
Creating Shared
Value and Rural
Development
Summary Report
2010



Nestlé

Good Food, Good Life



This is a summary report.
A full online Rural Development
report is available on our updated
Creating Shared Value website
at www.nestle.com/csv

Table of contents

2	A message from our Chairman and CEO
4	About this report
5	Material issues
6	Global food security and rural poverty
9	Nestlé's contributions to rural development
10	Overview: Rural impact of Nestlé's factories and farmer programmes
12	Impact of Nestlé factories on rural development
20	Impact of Nestlé farmer programmes on rural development
32	Nestlé Creating Shared Value Advisory Board
34	Challenges and opportunities
36	Nutrition
38	Water

Cover: Farmers Jaswinder Singh and Jasveer Kaur deliver milk to a chilling centre in Nestlé's milk district in Rajasthan, India.

Accompanying reports



Annual Report 2010



Corporate Governance
Report 2010;
2010 Financial
Statements

© Figures highlighted throughout the report with this symbol are tracked as Key Performance Indicators and summarised in the Rural Development section of the KPI table inside the front flap.

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2010 performance summary

Nestlé has developed performance indicators to provide a focus for measuring and reporting Creating Shared Value, sustainability and compliance. The summary below forms part of our Communication on Progress on the United Nations Global Compact Principles. Unless stated otherwise, performance indicators are for the year ending 31 December 2010.

⊕ Please see www.nestle.com/csv/kpis

Creating Shared Value Key Performance Indicators	GRI	2009	2010
Economic			
Total Group sales (CHF million)	EC1	107 618	109 722
Net profit (CHF million)	EC1	10 428	34 233
Nutrition			
Nestlé Nutrition sales (CHF million)		9 963	10 366
Products meeting or exceeding Nutritional Foundation profiling criteria (% of total sales) ^(a)		71	73.2
Renovated products for nutrition or health considerations ^(b)		7 252	6 502
Products with increase in nutritious ingredients or essential nutrients ^(b)		3 878	3 847
Products with reduction of sodium, sugars, trans-fatty acids, total fat or artificial colourings ^(b)		3 374	2 655
Products analysed and improved or confirmed via 60/40+ programme (sales, CHF billion) ^(c)		16.8	36.4
Products containing Branded Active Benefits (sales, CHF million)		5 045	5 922
Products featuring <i>Nestlé Nutritional Compass</i> labelling (% of sales worldwide) ^(d)	PR3	98	97.1
Products in EU with Guideline Daily Amounts (GDA) labelling on front of pack (% of sales) ^(e)	PR3	91	98.7
Products with specific portion guidance (sales, CHF billion) ^(f)		21	21.3
Nestlé television advertising to children under 12 in compliance with policies on responsible marketing (%) ^(g)	(PR7)	99.9	99.5
Nestlé contraventions of infant formula marketing requiring remediation ^(h)	PR7	6	7
Infant formula marketing staff in higher-risk countries trained in the WHO Code (% of staff) ⁽ⁱ⁾		100	100
Popularly Positioned Product (PPP) SKUs		3 950	4 860
Popularly Positioned Products (sales, CHF million)		8 770	11 070
Employees trained on nutrition (cumulative since 2007)		121 360	145 922
Water and Environmental Sustainability			
Production volume			
Total production volume (million tonnes)		41.17	43.74
Materials			
Total raw materials used (million tonnes)	EN1	21.18	23.27
By-products for reuse or recovery (kg per tonne of product)	EN22	32.79	32.16
Waste for disposal (kg per tonne of product)	EN22	8.72	8.45
Energy			
Total on-site energy consumption (petajoules)		85.2	88.6
Total on-site energy consumption (gigajoules per tonne of product)		2.07	2.03
Direct energy consumption by primary energy source (petajoules)	EN3	61.0	63.0
Indirect energy consumption by primary energy source (petajoules)	EN4	65.1	67.6
On-site energy generated from renewable sources (% of total)	(EN3)	12.2	12.3

	GRI	2009	2010
Greenhouse gases (GHGs)			
Direct GHG emissions (million tonnes CO ₂ eq)	EN16	3.98	3.98
Direct GHG emissions (kg CO ₂ eq per tonne of product)	EN16	96.6	91.0
Indirect GHG emissions (million tonnes CO ₂)	EN16	3.00	3.14
Indirect GHG emissions (kg CO ₂ per tonne of product)	EN16	72.8	71.9
Water			
Total water withdrawal (million m ³)	EN8	143	144
Water withdrawal (m ³ per tonne of product)	EN8	3.47	3.29
Total water discharge (million m ³)	EN21	91.3	94
Quality of water discharged (average mg COD/l)	EN21	91	78
Safety, health and environment governance			
ISO 14001 / OHSAS 18001 certified sites (% of total manufacturing sites)		83	91
Packaging			
Total packaging materials (million tonnes)	EN1	4.17	4.59
Packaging weight reduction (tonnes)		58995	70828
Reduction of packaging weight (per l of product) Nestlé Waters over five years (%)		24	19
Rural Development			
Farmers trained through capacity-building programmes		165553	144926
Markets covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes		35	45
Direct procurement markets covered by SAIN programmes (%)		77	100
SAIN projects associated with water		10	12
Suppliers audited for food safety, quality and processing		3864	3345
Suppliers who received and acknowledged the Nestlé Supplier Code		165497	164969
Key vendors within scope of the responsible sourcing audit programme ⁽ⁱ⁾		N/A	1481
Key vendors covered by a responsible sourcing audit (%) ⁽ⁱ⁾		N/A	66
Key vendors audited and compliant with Nestlé Supplier Code (%) ⁽ⁱ⁾		N/A	56
Quality key suppliers approved through vendor approval process (%) ⁽ⁱ⁾		N/A	61
Our People			
Total workforce (number of employees)	(LA1)	278 165	281 005
Key Business Positions		1 319	1 379
Employees with potential to fill Key Business Positions		3 922	8 741
CARE gaps identified related to Business Integrity and HR		500	425
Of which: Minor		425	393
Major		75	32
Critical		0	0
Lost time injuries among employees and contractors (per million hours worked)	LA7	2.0	1.8
Total injury rate among employees and contractors (per million hours worked)	LA7	5.1	4.2
Fatalities of employees and contractors	LA7	4	11
Employees receiving formal classroom training in developing countries	(LA10)	93 146	102 292
Leadership positions held by women (%)	(LA13)	27	27.3
Local Management Committee members native to country in developing countries (%)		42	48

Note: GRI indicators shown in brackets correspond in part to a GRI G3 indicator. Those not in brackets correspond in full.

(a) 2010 assessment scope: 69.9% total food and beverages sales.

(b) Based on reports of approximately 75% of worldwide product development teams.

(c) Starting in 2010, this KPI better reflects the dynamic nature of our 60/40+ programme. Assessment results are valid for a maximum of three years, only if all parameters remain equal. Within the reported sales, some products were frequently re-assessed. The comparable KPI for 2009 would be CHF 32.9 billion.

(d) Excludes total petcare and, for USA only, *Dreyer's* and newly acquired Pizza business.

(e) Across EU 27 plus Norway and Switzerland. Excludes plain coffee, tea and water, products for Nestlé Professional, gifting chocolate, petcare, and Nestlé Nutrition.

(f) Products sold as single servings and meeting/exceeding Nutritional Foundation, OR sold with/via a device or equipment delivering a serving meeting/exceeding Nutritional Foundation, OR sold to caregivers with detailed instructions on adjusting servings to evolving nutritional needs.

(g) The compliance rate reported in 2009 corresponds solely to Nestlé's commitment not to advertise to children under 6 years of age. The compliance rate in 2010 also reflects the fuller commitment to only advertise "better for you" products to children aged 6–12 years.

(h) Based on internal and external audits.

(i) "Higher-risk" countries are those with mortality rates for under-fives of more than 10 per 1000, or more than 2% acute malnutrition (moderate and severe wasting) among under-fives. All other countries are "lower-risk".

(j) New in 2010.

Highlights 2010

Rural development

25 million+ people involved in Nestlé's entire upstream value chain

USD 45 million in financial assistance extended to farmers in 2010

144 rurally located Nestlé factories in developing countries

33% offer literacy and numeracy programmes

32% provide clean drinking water to local communities

37% run entrepreneurship programmes

58% contribute to local educational facilities

44% provide skilled trades

41% invest in other local infrastructure

58% offer formal apprenticeships

70% have a Nestlé-built water treatment plant

The Nescafé Plan

CHF 500 million investment by 2020

90 000 tonnes of Nescafé coffee, grown according to Rainforest Alliance and Sustainable Agriculture Network (SAN) principles, to be procured by 2020

220 million high-yield coffee plantlets distributed to farmers by 2020

The Cocoa Plan

CHF 110 million investment over the next decade

1 million plants will be distributed to farmers in 2012

600 000 high-yield, disease-resistant plantlets distributed to farmers by June 2011

10 million plants will be distributed to farmers within ten years

A message from our Chairman and CEO



It is our firm belief 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”. Based on strong foundations of compliance and sustainable business practices, this is our basic way of doing business. Given the nature of our activities and our ambition to be the world’s leading Nutrition, Health and Wellness company, we have identified three areas where Nestlé can, in particular, optimise the creation of shared value: nutrition, water and rural development.

In this report, we will focus specifically on rural development, which is one of the most important drivers of global development. With an estimated 70% of global poverty concentrated in rural areas, investment in building agricultural capacity is crucial, as the world additionally faces the serious challenge of providing food security for growing populations. Indeed, global poverty reduction efforts must focus increasingly on rural development.

Nestlé has been engaging with farmers and rural communities since its inception over 140 years ago. As early as the 1920s, we were building factories in rural areas in Brazil and South Africa; and creating milk districts to supply them. Today, we deal directly with nearly 600 000 farmers worldwide, affecting the lives of

millions more by helping to create better living conditions for them – for example by establishing milk districts in about 30 countries, training farmers in animal husbandry, water and feed techniques; and extending about USD 45 million in financial assistance in 2010.

Today, we have 443 factories all over the world. Most of them are in rural areas and more than half are in developing countries. We have long been aware that they are magnets for development, creating a large skilled labour force in rural areas, but also educating small business operators who supply our factories, as well as facilitating the building of infrastructure such as roads and water treatment systems.

Specifically in 2010, we made significant new commitments in rural development. In addition to new factory investments in Indonesia, southern Chile, India, the Philippines, Sri Lanka, Mexico, Ghana and Equatorial Africa, we launched The *Nescafé* Plan, with substantial investments in coffee-growing regions worldwide. The *Nescafé* Plan takes a holistic approach to farming which includes:

- doubling the amount of coffee bought for *Nescafé* directly from farmers to 180 000 tonnes over the next five years;
- sourcing 90 000 tonnes of coffee according to Rainforest Alliance and



Opposite: Nestlé Chairman Peter Brabeck-Letmathe visits the Reta Grande dairy farm in Brazil, where Nestlé provides technical assistance and advice on farming best practice.

Above: Nestlé CEO Paul Bulcke attends a school in Peru, where the children learn about healthy eating in an enjoyable way through Nestlé's *Crecer Bien* programme.

Sustainable Agriculture Network principles by 2020;

- distributing 220 million high-yield coffee plantlets in order to raise quality and hence revenues to farmers.

The *Nescafé* Plan follows closely in the footsteps of The Cocoa Plan, where we are:

- working closely with cocoa-farming communities, particularly in West Africa and South America, to improve their livelihoods, including access to schools for their children;
- putting our plant science expertise to work and distributing millions of high-yield, disease-resistant cocoa plantlets.

Together, The Cocoa Plan and The *Nescafé* Plan will see over CHF 600 million invested in these key rural development initiatives between now and 2020.

Meanwhile, the *Nespresso* AAA Sustainable Quality Program – a part of the wider *Nespresso* Ecolaboration platform – with high-quality coffee

farmers in Latin America, strengthened collaboration with a cluster of organisations, including the Rainforest Alliance. In addition, we have engaged in various bilateral and multi-lateral consultations with international organisations and NGOs such as the partnership with The Forest Trust (TFT) to ensure that Nestlé products do not have a deforestation footprint.

We know that all these are positive steps. But we also know that more has to be done. We are permanently challenging ourselves to look for answers to the many problems we are all facing together. In the following pages, we describe key challenges – from locating factories in rural areas, to the issue of child labour in agriculture, to deforestation. There has been good progress to date, but we need to continue our efforts, because there is still considerable work to be done.

