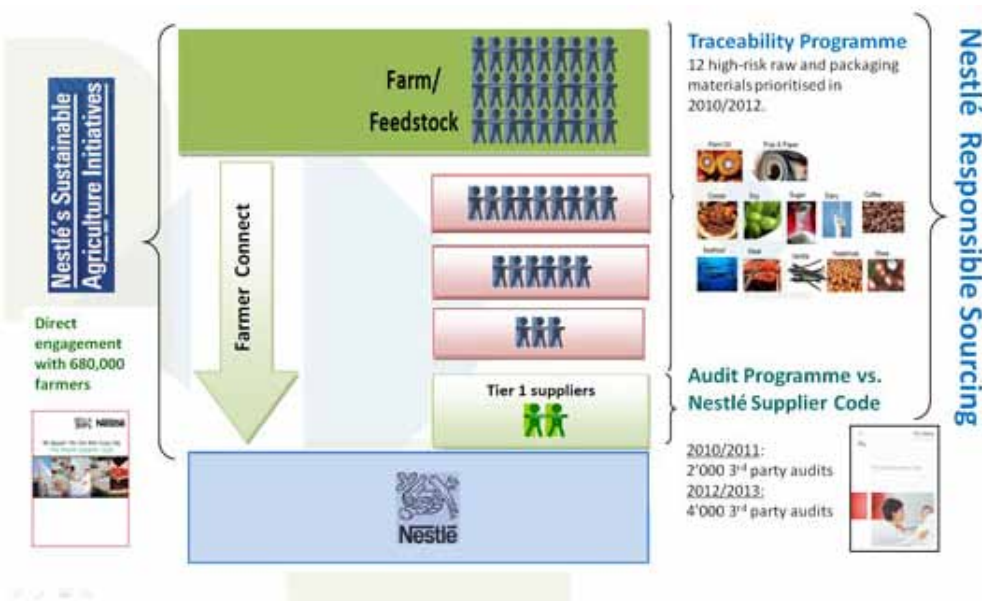
The Nestlé Supplier Code

The Nestlé Supplier Code distils relevant parts of our Corporate Business Principles, outlining for suppliers the non-negotiable minimum standards that we expect from them: on business integrity, human rights (including forced and child labour), sustainability, labour, safety and health, environment and use of natural resources. We ask our suppliers, their employees, agents and sub-contractors to adhere to these standards at all times, and we monitor implementation through our Responsible Sourcing Audit Programme. Our Supplier Code is aligned with credible, internationally recognised responsible production standards and provides fair compensation for suppliers.

- 96% of suppliers, key vendors and quality suppliers are compliant with Nestlé’s sourcing policy [KPI].
- 75.2% of our purchased volume is compliant with the Nestlé Supplier Code [KPI].

For agricultural raw materials and packaging materials that we source through complex trade channels, we promote compliance with the Nestlé Supplier Code through a two-staged programme:

1. Our Responsible Sourcing Audit Programme for key suppliers.
2. Our Responsible Sourcing Traceability Programme, which is a recent addition to the Responsible Sourcing Audit Programme, focused on promoting compliance with the Code in extended supply chains, back to the origin.





Communication, compliance and verification

Since 2008, we have communicated the Code systematically through our business contracts, and suppliers are required to acknowledge its terms, regardless of their material, service or location.

It has been communicated to all direct suppliers and farmers, as well as Nestlé factories and buying stations; this is a contractual requirement. This communication includes instructions to pass the Code's requirements down the supply chain to their own suppliers and farmers.

Through the Responsible Sourcing Audit Programme, compliance with the Code by our industrial suppliers from "high-risk" countries is verified through audits at their premises by independent third parties, including Bureau Veritas, SGS and ITS.

In cases of non-compliance, a corrective action plan and a reasonable timeframe are agreed, supported as appropriate by assistance and training.

If a breach of compliance is severe or a supplier is unwilling or unable to adhere to the action plan, immediate steps will be taken to suspend this supplier until such time as the situation has been rectified. This approach of continuous improvement, building on clear expectations and support for suppliers willing to upgrade their practices, creates shared value for both Nestlé and our suppliers. Nestlé managers participate randomly in audits to check the professionalism and robustness of the assessment.

