



Nestlé

Good Food, Good Life

Nestlé Creating Shared Value Report 2011

Creating Shared Value at Nestlé

Nutrition

Rural development

Water

Environmental sustainability

Compliance

Our people

Nestlé Creating Shared Value Report 2011

Visit the Creating Shared Value site at www.nestle.com/CSV



www.nestle.com/CSV



Download our summary report



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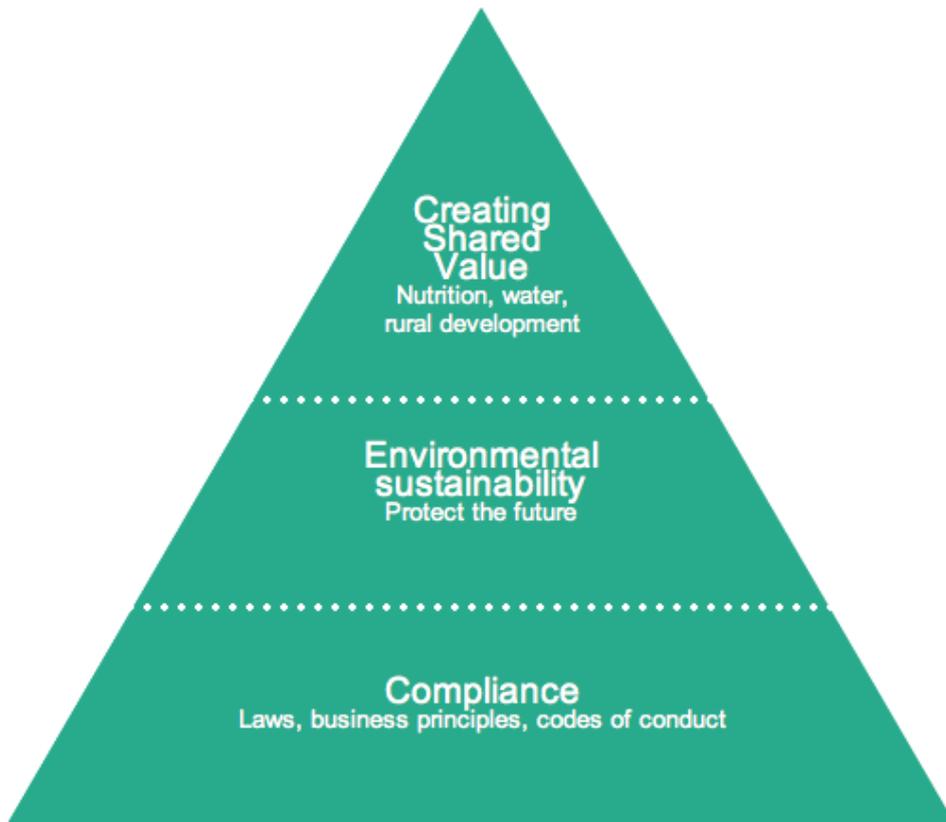
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Creating Shared Value at Nestlé



For a company to be successful in the long term and create value for its shareholders, it must also create value for society. We call this Creating Shared Value (CSV). Creating Shared Value encourages businesses to create economic and social value simultaneously by focusing on the social issues that they are uniquely capable of addressing.

In 2006, Nestlé became the first organisation to adopt this approach, but our history of working together with society stems back to our roots. For maximum impact, Nestlé has focused its Creating Shared Value efforts and investments on three areas – nutrition, water and rural development – as these are core to our business activities and vital for our value chain.

CSV builds on a strong base of performance in environmental sustainability and compliance, as illustrated in the CSV Pyramid above. In addition, we recognise the vital role of our people and the importance of engaging and collaborating with other organisations.



CSV at Nestlé

- Overview
- A message from our Chairman and CEO
- Our performance
- Material issues
- Stakeholder engagement
- CSV advisory board
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Nestlé Prize

The Nestlé Prize in Creating Shared Value (CSV) is awarded every other year to encourage and reward innovative projects.

Chairman & CEO

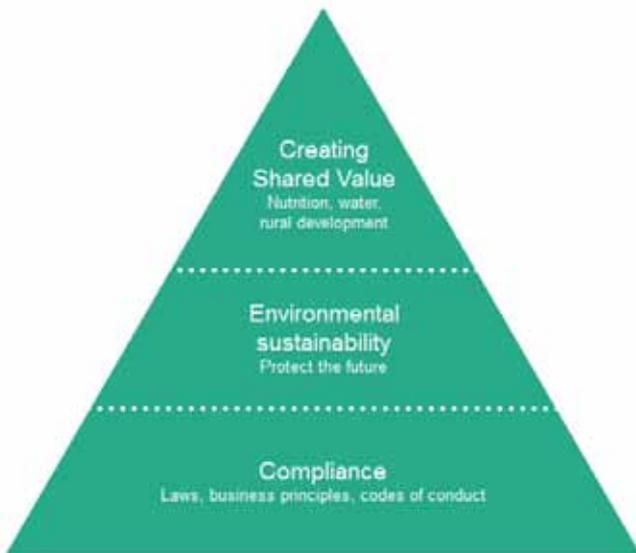
“We strongly believe that for a company to be successful in the long term, it must create value to its shareholders and, at the same time, to the communities where it operates and to society at large.”