Conscious that we do not have all the answers, we remain open to new ideas from outside stakeholders, and the Nestlé Creating Shared Value Advisory Board, comprised of global experts in nutrition, water and rural development, has given us invaluable outside perspectives and challenged us on where we can do better. Specific recommendations this year include increased advocacy to stimulate broad-based investment in rural development, while continuing to raise serious concerns about issues such as the deforestation effects of biofuels.

As a global community, we are faced with the need to double food production by 2050, and Nestlé is committed to playing its part in a multi-stakeholder effort. We welcome your input and ideas, and hope that you find this report to be stimulating and informative.

A handwritten signature in blue ink, appearing to read 'P. Brabeck-Letmathe'.

Peter Brabeck-Letmathe
Chairman of the Board

A handwritten signature in blue ink, appearing to read 'Paul Bulcke'.

Paul Bulcke
Chief Executive Officer

About this report

Company profile

Nestlé is the world's leading Nutrition, Health and Wellness company. It was founded in 1866, and is headquartered in Vevey, Switzerland.

CHF 109 722 million total Group sales

CHF 34 233 million net profit

281 005 employees worldwide

More than 4 million people benefit economically from Nestlé's commercial operations

443 factories

29 research and development centres

Our reporting history

Our aim is to report on Nestlé's long-term impact on society and how that relates to the creation of a successful long-term business. Since 1995, we have regularly published reports on environmental matters (see www.nestle.com/csv/downloads) and in 2001, we began to report on issues related to rural development and farmers, employees and social and economic development in Latin America and Africa. We have been issuing global Creating Shared Value Reports every two years since 2007, since when we have continued to focus on progress against key performance indicators (KPI) across our value chain and outline the actions we have taken to address the key challenges facing our business.

In alternate years, we have reported in more depth on one of our three focus areas: nutrition, water and rural development. These in-depth reviews included the *Nestlé Water Management Report* in 2006, *Nutritional Needs and Quality Diets* in 2008 and this current report on *Rural Development*.

To enable stakeholders to more easily analyse our reports and make comparisons between them, we have replicated the full KPI table from our *2010 Annual Report* inside the front cover of this summary, and have also included short sections at the back of this report on our other key focus areas: nutrition and water (pages 36–40).

Our wider communications

This summary, and the case studies, audio content, videos and downloads that accompany our full CSV update online (www.nestle.com/csv), are companions to our *2010 Annual Report*, which outlines our overall business and financial performance. Together, they form an integral part of our overall communication on Creating Shared Value performance.

Future reporting

Our objective is to align our external reporting with good practice guidelines. We plan to further align

Nestlé's future reporting with the Global Reporting Initiative (GRI) G3 guidelines and have been involved in the development of the GRI Food Processing Sector Supplement.

Furthermore, James Singh, Nestlé's Chief Financial Officer, became a member of the International Integrated Reporting Committee (IIRC), formed by The Prince's Accounting for Sustainability Project (A4S – set up by HRH The Prince of Wales in 2004) and the Global Reporting Initiative (GRI) in August 2010.

Boundary and scope

The information contained in our latest online report and this summary covers Nestlé's global operations for the year ending 31 December 2010, unless otherwise stated, and has been subject to external assurance by an independent third party (see www.nestle.com/csv/assurancstatement for the full assurance statement) – with the exceptions of the opinion pieces by Robert L. Thompson and the forward-looking recommendations of the CSV Advisory Board. Data is provided for Nestlé's wholly owned companies and subsidiaries, excluding joint ventures and suppliers, unless specifically stated. The environmental data refers to factories only, and health and safety figures cover all 281 005 Nestlé employees, as well as the equivalent of more than 25 000 contractors working on Nestlé sites.

Material issues

For several years, Nestlé has worked with SustainAbility, an independent think tank and strategy consultancy, to undertake a systematic prioritisation of the issues deemed most critical to the Company. This draws on the opinions of investors, civil society groups and the media, assessing them with Nestlé executives.

Materiality analysis

For our 2009 report, SustainAbility concluded that external interest had increased for all issues and that climate change had become a major priority alongside water, across each stage of the value chain. In 2010, SustainAbility's qualitative review again examined major global developments, NGO campaigns and industry activity. Given Nestlé's commitment to long-term leadership in Creating Shared Value, SustainAbility also commented on how Nestlé's material issues are expected to change in the medium term and how industry leadership is evolving.

External interest continues to heighten for all issues – particularly with respect to Nestlé's impacts on its value chain (consumers, producers and suppliers) and the broader natural and social environment in which it operates (environment and community). Environment, for example, has once again become a major priority due to increasing focus on the societal and business value of ecosystem services (the resources and processes that are supplied by natural ecosystems) and biodiversity.

This year, global food security is taking centre stage as an overarching theme, requiring Nestlé to take an integrated approach to managing its CSV focus areas (nutrition, rural development and water) as well as certain material issues (climate, agriculture, supply chain and community impacts). Furthermore, while security of supply will remain important, distribution and availability will also matter, particularly in urban areas due to an increasing focus on food waste and the impact of poverty on access to nutritious food.

Other important themes

Pressure continues from government and NGOs on the food and beverage industry to reformulate products in response to the obesity epidemic; meanwhile, global organisations are looking to the industry to partner on addressing malnutrition. In 2009-2010, marketing responsibly and making

accurate claims remained a challenge for the industry overall, with Nestlé no exception. Food and beverage industry leaders are seen as those who are transforming product portfolios to contribute to better health outcomes and using marketing and branding to influence consumer values and behaviour towards more positive choices.

Water and climate change continue to rise in importance as linked regional and global issues that also relate strongly to public health and agriculture. Agriculture is increasingly being viewed through a value lens ("what contributions can agriculture make to improved health/livelihoods/climate/water?") as well as a risk lens ("how do we manage environmental and labour risks?"). In 2009-2010, palm oil, child labour in cocoa, and bottled water were also high-profile topics for Nestlé.

Of the remaining issues, environment, community impacts, and workplace wellness have all risen in relative importance as companies are increasingly expected to address issues outside of their direct footprint and immediate value chain.

Please note: This section is based on the advice and opinion of SustainAbility and represents their views and recommendations.

Global food security and rural poverty

Global demand for food is expected to double in the first half of this century, as a result of population growth, poverty reduction and urbanisation. Will the world's farmers be able to meet this doubled demand without damaging the environment?

By Robert L. Thompson

Global challenges and opportunities

There are two principal ways to expand agricultural production: increase the area planted or increase the production per unit of land. Firstly, most of the potentially arable land is inferior to that already in production and is located in remote areas of sub-Saharan Africa and South America, where local infrastructure is minimal. Secondly, to double agricultural production sustainably, it will be necessary to increase the production per unit of land already in production.

The availability of fresh water to agriculture may be an even greater constraint to doubling production than the availability of land. Farmers use about 70% of the world's fresh water. As urbanisation increases, cities will "outbid" farmers for available water – and 60% of the world's population will live in cities by 2030.

Variations in crop yield

There are great differences among regions of the world in crop yields, which should mean that it is possible to significantly increase productivity per unit of land. These differences reflect different genetic potential embodied in the seeds planted; availability of water in the root zone of the plants from precipitation or irrigation; the adequacy of the nutrition available to the plants from the soil or fertiliser; and the effectiveness of control of weeds, insects, birds and disease that reduce productivity. Farming is inherently risky, as revenue depends on two random variables that farmers cannot control: price and yield.

Low household incomes

Most of the world's agricultural production is conducted on family farms, where the farm household provides most of the labour. In addition to providing part of the family's annual food supply, farming provides the household cash income. Most of the world's farm households earn significantly less than those whose income comes from other economic

activities. In fact, 75% of the extreme poverty and associated hunger in the world is in rural areas – where people live far away from roads, markets, schools and health services.

Rural poverty and rural development

The objective of rural development in low-income countries is to reduce poverty and hunger, and improve the quality of life in non-urban areas, where the majority of poverty resides. Increasing productivity in agriculture is essential to reduce rural poverty and to ensure greater national food security and a global supply of food.

However, rural development must also create non-farm earning opportunities to diversify the economic base of rural communities and to benefit national economic development. This could involve working away from the farm, or moving out of agriculture completely to non-farm employment. By reducing the number of people working on small pieces of land, outmigration enables both those who leave as well as those who continue farming to have higher incomes. It is essential to create more non-farm employment opportunities within rural areas to avoid urban problems of overcrowding, unemployment, crime and pollution associated with excessive rural to urban migration.

To solve the problem of poverty in low-income countries, the private sector needs to create jobs and governments need to provide a positive investment climate before local or international investments will be made. There must also be reasonable macroeconomic and political stability, rule of law, definition and protection of property rights, and enforcement of contracts.

In addition, a number of rural public goods need investment from the public sector, official development assistance (foreign aid), and/or international development bank lending. Investment in rural infrastructure, education and health services, and agricultural

Robert L. Thompson holds the Gardner Endowed Chair in Agricultural Policy Emeritus, University of Illinois at Urbana-Champaign, USA; member, Nestlé CSV Advisory Board.

Please note: The views expressed in this article are the author's alone and are not necessarily shared by Nestlé. Its content has not been verified by our independent assurers.



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research and technology transfer will help to reduce rural poverty through development of agriculture and the rural non-farm sector.

Rural infrastructure

Poorly developed infrastructure and the frequent lack of roads impedes rural development as it raises the cost of transporting goods and people to and from the area. Most improved technologies are embodied in inputs the farmer must purchase. High transport cost raises the cost of inputs and reduces the price farmers receive for the products they sell, making it unprofitable to adopt improved technologies that could otherwise increase their household income.

Until recently, rural areas of many low-income countries have had little, if any, telecommunication links with the outside world. Such markets do not work very well as they create opportunities for unscrupulous middlemen to exploit farmers who have no way of knowing the prices in other markets. However, this has changed rapidly with the advent of the cellular telephone and construction of towers throughout many low-income countries.

Education and health

Education and health services are less accessible in rural areas of most low-income countries. Many areas lack safe drinking water and sanitation, which can lead to disease, and nutritional deficiencies can lead to stunting of mental and physical development. There may be no locally available source of certain essential nutrients in the diet, for example vitamin A, iron, iodine or zinc.

Educational opportunities are often limited for rural children. Illiteracy is widespread among farm populations, particularly among women, and educating girls helps to reduce the rate of population growth in low-income countries. In addition, educating the farmers of the future will facilitate adoption of improved agricultural techniques.

Reducing poverty – “the five ways”

There are five ways for a poor farm household to increase its income other than from social welfare support, which rarely exists in rural areas of low-income countries:

- increasing productivity by growing varieties with greater genetic potential, irrigating crops if water is available, providing sufficient nutrients and controlling weeds, insects, birds and disease;
- changing to higher value crops per hectare, replacing staples such as cereals, roots and tubers, with fruits, vegetables and livestock;
- gaining access to more land through purchase, rental or land reform, or other income-generating assets, e.g., literacy, numeracy and specialised skills;
- members of the household obtaining non-farm income, by producing something at home for sale or getting alternative employment away from the farm;
- members of the household moving to non-farm employment, reducing the number of people trying to make a living on uneconomically small pieces of land and increasing the incomes of those who stay behind.

Educating the next generation can also help outmigration from agriculture to non-farm employment.

Agricultural research and technology

Public and private investment in agricultural research and technology transfer are important factors when looking at global differences in crop yields per hectare. Agricultural research can increase the genetic potential of the varieties planted, improve understanding of crop nutrition and develop better, more cost-effective ways of controlling weeds, insects and diseases that reduce productivity. A century ago, cereal grain yields in Western Europe and the United States were little higher than those observed in sub-Saharan Africa today. The large increases in productivity since then have reduced the unit cost of production and kept the price of food lower, benefitting farmers through higher household incomes and low-income consumers who spend the largest fraction of their incomes on food. Moreover, this has made famine a rarity in the world and has allowed millions of hectares of trees to remain standing in the world's forests instead of being cut to make way for an expanded area under cultivation.

However, there is no point in increasing productivity or shifting to higher value per hectare crops if there is no market to buy the output at a remunerative price. Therefore, marketing institutions are necessary to connect farmers to regional and national markets for their products. Finding buyers for their products is a particular problem for smallholders who only have a small quantity of product to sell. Securing credit to buy inputs at planting time is a particular problem to smallholders who have little or no collateral to pledge against the loan, if credit providers exist at all.

Investing in the future

The social rate of return on public sector investment in rural infrastructure, education and

health, and in agricultural research is extremely high. In low-income countries 75% of the people in extreme poverty and hunger are in rural areas, and those countries' agricultural sectors are contributing less to their national food supply and to world food security than would be economically efficient and environmentally sustainable. Nevertheless, over the last several decades, investment in agricultural and rural development has declined to negligible levels.