The Responsible Sourcing Traceability Programme focuses on promoting compliance with the Code in extended supply chains, back to farm level. It covers 12 major raw materials, including coffee and cocoa. For each category, high-risk origins and supply chains are identified and assessed against the Code and material-specific sourcing guidelines.

The implementation of the Code is included in the audit manual of the NGA (Nestlé Group Audit) and is part of the Nestlé Self-Assessment Tool (NSAT). Nestlé auditors verify that the internal procedure related to the application of the Supplier Code to farmers is respected and that any irregularities are reported. Verification is conducted internally, with a pilot for external verification envisaged for 2011.

Within our Farmer Connect activities, farms are assessed on a daily basis during the Nestlé technical assistance visit. During this visit, assessors check that farmers have seen and understood the Code.

In addition, working closely with Nestlé, our partners (such as the Rainforest Alliance, 4C Association, UTZ certified and Fairtrade in the case of coffee and cocoa) carry out verifications or audits to ensure compliance with their respective standards.



Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
---------------------------------	-----------	--------------------------	-------	------------------------------	------------	------------

Training

Training at all levels is an integral part of our daily business. It is undertaken regularly, at set times during the year, upon demand for specific aspects, or as and when updates are required, and is driven by the need for continuous improvement.

Internally, during 2011, all 700 of our strategic buyers worldwide had to pass "strategic driving licence" training, which included a formal training chapter on the Supplier Code and its verification through the Responsible Sourcing programme. In total, some 1250 members of procurement, including the 700 strategic buyers, have completed this course.

The Supplier Code also forms part of the training for the Nestlé Agricultural Service Teams, which include 1140 agricultural specialists working directly with farmers.

Coffee and cocoa

Coffee and cocoa are produced by smallholder farmers who supply Nestlé either directly or via larger companies. The Nestlé Supplier Code has been communicated to all our direct coffee and cocoa suppliers and farmers supplying direct suppliers, as well as Nestlé factories and buying stations (a contractual requirement), again with instructions to pass the Code's requirements down their own supply chains.

Compliance and verification is carried out in the manner as detailed above – audits by independent third parties and on-farm visits of direct suppliers or farmers who are sub-suppliers of direct suppliers. All non-compliances are categorised as minor, major or critical, and follow-up audits are required in the case of major or critical issues. Nestlé conducts spot-checks of audits and also follows up with suppliers to ensure corrective plans are put in place.

Third-party certifications and Responsible Sourcing

Nestlé aims to produce sustainable raw materials in large quantities. We partner with Rainforest Alliance and The Forest Trust to help us improve supplier performance on a range of sustainability criteria. We use third-party sustainability certification (including UTZ CERTIFIED and Fairtrade) for raw materials sourced from rural areas, to verify our progress and to help communicate this progress to consumers.

Certification is not an end point in itself, and only one of several ways of Creating Shared Value, promoting sustainable rural development and progressing other development goals in an effective and holistic way.

In this context, our Responsible Sourcing platform combines in-house codes and product-specific guidelines, industry and NGO partnerships (such as the AIM-Progress and SAI platforms), supplier capacity-building programmes (such as The Nestlé Cocoa Plan and The *Nescafé* Plan) as well as certification from third-party accreditors.

In many cases, our programmes go beyond third-party certification requirements. For example, our commitments on palm oil, which are being delivered through our partnership with The Forest Trust sets additional criteria to those defined by the Roundtable on Sustainable Palm Oil.

"For us, the role of certification is to verify whether we've been able to meet the commitments we've set. Certification is not an end point; it's verifying that we're on the right journey."

Duncan Pollard, Sustainability Advisor, Nestlé



Responsible Sourcing Audit Programme

Overview of process

Via our Responsible Sourcing Audit Programme, we assess key vendors against the Nestlé Supplier Code and help improve their practices.

Following communication and acknowledgement of the Code, an internal risk assessment in January 2010 determined which vendors should initially receive our support to achieve compliance. From this exercise, we selected 1735 key suppliers for Responsible Sourcing Audits, covering 90% of our total local purchasing spend and 22% of our total company-grouped vendor base globally.

The first step is that our buyers ask our key suppliers to register on the non-profit Supplier Ethical Data Exchange (Sedex), the largest independent global database of information exchange on ethical practices.

