



Nestlé

Good Food, Good Life

Nestlé Indonesia

# CREATING SHARED VALUE 2011

Nurturing a Healthier Life  
for Indonesians



## Table of Contents

“For a company to be successful over time and create value for its shareholders, it must also create value for the society.”

**Peter Brabeck-Letmathe**  
Chairman of the Board,  
Nestlé S.A.

**Paul Bulcke**  
Chief Executive Officer,  
Nestlé S.A.

Message from the President Director	4
About This Report	8
Creating Shared Value (CSV) Concept	10
PT Nestlé Indonesia Profile	14
GRI Index	84

**Nutrition**

30



**Environment Sustainability**

42




**Rural Development**

56



**Human Resources**

70



# Nestlé Indonesia CSV Achievements in 2010



72%

Products met Nutrition Foundation (NF)



100%

Nestlé products in Indonesia are complemented with Nestlé Nutritional Compass

1,500

Elementary school students participating in Nestlé Healthy Kids program

1,200

Students from 300 elementary schools participating in "Small Doctor expert in Nutrition of DANCOW Nutrition Caravan"

200,000

Parents and 10,000 Posyandu cadres participating in DANCOW Batita nutrition education



6.86

GJ/ton of product, PT Nestlé Indonesia's energy consumption

0.4

Tons of direct emissions and 0.09 tons of indirect emissions for each product ton produced

5.8

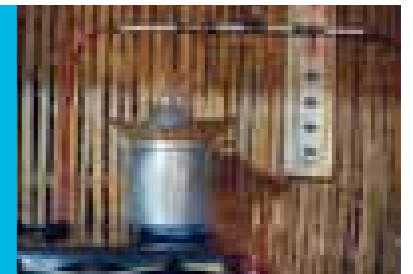
m<sup>3</sup>/ton of product, PT Nestlé Indonesia's water consumption

11,642

Trees planted in Lampung

1,262

Biogas digesters are installed at dairy farmers' houses



660,000

Liters of fresh milk per day (on average) received from dairy farmers in East Java

10,320

Tons of coffee beans purchased directly from coffee farmers groups in Lampung



42

Million cocoa trees and 2.5 million coffee trees produced using somatic embryogenesis technology (SE)



2,698

Total number of employees of PT Nestlé Indonesia



0.5

Per million working hours, the average rate for occupational accidents that resulted in lost time of work (Lost-Time Injuries)

1.0

Per million working hours, the total average rate for occupational accidents (Total Injuries)



## Nurturing a Healthier Life for Indonesians

### Mission

Nurturing a healthier life  
for Indonesians

### Values

Passion

Respect

Integrity

Determination

Excellence

### Objective

To become the leading nutrition,  
health and wellness company,  
trusted by all stakeholders, and to  
become the reference for Creating  
Shared Value. [4.8]



## Message from the President Director [1.1, 1.2]



### At Nestlé, we call this “Creating Shared Value”

We believe that for a company to be successful over time and create value for its shareholders, it must also create value for society. We call this “Creating Shared Value (CSV).” Based on strong foundations of compliance and sustainable practices, this is our basic way of doing business. This means that in order to be successful in the long term, we must create value for our stakeholders, be they our raw materials suppliers, employees, consumers, business partners, government, and the communities where we have our operation; and at the same time, we have also to create value/profit for the company and shareholders. This will create value for all parties. Given the nature of our business activities and our ambition to be the leading Nutrition, Health and Wellness Company, we have identified three areas where we can optimize the creation of shared value: nutrition, water and rural development.

In our CSV endeavors, we strive to maintain various resources—environmental, social and economic—for the future generations. Sustainable development is development that meets the needs of the present without compromising the ability of the future generations to meet their own needs. Based on this definition of sustainable

development, Nestlé translates this as “a process to improve global (community) access to high-quality food and simultaneously made a contribution to long term social and economic development, and to conserve the environment for future generations.”

This is the first Nestlé Indonesia sustainability report using Global Reporting Initiative (GRI) version 3 (GRI G3) as reporting reference. In this report, we focus on the nutrition, water and rural development aspects, which are highly relevant to our business in this country.

Nestlé has been operating in Indonesia since 1971, and currently we employ more than 2,600 people producing a wide variety of Nestlé products at three factories: Kejayan, Pasuruan, to produce milk products; Panjang, Lampung, to produce coffee products; and Cikupa, Banten, to produce confectionery products. The fourth factory is due to operate in 2012 to produce MILO and infant cereals for our consumers in Indonesia.

Nestlé is very much aware that there is nothing more important in national development than a strong and healthy future generation, and therefore it is very important to ensure the availability of safe and

## Message from the President Director <sup>[1.1, 1.2]</sup>

“We run our business for the long term and providing Indonesian people with affordable nutritious products, produced by using local raw materials”

nutritious food products. Supported by research and development, Nestlé develops quality and nutritious products that are safe for consumption to support the improvement of food quality and public health. Furthermore, through various public nutrition education initiatives, nutrition information for consumers, and various nutrition intervention programs, we aim to improve the ability of consumers to make responsible choices about foods and life styles, as well as extensive knowledge about healthy food and the importance of physical activity. One of our recent programs, Nestlé Healthy Kids, is focused on providing comprehensive education on nutrition, personal hygiene and environment, and physical activity for elementary school students. This is in line with our mission of “Nurturing a Healthier Life for Indonesians,” a mission that becomes the theme of this CSV report. We run our business for the long term and providing affordable nutritious products, produced using local raw materials for the Indonesian people.” <sup>[4.8]</sup>

Nestlé’s involvement in rural development helps to improve the welfare of farmers, suppliers and communities along our value chain. With an estimated 70% of poor people living in the rural areas, investment in developing the

farming capacity is very essential, particularly bearing in mind the importance of food security to fulfill the demand of growing population. Of course the efforts to reduce global poverty need to be focused on the rural areas.

Over the last 30 years, Nestlé Indonesia has been providing both technical assistance on good dairy farming practices, as well as financial assistance for dairy farmers in East Java. Currently our factory absorbs about 660,000 liters of fresh milk from the dairy farmers. This effort has helped to provide better livelihoods in term of financial, educational as well as health aspects for over one million people. Besides, since June 2010 in collaboration with HIVOS, we have been providing assistance for biogas digester installations to help conserving the environment. Biogas energy is used by dairy farmer’s families for cooking and home-lighting. To date, more than 1,262 biogas digesters have been installed. We will continue to work together with dairy cooperatives and farmers in East Java to improve productivity and quality of their produce. We aim to absorb about 1,500,000 liters of fresh milk per day by 2015, and to provide assistance for biogas digester installations to all our fresh milk suppliers by 2015.

In Indonesia, more than 90% of coffee growers are smallholders, with many of them unaware on the importance of good plantlets and good agricultural practices, including pre and post harvest treatments. We understood the pressing need to improve the productivity and quality of the small farmers’ produce, so that we decided in 1994 to collaborate with the Indonesian Coffee and Cocoa Research Institute (ICCRI) to identify coffee plantlets that are more productive and resistant to disease. In Lampung, we have also been providing technical assistance to more than 10,000 coffee farmers since 1994. The assistance covers the good coffee farming practices to improve the productivity and quality of the coffee production, while at the same stressing the importance of environmental conservation. Currently, we purchase some 10,000 tons of coffee beans each year directly from farmers in Lampung, and we intend to continue expanding our collaboration both with the farmers and the Indonesian Coffee and Cocoa Research Institute.

We value our close bilateral and multilateral consultative relations with various local and international organizations, including WWF, the Forest Trust, Yasmina Foundation, Kusuma Buana Foundation and the Indonesian Red Cross. Such

collaboration helps to ensure that Nestlé business contributes to sustainable environment.

We are aware that in carrying out our undertaking, there are both positive and negative effects. The positive effects that we create include improvements in the people’s welfare in rural areas, the provision of nutritious food and beverage products for the consumers, while the negative effects include the problem of cow manure resulting from the expansion of dairy farming in East Java. In order to overcome this problem, we provide assistance to dairy farmers to have biogas digester installations to turn cow manure into energy that can be used for cooking and lighting.

We realize that more has to be done. We are continuously making efforts to find answers to the many problem we are all facing together, such as food security, poverty alleviation, and human resources capacity building. Our efforts in this respect include reaching more schools to provide education on nutrition and healthy life styles, and addressing environmental impacts arising from the expansion of the people’s dairy farming. We believe that collaboration with the stakeholders as one of the solutions to create larger positive value to the society.

As part of the Indonesian society, Nestlé is committed to take its role in collaborating with all stakeholders for the improvement of people’s welfare in the areas of nutrition, water and rural development.

Finally, we welcome your input and ideas and hope that you find this report to be interesting.