Moreover, until recently the governments of many low-income countries, through policy interventions in markets, turned the terms of trade against their farmers, forcing them to pay more than the world market price for their inputs and receive less than the world market price for their output. This reduced the incentive for farmers to adopt productivity-enhancing technologies. This discrimination against farmers has been remedied in the developing world, except sub-Saharan Africa and Argentina.

In 2000, 189 countries meeting at the United Nations adopted several Millennium Development Goals (MDGs), the first of which was to reduce hunger and poverty in the world by half by 2015. To achieve this, poverty and hunger must be reduced in rural areas, where the majority of them reside – requiring a much stronger commitment to agricultural and rural development in low-income countries.

With the projected doubling of global food demand, low-income countries, with their history of underperformance in their agricultural sectors, need to undergo change and improvement so they can contribute more significantly to their national and the global food supply.

Nestlé's contributions to rural development

Nestlé has contributed significantly to poverty reduction and rural development in a number of low-income countries, while ensuring an ample future supply of raw materials for its factories to satisfy the global demand for food. By doing this, Nestlé's sustained, long-term commitment is helping to ensure food security at household, national and global levels, creating shared value for everyone.

By Robert L. Thompson

To help farmers to increase output, improve product quality and reduce their environmental impacts, Nestlé has established world-class plant research facilities in France and Côte d'Ivoire, where higher yielding, disease-resistant varieties are being developed. The Company also runs field trials and employs a large number of agronomists who provide training and consultation on farming practices.

Because rural credit markets are not always developed, and small farmers may have little or no collateral to pledge to get a loan, Nestlé has often acted as the provider of credit so that farmers could use improved technologies. The Company has also helped farmers to produce and sell higher-value products than they previously grew. In Yunnan Province, China, for example, Nestlé introduced the opportunity for farmers to produce coffee in an area with no previous history of coffee-growing.

Nestlé buys over 40% of the milk it processes directly from farmers, and much of it from smallholders. This increases farmer income and improves the nutritional status of children in the household.

Nestlé also has processing and packaging functions close to the point of raw material supply, improving food safety and reducing spoilage. These plants add to the local tax base, diversify the local economy and create non-farm employment opportunities close to farm households, an essential step towards eliminating rural poverty. Individuals' earning potential increases, and the area becomes more attractive to other employers, suppliers and service providers.

Quality of life has improved in the rural communities where Nestlé has factories, with investments in infrastructure, education and safe drinking water (see page 10). Its Popularly Positioned Product (PPP) programme also provides affordable sources of nutrition for lower-income consumers, often fortified with essential nutrients such as iodine,

vitamin A, iron, and zinc to overcome deficiencies in the local diet (read more on page 36).

When the majority of the world's poor live in rural areas and most are farmers, focusing more attention on agricultural development and rural poverty reduction will both ensure a sustainable supply of raw materials for Nestlé's factories, and also accelerate poverty reduction and growth in demand for food products – truly an example of 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

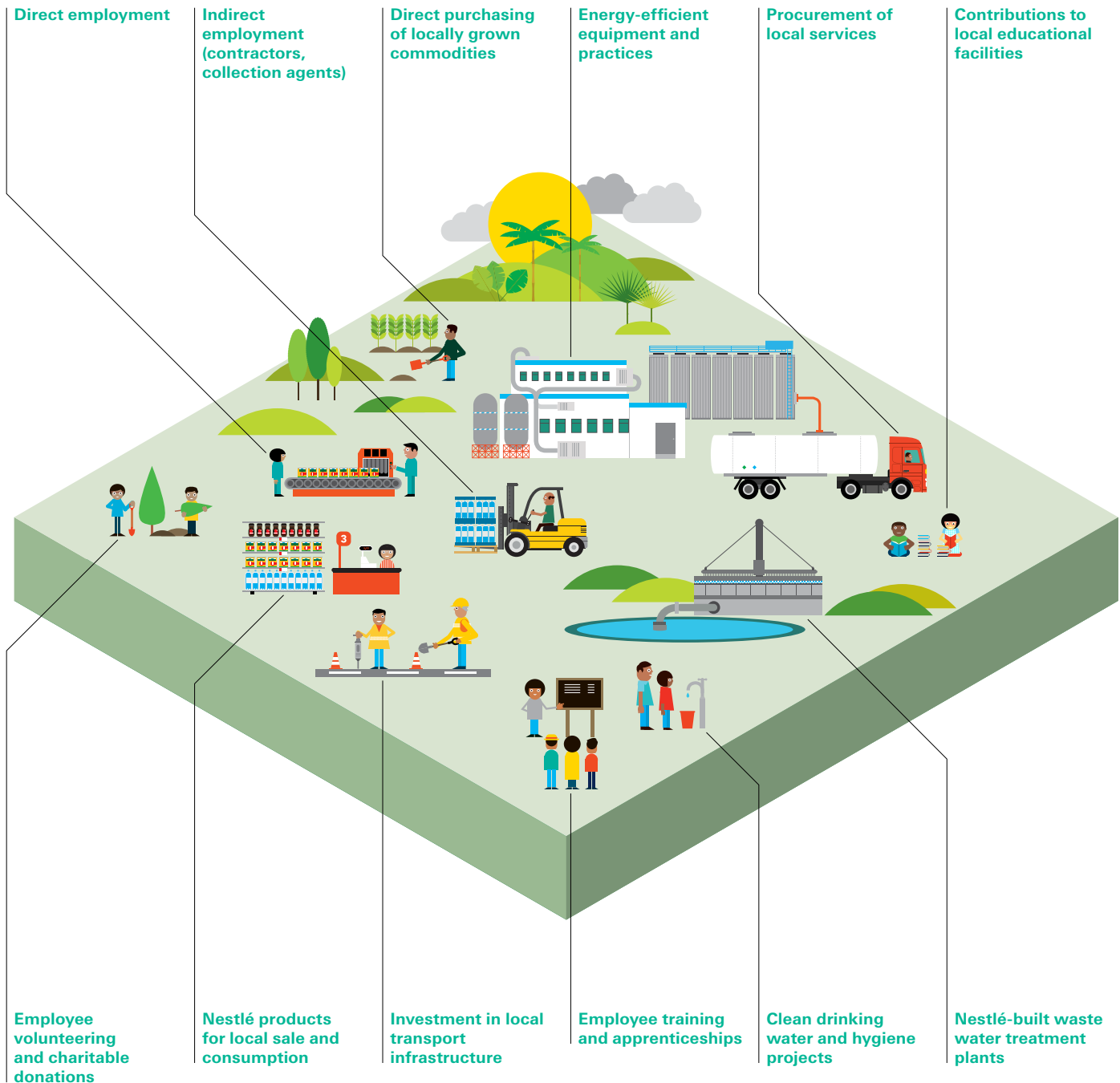
Advice and technical assistance; greater yields; higher-quality crops; lower resource use; increased income and reduced rural poverty; wider employment and economic development opportunities; consumers aware our products are safe and of high quality.

Read our Creating Shared Value Advisory Board's opinion on where Nestlé could or should do more on page 34.

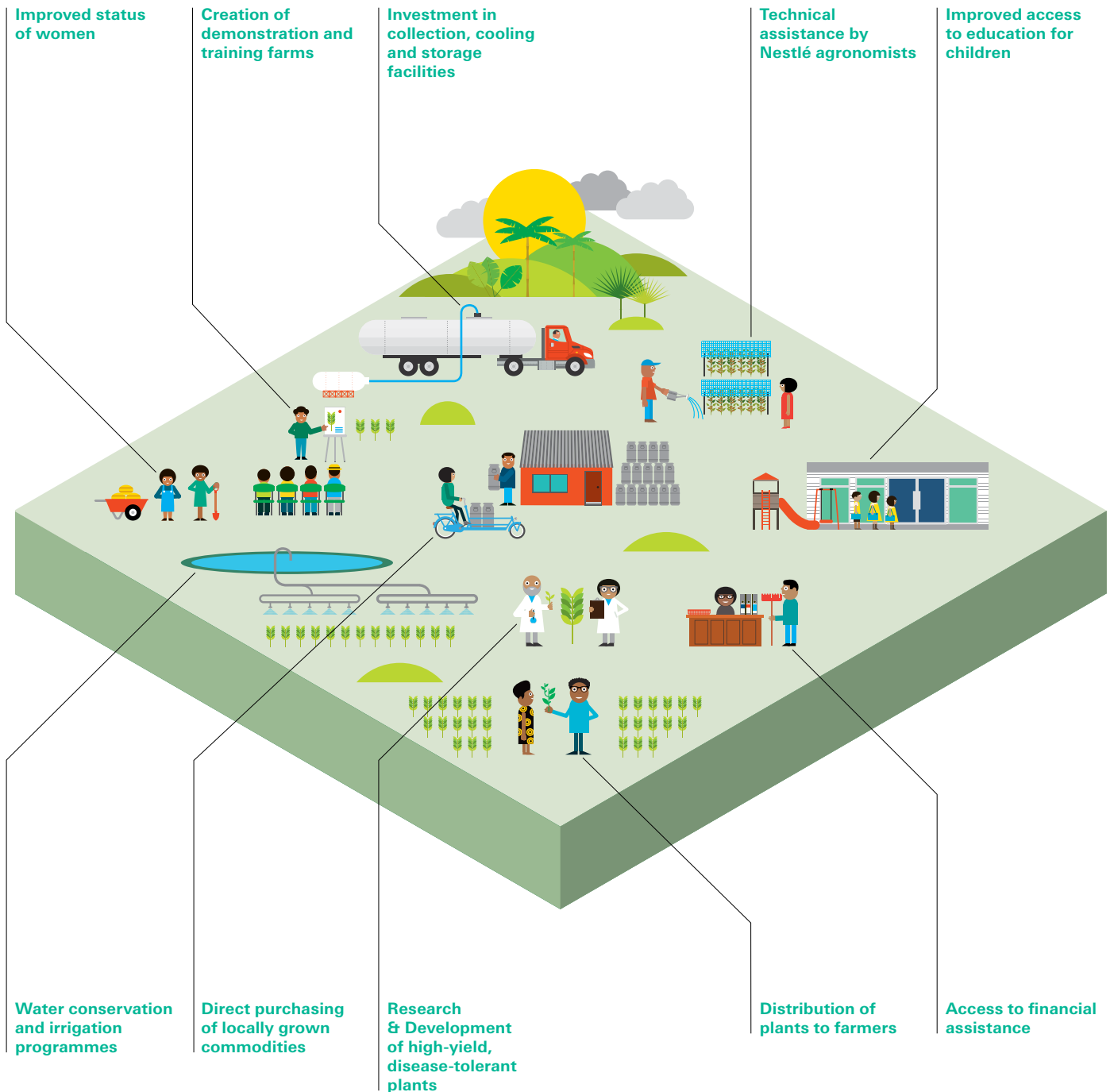
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Overview: Nestlé's factories in rural areas



Overview: Nestlé's farmer programmes in rural areas



Impact of Nestlé factories on rural development

Goals

The wellbeing of the communities from which we draw our agricultural commodities and local labour is vital to our success as a business and to delivering value to our shareholders.

Through rural development, providing local employment and encouraging sustainable production practices, we not only seek to protect the supply and quality of our raw materials, but also

to have a positive, long-term impact on the local economy and standards of living of rural people.

Actions

In contributing to the reduction of poverty (see page 9), Nestlé considers two approaches to be the major growth engines for rural areas: investing in new factories, and strengthening the links between farmers and markets through

efficient supply chains. All over the world, Nestlé factories drive rural development and high environmental standards, especially in developing countries. Our principle is to source commodities, where possible, in the countries in which we have

manufacturing facilities. In this way, quality improves, supply is ensured and higher margins at the farm level are obtained, thereby generating cash flow into rural areas.

Performance

Roughly half our 443 factories are located in the developing world and 60% are located in rural areas. They provide local employment to 148370 people, give local consumers greater access to Nestlé products and offer other indirect economic benefits across the community.

A typical factory is a long-term investment and has many touch points with society, from employment creation and infrastructure to environmental management, training, education and community involvement (see page 10). Based on a recent sample of 422 factories (summarised

on page 16), around 70% of our rural factories in developing countries have a Nestlé-built waste water treatment plant, 58% have contributed to educational programmes in the local community and 58% offer apprenticeships.