Key suppliers use Sedex's web platform to share their site information, ethical audit reports and actions with clients like Nestlé and other members of AIM-Progress.

Suppliers then organise third-party Responsible Sourcing ethical audits on the Code's requirements, such as health and safety, environment, working conditions and business integrity.

Using the audit results, we work with the third-party auditors and suppliers to plan, execute and follow up corrective actions.

Current status and compliance results

By the end of 2011, we had conducted 1910 audits (all key suppliers), which exceeds our target of 1735. Our suppliers are also asked to self-assess their operations through registration with Sedex.

110% (1910) of our Tier 1 priority suppliers have been audited from an ethical perspective using third-party auditors and internationally recognised audit standards (the four pillars of the Sedex Members Ethical Trade Audit).

When compliance against international ethical standards or the Nestlé Supplier Code was at stake, improvement measures have always been put in place and carefully followed, creating changes in on-the-ground practices and resulting in a jump from a 56% compliance ratio to 94% at the end of 2011.



Looking ahead

In 2012 and beyond, we aim to extend this Responsible Sourcing Audit Programme to all locations and all spend categories in order to: demonstrate supplier development activities (from an ethical perspective); and create supplier development opportunities.

We are targeting 10 000 Responsible Sourcing Audits by 2015, and we aim to make this an automatic process carried out by trained and skilled Nestlé procurement organisations right across our global operations.

Improving the efficiency of supplier assessments

- As a member of AIM, the European Brands Association and as a founding member of the AIM-Progress Platform (an initiative of 12 of the world's leading food and beverage companies), we help to determine criteria for supplier performance, promote Responsible Sourcing practices and improve efficiency by sharing Responsible Sourcing Audit reports between members to avoid duplication of work for suppliers.



Responsible Sourcing Traceability Programme

Our recently established Traceability Programme complements the Responsible Sourcing Audit Programme. It focuses on promoting compliance with the Nestlé Supplier Code in extended supply chains, back to the origin.

In 2010, we began mapping and assessing our palm oil and paper and pulp supply chains back to origin.

In 2011, we extended this work to soya, sugar, fish/seafood, vanilla and hazelnuts.

By the end of 2012, the programme will cover a total of 12 major raw and packaging materials, including our main commodities – coffee, cocoa and milk.

The programme is based on:

- defining values – through Responsible Sourcing Guidelines (RSGs) for key raw and packaging materials;
- transparency – through the mapping of these supply chains back to the origin;
- transformation – through the assessment and development of high-risk suppliers against the RSGs.

It builds on existing Nestlé Responsible Sourcing activities for major raw materials, including The *Nescafé* Plan and The Nestlé Cocoa Plan.

It implements our commitments on deforestation and forest stewardship and on child labour in agricultural supply chains, enacts our guidelines on the responsible use of water in agriculture, and addresses other social and environmental aspects specific to individual supply chains.



Supplier compliance

Audit programme results 2011

In 2011, the Responsible Sourcing Audit Programme achieved the following results:

- 1910 supplier audits completed in priority markets (raw materials, packaging and promotional items);
- 400 co-manufacturer audits completed across all markets;
- 45 supplier days held covering 6000 suppliers, in order to build clearer understanding of the Nestlé Supplier Code, the high standards it demands, and ways in which suppliers can develop and implement better practices in order to achieve compliance.

In 2011, 136 audits revealed supplier critical ethical practices, and we are working with the particular suppliers to resolve these critical issues. 750 audits revealed major breaches to the Nestlé Supplier Code and as a result 300 projects to upgrade supplier practices have been initiated.

Example outcomes from previous years' Audit programmes include the following:

- in Ukraine, where we buy tomato paste to make ketchup, following our Responsible Sourcing Audit of a key supplier, the supplier took corrective action to ensure that overtime hours were more fairly compensated and to initiate a confidential employee feedback system aimed at dealing with employee grievances, complaints and suggestions;
- in Romania, an audit of our packaging supplier has led to corrective actions to ensure fair compensation with regards to employee overtime and to improve emergency exits to the factory;
- in Mexico, we conducted a Responsible Sourcing Audit of a supplier of materials used for our Nestlé *Purina* petfood promotions. Following the audit, corrective actions were suggested with regards to employee contracts and waste treatment processes.