**Arshad Chaudhry**

President Director



## About This Report

This is our first report to use GRI G3 as reporting reference

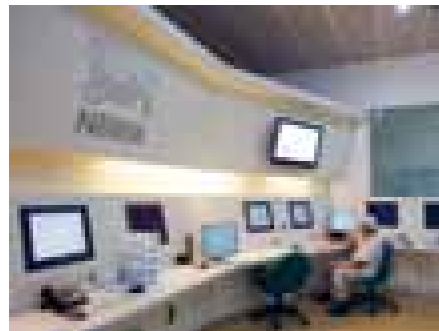
We called this sustainability report "Creating Shared Value (CSV)," and it shall be subsequently referred as the CSV report. This is our second report, since the issuance of the first report in August 2009, however, this is our first report to use Global Reporting Initiative (GRI) version GRI G3 as reporting reference. As the learning process for this first report using GRI G3, the scope of the reporting period covers the period from 1 January to 31 January 2010 (1 year). Nevertheless, for the future, we will publish our CSV report every two years. [3.1, 3.2, 3.3]

This CSV Report does not contain many significant changes or restatements compared to the previous report. In addition, we have not engaged services of independent parties to conduct verification as part of an assurance process for this report. The quantitative data presented was calculated by Nestlé Indonesia in accordance with the collection, recording and analysis methods normally applied by the company. [3.9, 3.10, 3.11, 3.13]

PT Nestlé Indonesia operates three factories: Kejayan Factory, Pasuruan, East Java; Panjang Factory, Lampung; and Cikupa Factory, Banten. There are three distribution centers (DC): Gempol DC in Pasuruan; Cikarang DC in Bekasi; and Medan DC in Medan. All of these operations are covered by this Report, as well as Head Office

and a number of Sales Offices that are considered to be of particular importance. We do not have any other reporting bases, whether in the form of local or overseas joint ventures or subsidiaries. [2.3, 2.5, 3.6, 3.8]

Nestlé carries out its social responsibilities through the value creation focused on three areas: nutrition, water and rural development. However, it is obviously not possible to report all of our activities in each area, and we follow the principle of materiality, namely to focus our report on the Company's activities, principles and values that can influence decision-making process and stakeholders. [3.5]



Nutrition

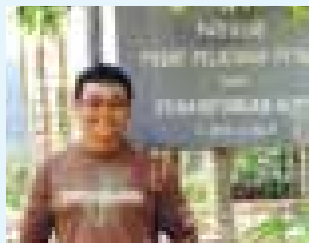


Water



Rural Development

## Creating Shared Value (CSV) Concept



**Jalal**  
CSR Observer

Corporate social responsibility (CSR) has been viewed as more strategic in recent years, and is considered to be a source of competitive advantage for a company. CSR is also necessary to maintain public trust in a company. One expression of CSR is Creating Shared Value (CSV).

CSV is defined as "...policies and operating practices that enhance competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates." (Porter and Kramer, 2011).

Through CSV, a company can clearly demonstrate the value it creates in economic, social and environmental terms for the society at large, and help to resolve the problems that people are faced with. This in turn will instill trust in the company among stakeholders. If such trust is secured, economic benefits will follow in any places where the company is present and has its operations.

### Creating Shared Value (CSV) along the value chain





## Creating Shared Value (CSV) Concept

### CSV at Nestlé

Actually Nestlé is the “laboratory” where the CSV concept was discovered and subsequently refined. The Foundation Strategy Group (FSG) was the consultant appointed by Nestlé to review how the company has been implementing its business and CSR strategies. The outcome was an in-depth analysis on how Nestlé uses its entire value chain to benefit both the company and stakeholders.

Nestlé value chain can be simplified into three major components: agriculture and sourcing, manufacturing and distribution, and products and consumers. Nestlé consistently analyses how each of these components can contribute to CSV through value chain impacts, contexts for growth, value for Nestlé and value for society.

For example, In the case of the agriculture and sourcing component, the value chain impacts would be purchasing practices that focus on quality and sustainability, and research and development aimed to improve the productivity of suppliers. The context for growth would be agricultural and supplier development including transfers of technology, farmers capacity building, and partnership for

sustainable agriculture. Value for Nestlé would include access to quality raw materials at predictable prices. While the value for the society would be higher harvest yields based on lower inputs, thus improving the productivity and welfare of farmers.

Nestlé clearly indicates nutrition, water and rural development are the areas where it will focus in the society. With the support of research and development to produce nutritious products, the society can have choices of products at affordable prices, and Nestlé enjoys a favorable market position. Through proper water management, the society can fulfill their needs, while Nestlé can secure the water supply for its production processes. Meanwhile, rural development will allow Nestlé to contribute improving the welfare of farmers and to secure the company’s raw material supplies.

Nestlé clearly indicates nutrition, water and rural development are the areas where it will focus in the society



## PT Nestlé Indonesia Profile



PT Nestlé Indonesia (“Nestlé”) is a subsidiary of Nestlé S.A., the world’s leading nutrition, health and wellness company, having its headquarter in Vevey, Switzerland. PT Nestlé Indonesia was established in March 1971, with majority of its shares (more than 90%) owned by Nestlé SA. Currently the total number of Nestlé employees is 2,698 people. During 2010, there is no significant changes took place in the organization with regards to employment nor shareholding structures. [2.4, 2.6, 2.8, 2.9]

In line with Nestlé’s mission to nurturing a healthier life for Indonesians and our motto “Good Food, Good Life”, Nestlé consistently emphasis the importance of good food to reach for a good life. The Motto “Good Food, Good Life” describes our ongoing commitment to combine science and technology in order to create products which fulfill the basic human need for quality and nutritious foods that are safe and enjoyable to consume.

Nestlé ongoing commitment to creating value is shown in the Creating Shared Value (CSV) pyramid, which highlights compliance and sustainability business practices as strong foundation for ensuring that value creation is truly shared by both Nestlé and all stakeholders.

Nestlé business practices are founded on integrity, honesty, fair agreements, and compliance to laws and legislation. All Nestlé employees uphold this commitment and put it into effect, and are responsible to build Nestlé’s good reputation. The company’s Code of Business Conduct specifies and helps the continued implementation of the Nestlé Corporate Business Principles by establishing certain non-negotiable minimum standards of behavior in key areas.



- **CSV**  
Nutrition  
Water  
Rural Development
- **Sustainability**  
Protect the future
- **Compliance**  
Law, business principles,  
code of conducts

## PT Nestlé Indonesia Profile

### The Nestlé corporate business principles <sup>[4.8]</sup>

1

#### Nutrition, health and wellness

Our core aim is to enhance the quality of consumers' lives every day, everywhere by offering tastier and healthier food and beverage choices and encouraging a healthy lifestyle. We express this via our corporate proposition Good Food, Good Life. [PR1]

3

#### Consumer communication

We are committed to responsible, reliable consumer communication that empowers consumers to exercise their right to informed choice and promotes healthier diets. We respect consumer privacy. [PR6]

2

#### Quality assurance and product safety

Everywhere in the world, the Nestlé name represents a promise to the consumer that the product is safe and of high standard. [PR1]

4

#### Human rights in our business activities

We fully support the United Nations Global Compact's (UNGC) guiding principles on human rights and labour and aim to provide an example of good human rights and labour practices throughout our business activities.

5

#### Leadership and personal responsibility

Our success is based on our people. We treat each other with respect and dignity and expect everyone to promote a sense of personal responsibility. We recruit competent and motivated people who respect our values, provide equal opportunities for their development and advancement protect their privacy and do not tolerate any form of harassment or discrimination.

6

#### Safety and health at work

We are committed to preventing accidents, injuries and illness related to work, and to protect employees, contractors and others involved along the value chain.

7

#### Supplier and customer relations

We require our suppliers, agents, subcontractors and their employees to demonstrate honesty, integrity and fairness, and to adhere to our non-negotiable standards, in the same way, we are committed to our own customers.

8

#### Agriculture and rural development

We contribute to improvements in agricultural production, the social and economic status of farmers, rural communities and in production systems to make them more environmentally sustainable.

9

#### Environmental sustainability

We commit ourselves to environmentally sustainable business practices. At all stages of the product life cycle we strive to use natural resources efficiently, favour the use of sustainably-managed renewable resources, and target zero waste. [EN26]

10

#### Water

We are committed to the sustainable use of water and continuous improvement in water management. We recognize that the world faces a growing water challenge and that responsible management of the world's resource by all water users in an absolute necessity.