Key challenges

As well as finding factory sites with access to energy, water, transport and capable, trainable human resources, we also need to engage with the relevant local authorities to build trust and ensure our presence meets local needs. We finance low-cost biogas

digesters, which collect the methane emitted from cattle manure as energy, to provide dairy farmers with an economic incentive to manage manure more effectively – thereby avoiding the contamination of groundwater – and where access to clean drinking water

is limited, we fund wells, storage tanks and drinking fountains. We also run awareness campaigns about water and hygiene in schools and villages near our factories.

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.



Nestlé dairy factories

The dairy industry is one of the most powerful engines for rural development, and many of Nestlé's rural factories are within our milk districts. In 2010, 87 of our 254 rural factories were linked to our milk business and of these, 62% were located in developing countries.

The impact of rural factories

Although 40% of our factories are now defined as being in "urban" areas, their developmental effects over time have attracted businesses, investment and infrastructure into a "cluster" around them and made their once-rural locations increasingly urban or industrialised in nature. For example, when it was first built, local people built their houses against the wall around the Nestlé factory in Moga, India.

Such an effect takes time to evolve, but as rural factories expand, they offer more opportunities for contractors, suppliers and other businesses as well as employees themselves. For example, the "Rumo Seguro" programme coordinated by Nestlé, Fonterra and Dairy Partners of America has improved the safety performance of contractor drivers serving the dairy industry in several South American countries by 25%, by helping to set international standards of excellence regarding rest periods, safe behaviour, medical and alcohol testing, vehicle inspections and fleet maintenance.

The project led to a similar road safety programme for the drivers that serve Nestlé Pakistan, for which



On arrival at the Lagos de Moreno factory, tanker driver Leonel López González takes a sample of milk for testing.

Nestlé financed a purpose-built track, classrooms and high-tech simulator at the National Highway and Motorway Police (NHMP) centre. Since 2008, when the training centre opened, 888 Nestlé contract drivers, as well as more than 500 drivers from 14 other organisations, have been trained and Nestlé-related road accidents have fallen by 40%. The programme also won the Gold Award in Nestlé's Workplace Safety awards in 2010.

Factories in urban areas

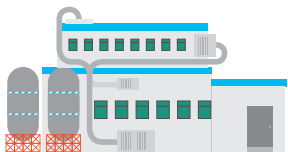
Even when our factories are located in urban areas, they can have a significant development impact on the

rural communities they source from. One example – our Kejayan factory in Indonesia – is supplied by around 32 000 dairy farmers and in addition to improving farming practices to increase productivity and to command a premium for higher-quality milk, the factory has also:

- provided employment in the production process ranging from cooperative managers to grass collectors;
- formed a three-year partnership with the Humanist Institute for Development Cooperation to give dairy cooperatives access to biogas units, to capture and convert

443

Nestlé factories worldwide.



46%

of Nestlé's factories are located in developing countries.

74%

of factories in developing countries are located in rural areas.

58%

of Nestlé's rural factories in developing countries contribute to local educational facilities.





Manure management in China

Agronomists at our demonstration farm in Shuangcheng, China, explain to local farmers how biogas from manure can provide cheap, clean domestic energy.

Nestlé's Shuangcheng milk production facility, located in north-east China, purchases around 430 000 tonnes of milk a year from local farmers and, as with our other milk districts, seeks to build direct relationships with them, providing technical assistance and new technology.

As China's demand for milk products has risen, unprecedented income-earning opportunities for local farmers have arisen; however, this also raises environmental problems. Currently, most farmers compost their own cattle manure and apply it to their fields as fertiliser but, as observed in a study

by the Swiss College of Agriculture, excessive application is contaminating groundwater supplies.

Because most manure storage systems require considerable investment without immediate financial returns, local farmers have little incentive to construct proper animal waste storage. Nestlé has therefore



financed low-cost biogas digesters in which farmers can collect the methane emitted from manure as energy for home cooking, lighting and heating.

Nestlé specialists have trained farmers to handle and store farm manure safely, and helped to install 7265 small biogas digesters across the Shuangcheng district. Demand for the technology (replicated in other countries such as Indonesia) has been further stimulated by education and outreach programmes at local demonstration farms, and three larger biogas digester plants have been installed to test their effectiveness at a community level.

Rural development impact of Nestlé's factories

	422 factories responding to survey ⁽¹⁾	195 factories in developing countries	144 rural ⁽²⁾ factories in developing countries	51 urban factories in developing countries
Sourcing from local/national supplier:				
Milk	28%	33%	38%	22%
Coffee	13%	16%	17%	16%
Cocoa	16%	19%	22%	14%
Training programmes in past five years:				
Literacy and numeracy	25%	30%	33%	22%
Entrepreneurship	26%	33%	37%	24%
Skilled trades	48%	43%	44%	39%
Formal apprenticeship	52%	57%	58%	55%
In the past five years:				
Provided clean drinking water to local community	30%	33%	32%	35%
Contributed to local educational facilities	53%	57%	58%	55%
Invested in other local infrastructure	33%	39%	41%	33%
Nestlé-built water treatment plant	53%	67%	70%	59%

- (1) Based on a survey conducted in autumn of 2010. Questionnaires were sent out to managers of Nestlé factories. 422 responses were received from 443 factories (95%). When calculating these figures, 21 factories were discounted: 8 dairy factories in Latin America are joint ventures with Dairy Partners America; 10 factories were opened or acquired in 2010 and are not yet fully functional; and the responses from 3 pharmaceutical factories were not considered relevant to the CSV Report.
- (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 5 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. Using these criteria, 60% of our factories are in locations defined as "rural".

methane from their cattle's manure into useable energy, as well as improve groundwater quality;

- renovated the local State Elementary School, in partnership with the Indonesian non-profit organisation Yayasan Nurani Dunia, donated books to other schools in the area, repaired the main road near the factory and donated 1000 trees for a local reforestation project.

Key challenge

Water and hygiene

Many dairy communities are located in rural areas with limited access to

clean drinking water, and low levels of awareness about water scarcity, conservation and pollution. Improving rural community access to clean drinking water and hygiene is an important impact of our factories. For example, in Sri Lanka, we fund water facilities and run awareness campaigns in villages near our manufacturing operations, and our School Sanitation Project develops basic facilities such as toilets in schools surrounding our Kurunegala factory. And around our Moga factory in India, we have provided local schools with 113 drinking water fountains.



Nestlé's Harmandeep Kaur leads a water awareness programme at a primary school in Bilaspur village, near our Moga factory in India.

40%

reduction in accidents through a road safety programme for the drivers serving our Kabirwala and Sheikupura factories in Pakistan.

58%

of Nestlé's rural factories in developing countries provide formal apprenticeships.

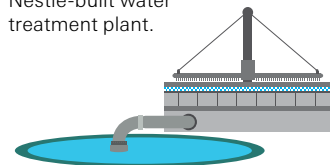


887

tonnes of milk bought daily from local dairy farmers by our factory in the Moga milk district, India.

70%

of Nestlé's rural factories in developing countries have a Nestlé-built water treatment plant.



Other Nestlé factories

The remainder of our rural facilities are linked to the processing of other commodities, including coffee, cocoa, cereals, vegetables, fruit and spices. Ninety (67%) of these are located in developing countries. Like our dairy factories, these plants help to drive socio-economic development in local economies, through direct and indirect employment, training and education, infrastructure and community investment.

Environmental benefits

In many countries, Nestlé was the first company to set up a wastewater treatment facility. While these investments have added to production costs in the short term, they have raised expectations and led to stricter regulations over time, thus levelling the playing field and giving Nestlé a competitive advantage.

We have used spent coffee grounds as a renewable energy source for many years, and at the same time, benefitted from a reduction in waste. Currently, 21 Nestlé factories use spent coffee grounds as a renewable energy source. One of the most recent facilities to make this investment, the Cagayan de Oro *Nescafé* factory in the Philippines, uses a state-of-the-art boiler to recycle and burn spent coffee grounds and other biomass such as sawdust and coconut shells. In 2010, the emissions associated with the combustion of fossil fuels fell by 62%. The factory also has a solid waste management programme and a communal eco-



Discarded coconut shells are used as a source of renewable fuel for the boiler at the Nanjangud factory in India.

garden, which sells recyclable materials made from household waste and organic fertiliser made from biodegradable waste.

Direct and indirect employment

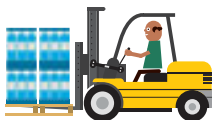
Our manufacturing plants naturally bring direct employment to local people, such as our ready-to-drink facility in Anderson, Indiana, which has been a significant stimulus to the local economy since the decline of the US car industry in the region. We have also generated 25000 indirect jobs in Chiapas state, Mexico, where our renovated Chiapa de Corzo *Coffee-mate* factory is located. In addition, a CHF 150 million investment

in Equatorial Africa over the next three years will see new factories built in Angola, the Democratic Republic of Congo and Mozambique, and existing factories expanded. Nestlé will also increase its distribution capacity in the region with 13 new distribution facilities and 750 new jobs by 2012, more than doubling its workforce.

In many cases, other, more entrepreneurial job opportunities are also created as a result of our presence. For example, when Nestlé built a manufacturing plant in Lipa City in the Philippines, local unemployed women were given funding by Nestlé to have sewing training. The Cut and Sew project that was created

25000

indirect jobs currently generated by Nestlé in the Chiapas state, Mexico.



15%

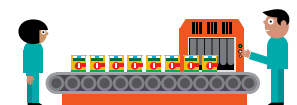
reduction in fossil fuel consumption by using the latest food processing technology at our *Cerelac* factory in Tema, Ghana.

62%

reduction in oil consumption by our *Nescafé* factory in the Philippines by using spent coffee grounds and biomass for energy.

150m

investment in new and existing factories in Angola, the Democratic Republic of Congo and Mozambique over the next three years, in CHF.





Farmer Emmanuel Lefebvre harvests potatoes grown for the Nestlé Maggi Mousline factory at Rosières-en-Santerre, northern France.

now handles sewing jobs for the factory, such as uniforms, lab coats, hairnets and shoe covers, worth around CHF 33000 every year. The factory also has a Yard and Garden project, where women produce organic vegetables for sale to the canteen, and ornamental plants which they rent to the factory and even individual employees.

Other indirect benefits to the communities around our factories are also evident. For instance:

- delivered in partnership with the NGO Gawad Kalinga, 50 disadvantaged families live in a Nestlé-built eco-village in Lipa City where rainwater is recycled, reed bed technology processes sewage without the use of chemicals and Nestlé-sponsored



Nestlé agronomist Bertrand Rault (left) advises local potato farmer Pierre Buisset on water use and soil fertility.

educational activities and livelihood programmes are delivered;

- at our Antigua factory in Guatemala, staff helped to reconstruct buildings after an earthquake and provide 350 schoolchildren with a glass of milk and a bowl of soup every day;
- following the earthquake in February 2010, our factories in Chile assisted communities by supplying water, providing access to electricity and using their gyms and social areas as shelters and stores for people's belongings.

Key challenge

Factories in rural areas

Having made a strategic decision to locate a factory in a particular location, we need to identify a site with suitable access to energy supplies, water, transport networks and capable, trainable human resources. The early engagement of, and communication with, the relevant local authorities and agencies is also crucial to building trust and gaining a greater understanding of what the local community actually wants.

Aligning new food production processes with the needs and culture of those who live in those locations also remains a challenge, especially where new factories are sited in areas dominated by small villages, poor sanitation and limited infrastructure, and employees used to different ways of doing things often need ongoing support to ensure they can maintain Nestlé's standards.

41%

of Nestlé's rural factories in developing countries invest in local infrastructure.



67%

of Nestlé's non-dairy factories located in developing countries.

32%

of Nestlé's rural factories in developing countries provide clean drinking water to local communities.



18000

tonnes of infant cereal per year will be produced by Nestlé Ghana, double its current capacity.



Local sourcing and environmental improvements in Ghana

Above: Nestlé agronomist Klutse Kudomor (left) with farmer Nefisa Abdulai, whose grain is checked for mycotoxin levels at our infant cereal factory in Tema, Ghana.

A CHF 36.2 million investment in our *Cerelac* infant cereal production plant in Tema, Ghana, will double its production capacity and foster rural development by sourcing more locally produced maize, rice, wheat, flour and sugar from local Ghanaian suppliers.

Nestlé Ghana aims to double its capacity to 18000 tonnes of infant cereal per year, having increased production to 9000 tonnes already. The plant is also equipped with the latest food processing technology, which will reduce fossil energy consumption by around 15%, while the new chillers use natural refrigerants to lower both

emissions and production costs. This production facility is closely connected to Nestlé's Grains Quality Improvement Project, which is designed to ensure our

factories receive a steady supply of safe, high-quality agricultural commodities, and allow rural communities to generate higher incomes as a result.



