

NESTLÉ S.A.

RURAL DEVELOPMENT CONFERENCE CALL TRANSCRIPT

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Speaker:

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Roddy Child-Villiers, Nestlé SA, Head of Investor Relations

Slide – Title

Good morning, and welcome to the Nestlé Rural Development Conference Call hosted by Duncan Pollard, who is responsible for engagement on sustainability with Nestlé's stakeholders. As usual, we'll start with a presentation and then we will take your questions.

Slide – Disclaimer

I'd like to remind you all that this conference is being recorded, and we'll take the Safe Harbour statement as read. And I'll now hand the conference over to Duncan Pollard.

Duncan Pollard, Head of Stakeholders Engagement in Sustainability

Slide – Rural Development

Thank you, Roddy, and welcome, everyone. Just a few words about myself. I'm a forester by training. I spent 18 years in the Forestry industry, including 9 years working with Shell. Then I went to work for WWF for 10 years, first in the Forest programme and then looking after their thematic programmes. I've been here at Nestlé for 2.5 years. I work with José Lopez in the Operations division, on Sustainability and Outreach to stakeholders.

Slide – Nestlé in Society

So I've got a few slides to show the importance of rural development for Nestlé, which will cover some of our existing work and the results and a new approach that we're currently rolling out across our operations. Rural development is really about how do we make rural areas attractive places to work in, to live in and to invest in and how do we build farmer loyalty to Nestlé.

So we start with Creating Shared Value, which is the way that Nestlé operates. And rural development is one of the 3 areas, which also includes nutrition and water. Creating Shared Value happens when we identify business needs and social needs and bring these together so that through the way that we do business, we can create value for society. At the same time, by focusing upon societal needs, we can also deliver business value. Creating Shared Value is therefore about creating competitive advantage, which is also connected closely and, indeed, built upon social and environmental sustainability and compliance.

Slide – Agricultural Commodities

Nestlé is built upon the sourcing of agricultural commodities from somewhere around 6 million to 7 million farmers worldwide. We buy directly from 690,000 every year, many every day. The countries where we source directly are highlighted in green on this slide.

The balance comes from complex supply chains through trade partners. Milk, coffee and cocoa are the major commodities that we buy, although we also source, directly from farmers, fruit, vegetables and cereals. We also have over 1,000 agronomists across the world, sourcing raw materials and working directly with farmers.

The Nestlé model of 5% to 6% annual organic growth translates into increasing demand for agricultural raw materials that creates a constant pressure to deliver increasing volumes of

the right quality. So the challenge for us is to continue to develop farmers and suppliers or 'agripreneurs'.

Slide – Rural Population Challenges

Let me just explain these charts. On the left-hand side, we've got a chart which shows the rural populations continent-wide. About 2% to 3% of rural populations are in commercial farms, about 10% in better-off family farms, and 25% on in-between family farms. By in-between, we mean that some years, they have good harvest; other years, not so good. And their income varies a little bit. The marginal family farms account for about 45%, and about 25% of the people living in rural areas are landless.

On the right-hand side, we've got a UN population data showing that the populations that are predicted through to 2025 in lesser developed countries and India. And you can see that some populations are growing, and some are actually going to be reducing.

Our challenge is that we need to convert the poorer performing farmers into skilled farmers, able to meet our standards, and develop the marginal family farms into potential suppliers.

All of this on the backdrop of some parts of the world where rural populations are decreasing, which will lead to labour shortages. Also, increasing rural populations in other parts of the world will lead to smaller landholdings, making farming less profitable. In both situations, we need to make sure that farming is seen as an attractive occupation and rural areas attractive places to live, work and invest in.

Slide – Behind the Brands

A second challenge is to respond to the demands of society to do the right thing. There are increasing demands that demonstrate high standards of social sustainability, particularly on providing equality for women, better labour standards for workers and land tenure and ownership.

Oxfam recently published a scorecard called Behind the Brands, which provides a snapshot of where they believe various companies stand on these and other topics. And whilst we're happy to be at the top, we are not comfortable with the score we received. On some issues such as women's empowerment, we clearly need to improve. And so we've subsequently made new commitments to address the gaps identified by Oxfam.

Slide – Social Index

We do, of course, have a lot to build upon. We have almost 150 years of experience working with farmers and some programmes that can demonstrate where progress is already being made.

We've recently released a study of the impact of the Nespresso AAA programme carried out by the business school, CRECE, from Colombia. The study demonstrated that AAA farms surveyed, which includes those that have obtained Rainforest Alliance certification, had almost 23% better social conditions, 52% better environmental conditions and 41% better economic conditions than non-AAA farms. This illustrates that the Nespresso AAA programme is making a positive contribution to rural development and the livelihoods of farmers.

Slide – Improving Performance in Dairy

Moving on to milk procurement. For several years now, we've carried out assessments of sustainability performance at a farm level. And here is a one particular graph of one particular farm which shows what this performance looks like.