## PT Nestlé Indonesia Profile

### Code of business conduct <sup>[4.8]</sup>

<p><b>1. Compliance with laws, rules and regulations</b> We respect the law at all times.</p>	<p><b>2. Conflicts of interest</b> We will always act in the best interests of Nestlé.</p>	<p><b>3. Outside directorships and other outside activities</b> We take pride in Nestlé's reputation and consider Nestlé's best interests also in our outside engagements and activities.</p>	<p><b>4. Families and relatives</b> Our hiring and people development decisions will be fair and objective.</p>	<p><b>5. Corporate opportunities</b> We are committed to advance Nestlé's business.</p>
<p><b>6. Insider trading</b> We respect and follow the Insider Trading Rules when buying or selling Nestlé securities.</p>	<p><b>7. Antitrust and fair dealing</b> We believe in the importance of free competition.</p>	<p><b>8. Confidential information</b> We value and protect our confidential information and we respect the confidential information of others.</p>	<p><b>9. Fraud, protection of company assets, accounting</b> We insist on honesty and we respect the Company's assets and property.</p>	<p><b>10. Bribery and corruption</b> We condemn any form of bribery and corruption.</p>
<p><b>11. Gifts, meals and entertainment</b> We compete and do business based only on quality and competence.</p>	<p><b>12. Discrimination and harassment</b> We embrace diversity and respect the personal dignity of our fellow employees.</p>	<p><b>13. Failure to comply</b> We will consult the Code, comply with its provisions and seek guidance where needed.</p>	<p><b>14. Reporting illegal or non-compliant conduct</b> We take responsibility for ensuring that we all act with integrity in all situations.</p>	

### Corporate governance

Board of Commissioners and Board of Directors:

**Board of Commissioners (Supervisory Board)**

President Commissioner	Mr. Frits Wout Marie van Dijk
Commissioner	Mr. Reinhold Jacobi
Commissioner	Mr. Jean Daniel Luthi
Commissioner	Mr. Pierre Streit
Commissioner	Mr. Frederik Bernard George Tumbuan
Commissioner	Mr. Carlo Hein Tabalujan
Commissioner	Mr. Ramos Sihombing

**Board of Directors**

President Director	Mr. M. Arshad Chaudhry
Director	Mr. Thomas Keller
Director	Mr. Gideon Stefanus Du Plessis
Director	Mr. Riauadi Wisman Djaja
Director	Mr. Benyamin Wijaya
Director	Mr. Joselito Junior Aguilang Avancena
Director	Mrs. Debora R. Tjandrakusuma

## PT Nestlé Indonesia Profile



Neither the Board of Commissioners nor Board of Directors has independent committees. Similarly, no members of the Board of Commissioners serve on the Board of Directors, and vice versa. The professional standards required of commissioners and directors are set out in the Nestlé Corporate Business Principles, the Nestlé Management and Leadership Principles and Code of Business Conduct. [4.2, 4.3]

Each Nestlé employee has equal right to provide suggestions and recommendations through the Company's Suggestion System, managed by the Human Resources Department. In order to give suggestion, an employee has to fill in a form already provided for by the company, either in printed or electronic copy format, and then submit it. Shareholders can also make suggestions at any time, not limited just at the General Meeting of Shareholders. The normal mechanisms to do so are in line with the Law no. 40 year 2007 on Limited Liability Company and the Company's Articles of Incorporation. [4.4]

In compliance with the Law on Limited Liability Company, remuneration for all the members of the Board of Commissioners and the Board of Directors is determined by the general meeting of

shareholders by taking into account all aspects and the market situation. With CSV, all matters related to legal compliance, sustainability and shared value creation for the company and stakeholders have become very important consideration in determining such remuneration. In the case of employees, a performance evaluation system, which also covers career development, is used to determine compensation. The objectives of each employee set at the beginning of the year, with outcomes being evaluated on an ongoing basis over the course of the year. [4.5]

In order to minimize conflicts of interest affecting the Board of Directors, we adhere to the Nestlé Corporate Business Principles (NCBP) and Code of Business Conduct (CoBC). In so far as possible, all conflicts of interest must be avoided by employees. If a conflict of interest situation has occurred or if an employee faces a situation that may involve or lead to a conflict of interest, the employee concerned must disclose it to his or her Line Manager and/or the HR or the Legal or Compliance Function to resolve the situation in a fair and transparent manner. [4.6]

The members of the Board of Directors are appointed in accordance with the provisions

**We have the Nestlé Corporate Business Principles (NCBP) and the Code of Business Conduct (CoBC)**

## PT Nestlé Indonesia Profile

of the Law on Limited Liability Company and the Company's Articles of Incorporation. In this respect, shareholders will nominate the candidates for the Board of Directors, for the approval by the General Meeting of Shareholders. The process is organized by the Legal Department. The requirements to become the members of the Board of Directors are set out in article 93 of the Law no. 40 year 2007 on Limited Liability Company.

In line with the NCBP and the Nestlé Management and Leadership Principles, the Board of Directors must understand and have internalized our CSV principles and our way of doing business.

In order to identify or to evaluate CSV programs, we do performance appraisals and annual consumer surveys—the Corporate Equity Monitor (CEM). The survey contains various CSV measurement attributes that are used as performance indicators for assessing the CSV achievement by the Company. Given our way of doing business, which emphasis on creating shared value, the performance of the Board of Directors is not merely appraised by the achievement of financial targets, but also on the overall aspects that include economic, social and environmental aspects. [4.9, 4.10]

We are also guided by various international standards in doing business, and our compliance with these is also included in the audit system. These standards include: [4.12]

- The UN Global Compact
- WHO International Code on Marketing of Breast-Milk Substitutes
- International Labour Organization Conventions:
  - Convention 87—Freedom of Association & Protection of the Right to Organize (1948)
  - Convention 138—Minimum Age for Employment
  - Convention 182—Worst Forms of Child Labour (based on UN Convention on the Rights of the Child)
  - UN Global Compact CEO Water Mandate
- Tripartite Declaration of Principles on Multinational Enterprises and Social Policy (ILO), and
- OECD Guidelines for Multinational Enterprises.

For UN Global Compact, Nestlé was one of the first companies to adopt it as the principles it contains to be laudable and very much in line with our way of doing business.

With regard to economic, social and environmental aspects, we also practice risk prevention and response management. The principles involved are set out in our crisis management

manual, which contains guidelines for ensuring the our business continuity. In general, 2010 provide to be a good year, without the manifestation of any meaningful or significant risks. Nevertheless, we always observed the latest developments, particularly with regard to commodities issues such as palm oil. At any time there is business risk information, we follow this up with proper follow-up action together with other stakeholders. [4.11]

We understand the importance of building and maintaining good relations with all our stakeholders, starting with dairy farmers, coffee growers, cooperatives and other raw materials suppliers, business partners such as distributors and storekeepers, consumers, community leaders, academia, professionals, social institutions, business associations, government, media and the society at large. We are currently in the process of preparing various mechanisms that will allow us to have stakeholder mapping. [4.14]

Furthermore, we continue our efforts in stakeholder engagements, through regular meetings with farmers, business associations, media, government and the society. Although we have not had yet special framework for our stakeholder mapping, in 2011 we will make effort to detail it, by making the stakeholders needs assessment

as reference for forthcoming CSV activities. [4.15, 4.16]

In more detail, CSV activities are implemented in line with programs that have been evaluated by each factory special CSV teams. The proposed program will be submitted to Head Office in Jakarta, for approval. The implementation of any approved programs will take into consideration the economic, social and environmental aspects, and also the needs of the local community. We understand there are always some constraints in implementing program that can satisfy the needs of all stakeholders. Other companies are also challenge by these similar difficulties and this has encouraged us to implement CSV program appropriately by primarily focusing on programs related to nutrition, water and rural development. [4.17]

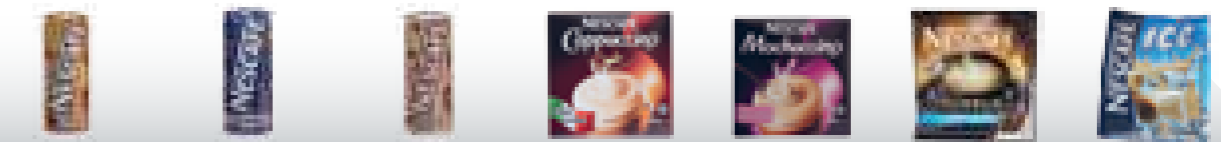
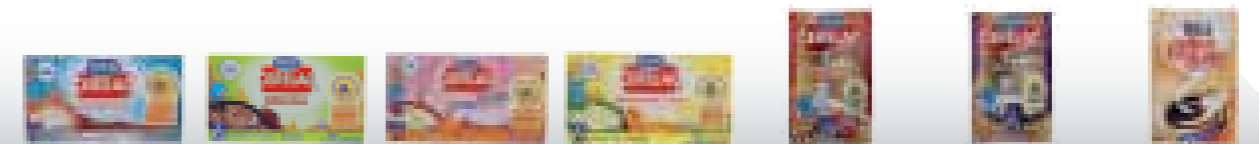
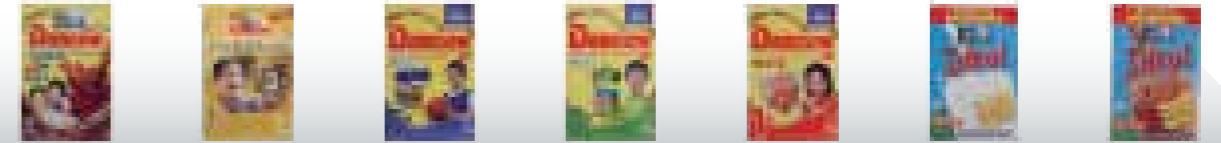
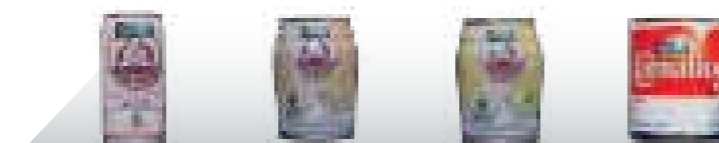
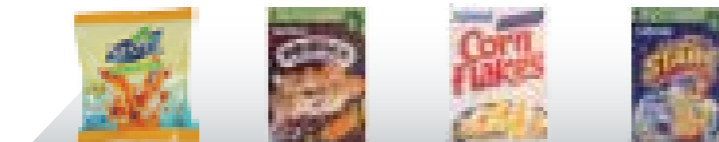
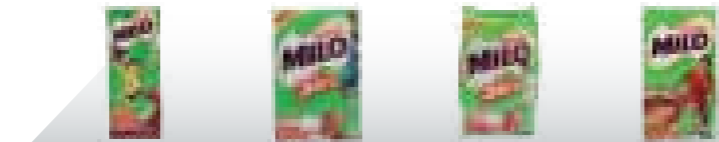
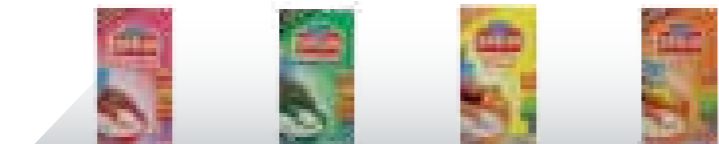
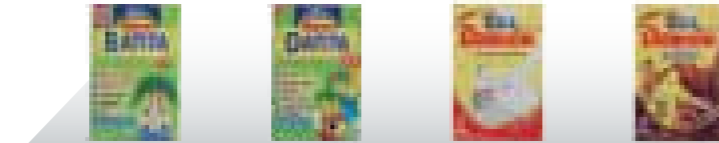