Impact of Nestlé farmer programmes on rural development

Goals

Increasing agricultural productivity is essential to reducing rural poverty and ensuring greater food security, both nationally and globally. Strengthening

our efforts to link farmers and smallholders to markets through efficient supply chains therefore leads to greater yields of higher-quality

crops for Nestlé, and higher incomes and living standards for our suppliers (see pages 6–8).

Actions

During the year, we enhanced our approach to supplier development and farmer training, and developed more Sustainable Agriculture Initiative Nestlé (SAIN) initiatives, alongside the ongoing communication of,

and assessment against, our Nestlé Supplier Code. SAIN now covers 45 markets[©] and 100% of our direct procurement markets[©]. We also consolidated our support for the cocoa industry under The Cocoa Plan and,

under a similar framework, we are committing CHF 350 million over the next ten years to coffee initiatives through The Nescafé Plan.

Performance

In 2010, Nestlé's 1014 agronomists and 17 273 extension workers and contractors supported 144 926 direct farmer suppliers through capacity-building programmes[©], technical assistance and knowledge transfer, and provided financial assistance, without conditions or

obligation, worth CHF 45.3 million to more than 32 000 farmers. In parallel, 976 key suppliers have undergone independent, third-party audits to demonstrate their compliance with our Supplier Code, which has been communicated to 164 969 suppliers[©] and displayed at 65% of collection

and buying stations[©]. Combined with ongoing dialogue with government agencies and NGO partners, this assistance leads to long-term poverty reduction and rural development on a wide scale.

Key challenges

Many raw materials have a high potential impact on forests, but we have publicly committed to ensuring our products do not have a deforestation footprint. To this end, our Chairman Peter Brabeck-Letmathe repeated our support for a moratorium on the destruction of rainforests at our April Annual General Meeting,

and in May 2010, we announced a partnership with The Forest Trust, through which we have established Responsible Sourcing Guidelines. In coffee- and cocoa-growing areas, child labour remains a significant challenge, and we partner with organisations such as the International Cocoa Initiative (ICI) on projects that

combat unacceptable labour practices. Advocating against the production of crops such as palm oil as biofuels rather than food, and ensuring the traceability of commodities from small-scale farming systems, are also ongoing issues.

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.



Farmer programmes: milk

The milk district model

In terms of sales value, Nestlé is the world's largest milk company, sourcing almost 12 million tonnes of fresh milk equivalent from about 30 countries in 2010. Our approach involves the widespread use of our milk district model, which dates back to the 1870s. The essence of the model is to work directly with smallholder dairy producers and cooperatives to build a supply chain.

Nestlé purchased 3.4 million tonnes of fresh milk directly from farmers and cooperatives in 2009, helping to ensure a better price for their milk, regular payment and a sustainable link to the processing industry, and providing Nestlé with a regular supply of high-quality milk with which to



At a Nestlé chilling centre in Rajasthan, India, milk is tested and added to the chilling tank, ready for transport to our factory.

meet consumer demand. Nestlé's close relationships with farmers mean we can advise them continuously on the quality of milk production. We also have the same stringent quality control system in place across all our factories around the world, and more than 70 different tests are routinely conducted when producing infant formula and other milk products to ensure the highest-possible quality and avoid the risk of contamination.

Our direct milk sourcing programmes help to address rural development and poverty in many developing countries, including Brazil, Chile, China, India, Mexico and Pakistan. In addition to a secure market for their milk, communities benefit from local collection, storage and chilling facilities, better transport networks, technical assistance by Nestlé specialists (agronomists and veterinarians), and field technicians to improve their farming practices, quality control systems and access to financial assistance.

Milk districts in action: India and China

In India, for example, Nestlé has invested approximately CHF 11 million in storage tanks, chilling centres, veterinary aid and other dairy development projects for the farmers in Moga. Our milk factory collects over 887 tonnes of milk per day from over 110 000 farmers, and works with them to increase their yields through improved farming methods, better irrigation, and scientific crop management practices. In this vibrant milk district, Company veterinarians



Dairy farmers in Kenya receive technical advice through Nestlé's partnership with the East African Dairy Development Board.

and agronomists advise dairy farmers on a range of issues, and provide assistance with artificial insemination, subsidise the purchase of equipment and help with access to financial assistance.

Additional programmes have focused on technical support of irrigation techniques, rainwater harvesting and water management on dairy farms; the supply of clean drinking water in local schools; and the promotion of sanitation and hygiene in the villages that surround the factory.

Similarly, some 25 000 dairy farmers supply three Nestlé factories in China. One, our milk factory in Hulunbeir, in the Inner Mongolia Autonomous Region, is situated in an area of high-quality natural grasslands, and provides a reliable market for locally produced fresh milk, which is used to meet the rising local demand for milk powder and other dry, condensed and evaporated dairy products. Nestlé also provides 54 collection centres in the milk district, and aims to transfer milk from each collection centre to the factory within two hours.

12m

tonnes, approx. of fresh milk equivalent sourced by Nestlé from about 30 countries in 2010.

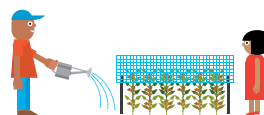


38%

increase in average monthly farm profits since 2008 through the "Silvopasture" project in Colombia, as new cattle breeds and better agricultural practices improve pasture land, and milk quality and quantity.

17273

Nestlé extension workers work directly with farmers.



155000

families in Kenya and Uganda will receive farming advice through Nestlé's partnership with the East African Dairy Development Board.



Farmer training in Pakistan

Above: Dr Maria Mubarak, dairy hub manager (right), with Naseem Akhtar, a livestock worker and village milk collection agent in Pakistan. Right: Dr Muhammad Qasim, a Nestlé vet, offers advice, feed and vaccines to help farmers to rebuild agricultural capacity in flood-affected areas of Pakistan.

The Rural Poverty Reduction Through Livestock Development Project, launched in March 2009 and co-funded by Nestlé Pakistan and the Swiss Agency for Development and Cooperation (SDC), offers dairy farmers training, technical assistance and veterinary services, and links with local businesses.

Nestlé Pakistan has built two demonstration and training farms. Under our Farmers Development Programme, over 4000 farmers have been trained and are part of the milk value chain.

Community Empowerment through Livestock Development and Credit (CELDAC), a public-private partnership between UNDP-Pakistan and Nestlé Pakistan,

involves the three-year project teaching rural women about livestock healthcare and giving them access to financial assistance. Around 60% of the 3400 women trained now work as self-employed livestock managers, milk collection agents and animal feed suppliers, and more than 600 have direct links with the dairy industry.

In August 2010, floods across Pakistan killed more than 1600 people. The Company's financial support of CHF 700000 has brought

food and relief to more than 50000 people and funded the vaccination of 300000 animals.

Working with the Swiss Agency for Development and Cooperation (SDC), we jointly committed CHF 440000 in money and resources to benefit 10000 people in southern Punjab, in the form of basic rations, feed concentrate, vaccinations and veterinary support for 14000 cows and buffaloes, and seed and fertilisers for both crops and grazing pasture. This response exemplifies how our approach supports long-term reconstruction and enables capacity-building.



Farmer programmes: coffee

Our approach

The coffee supply chain is extremely complex, with 80% of all farmers being 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. Nestlé is the world's largest purchaser of coffee.

Through our direct buying system, our long-term commitment allows tens of thousands of farmers and small-scale intermediaries to deliver coffee directly to our buying stations. They also secure a higher price and gain access to free technical assistance. This is a "win-win-win" partnership, as it:

- helps farmers to improve the quality of their 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.

In 2010, Nestlé purchased 82 000 tonnes of green coffee directly from farmers and intermediaries in China, Côte d'Ivoire, Indonesia, Mexico, the Philippines, Thailand and Vietnam. Around 10% of the coffee beans used in *Nescafé* are acquired through direct procurement.



In Puebla, Mexico, coffee seedlings provided through The *Nescafé* Plan are loaded onto a truck, ready to be planted.

The *Nescafé* Plan

In August 2010, we launched The *Nescafé* Plan, bringing together all our Creating Shared Value coffee farming and production practices throughout the value chain, under one umbrella. This global initiative, further strengthened by external partnerships, will help us to optimise our coffee supply chain and reach specific targets on coffee farming, production and consumption (see below).

By increasing our direct procurement operations (which we term "Farmers Connect"), we will enable farmers to increase production, quality and processing techniques and generate higher incomes; it will also

ensure Nestlé continues to receive a supply of high-quality raw materials.

In addition to the CHF 200 million we have invested in coffee projects over the past fifteen years, we will invest a further CHF 500 million by 2020. Around CHF 350 million will support The *Nescafé* Plan and a further CHF 150 million will be invested in *Nespresso*. Through this investment, we will:

- double the amount of directly procured *Nescafé* coffee by 2015;
- by 2015, ensure all directly purchased coffee meets the sustainability standards of the Common Code for the Coffee Community (4C) Association, a voluntary code of conduct to

350m

invested in The *Nescafé* Plan by 2020, in CHF.

220m

high-yield plantlets distributed to coffee farmers by 2020.

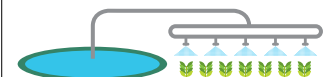


1500

coffee growers from Tezonapa, one of Mexico's poorest locations, trained through the Micro-Region Supporting Programme, a government initiative supported by Nestlé.

80%

reduction in water consumption at Nestlé China's Experimental and Demonstration Farm in Jinghong, Yunnan Province, through new coffee-processing equipment.





CSV initiatives in China

Even before the opening of the *Nescafé* factory in Dongguan in 1992, Nestlé China had established an Agriculture Technical Assistance Service in Yunnan Province to encourage and support coffee cultivation, and created an Experimental and Demonstration (E&D) Farm in Jinghong. Almost twenty years on, Yunnan – traditionally a tea-growing area – has become a quality Arabica coffee-growing region.

Nestlé purchases directly from local farmers, 80% of whom are smallholders. Nestlé also supplies plantlets suited to local soil conditions and climate, and advises farmers on techniques to improve both quality and yield. Nestlé's coffee

procurement supports up to 19,000 people, and since 1995, nearly 4,100 farmers have received training on planting, quality control and processing techniques.

Traditional coffee-processing methods require a lot of water – approximately 150 litres per kilogramme

of green coffee. New equipment introduced in 2003 and 2010 at the Nestlé E&D Farm has decreased water consumption by more than 80% and also serves to demonstrate best practice to other coffee farmers in the region.

At the Nestlé Experimental and Demonstration Farm near Jinghong, Yunnan Province, China, the coffee cherries are picked (above), washed and processed.





A coffee mill at Jardín Antioquía, Colombia – an initiative between *Nespresso*, local NGOs and coffee cooperatives – avoids the need for milling equipment at each farm.

improve efficiency, profitability, transparency and sustainability in the production, processing and trading of coffee through training and verification (see www.4c-coffeeassociation.org for more information);

- by 2020, procure 90 000 tonnes of *Nescafé* coffee grown according to Rainforest Alliance and Sustainable Agriculture Network (SAN) principles.

Nespresso

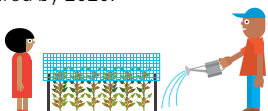
Only the top 1–2% of the world’s green coffee crop meets the specific taste and aroma profiles and the demanding quality standards of *Nespresso*. Over the last seven years, we have worked with the Rainforest Alliance to develop the *Nespresso* AAA Sustainable Quality Program of integrated coffee farm management practices,

ensuring compliance with quality and sustainability requirements.

The programme encourages farmers to adopt best practice in sustainability, requiring certification to the Sustainable Agriculture Network (Rainforest Alliance) standard; and *Nespresso* pays a premium to the farmers who supply the highest-quality beans.

90 000

tonnes of *Nescafé* coffee grown according to Rainforest Alliance and Sustainable Agriculture Network (SAN) Principles to be procured by 2020.



27 000

litres of water per farm will be saved by the Jardín Antioquía mill in Colombia, a joint undertaking between *Nespresso*, local NGOs and coffee cooperatives to provide coffee-milling services for farmers in the region to share.

60%

of the total green coffee beans *Nespresso* purchased came via its AAA Sustainable Quality Program in 2010.

1-2%

of the world’s green coffee crop meets the specific taste and aroma profiles and the demanding quality standards of *Nespresso*.

Farmer programmes: cocoa

Our approach

As a major buyer of cocoa (380 000 tonnes last year, or 10% of the world's supply), we play a key role in improving the cocoa industry and the wellbeing of the farmers who supply us, as well as the rural communities they live in. We strive to reduce poverty in cocoa-farming regions, ensuring we have reliable access to the high-quality, responsibly farmed materials we need for our chocolate businesses.