We've used a tool called RISE, developed by the Swiss College of Agriculture, that assesses 10 different aspects covering social, environmental and economic aspects of sustainability. The tool, which stands for Response Induced Sustainability Evaluation, is used across most of the countries that Nestlé sources milk from and now covers 90% of the milk volumes sourced directly from farmers. It allows us to identify programmes to improve performance. And this has led to investments across the world in biogas digestion and tree-planting to address some of the gaps found.

Slide – Nestlé Cocoa Plan

We've also developed 2 major programmes, the Nescafé Plan and the Cocoa Plan, and I've illustrated here the Cocoa Plan. Both put the farmer centre stage. In the Cocoa Plan, we are focusing upon improving the visibility and efficiency in the supply chain, improving productivity of the tree crop by making high-yielding plants available to farmers, thereby improving the farm income and also eliminating child labour.

Slide – Rural Development Framework

However, to better demonstrate that we're truly Creating Shared Value and to take the rural development work onto the next level, we've recently developed and begun the implementation of a Rural Development Framework.

This is built upon three audiences: Farmers, Farm workers and Communities, with a supporting foundation which ensures alignment with trade partners and collaboration with other stakeholders. The intention is to be able to develop a consistent approach across the company and to set an appropriate level of ambition.

We also wish to be able to measure and report upon the progress and, finally, to be able to better orientate the business model to deliver business and societal benefits. The Rural Development Framework has been developed with the help of various partners, such as the Danish Institute for Human Rights, Solidaridad and the Fair Labour Association, who have brought new insights to us and challenged us in various areas. It's designed to guide the development and monitoring of the Cocoa Plan and Nescafé Plan, Nespresso AAA, the Dairy programme and the local sourcing plants.

Slide – Priority Countries

We built the framework upon CSP principles of business importance and social need. And here, you can see how we've started to prioritize the countries that we're going to concentrate on.

We've looked at business importance, which are those countries that are important for us for sourcing of major commodities or have rural factories in local areas in the next ten years. On

social need, we've looked at Human Development Index, Global Hunger Index and inequality. And that provides us with a list of countries that we're going to concentrate on.

Slide – Successful Farmers

So coming onto the framework, we want to ensure that the farmers are business orientated and farming by choice. We've looked at outcomes that we are after and the activities needed to get there, and we've used the Creating Shared Value framework of business value and societal value to put this together.

There is, of course, a strong common thread between these, as there should be, if we're to create shared value. For the business, it's about increasing supply and quality, transparency within supply chain so that we know where our supplies are coming from, and ensuring that the farmer is caring for the environment and the workers he is employing.

From a farmer perspective, the aim is increasing their incomes and especially increasing the productivity, as well as improving his or her resilience and environmental and social stewardship. How we do that is about investing in elite plant and material, training farmers and setting high standards on a few key environmental and social areas. We are also focused upon women's empowerment and equality.

Slide – Productive and Respected Workers

Moving on to workers. The goal here is to ensure that employers are respecting human rights and make sure that rural-based employment is attractive for workers. Attracting the right workers is an increasing challenge in many countries, particularly given the seasonal nature of harvesting work. And it's in this area where many of our major challenges occur in our supply chain, with the potential for child labour and forced labour in particular. It's particularly difficult given that migrant labour is largely involved in harvesting periods. And traditional approaches, such as certification schemes, have not successfully addressed this area.

Slide – Prospering Communities

Finally, we believe that it's not enough just to focus on farmers and farm workers, but we need to invest in communities as well. We need to make sure that the communities around our factories and within the sourcing districts are progressing economically, environmentally and socially. On this one, we've been a little less prescriptive as we believe that it's for the communities themselves to define what the outcome should be, but we're quite clear that our interventions will most likely focus upon Water and Nutrition, which are our other two Creating Shared Value areas, as well as topics that cross-reference the other sections, so for example, community level initiatives to support women's empowerment or land tenure.

Slide – Implementation

In summary, this is not another programme. It is the way we wish to develop the business. The framework is not a methodology. Rather, it's designed to guide the various plans. It's designed to integrate the existing tools that we use, such as certification or RISE.

We believe that the framework will, therefore, allow us to deliver a consistent approach and ambition across Nestlé. Of course, we've set some global priorities such as farmer net income, women's empowerment, labour standards, nutrition, water and sanitation. We've also built in the flexibility to customize the approach according to local priorities. This allows

us to align activities to the business priorities and set the priorities based upon locally identified gaps.

The implementation also involves interaction with local partners, which brings in technical expertise and adds a degree of credibility to the work. Finally, by establishing a baseline of data, it will allow us to measure and communicate progress and activities in the future. We anticipate we will report upon progress starting with the annual Nestlé in Society report next year.

Question-and-Answer Session [No questions received]

Roddy Child-Villiers, Nestlé SA, Head of Investor Relations

Well, if there are no questions, then we will bring the call to an end. And obviously myself, Ian and the team are available in the office for any follow up that you might have. Thank you very much for listening and for your attention. Thanks. Goodbye.

END OF TRANSCRIPT