## PT Nestlé Indonesia Profile

### Our products <sup>[2.2]</sup>

Various products of PT Nestlé Indonesia are distributed across Indonesia to reach Indonesian consumers. We also export some products to several countries in the Middle East and Asia. <sup>[2.7]</sup>



## PT Nestlé Indonesia Profile

### During 2010 Nestlé was awarded with several appreciations <sup>[2.10]</sup>

- Green Proper (program for corporate performance rating for environmental management) for 2009–2010 was awarded for Nestlé Kejayan factory, Pasuruan, East Java from the Ministry of the Environment of Republic of Indonesia.
- Category A Halal Assurance System Certificate from the Food and Drug Evaluation Institute of Indonesian Ulema Council (LPPOM MUI).
- ISO Certification: ISO 9001 (Quality Management System), ISO 14001 (Environmental Management System), OHSAS 18001 (Occupational Health and Safety Management System), and Food Safety System Certification 22000, in line with ISO 22000 and PAS 220 (Food Safety Management System).



## PT Nestlé Indonesia Profile



### Economic aspect

During 2010, we did not receive any significant outside financial assistance, either from third parties or the government. We always strive to be independent and to maintain our independence as a manufacturing company, we are not involved in any political organizations and we do not contribute to any political party. [EC4]

As a foreign investment company in Indonesia, Nestlé always make efforts to contribute to the development in Indonesia and to support government programs in the food and beverage industry, which is Nestlé's expertise. The Company is an active member, and serves on the boards, of several industry associations related to the food and beverage industry, such as the Milk Processing Industry Association (Asosiasi Industri Pengolahan Susu—AIPS), the Soft Drinks Industry Association (Asosiasi Industri Minuman Ringan—Asrim), the Indonesian Business Association (Asosiasi Pengusaha Indonesia—Apindo), the Indonesian Baby Food Producers Association (Asosiasi Produsen Makanan Bayi—APMB), the Indonesian Food and Beverage

Association (Gabungan Pengusaha Makanan dan Minuman Indonesia—GAPPMI), and the Indonesian Coffee Exporters Association (Asosiasi Eksportir Kopi Indonesia—AEKI).

[4.13, 4.16, SO5]

Understanding the role of the Company in the society is very important for Nestlé, given our efforts to create value along our value for the society, and also value for us. Thanks to our compliance to our principles that Nestlé was not found to be in breach of any regulation related to the surrounding communities' interests during the course of 2010. [SO8]





Nutrition



## Nutrition



### Continuous product innovation and renovation

One of Nestlé's competitive advantages is product benefits in line with the development of science and technology, combined with innovation and renovation that are supported by continuous research and development. The Nestlé product Research and Development team continues to create quality products. In the product development process, Nestlé implements "60/40+" technical approach. The implementation of this approach requires that each Nestlé product must go through a taste test process with minimum result 60% of sample consumers prefer such product over other similar product sample produced by competitor. In addition, each Nestlé product must provide added nutritional value. Products which fail to pass this test are reformulated so as to satisfy the "60/40+" concept.

We apply strict product quality policies. Our products and services always comply with the laws and regulations in the country where we operate and distribute such products, and we always ensure the safety of our products. With this policy, in 2010 there is no significant accidents occurred with regard to product quality and safety. [PR2]

In developing products, we apply the Nestlé Nutritional Profiling System to ensure that all our products provide good nutritional value to consumers. We also apply Nutrition Foundation (NF), criteria related to nutritional and health matters deemed important by the society. Therefore, the safety and health aspects of products are assured during the production and consumption processes. These include sugar, salt, saturated fats, trans fats, and energy content. In 2010, Nestlé products in Indonesia that fulfilled NF requirements reached 72% of our total sales. [PR1]

As part of product development, Nestlé implements "60/40+" technical approach



## Nutrition



### Being the best for consumers

It is very important for Nestlé to know what matters to all our stakeholders, including our consumers. We regularly want to find out what our consumers think and feel about Nestlé business attributes. Therefore we annually assign a third party to conduct corporate equity monitor, covering following aspects: trust, quality and safety, health, benefits and nutrition, innovation, renovation, proximity to consumers, pleasure/enjoyment, value, and social responsibility. As in previous years, the 2010 Corporate Equity Monitor survey's finding revealed that Nestlé in Indonesia is considered by consumers to be the best food and beverage industry. In almost all indicators—31 out of 33 indicators assessed, Nestlé got the highest rank. The survey also revealed that Nestlé has gained significant progress in innovation, renovation, proximity to consumers, pleasure/enjoyment, and corporate social responsibility.

It is also very encouraging to find out that Nestlé was identified as the producer that offered the healthiest and tastiest product choices.

### Consumer information and responsible advertising and marketing

In line with applicable laws and regulations, all Nestlé food and beverage products' labels indicate information on contents. In addition, with Nestlé Nutritional Compass, we provide consumers with practical product nutritional information and its benefits to consumers. All Nestlé's products in Indonesia have Nestlé Nutrition Compass information on their labels, which also contains health tips and product presentation, and a telephone number as reference to consumers if they require information related to the product that they consumed. With strict compliance to the regulations, no significant incidents related to product labeling, or distribution and usage. As a result, no financial penalties were imposed to the company during the reporting period. [PR3, PR4, PR9]

Nestlé always ensure that its products are marketed in compliance with all the laws and regulations in Indonesia. One of our efforts to ensure fair business competition is by providing antitrust training through an e-learning program each year. As we have always ensuring our compliance the law, we have never been involved in any case or

prosecution arising out of violation of antitrust rules.

Nestlé is committed for responsible and reliable communication to consumers. We always comply with regulations on advertising, promotion, sponsorship and marketing. We adhere to the Nestlé Consumer Communication Principles and the Nestlé Policy on Nutrition and Health Claims. Consequently, our marketing programs fully comply with the laws and regulations, and there have been no significant incidents related to product marketing. Nestlé also carefully maintains the confidentiality of all information related to our consumers and keeps these in its database. Up to now, there has never been any complaint related to breaches of consumer confidentiality. [PR6, PR7, PR8]





## Nutrition



### Nestlé Healthy Kids Program (SO1)

The Nestlé Healthy Kids Program aimed to improve awareness, knowledge and understanding about nutrition, personal hygiene, and the importance of physical activity among school children. The program is intended to encourage children to adopt healthy and active lifestyles in their daily lives. Before implementing the program, we do an assessment and collect data from schools that cover the incidences of anemia, worm infestation, and height and weight measurement, followed by training for teachers and school principals. In order to support the achievement of the program's goals, Nestlé has prepared education modules on nutrition and food, personal and environmental hygiene, and physical activity. The program is regularly evaluated against certain indicators that have been previously developed. In collaboration with sub-district education agencies, the Kusuma Buana Foundation and experts from the Association of Indonesian Medical Nutrition Doctors (PDGMI) in 2010 the program was implemented in seven elementary schools located in Jakarta, Tangerang, Pasuruan, and Kepulauan Seribu, reaching more than 1,500 students. In 2011, the program will be expanded to 24 more elementary schools in 12 cities, involving more than 8,000 students.