Nestlé has undertaken a range of initiatives to improve farm profitability, cocoa quality and traceability in the cocoa supply chain. In 2009, we brought them together under one programme: The Cocoa Plan. While The Cocoa Plan initially covers just 1.5% of our cocoa supply, we will use our learnings from the first year to roll it out to have a more substantial impact.

The Cocoa Plan

In committing CHF 110 million over the next decade, Nestlé's investment under The Cocoa Plan 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 56 million already invested in the past fifteen years and focuses on four key areas:

- training farmers to increase their yields, reduce cocoa disease,



The Cocoa Plan boosts the quantity and quality of cocoa produced by a women's cooperative in Divo, Côte d'Ivoire.

adopt better agricultural farming practices and produce a better quality crop through farmer field schools and group sessions;

- investing in plant research to improve the quality, quantity and sustainability of cocoa production – around 225 000 plants were produced in 2010 in Ecuador and Côte d'Ivoire, and we aim to produce 600 000 plants in 2011;
- improving the supply chain by working closely with farmer cooperatives, simplifying the supply chain, increasing farmers' incomes and improving the quality of cocoa for Nestlé;
- partnerships to improve access to education, water and sanitation.

These partnerships include being a founding participant in the International Cocoa Initiative (ICI), set up specifically to address forced and child labour practices, and working with the International Federation of Red Cross and Red Crescent Societies (IFRC), in support of its Global Water and Sanitation Initiative, to fund clean water and sanitation in schools in cocoa-growing areas of Côte d'Ivoire (see page 28).

Nestlé also co-founded the World Cocoa Foundation (WCF) and supports the Sustainable Tree Crops Programme, which trains farmers across West Africa and educates them about HIV/AIDS and malaria prevention.

110m

investment in The Cocoa Plan over the next decade, in CHF.

40 000

cocoa farmers to be trained on farming and post-harvest practices.



10m

high-yield, disease-resistant plantlets to be distributed to farmers over the next ten years.



50-200%

more cocoa (up to 1500 kg of cocoa beans per hectare) from trees typically provided through The Cocoa Plan.

International Federation of Red Cross and Red Crescent Societies

As part of its overall partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC), Nestlé has been working with the IFRC and the Red Cross Society of Côte d'Ivoire since 2007, beginning with a project to construct and rehabilitate water and sanitation facilities (50 water points and 8 hygiene blocks) for 50 000 people. A second project in 2009-2010, with some 10 000 beneficiaries, focused on access to clean water and sanitation in the schools of 10 cocoa-growing villages, as well as participatory hygiene and sanitary transformation (PHAST) training for children and teachers, the establishment of school hygiene clubs and the training of 50 masons to build family latrines.

In November 2010, Nestlé and the IFRC signed a new global three-year partnership agreement to contribute CHF 2.25 million to water and sanitation, food security and emergency relief



Nestlé's clean drinking water projects help to provide facilities wells and hand-pumps like this one in Ghana.

initiatives, and to explore cooperation between Nestlé markets and Red Cross and Red Crescent Societies. Nestlé will also sponsor the production of the IFRC's flagship publication, the annual World Disasters Report (WDR).

CHF 1.5 million of the partnership's funds will be dedicated to further developing the school water, sanitation and hygiene work in Côte d'Ivoire over the next three years, expanding it to 55 schools, with 65 water points and sanitation facilities for 53 000 beneficiaries.

Key challenge

Child labour in the agricultural sector

The International Labour Organization (ILO) estimates that 132 million children aged 5–14 work in agriculture around the world. In industries such as cocoa and coffee, smallholder farmers face many pressures. The root causes of child labour are poverty, low incomes, inadequate infrastructure and lack of awareness. In Côte d'Ivoire, for example, where we source much of our cocoa, over 50% of farmers have not had a primary education. Schools are often far from villages and where they do exist, lack capacity. Child labour is unlikely to be totally eliminated but at Nestlé, we can make a contribution to reducing its incidence in our supply chain.

As a founding participant in the International Cocoa Initiative (ICI), Nestlé is helping to address child labour and its causes, and improve access to education. For example, a new anti-child labour initiative with the ICI will support 20 communities



Schoolchildren in Divo, Côte d'Ivoire, where local farmers receive technical advice and high-yield plantlets through The Cocoa Plan.

in Côte d'Ivoire that supply cocoa for our confectionery business.

Nestlé recognises that child labour is an issue that also concerns other agricultural commodities. Using our RISE (Response-Inducing Sustainability Evaluation) tool, we have already made labour conditions assessments in around 200 dairy farms, covering production systems that represent over 70% of our milk supply. In coffee, we address the issue of child labour under the *Nescafé* Plan. Beyond this, we will continue over the next two years to assess a range of social and environmental factors including child labour in other commodities' supply chains. This includes assessments at farm level and action plans with suppliers and their supplying farmers.

We also recognise that, in addition to individual actions along the supply chain, companies, governments and NGOs need to work together to create the conditions to effectively address the root causes of this issue.

53000

beneficiaries of water and sanitation facilities at 55 schools in Côte d'Ivoire, through a partnership with the IFRC and the Red Cross Society of Côte d'Ivoire.

20

communities in Côte d'Ivoire that supply cocoa for our Fairtrade-certified *KitKat* supported by a new anti-child labour programme with the ICI.

10000

hectares of old cocoa trees replaced with varieties that produce three times more cocoa beans.



70

families from cocoa-farming communities given free health checks and dietary advice through a *Nutrimovil* information stand set up in Ecuador.



Research and Development in Côte d'Ivoire

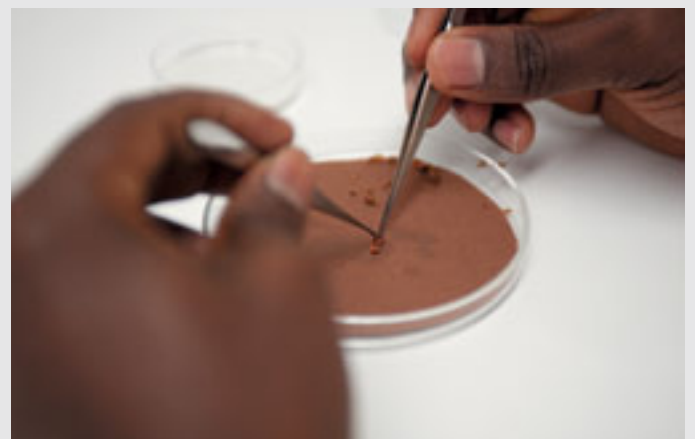
An agreement with the Ivorian Government, via the National Agronomical Research Institute (CNRA), to contribute to the renewal of old cocoa plantations has seen our state-of-the-art Research & Development Centre in Abidjan become a centre of excellence for plant propagation and a focus for our work with farmer cooperatives.

As part of the first large-scale cocoa plant propagation in Côte d'Ivoire, our laboratory produces high-yielding, disease-resistant plants via somatic embryogenesis (SE). By June 2011, 600 000 cocoa plants will have been distributed to about 1245 farmers, rising to 1 million plants in 2012.

By promoting best practice techniques for harvesting, fermenting, drying and storing cocoa to over 30 000 cocoa farmers, the R&D Centre will drive a qualitative improvement in the cocoa beans supplied to Nestlé's factories and an increase in production

levels. And by replacing 10 000 hectares of old cocoa trees with varieties that produce three times more cocoa beans, annual farmer incomes are likely to rise from USD 480 per hectare to USD 1800.

A farmer in Côte d'Ivoire tends to cocoa plants (above) that were developed using somatic embryogenesis at Nestlé's R&D Centre in Abidjan.



Other Nestlé farmer programmes

More than half of Nestlé's expenditure on raw materials goes towards the procurement of commodities other than milk, coffee and cocoa. This includes the purchase of fruit, vegetables, grains and cereals, sugar, edible oils, meat and spices. Some of these commodities come directly from farmers, while others are sourced through local and international purchasing options.

Our approach

In line with our policy of procuring commodities for our business from local suppliers and creating shared value for both parties, Nestlé (Malaysia) Berhad engages local farmers to produce chillies for our *Maggi* chilli sauce through the Contract Chilli Farming Project. This provides the farmers with a secure market for their produce, advice on sustainable agricultural practices, and field demonstrations on increasing productivity, reducing costs, minimising environmental impacts and improving worker safety. The average farmer income has doubled, enabling them to educate their children, invest in machinery and purchase more land.

The successful scheme has since been replicated in Sarawak with the cultivation of red rice for our *Cerelac* infant cereals. In addition, Nestlé South Africa has launched a project to further improve the sustainability of local chicory production for our *Ricoffy* factory in KwaZulu Natal,



A farmer in Tamale, Ghana, dries the grain produced with support from the Nestlé Grains Quality Improvement Project.

and a collaboration with the TEMA Foundation in south-eastern Turkey is training farmers in the sustainable production of high-quality pistachios for *Damak*, a popular chocolate

brand. This capacity-building project is expected to treble productivity in the next five years, and enhance the welfare of 100 000 people living in the immediate area.

556600

farmers deliver directly to Nestlé.



30000

farmers being trained by Nestlé's Grains Quality Improvement Project to reduce mycotoxin contamination in grains and cereals in Côte d'Ivoire, Ghana and Nigeria.

500

farmers involved in Nestlé-funded red rice cultivation across 350 hectares of rural farmland in Sarawak, Malaysia.

100000

people in south-eastern Turkey benefitting from a collaboration with the TEMA Foundation, training farmers in the sustainable production of high-quality pistachios.

Deforestation

Nestlé views the destruction of tropical rainforests and peatlands 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.

At our Annual General Meeting in April 2010, Nestlé Chairman Peter Brabeck-Letmathe reinforced our position by committing to ensuring that our products do not have a deforestation footprint. Then in May, José Lopez, Nestlé's Executive Vice President of Operations, announced a partnership with The Forest Trust (TFT) to eliminate deforestation from our supply chain.

Together with TFT, we have defined Responsible Sourcing Guidelines to guide our procurement process, to ensure compliance with the Nestlé Supplier Code, and to provide technical support to those who currently do not meet the requirements. Our action plan for achieving these ambitious goals saw supplier assessments begin in July 2010 in South-East Asia.

Forest stewardship

In reflection of our commitment to ensure our products do not have a deforestation footprint, Nestlé aims, through its supply chains, to ensure that the forest areas within its sphere of influence have been assessed for their ecosystem value and appropriate management responses applied.

An assessment of those raw materials with the highest impact on forests has identified the following

categories as priorities for Nestlé: paper and paper packaging, palm oil, soya, meat and dairy products, cocoa and coffee. Priority in implementing this commitment has been given initially to palm oil (see below), paper and paper packaging. Within each product area, supply chains are being assessed to prioritise which geographical regions and suppliers should be engaged first.

Palm oil

Nestlé uses approximately 320 000 metric tonnes (0.7% of the world's global production) of processed palm oil. While efforts together with TFT are delivering preliminary encouraging results (see above), we remain concerned about the serious environmental threat to rainforests and peat fields caused by palm oil plantations, and are conscious of our responsibility to contribute to effective and sustainable solutions.

As an active member of the Roundtable on Sustainable Palm Oil (RSPO), Nestlé has committed to source, by 2015, only palm oil from sources certified as sustainable. In 2010, 18% of Nestlé's purchases were covered by palm oil, either sourced from RSPO-certified plantations or through the purchase of Green Palm Certificates. An action plan has been prepared with TFT to help us to reach 50% by the end of 2011.

Palm oil is used for the production of biofuels. However, it is our belief that biofuels should only be accepted when they: do not threaten food security; are able to demonstrably reduce greenhouse gas emissions;

do not pose significant land use issues, or significant water allocation and stewardship issues; and when they do not risk conservation conflicts. Therefore, 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.

Paper, pulp and packaging

Beyond palm oil, Responsible Sourcing Guidelines have also been developed for pulp and paper, and we are studying our supply chains to determine a similarly ambitious target for the pulp and paper we use. We are working with TFT to map our total supply chain and identify suppliers that can guarantee that their pulp, paper and packaging materials are not derived from the destruction of tropical rainforests.

Key challenge

Palm oil and deforestation

Palm oil is used in food and cosmetic products, and is also grown to create biofuels, but plantations can destroy tropical rainforests and peatlands in South-East Asia, and affect biodiversity and local communities. Nestlé has made a commitment to use only palm oil from sustainable sources by 2015, and has partnered with The Forest Trust to define Responsible Sourcing Guidelines and a commitment to eradicate all traces of deforestation from our products. However, as we deal with millions of farmers, this final ambition may take years to achieve.