## Nutrition



**1** Bertambah umur,  
bertambah berat,  
bertambah tinggi

**2** Postur tubuh tegap  
& otot padat

**3** Rambut  
berkilau & kuat

**4** Kulit dan kuku bersih  
dan tidak pucat

**5** Wajah ceria,  
mata bening  
& bibir segar

**6** Gigi bersih &  
gusi merah muda

**7** Nafsu makan baik &  
buang air besar teratur

**8** Bergerak aktif &  
berbicara lancar  
sesuai umur

**9** Penuh perhatian  
& bereaksi aktif

**10** Tidur nyenyak

### DANCOW Nutrition Caravan <sup>[SO1]</sup>

In collaboration with the Association of Indonesian Medical Nutrition Doctors (PDGMI) and the Ministry of National Education, Nestlé through “DANCOW Nutrition Caravan” provides nutrition education and introduce “10 Signs of Children with Good Nutrition,” as practical guidance for parents and health workers to monitor the nutrition status of the children. The program aims to improve the nutrition knowledge of mothers so as to help building the healthier and quality future Indonesian generation. The program has reached over 87,000 parents, 45,000 health workers, and 404,000 students of 1,115 elementary schools in 19 cities, and help to improve a numbers of healthy school canteens.

In 2010, DANCOW Nutrition Caravan program has provided training on “10 Signs of Children with Good Nutrition” to 1,200 “Small Doctors expert in Nutrition” (Dokter Kecil Mahir Gizi) from 300 elementary schools located in 19 cities. In 2011, the program will be extended to reach 500 elementary schools in 46 cities from Sumatra to Papua islands, and to train 2,000 Small Doctors expert in Nutrition who will subsequently cascade down their nutritional knowledge to 360,000 fellow students, and to provide free

nutrition consultation to 8,000 parents at 80 traditional markets in 30 cities.

### DANCOW Parenting Center <sup>[SO1]</sup>

The DANCOW Parenting Center program represents a concrete manifestation of Nestlé’s commitment to support healthier and better quality Indonesian family lives, by becoming the trusted partners of parents to nurture the optimum growth and development of Indonesian children. Through a series of community educational programs supported by experienced pediatricians, psychologists and medical nutrition doctors, Nestlé provides knowledge to parents on physical and mental development, two important aspects for good children development that require balance attention.

In 2010, the DANCOW Parenting Center focused on the theme “Positive Parenting” to help parents preparing for the optimum development and building self-confidence of their children, as the future generation. To reach more parents participating the program, DANCOW Parenting Center collaborated with various organization to organize various activities, including DANCOW Parenting Center which to date has drawn more than 2,000 visitors. During 2010, DANCOW Parenting Center Veranda seminars



## Nutrition



held in eight office complexes in Jakarta, has reached more than 500 mothers. In addition, there is also Radio Talk show broadcasted in 15 cities across Indonesia, and we also disseminated information on children growth and development through articles in magazine and television programs.

### DANCOW Batita Posyandu program <sup>[SO1]</sup>

The 2010 marked the third year of the implementation of the program “Let’s visit Posyandu—Tumbuh, Aktif, Tanggap—Growing, Active, and Responsive”, which is aimed to help parents improving their parenting pattern through Posyandu (Community Health Center at neighborhood level) cadres. In 2010, the program has reached more than 10,000 cadres of over 2,000 Posyandu in 14 provinces, and has made interaction with over 200,000 housewives. Through this program, we provided education and training to Posyandu cadres who then cascaded down their knowledge using three TAT signs to monitor their children growth. This program is in line with the result of the research involving 2,300 respondents of 22 cities, done by the Public Nutrition Department, Faculty of Human Ecology of Bogor Agriculture Institute, on correlation between parenting pattern, nutritional status and children growth.



### MILO School Competition <sup>[SO1]</sup>

Nestlé’s long term commitment to promoting sports as part of a healthy life style is proven with its MILO School Competition program aimed to seek, promote and grow future Indonesian badminton champions. This is the only national inter-school badminton competition for elementary and junior high schools students that has been consistently held since the last one decade (10 years), helping the regeneration of badminton player, and has reached 22,000 children participants from 20 cities across Indonesia.

Supported by the Ministry of Education and Culture and its Municipalities Offices in various cities, and the Indonesian Badminton Association (PBSI), in 2010 the Milo School Competition was held in 4 cities: Jakarta (10–14 February), Makassar (29 March–3 April), Yogyakarta (5–10 April), and Medan (19–24 April). The competition was to win Taufik Hidayat Cup, as the revolving cup since 2006 and cash prizes and participation for special training at Taufik Hidayat Training Camp, Jakarta for two weeks. In 2011 the Milo School Competition will be held in four new cities, Batam (Riau islands), Samarinda (East Kalimantan), Gresik (East Java) and Pontianak (West Kalimantan), with more than 3,600 elementary and junior high school students in five cities.





Environment  
Sustainability





## Environment Sustainability



In order to improve the long terms sustainability of our operation, Nestlé continuously makes efforts to minimize the environmental impact of our operation. Beside a range of innovative approaches to improve production efficiency and product quality, we also apply best practices and state of the art technology to protect the environment. Energy and water-saving initiatives are key elements in our commitment to help maintaining a sustainable environment.

This commitment has been acknowledged by the environmental authority, the State Ministry of the Environment through the presentation of a Green Rating PROPER Award to Kejayan Factory in 2010. This means that the environmental performance of the factory not only in full compliance with regulations, but also has exceeded the requirement of the laws and regulations. In addition, there was no environmental violation charge against Nestlé during the course of 2010 and there is no financial penalties were imposed during the reporting period. [\[EN28\]](#)

### Co-generation power plant

Electrical and steam energy play an essential role in ensuring the continuity of our production processes. Up to mid 2008, the

Kejayan Factory in East Java utilized conventional steam-turbine and power-generator using Heavy Fuel Oil (HFO) and Light Fuel Oil (LFO) or diesel oil. As part of our long term plan to reduce the energy use and greenhouse-gas emissions, we decided to install a co-generation plant using natural gas instead of fuel oil.

In this co-generation plant, the gas flows into gas-turbine to turn on the generator which will produce electricity. The steam produced will be utilized for production process. As the result of the usage of the energy produced by the gas turbine and steam generator, we have been able to reduce the usage of fuel oil up to 24%. After using such generator in 2010, the energy consumption was recorded at 6.86 GJ/ton of product, of which 0.4 tons of direct emissions and 0.09 tons of indirect emissions for each product ton produced. [\[EN3, EN6, EN16\]](#)

The usage of co-generation plant has been proven to not only reduce energy consumption, but also to reduce adverse impacts on the environment. Compared to fuel oil, natural gas emits less carbon monoxide gas, which is one of the biggest contributors to global warming. While LFO produces 74.1 kg/GJ of CO<sub>2</sub>, and HFO produces 77.4 kg/GJ, natural gas only emits 56.1 kg/GJ. Consequently, the replacement of LFO

Our commitment has been acknowledged by the environmental authorities through a Green PROPER Award for Kejayan factory in 2010



## Environment Sustainability



and HFO with natural gas has resulted in a significant emissions reduction. As the result CO<sub>2</sub> emissions are now 30 percent lower compared to period prior to the commissioning of the co-generation plant. [EN18]

Another initiative that has resulted in significant energy savings is the usage of spent coffee grounds by Panjang Factory in Lampung as renewable energy source to fuel its boiler. [EN26]

### Water Recycling

Many decades before environment protection and conservation became public concerns, Nestlé has already focused itself on responsible water management. It has been always Nestlé's commitment to conserve and protect water sources. We principally use water for producing steam, our cooling towers and for cleaning.

To produce steam, water is boiled in a boiler. The resulting steam is then used in the heating process and condensed into water. This water is then returned to the steam generator and reused to produce more steam. Through this way, we have been able to significantly reduce our water usage.

Fresh milk supplied by dairy farmers is still in liquid form. To produce milk powder, we need to separate milk solids from water through a process

called evaporation. After condensation, the water which we refer as "cow's water" is collected in a tank and used to clean machinery and equipment, as well as to add to the reduced water as the result of evaporation process in the cooling towers.

In 2010 we sourced 1,185,471 m<sup>3</sup> of water from groundwater sources, of which 5.8 m<sup>3</sup> was used to produce 1 ton of products, while the total volume of water discharged is 855,738 m<sup>3</sup>. [EN8]





# Environment Sustainability



## Environment Sustainability



### Paddy fields irrigation with treated wastewater

The production of wastewater is an unavoidable impact of food production process. Therefore, it has been the obligation of the industry players to ensure that the waste water is treated properly through appropriate management, namely waste water treatment plant (WWTP) that comply with the national and international standards. In line with our commitment to always protect the environment, the wastewater that has been treated can benefit the local community to irrigate their paddy fields.

Our WWTP at Kejayan Factory processes the wastewater into clean water based on the principles of balancing, airing and cleaning. Every day this facility produces about 1,300 m<sup>3</sup> of clean water, and on regular basis, the quality of the water processed by this facility is strictly monitored through the testing of samples.

In collaboration with local farmers and community, we maintain 1.2 kilometers of irrigation channel built in 2009. The water supplied by this channel irrigates 26 hectares of paddy fields. This process benefits not only the farmers but also the environment as the farmers are no

longer dependent on irrigation water to irrigate their paddy fields. [EN26]

### Reforestation program

The Wan Abdul Rahman Forest Park in Lampung covers an area of 22,000 hectares and plays an important role for the economical and ecological interests of the people of Lampung province. A small part of the area, about 30 hectares of the park is designated as youth camping area that provides income for the local community and serves as a place for the youth to learn about the environment.