2015

date by which all Nestlé palm oil from sources certified as sustainable.

440

tonnes of raw chicory produced through a Nestlé project to improve local production for our *Ricoffy* factory in South Africa.

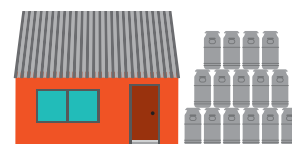


50%

approximate increase in average income among the 200 farmers involved in Nestlé's Soybean Popularisation Project in Nigeria.

10847

Nestlé-operated collection centres for different raw materials.



Nestlé Creating Shared Value Advisory Board

at 31 December 2010

To guide Nestlé's strategy for creating value for both shareholders and society, the Nestlé Creating Shared Value Advisory Board met for the first time in April 2009. The Board members, all internationally recognised experts in corporate strategy, nutrition, water and rural development, were appointed for three years to act as direct advisors to the Nestlé Chairman and CEO.

The Board meets twice a year to further develop the CSV concept, analyse the Nestlé value chain and suggest potential actions, help to lead the annual CSV Forum and select the winner of the new Nestlé Prize in Creating Shared Value.



Nancy Birdsall is founding President of the Center for Global Development. Before founding the Center, she served for three years as Senior Associate and Director of the Economic Reform Project at the Carnegie Endowment for International Peace. From 1993 to 1998, she was Executive Vice-President of the Inter-American Development Bank. Before joining the Inter-American Development Bank she spent fourteen years in research, policy and management positions at the World Bank.



Joachim von Braun is Director of the Center for Development Research (ZEF) and Professor for Economics and Technological Change at Bonn University, Germany. He was Director General of the International Food Policy Research Institute (IFPRI) from 2002 to 2009. His expertise is in development economics, food and agricultural policy, trade and poverty reduction.



Venkatesh Mannar is President of the Micronutrient Initiative (MI) and oversees the implementation of MI's global mandate to support national actions to eliminate micronutrient malnutrition. MI works in collaboration with major international agencies, national governments, private industry and NGOs to expand and strengthen national programmes through a combination of technical, operational and funding support.



Robert E. Black is Chairman of the Department of International Health, Johns Hopkins University, Bloomberg School of Public Health. He has devoted his research and professional activities to reducing the number of unnecessary child deaths from diarrhoea, pneumonia, malaria, measles, and malnutrition. His many studies are also focused on the impact of nutrition programmes in developing countries and the strengthening of public health training.



John Elkington is co-founder of SustainAbility, and Founding Partner and Director of Volans. He is a world authority on corporate responsibility and sustainable development. In 2004, *BusinessWeek* described him as "a dean of the corporate responsibility movement for three decades", and in 2008, *The Evening Standard* named John among the "1000 Most Influential People" in London, describing him as "a true green business guru", and as "an evangelist for corporate social and environmental responsibility long before it was fashionable".



Ruth Khasaya Oniang'o is Professor of Food Science and Nutrition at Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya. She is also Founder and Executive Director of the Rural Outreach Program Kenya, as well as Founder and Editor-in-Chief of the *African Journal of Food, Agriculture, Nutrition and Development*. She has written numerous articles and papers on household food and nutritional security, women's nutrition and children's health.



Michael E. Porter is Bishop William Lawrence University Professor at the Harvard Business School. He is a leading authority on competitive strategy, the competitiveness and economic development of nations, states and regions, and the application of competitive principles to social problems such as healthcare, the environment and corporate responsibility.



Ismail Serageldin, Director, Bibliotheca Alexandrina, also serves as Chair and Member of a number of advisory committees for academic, research, scientific and international institutions and civil society efforts, which include the Institut d’Egypte, TWAS (Academy of Sciences of the Developing World), the Indian National Academy of Agricultural Sciences and the European Academy of Sciences and Arts. He was also the first Chairman of the World Commission for Water in the 21st Century.



Ajay Vashee is President of the International Federation of Agricultural Producers (IFAP), which represents farmers at the world level. Elected at the 38th IFAP World Farmers’ meeting in June 2008, he is the first President from a developing country (Zambia) in IFAP’s 62-year history.



Irwin Rosenberg is Professor of Physiology at the Friedman School of Nutrition Science & Policy at Tufts University. He is also Senior Scientist and Director of the Nutrition and Neurocognition Laboratory, where he examines the interaction between nutritional factors and age-related cognitive decline. His other research interests include metabolism of vitamins and vascular disease.



Robert L. Thompson, Professor Emeritus of Agricultural Policy at the University of Illinois at Urbana-Champaign is a Senior Fellow of the Chicago Council on Global Affairs and serves on the USDA–USTR Agricultural Policy Advisory Committee for Trade and the International Food and Agricultural Trade Policy Council. Formerly, he was Director of Rural Development at the World Bank, Dean of Agriculture at Purdue University, and Assistant Secretary for Economics at the US Department of Agriculture.



Ann M. Veneman served as Executive Director of UNICEF from May 2005 to April 2010, working to advance issues to support child health and nutrition, quality basic education for all, access to clean water and sanitation, and the protection of children and women from violence, exploitation and HIV/AIDS. Previously, she was US Secretary of Agriculture from 2001 to 2005.



Jeffrey D. Sachs is Director of The Earth Institute, Quetelet Professor of Sustainable Development, and Professor of Health Policy and Management at Columbia University. A globally recognised economist, he is also Special Advisor to United Nations Secretary-General Ban Ki-moon on the UN Millennium Development Goals and a leading advocate for development favouring rural populations.



Kraisid Tontisirin is Director of the Institute of Nutrition at Mahidol University in Thailand and FAO’s former Director of the Nutrition and Consumer Protection Division. He is President of the 2009 International Congress of Nutrition Organising Committee, which was held in Bangkok in October 2009. He has an extensive background in successful efforts to improve diets and reduce nutritional deficiencies in developing countries.

Challenges and opportunities

In essence, the Creating Shared Value Advisory Board acknowledges Nestlé's clear leadership in the area of rural development and recommends that Nestlé "steps up what is being done already". Current rural development efforts need to be showcased and knowledge shared proactively. Based on its own experience, Nestlé needs to build the business case for further rural development.

By the Nestlé Creating Shared Value Advisory Board

Increased advocacy

As the world's largest food company and with operations in so many countries, Nestlé must increase its advocacy role in support of rural development as a critical element of any poverty reduction strategy. The greatest contribution Nestlé could make to rural development is for its senior executives – who have access to top-level national and international leaders around the world – to play a more active role in getting agriculture and rural poverty reduction back onto the development agenda of low-income countries, as well as high-income countries' official development assistance and international development bank lending. The past decade has been characterised by an urban bias to development aid and investment. Some rurally focused investments were made in health and education but little in agriculture, seeds, research and development; Nestlé must advocate for a more balanced approach.

Additional concern was raised about the fact that two-thirds of land investment in Africa is currently

focused on biofuels; "no food for fuel" must continue to be a core advocacy message. There is potential to help to build an understanding among civil society, governments and development agencies of the need for long-term investments in agriculture and non-farm employment, as well as an increase in research funding; the inclusion of the fundamental link between agriculture and nutrition; the right to land ownership; and the role of women in agricultural development. An active approach to and engagement with advocates in areas such as climate change, new technology and deforestation must also be included.

Concern was also expressed regarding the focus on commodity speculation as the only cause of food insecurity and its growing political momentum. Nestlé should play its part in helping to foster a better understanding of the role and potential of business in development. Land ownership is also a critical hurdle to rural development, especially in sub-Saharan Africa.



As part of our investment in Africa, a new modern pilot plant has opened at the R&D Centre in Abidjan, Côte d'Ivoire.

Please note: the opinions in this section are those of the Nestlé CSV Advisory Board members, and are based on an Advisory Board meeting held in November 2010. Its content has not been verified by our independent assurers.



Farmers bring their milk to the Dala village collection centre in Moga, India, where we have invested in collection, cooling and storage facilities.

Focused investments

Public investments are needed in rural public goods that will make rural areas more attractive places for the private sector, including Nestlé, to invest in, for example, rural infrastructure, education and healthcare, and agricultural research. Nestlé should continue – and even increase – its long-term approach to investment

in rural development, characterised by its willingness to invest in emerging regions like sub-Saharan Africa. This region has the greatest incidence of rural poverty in the world and is the only region whose population is expected to more than double between now and the middle of this century; it also has the largest area of potentially arable land that

is not presently forested. Specifically, Nestlé should increase its research investment in soils, fertilisers and seeds.

The impact of Nestlé factories, of which half are located in developing countries and an estimated 60% in rural areas, cannot be underestimated. Additional recommendations included the creation of more farmer marketing cooperatives, using Nestlé facilities for schools, and increasing Nestlé’s focus on specific investments in women farmers. Nestlé needs to continue to invest in the farmers and farm organisations, and to galvanise other companies and organisations to collaborate on infrastructure investments.

Linking agriculture and nutrition

Today, nutrition efforts are viewed separately from rural development and agricultural challenges. Different organisations set separate agendas and these need to be better linked. Nestlé is in a unique position to share its experience in rural development, increasing incomes and improving nutritional status (for example through the development of milk districts, nutrition education and the development, production and distribution of affordable fortified milks). The Advisory Board felt it to be critically important to link rural development with food and nutrient security. Nestlé’s work to address the double burden of malnutrition must continue to be linked to its rural development initiatives.

In summary, the Advisory Board felt that Nestlé is a clear leader in rural development and that the 2010 CSV report, alongside additional analysis, advocacy and investment, were essential to maintaining that leadership and reducing rural poverty while enhancing food security.

Nutrition

Given our ambition to be the world's leading Nutrition, Health and Wellness Company, nutrition is of primary importance to our business strategy. There are clear linkages between nutrition and rural development, again underlining the reasons why both are key focus areas of Creating Shared Value.

Rural market activation

As the majority of both poverty and nutritional deficiencies can be found in rural areas, affordable, nutritious food in such locations has a particularly important contribution to make to rural development. To provide low-income consumers with greater access to affordable food products, we offer 4860 Popularly Positioned Products (PPPs) at an affordable cost and appropriate serving size through a range of locally adapted distribution methods.

By directly interacting with rural consumers at a local level, we can support rural development and build relationships between our brand and the communities that lie beyond the main urban areas. Such distribution programmes also enable us to give out product samples, and educate consumers on our products and how to use them.

With many consumers in developing countries suffering from deficiencies in iron, zinc, iodine and vitamin A, we also fortify our PPPs with key micronutrients, as appropriate. This approach not only improves nutrition but creates employment opportunities for market stallholders, mobile street vendors and door-to-door distributors.

Nestlé sold 600 000 tonnes of iodine-enriched *Maggi* bouillon cubes, seasonings and noodles in 2010. The iodine-fortified *Maggi* cubes are sold one at a time in local shops at a price within reach of the low-income consumer, and 90% of the *Maggi* product range now carries added iodine (amounting to 90 billion servings annually).

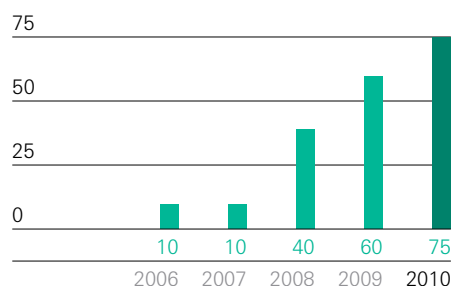
Another way to reach local populations in emerging countries with affordable, nutritious products is by using fortified milk products. Through Project Rainbow, our affordable milk range – including brands such as *NIDO*, *Bear Brand*, *Klim* and *Ideal* – has grown from 10 countries in 2006 to 75 by the end of 2010, and provided the equivalent of 5 billion glasses of milk.

Nestlé Health Science

Nestlé has created two new organisations to pioneer a new industry between food and pharmaceuticals. Nestlé Health Science, a wholly owned subsidiary of Nestlé, became operational on 1 January 2011 while the Nestlé Institute of Health Sciences became part of Nestlé's global R&D network. Together, they will enable us to develop personalised health science nutrition for the prevention and treatment of health conditions such as diabetes, obesity, cardiovascular disease and Alzheimer's disease.

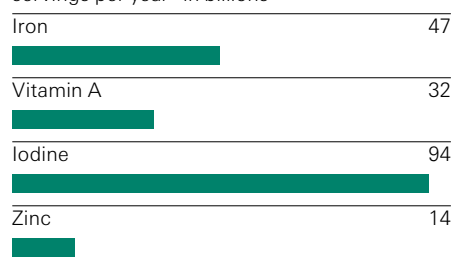
Fortified affordable milks

Number of countries



Micronutrient-fortified Nestlé products

servings per year* in billions



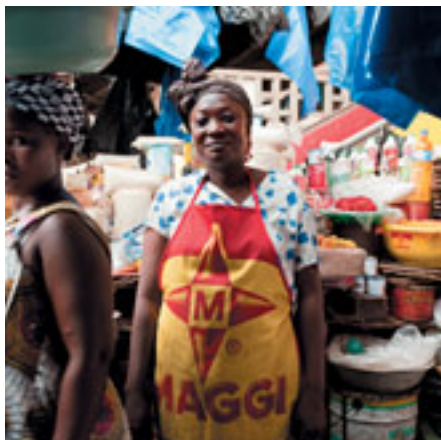
* across all categories except infant formulas, 2009.

Healthy Kids Global Programme

We believe that education is the best tool for ensuring that children understand the value of nutrition and healthy lifestyles, throughout their lives. Building on many Nestlé-sponsored education programmes, Nestlé intends to develop partnerships aimed at implementing our Healthy Kids Global Programme in all countries where we have operations by the end of 2011. Wherever possible, rural communities are included and this is already particularly the case in India, China, Morocco and Pakistan.

New programmes include:

- working closely with the Ministry of Education in Turkey, to provide nutrition education to 70000 children in 70 provinces over the next three years;
- collaborating with the Ministry of Health and Zakoura Education Foundation on a pilot project in the Maghreb region of North Africa, to improve nutritional knowledge and indirectly help to meet micronutrient deficiencies of 530 students in nine schools;
- joining forces with the American University of Beirut to promote nutritional awareness, encourage healthy eating habits and highlight a more active lifestyle among schoolchildren aged 9–11 in Lebanon, and eventually extend the programme across the Middle East;



Nestlé's Popularly Positioned Products (PPPs), such as our Maggi range, are affordable to low-income consumers and many are fortified to address local micronutrient deficiencies.



Children enjoying an active lifestyle at a primary school in Yunnan Province, as our Healthy Kids Global Programme reached China in December 2010.

- a pilot phase of a programme in Pakistan (running from November 2010 to March 2011) to train CARE Foundation teachers to disseminate information about affordable nutrition and healthy lifestyles to around 2500 children in 20 CARE Foundation school campuses.

Key challenge

Nutrition and low-income consumers

While nutrition has largely improved worldwide over the past 50 years, under-nutrition in developing countries and increasing rates of obesity in both developing and developed countries contribute to increasing rates of chronic disease around the world. Nestlé has made significant investments in science-based solutions to key nutritional issues, and Nestlé's Popularly Positioned Products (PPPs) provide low-income consumers with affordable, nutritious food products.

Making nutrition the preferred option

We have continued driving all product innovation and renovation through our unique 60/40+ programme which ensures both taste preference and nutrition added value in the marketplace. In 2010 alone, we assessed products worth CHF 36.4 billion⁽¹⁾ (in sales) through this programme and renovated 6502 products for nutrition or health considerations.

Please see our full online report and the Creating Shared Value section of our website (www.nestle.com/csv) for more detail on our activities related to nutrition.

(1) Starting in 2010, this KPI better reflects the dynamic nature of our 60/40+ programme. Assessment results are valid for a maximum of three years, only if all parameters remain equal. Within the reported sales, some products were frequently re-assessed. The comparable KPI for 2009 would be CHF 32.9 billion.

Water

Our long-term success depends on the water resources that supply our business operations and support the livelihoods of suppliers and consumers, which is why water is a key focus area of Creating Shared Value.

Agricultural food production will, according to the FAO, need to increase by 70% by 2050 to meet the demands of a growing and more affluent global population. Agricultural production requires water, yet its availability to farmers is increasingly threatened due to overuse today and further by climate change policies (biofuel), population growth and urbanisation in the years to come, so we need to implement good management practices and find new ways to reduce risks. If no new policies are introduced, the OECD projects that almost half the world's population (47%) will be living under severe water stress by 2030.

Working with farmers to manage water use

Approximately 70% of the world's withdrawn water is used by farmers, who use, on average, 3000 litres of water to produce one kilogramme of raw materials. By comparison, Nestlé's direct impact – about three litres of water per kilogramme of product made in our factories – means that we can have a significantly greater overall impact on water resources by helping farmers to reduce their water consumption.

Good water management is fundamental to the livelihoods of the 556600 farmers who supply us directly. We invest in helping them to become better stewards of water, support water resource awareness and education programmes, and participate in global dialogue with leading experts and policymakers.

Broad strategies: Piecemeal action and initiatives in isolation will not work.



In Colombia, analyst Carolina Rivera examines the treated wastewater from the Bugalagrande factory's treatment plant.

We are a leading member of the World Economic Forum Water Resources Group that, for the first time, looks at global water shortage watershed by watershed, and provides tools for cost-effective solutions in individual river basins. The main tool is the water cost curve, which includes measures on both the demand and supply side of fresh water, prioritising them according to the cost per cubic metre of water saved.

Rain-fed agriculture: Agriculture that uses rainwater for irrigation provides significant opportunities to manage water, soils and crops more efficiently, build resilience to future water-related risks and contribute to increased yields. Nestlé supports soil and water conservation measures such as using mulches to reduce surface evaporation, and vegetative barriers and contouring to minimise run-off. Nestlé has also helped farmers to develop rainwater harvesting channels on roofs at dairy farms in the Dominican Republic, to provide water for cows to drink and to irrigate pasture land, while in Mexico, we support the construction of rainwater storage systems.

Efficient irrigation: About 70% of global freshwater withdrawals are used for agriculture, yet inefficient irrigation techniques, combined with water losses through evaporation, overuse of groundwater and pollution all threaten the availability of fresh water and jeopardise food supply and health. Nestlé promotes modern irrigation technologies such as drip irrigation and soil moisture monitoring equipment which allow farmers to apply the exact quantity of water their crops need, increasing yields and minimising nutrient leakages into rivers and aquifers. As irrigation requires capital investment that increases the cost of production, it is most efficient to focus irrigation on the crops with the highest value per irrigated hectare. For farmers already irrigating, increasing the efficiency of water use lowers the unit cost of production.



Dr. Babarjit Singh Bhullar advises farmers on good water management techniques during a water awareness programme near Nestlé's Moga factory in India.

Water footprinting: From a global perspective, one possible solution to relieve pressure on water resources is for water-scarce countries to import raw materials (or goods) whose production requires a lot of water from water-abundant countries. In this sense, world food trade indirectly moves considerable volumes of “virtual water” already; today, nearly one-quarter of food trade occurs from water-abundant to water-scarce areas. With global water shortages increasing, the International Water Management Institute (IWMI) estimates that this percentage may rise by 38% by the year 2025. For instance, without trade, irrigation water depletion for cereal production would in fact have been 11% higher today and by 2025, the IWMI projects this percentage will further increase to 19%.

At a farm level, “virtual water” also offers a good opportunity to improve water use and management through an assessment of the total water footprint of a crop. Any given technology or production system

has an associated water requirement (“water footprint”), and alternative technologies, such as improved water management, more efficient irrigation or breeding more water-efficient plants, can reduce the water requirements per unit of output of a product.

To provide greater insight in this area, Nestlé has undertaken a number of studies to assess the water intensity (or “water footprint”) of different crops and production systems, and research new technologies that require less water per unit of production. These include:

- a pilot scheme to assess the life cycle water footprint of *Bitesize Shredded Wheat* in the UK;
- a project with the International Water Management Institute into the water footprint of milk, wheat and rice production in Moga, India;
- the ongoing SuizAgua project in Colombia, with the Swiss Development Agency and a consortium of Swiss companies, to reduce their water footprints and provide sanitation and environmental education.

Collaborating with other actors in the food industry

We exchange best practice and guidelines for sustainable water use at a farm level with other food companies and stakeholders, and contribute to programmes through collaborative, food industry-led groups such as the Sustainable Agriculture Initiative (SAI) Platform. These encourage efficient water management practices that impact positively on the quality and quantity of the water resources at a watershed level.

Nestlé is also playing a leading role in a new pilot project in India, led by the Water and Agriculture Working Group at SAI. Run by the International Crops Research Institute for the Semi-Arid Tropics, the project seeks to scale up the use of good water management practices and related tools at a farm level, and will focus on a few key commodities including rice, potatoes, tomatoes and fruit. Nestlé is also a founding signatory of the UN Global Compact’s CEO Water Mandate, and has

Water usage halved

Through a comprehensive water-saving programme, Nestlé achieved a 54% reduction in water consumption at its factory in Mossel Bay (South Africa) which is experiencing its worst drought in over 130 years. Beyond water-saving measures such as shortening automated wash times and modifying hosepipe nozzles and showerheads to reduce water flow, the approach has included improved measurement of water usage, an employee awareness campaign and the widespread communication of progress.

Through the programme, water usage was cut from 25 000 to 11 500 kilolitres per month between October 2009 and May 2010, and water usage per tonne of product was reduced from 17 kilolitres in 2009 to 8.2 kilolitres in 2010.

UK and Ireland's environmental ambition

Nestlé's key environmental priority is to be the most efficient water user among food manufacturers, and as part of its progress towards achieving its five environmental targets⁽¹⁾, Nestlé UK & Ireland has reduced total water consumption by 27% since 2006.

This was achieved through increased efficiencies and the innovative re-use of wastewater. For example, our Dalston (UK) factory converts liquid surplus into clean water, and a by-product of this process is used by local farmers as fertiliser. The Company has also exceeded the Federation House water reduction target⁽²⁾ 10 years early, reducing total water consumption.

(1) More information at www.nestle.co.uk

(2) More information at www.fhc2020.co.uk

provided a specific Communication on Progress on water since 2009 (please see www.nestle.com/csv/ceowatermandate).

Engaging with our neighbours

In many places around the world, especially in our bottled water business, we engage with local farmers as neighbours. While they may not supply us with raw materials, they work and live near our operations, so we work together to implement safe land use practices that protect water resources.

Since acquiring the *Henniez* brand in Switzerland, Nestlé Waters' Eco-Broye programme is seeking to extend the water resource preservation area for this brand from 100 hectares to 400 hectares via partnerships with local farmers. In addition to reducing the potential long-term threats to water and environmental resources and maintaining farmer income, a new biogas digester is also planned to help to protect groundwater resources, while "ecological corridors" are being developed with farmers and a biologist to preserve and stimulate local biodiversity. Similar initiatives to protect the water resources are ongoing in Vittel in France, where Nestlé bottles *Vittel* and *Contrex*.

Community water management

As well as managing water consumption in our operations and supply chain, we increasingly contribute to sustainable community water management schemes. These help to raise awareness and promote an understanding of water and sanitation issues so that the spread of disease is controlled. For instance:

- Nestlé has supported the Global Water and Sanitation Initiative (GWSI) of the International Federation of Red Cross and Red Crescent Societies (IFRC) since 2006, and signed a new global partnership for 2010–2013, where community water and sanitation projects will again be a main focus;
- in Côte d'Ivoire, a project providing 10 000 people with access to clean

water and sanitation in the schools of 10 cocoa-growing villages, participatory hygiene and sanitary transformation (PHAST) training for children and teachers, the establishment of school hygiene clubs and training of 50 masons to build family latrines has just been completed with the IFRC and the Red Cross Society of Côte d'Ivoire, with plans to reach schools in 55 villages and 53 000 beneficiaries in the next three years;

- a similar PHAST project benefitted 40 000 people in Mozambique together with the Mozambique Red Cross;
- a joint collaboration with the Lutheran World Federation (LWF) and Inter-Faith Action for Peace in Africa (IFAPA) is providing water and sanitation facilities to an estimated 22 000 people in eastern Rwanda, with Nestlé providing financial and technical support.

Key challenge

The global water crisis

Water is increasingly recognised as equal to climate change as a pressing environmental issue. Because water is too "cheap" and the payback from many water conservation projects long term in nature, there is little immediate commercial incentive for farmers, and companies like Nestlé, to reduce water consumption. Nonetheless, Nestlé still has to balance long-term environmental and operational interests against shorter-term shareholder expectations. We have therefore adopted rigorous standards to reduce water consumption at our facilities, help farmers to become better stewards of water, support awareness and education programmes, and participate in global dialogue with experts and policymakers.

Please see our full online report and the Creating Shared Value section of our website (www.nestle.com/csv) for more detail on our activities related to water.

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In case of doubt or differences of interpretation,
the English version shall prevail over the French,
German and Spanish text.

Concept and writing

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with Flag Communication
and SustainAbility

Visual concept and design

Nestec Ltd., Corporate Identity & Design,
with Esterson Associates

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