The two waterfalls located within the area, have also become the tourist attraction and also serve as a source of irrigation for the surrounding community. Our commitment to help the environmental conservation and to help improving the welfare of the community have encouraged us to develop the Nestlé Green Initiative and to select the youth camping area of the forest park as the location of the project.

In collaboration with the Faculty of Forestry of the Bogor Agriculture Institute (IPB), the initiative was launched to mark the 25<sup>th</sup> anniversary of the NESCAFÉ factory in Lampung. Through this collaboration, Nestlé provided forestry experts who

were responsible for the planning, implementation and program evaluation, and worked together with Faculty of Agriculture of Lampung University and the Forestry Agency of Lampung Province. The five-year program (2005–2010) was designed not only to green the youth camping area but also to help improving the quality of life of the local people.

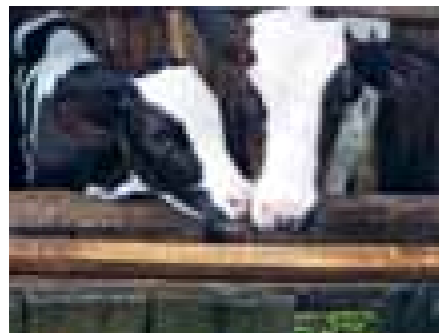
Up to the end of 2010, we have planted about 11,642 trees, the majority of which consisted of *Shorea javanica*, *Schima walichii*, *Agathis lorantifolia*, and *Antocephalus cadamba*. Also 400 plantlets from 57 tree species from various parts of Indonesia were planted in the youth camping area. Besides, in order to help improving the livelihood of local community and to reduce their dependency on the youth camping area, we initiated a program to improve the income of the local community through catfish farming and mushroom cultivation.

## Environment Sustainability



“Cooking with wood is expensive. We save money using biogas. It also keeps the kitchen cleaner.”

Drika Asiah, Purwodadi,  
Biogas user



### Biogas program [EN18, EN26, SO1]

In partnership with dairy farmers, Nestlé encourages responsible animal husbandry management to preserve the environment. Our commitment in ensuring the quality of the fresh milk supplied by dairy farmers is manifested through our technical assistance program.

Learning from our experience in other countries, our expert team observed the opportunity to manage cow manure as renewable energy and also organic fertilizer. The methane from cow manure of five cows can produce biogas sufficient for one household's requirement. We view this approach would not only be positive for the environment, but also for the welfare of dairy farmers' families.

Together with several dairy cooperative partners, we launched biogas program in mid 2010. Through this program, each cooperative can apply for free interest loan to build biogas digesters for each of its members. With the investment and cow manure of at least 5 cows, then the biogas requirement for cooking for one household can be fulfilled all years without incurring other cost except for biogas digester maintenance. This represents a major saving for a family bearing in mind that the cost for kerosene used for cooking for a family will at least cost

IDR 300,000 per month. To qualify for biogas loan, so that they can have biogas digester installations, farmers have to fulfill their commitment in supplying fresh milk that meet Nestlé quality standard. From the payments of the fresh milk, the farmers pay monthly installment to the cooperatives. This mechanism is one of our efforts in raising discipline behavior and ownership feeling amongst the dairy farmers.

Up to the end of 2010, some 1,262 biogas units had been installed at the houses of dairy farmers who supply fresh milk to Kejayan Factory. In the future, besides continuing to promote the use of biogas among dairy farmers and to multiply the number of dairy farmers having biogas digesters, we plan also to provide training to biogas users about various activities that can help improving their livelihood. Working together with HIVOS, our plan is to have 8,000 biogas units installed by dairy farmers up to 2012.



## Environment Sustainability



### Clean water and sanitation program [SO1, EC8]

Access to clean water is very important to sustainable development, poverty reduction effort, and improvement of public health. Some Indonesian people still need assistance to get access to clean water for their daily lives, therefore in collaboration with the Indonesian Red Cross (PMI), Nestlé has provided access to clean water.

Common vision of Nestlé and the Indonesian Red Cross (PMI), has encouraged us to partner in providing access to clean water for the local community in Telagaluhur village, Serang regency, Banten. This program which was started in August 2008 has provided the community with one deep well, completed with holding tank of 30,000 liters of water and distribution piping. Besides, we have also built five public toilets and eight public hydrants with a capacity of 2,000 liters each. The most important aspect of this collaboration was the active participation of the community in building the facility and also their collaboration to take over the facility's management and maintenance.

Therefore, besides helping to build the facility, we also encouraged and trained volunteers from the community who will later independently benefit from and

manage this valuable facility. In order to create agent of change who will encourage further community based development in Telagaluhur village, several training were conducted for the volunteers and the community members on water management, hygiene and environmental sanitation.

Through our partnership with PMI at Telagaluhur village, we hope to encourage people to adopt healthy life styles and there will be behavior change. In 2010, in partnership with Yasmina Foundation, we implemented similar program at Bitung Jaya village, Cikupa district, Banten. We are also investigating the possibility of launching similar program in East Java and Lampung so that there will be more people who will get access to clean water for their daily lives.







Rural  
Development



## Rural Development



“Dairy farming is a good source of income. We now have a better life.”

Solehudin, Krucil-Probolinggo, Dairy farmer for 20 years.

As a manifestation of the CSV approach, Nestlé has been for decades assisting farmers to become more reliable suppliers, while at the same time helping them to improve their welfare. This collaboration has created a long-term positive impact on agricultural sustainability and productivity, food security, economic and environmental development, as well as the quality of life of the farmers and their families.

Coffee and dairy farmers are very important suppliers of Nestlé as we source our quality raw materials from them. Continuous technical assistance on sustainable agriculture plays an important role to maintain this. Therefore on rural development, we have been providing technical assistance and financial assistance to coffee and dairy farmers to improve the productivity and quality of their produce which will be compensated with higher price return.

Through this program the behavior and attitude of the dairy and coffee farmers gradually have changed, keeping in mind the high quality control imposed not only by us but also by the industry at large. Professionalism is the enabling factor for the farmers to become outstanding and reliable suppliers. In addition to the efforts to build the capacity of dairy and coffee farmers to

produce high quality raw materials at competitive prices, the program also aims to improve their livelihood.

### Partnership with East Java dairy farmers (SO1, EC8)

While Nestlé does not possess any farms, we are committed to help dairy farmers improving their level of income by providing assistance particularly on sustainable farming practices.

May 22, 1975 is a historical moment for Nestlé and the members of the Pujon Dairy Cooperative as it marked our initial collaboration when the first 160 liters of fresh milk were sent to our Waru Factory. Previously, we had to import milk solids as there was insufficient fresh milk supply from the area. This situation had then shifted gradually when a team of agronomists analyzed the situation on the ground and concluded that adequate fresh milk could be produced in East Java.





## Rural Development



Our program has a significant impact on improving the quality of life of the farmers



Both the quality and quantity of fresh milk production could be fulfilled if the supply chain (from cow to factory) was improved. We then started to provide low-interest loans to a number of cooperatives to allow them to purchase the cooling unit which was used to ensure the quality of fresh milk.

The 1975's success story was only the beginning of our story. With the increasing demand for high-quality fresh milk, we set up the AgriService Department in 1985 to provide technical assistance to all of our fresh milk suppliers. When our Kejayan factory was ready for production in 1988, as a first step, we provided cooling units to three cooperatives followed by the introduction of good farming practices to dairy farmers to ensure high quality fresh milk production and healthy livestock breeding.

Currently, the AgriService Department has been replaced by the Milk Procurement and Dairy Development Department (MPDD) in order to improve services rendered to the farmers and at the same time improving Nestlé's performance. On one hand, the milk procurement team focuses its effort on the operations of the cooperatives—on how to collect fresh milk—with a purpose to improve fresh milk quality at competitive prices. We manage this by providing

low-interest loans to help cooperatives to improve their milk collection centers and transportation facilities, providing training to cooperative staffs on the application of standard operating procedures along the value chain, conducting checks on fresh milk supplies to ensure they meet the required quality standards, and promoting better quality management of the cooperatives.

On the other hand, the dairy development team works together with the cooperatives and several dairy farmer groups to improve the quality of sustainable dairy farming. Improvements in quality can only be achieved through greater productivity and efficiency. To support this effort, we facilitate dairy farmers with access to credit so they can buy more cows. We also provide basic training on dairy farming practices (hygiene standard, healthy livestock, the feeding formulation and provision).

These 30 years efforts have significantly improved the fresh milk quality and convinced the dairy farmers to increase their supply volumes. In 2010, we received an average of 660,000 liters of fresh milk per day from our dairy farmers, or equivalent to 241 million liters of fresh milk per year.

With all these successes, we are able to reduce our dependency on



## Rural Development



imported milk solids, while our dairy farmers also enjoy better quality of lives from the result of their dairy farming. As dairy farmers relatively have higher income compared with other agricultural farmers, the status of the family health and the education of their children are also improved.

Together with our suppliers, dairy farmers and local cooperatives surrounding our factory, we will continue working to meet the increasing market demand for milk products and to ensure the development of sustainable dairy farming. As the realization of this strong commitment, in 2008–2009 we invested around USD 100 million to double our production capacity of both powdered and liquid milk at Kejayan Factory. Currently, Kejayan Factory can process up to 1.5 million liters of fresh milk per day, which means it is able to double the absorption of fresh milk compared to the amount of fresh milk supplied by dairy farmers in 2010.

The contribution of Kejayan Factory to the economy is not limited to the purchase of fresh milk from the dairy farmers (backward linkages) but also involves forward linkages in terms of the development of distribution industry for end-products, which includes transportation and general trade. In a more detailed calculation, the multiplier effect created by Kejayan Factory is far more significant.



Rural Development



## Rural Development



### Partnership with Lampung coffee farmers [SO1, EC8]

Nestlé started the production of NESCAFÉ in Indonesia at Panjang Factory in Lampung in 1979. NESCAFÉ is one of the biggest brands of coffee in the world that has been enjoyed by consumers across the world. At Panjang Factory, NESCAFÉ is produced to meet Indonesian consumers demand and Lampung is the largest coffee beans exporter in Indonesia.

Taste is the major criteria when selecting the ripe coffee beans from the area. In the early years of Panjang Factory's operation, our coffee tester specialists selected the sample of coffee beans received from the coffee traders. These specialists would only accept coffee beans that met NESCAFÉ's high standard of taste. During this period, there was a perception among the coffee traders that the best quality was determined solely by the physical condition of the coffee beans.

In the early 1990s, Panjang Factory instituted a coffee tasting program for local coffee traders to create their awareness on the importance of taste in coffee production. Failure to meet the optimum taste was generally caused by post-harvest treatment of the beans.

In 1994, Nestlé Indonesia decided to work directly with the local coffee farmers so that we could get the good quality coffee beans with accurate taste directly from the sources. The initiative was started with the establishment of a dedicated team known as the AgriService Department. Our agronomists worked together with coffee farmers in Ngarip, introducing proper harvesting and post-harvest techniques. A large turnout of farmer participants to the training had directly doubled the yield per hectare. And through a proper post-harvest treatment, the coffee beans produced by the farmers had also acquired a better "cup taste" profile. Farmers' groups were given trainings on how to evaluate the quality of their produce and the benefits that could be gained from supplying high-quality beans in the market. Since 2008, an oven-dried technique has been introduced to the farmers that help to process the coffee beans, particularly during rainy season.

Although less than half of the coffee beans produced by Nestlé's facilitated farmers are purchased by the company, their coffee beans are in high demand by coffee exporters. Previously, the coffee price at the local market was very low due to price manipulation by coffee brokers, now with "Nestlé quality" coffee, the farmers are enjoying a

competitive market price. Moreover, the coffee farmers in Lampung have also learned to use technology, so that they are used to check the latest international coffee price simply through their cell phones.

To ensure the coffee purchased by Nestlé come from reliable and environmentally friendly sources, the chain of custody procedures has been implemented since 2010. This procedure enables the company to trace back the origin of coffee beans up to the exact location where the beans have been grown and harvested. The farmers felt the immediate benefit of this procedure as it enables them to accurately identify their production capacity and compare their productivity with other farmers. In 2010, our coffee factory in Lampung purchased 10,260 tons of coffee beans directly from the coffee farmers.

From the confession of our coffee farmers in Lampung, they mentioned that their economic situation has improved significantly compared to their situation 20 years ago. They simply referred to the improvement of the physical condition of their houses and ownership of motorized vehicles which is high amongst the farmers. The farmers can also provide their children with higher education and some of them have completed their education. But in overall, their

## Rural Development



“There have been a lot of changes since I could improve the productivity and the quality of the coffee beans. All my four children have now completed their bachelor degrees. That’s one big change.”

Hadi Rohadi, Coffee Farmer  
Ngarip Village, Lampung



improved standard of living can clearly be seen from a lengthy list of farmers from Tanggamus signing up for Haj pilgrim.

### Collaboration with Indonesian Coffee and Cocoa Research Institute (ICCRI) [SO1, EC8]

Nestlé collaborates closely with the Indonesian Coffee and Cocoa Research Institute (ICCRI) to improve the quality and productivity of the Indonesian coffee and cocoa production. The Indonesian Coffee and Cocoa Research Institute were established in 1911 in Jember, East Java. Based on the decree of the Indonesian Minister of Agriculture, since 1981 it has been appointed as the national research center under the auspices of the Agency for Agricultural Research and Development (AARD) with the objective of conducting research and development on coffee and cocoa. The activities of ICCRI include agronomy, plant propagation, fertilization, plant protection, physiology, post-harvest technology, economics, statistics, and biotechnology. More than 30 scientists and 50 field assistants are employed by the ICCRI.

As part of its efforts to implement sustainable coffee production in Indonesia, since 1994 Nestlé has been working together with the Indonesian government through ICCRI to identify and select premium coffee plantlets through genetic mapping technology that can accelerate the process of finding best quality coffee plantlets.

Nestlé has also granted its somatic embryogenesis technology, a technology that allows plants to be replicated in large numbers in a short period of time and with similar characteristic with the parent plants. In 2008, the Minister of Agriculture officially inaugurated the first Cocoa Somatic Embryogenesis Center in Indonesia, as transfer of technology from Nestlé R&D Centre in Tours, France to ICCRI. ICCRI has utilized this technology to accelerate the revitalization of Indonesian cocoa plants so that the local cocoa production can be preserved. Until the end of 2010, a total of 2.5 million coffee plantlets and 42 million cocoa plantlets had been successfully produced using the technology.







## Human Resources



## Human Resources



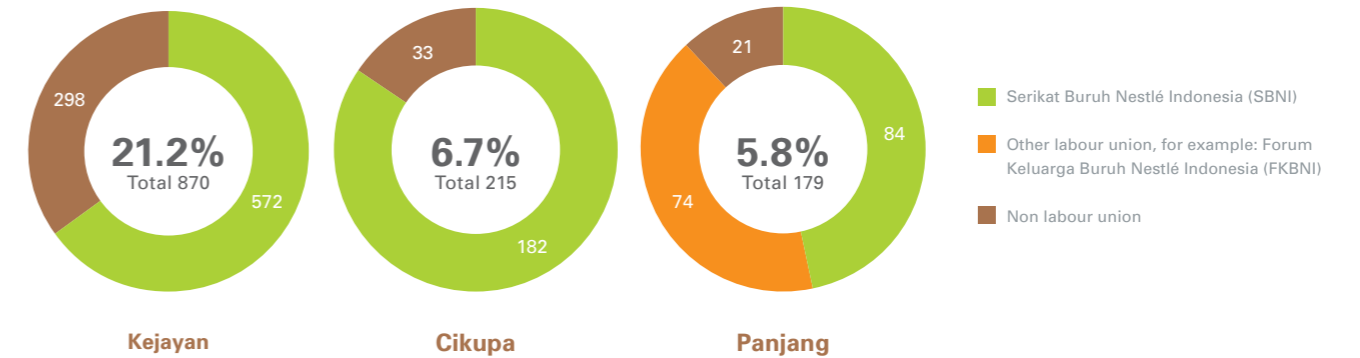
Our employees are the most valuable asset. We continue to nurture them well so that we can grow and develop together. Our principle ensures each employee has equal opportunity for his/her development in a safe and fair working environment, and we listen, appreciate and respect their opinion.

In line with the Nestlé's Corporate Business Principles (NCBP) and United Nations' Global Compact principles, Nestlé provides the employees with freedom of association to join a labour union or such without any pressure or coercion. Up to December 2010, there are four working sites of the company that have their labour unions.

# Human Resources



## The total number of employees joining labour unions [LA4]



In line with the company's internal policy and the prevailing manpower regulations, we always comply with the requirement and processes related to employment. Discrimination based on gender, age, ethnic origin or race in determining company's policy is prohibited. We respect every individual and consider all people are equal. [LA1, LA13]

## Number of employees by status and location [LA1]

Location	No. of permanent employees	No. of temporary employees	Total
Head Office (including Cikarang Distribution Center)	555	30	585
Kejayan	1,019	8	1,027
Cikupa	244	53	297
Panjang	236	14	250
Gempol Distribution Center	125	1	126
State (Sales Office) 1	90	0	90
State (Sales Office) 2	155	0	155
State (Sales Office) 3	101	0	101
State (Sales Office) 4	66	1	67
<b>Total</b>	<b>2,591</b>	<b>107</b>	<b>2,698</b>



## Human Resources



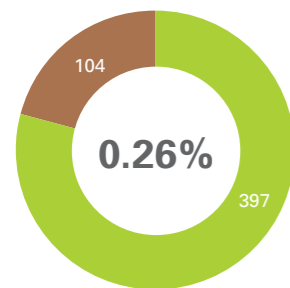
## Human Resources



### Employee composition based on gender and age [LA13]

Level	Number	Sex		Age		
		Male	Female	<30	30–50	>50
Managerial level and above	231	166	65	2	204	25
Executive–Senior Executive	357	240	117	26	305	26
Supervisor–Senior Supervisor	642	364	278	337	280	25
Operator	1468	1412	56	687	659	122
<b>Total</b>	<b>2,698</b>	<b>2,182</b>	<b>516</b>	<b>1,052</b>	<b>1,448</b>	<b>198</b>

A pleasant working environment is the key factor for Nestlé to attract competent new employees in growing business demand, and to retain the existing employees which can be seen from the small number of turnover. The company keeps track on the turnover rate on monthly basis.



Turnover of employees

### Turnover of employees by level (permanent) [LA2]

Level	Number of new employees	Number of employees leaving	Turnover rate (%)
Managerial level and above	9	12	1.33
Executive–Senior Executive	14	27	1.93
Supervisor–Senior Supervisor	141	31	0.22
Operator	233	34	0.15
<b>Total</b>	<b>397</b>	<b>104</b>	<b>0.26</b>

### Employee turnover by gender [LA2]

Gender	Number of new employees	Number of employees leaving	Turnover rate (%)
Male	315	78	0.25
Female	82	26	0.32
<b>Total</b>	<b>397</b>	<b>104</b>	<b>0.26</b>

### Employee turnover by location [LA2]

Level	Number of new employees	Number of employees leaving	Turnover rate (%)
Head Office (including Cikarang Distribution Center)	94	50	0.53
Kejayan	148	18	0.12
Cikupa	46	18	0.39
Panjang	34	5	0.15
Gempol Distribution Center	21	0	0
State (Sales Office) 1	11	1	0.09
State (Sales Office) 2	18	5	0.28
State (Sales Office) 3	13	5	0.38
State (Sales Office) 4	12	2	0.17
<b>Total</b>	<b>397</b>	<b>104</b>	<b>0.26</b>

### Safety, health and environment

Each factory, sales office, distribution center and the head office has members of Safety, Health and Environment (SHE) Officers. The procedures for the implementation of SHE are set out in article 41 of the company's Collective Labour Agreement. SHE officers are very important for ensuring safe and healthy working environment, so that our operations can run properly. Until the end of 2010, we have 13 SHE officers, which represent 0.48 percent of our total employees. While we consistently strive to reduce the amount of time lost due to occupational accidents, a number of

incidents were nevertheless occurred in 2010. Lost Time Injury/LTI involving employees and contractors were counted at 0.5 per million work hours; while total accidents leading to injury was 1.0 per million work hours. [LA7]

### Training, learning and coaching

Training is very important for Nestlé. We continuously improve the competencies and capabilities of our employees in line with their jobs and the growing business needs.







## Human Resources

### Average training hours in 2010 [LA10]

Level	Number of participants	Training hours	Average number of training hours/employee
Managerial level and above	197	5,673.5	28.8
Executive–Senior Executive	333	7,909.2	23.75
Supervisor–Senior Supervisor	503	13,169.6	26.18
Operator	1157	179,571.9	155.2

Nestlé fully supports the United Nations Global Compact’s (UNGC) guiding principles on human rights and labour, which have been included in the Nestlé Corporate Business Principles (NCBP)

For employees who are approaching their retirement ages, Nestlé provides a pre-retirement program called “New Beginning” since 2004. This program is intended to prepare the employees to face retirement. 72 employees and their spouses took part in the program in 2010.

Nestlé conducts annual performance and career development evaluation for all employees (100%). The results of these evaluations provide the basis for the management in reviewing the position of the employees and their performances during the course of the year. [LA12]

Every newly-recruited Nestlé employee is required to participate in the orientation program, including the NCBP which also covers the anti corruption provision. This provision has been obeyed by all employees and therefore no corruption case was reported in 2010. This provision is also stipulated in article 10

chapter 2 of the Collective Labour Agreement. [SO3, SO4]

### Respecting human rights

Nestlé fully supports the United Nations Global Compact’s (UNGC) guiding principles on human rights and labours, which have been included in the Nestlé Corporate Business Principles (NCBP). In order to ensure that each Nestlé employee performs in line with the NCBP, the socialization of NCBP is made through the company’s intranet and orientation training for new employees. Access to the intranet is available to all employees at all times.

Nestlé fully complies with the manpower regulations on minimum age for employment, i.e. 18 years old. Therefore, there is no minor is employed by Nestlé. Hence, we never coerce the employees to work extra hours which is also stated in

the NCBP as our commitment to respect human rights. During the year 2010, there was no time lost for neither internal or external strikes nor dispute. [HR 6, HR7]





## GRI Index <sup>[3.12]</sup>

GRI G3	DESCRIPTION	PAGE
<b>STRATEGY AND ANALYSIS</b>		
1.1	Message from BOC and BOD	4, 6
1.2	Key impact, risk and opportunities	4, 6
<b>ORGANIZATION PROFILE</b>		
2.1	Name of organization	88
2.2	Brand, product, services	24
2.3	Organizational structure	8
2.4	Head office location	8, 18
2.5	Number and name of countries where company operates	8
2.6	Form of legal entity	15
2.7	Market served	24
2.8	Scale of organization	15, 26
2.9	Significant changes of report	15
2.10	Awards received	26
<b>REPORT PARAMETERS</b>		
<b>Report Profile</b>		
3.1	Period of report	8
3.2	Date of recent report	8
3.3	Report cycle	8
3.4	Company contact	88

GRI G3	DESCRIPTION	PAGE
<b>Report scope and boundary</b>		
3.5	Defining report content	8
3.6	Report scope	8
3.8	Basis of report	8
3.9	Basis and data measurement techniques	8
3.10	Explanation of the effect of any re-statement	8
3.11	Significant changes from the previous report	8
<b>GRI content index</b>		
3.12	Table of disclosure location	84
<b>Assurance</b>		
3.13	External assurance policy	8
<b>GOVERNANCE, COMMITMENTS AND ENGAGEMENT</b>		
4.2	Highest governance post cum executive officer	21
4.3	Independent members	21
4.4	Mechanisms of recommendations	21
4.5	Compensation and performance	21
4.6	Conflicts of interest	21

GRI G3	DESCRIPTION	PAGE
4.7	Board qualifications	22
4.8	Economic, environmental and social values	2, 6, 16, 18
4.9	Procedures of overseeing performance	22
4.10	Board evaluation process	22
<b>Commitments to external initiatives</b>		
4.11	Precautionary approach toward company risk	22
4.12	Economic, environmental and social principles	22
4.13	Membership of organization	29
<b>Stakeholder engagement</b>		
4.14	Stakeholders	23
4.15	Basis for identification and selection of stakeholders	23
4.16	Approaches to stakeholder engagement	23, 29
4.17	Results of stakeholder engagement	23
<b>ECONOMIC PERFORMANCE</b>		
EC4	Government financial assistance	29
EC8	The effects of infrastructure development	55, 58, 67

# GRI Index

**GRI G3 DESCRIPTION PAGE**

**ENVIRONMENTAL PERFORMANCE**

**Water**

EN8 Water usage 46, 68

**Emmissions, effluents, and waste**

EN18 Greenhouse gas effect reduction initiative 46, 52

**Product and services**

EN26 Initiatives to mitigate environmental impacts 17, 46, 51, 52

**Compliance**

EN28 Monetary value of significant fines for non-compliance with environmental laws and regulations 45

**GRI G3 DESCRIPTION PAGE**

**SOCIAL PERFORMANCE**

**Labour**

LA1 Number of employee 75  
 LA2 Employee turnover rate 78, 79  
 LA4 Collective work agreement 75  
 LA7 Rate of work accident 79  
 LA10 Average hour of training 80  
 LA12 Performance assessment and career development 80  
 LA13 Employee diversity 75, 78

**Human rights**

HR6 Underage labour 80  
 HR7 Forced labour 80

**Society**

SO1 Impact of the program on community 37, 38, 40, 52, 55, 58, 67, 68  
 SO3 Anti-corruption training 80  
 SO4 Prevention of corruption practices 80  
 SO5 Participation in public policy formulation 29  
 SO8 Penalty or fines of ordinances violation 29

**GRI G3 DESCRIPTION PAGE**

**Product responsibility**

PR1 Cycle and safety of products 16, 32  
 PR2 Violation of product impact regulation 32  
 PR3 Product content information 35  
 PR4 Violation of product information provision 35  
 PR6 Feasibility of marketing communication 16, 35  
 PR7 Violation of marketing communication 35  
 PR8 Reports on violation of customers privatization 35  
 PR9 Fines of product procurement and uses violation 35

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**Text and Editing**

PT Nestlé Indonesia  
Faculty of Economics, University of Trisakti

**Design**

Afterhours Books

**Photography**

Achmad Ibrahim  
Ed Wray  
Lans Brahmantyo  
Nestlé documentation

**Paper**

This report is printed on  
Mohawk Options Crystal White,  
FSC Certified, made from recycled  
EFC Pulp

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**PT Nestlé Indonesia [2.1, 3.4]**

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