Overview

Creating Shared Value (CSV) is a holistic and sustainable approach to business, which addresses the needs of society, while meeting the needs of shareholders. Since its foundation in 1866, Nestlé has always been concerned with its impact on the surrounding environment and communities, adopting the highest Swiss standards in all of its global operations. As a result, our corporate culture has been built on the belief that in order for us to succeed as a business, we need to ensure that the communities and environment around us also prosper.

CSV formalises this belief, translating it into a series of concrete and progressive measures and goals, and reporting on these to ensure we continually improve our positive impact as well as highlighting the challenges we face. We have many CSV activities that have been in operation for several years and even decades; as we adapt our approach to fit the needs of the local communities where we operate we can draw upon this wide range of experience as we continue to extend our impact.

The Nestlé CSV Pyramid



CSV builds on a strong base of performance in environmental sustainability, and compliance with international laws and codes of conduct as well as our own business principles. Together, these make up the core dimensions of our business approach, as illustrated below.

Creating Shared Value

As the first organisation to adopt CSV, this constructive approach to business is now well established at Nestlé. Spanning our entire global operation, the scale and reach of our activities gives us considerable experience on which to build. For maximum impact, we have focused our CSV efforts and investments on three areas where we believe there is the greatest opportunity to drive value for our shareholders and society at the same time. These are:



Nutrition

As the world's leading nutrition, health and wellness company, we believe that our future lies in helping people to eat a healthier diet. Using our science-based approach, we are helping improve nutrition, addressing deficiency in vitamins and minerals at one end of the spectrum and obesity at the other.

Water

Water scarcity is becoming a serious reality in many parts of the world. By making the six elements of the UN Global Compact CEO Water Mandate central to our efforts, we are helping to reduce the impact of our water use and promote good water stewardship globally.



Rural development

The overall wellbeing of farmers, rural communities, small entrepreneurs and suppliers is intrinsic to the long-term success of our business, yet an estimated 70% of global poverty is concentrated in rural areas. We are working to support rural communities surrounding our operations in building a better future.

Sustainability

We aim to delight consumers with tasty, nutritious and healthy food and beverages, while offering products which are made in a responsible way that preserves the environment for future generations. To support this, we apply a life cycle approach, involving our partners from farmer to consumer, to improve the environmental impacts of our products and activities.

Compliance

In Nestlé's context, compliance means abiding by national laws and relevant conventions. In addition to this, Nestlé has a strong set of values and principles that we apply across all the countries where we operate. Our overriding objective is to ensure that our investments are beneficial both for our shareholders and the countries where we do business.

Foundations of the pyramid

Underpinning our approach to CSV are our employees and engagement and collaboration with a range of organisations.

Our people

Our people are central to everything we do. Every day, we rely on their energy, passion and commitment to continually create, develop and deliver the best products for our customers, whilst also upholding our principles and living our values. We commit to offering fulfilling careers in a safe and fair working environment, which embraces the diversity of our employees.

Engagement and collaboration

By engaging with a wide range of international stakeholders, we aim to share insights, identify ways to overcome challenges together and improve our own decision making and accountability. Nestlé's CSV Forums, for example, provide a platform for global business leaders and government officials to offer fresh thinking on how businesses and governments can work together to close the gap between commercial needs and development goals.



Our CSV performance

Nestlé has developed a comprehensive series of strategic key performance indicators (KPIs), as part of our commitment to more evidence-based reporting. These measures also ensure we continue to improve our performance through innovation, investment, learning and collaboration.

Behind these figures are more than 100 social and economic projects covering a broad range of themes around nutrition, water and rural development, many of which we are operating in collaboration with partners from industry, agriculture, governments and non-governmental organisations.

The roots of CSV

In 2006, Harvard's Michael Porter and Mark Kramer published an article outlining a new concept for corporate responsibility. They put across the idea that if companies were to go beyond compliance and philanthropy to actively look for connections between their activities and the growth and progress of society, there would be considerable potential for organisations to contribute to sustainable global growth. They called this concept: Creating Shared Value.

The idea of Creating Shared Value had considerable resonance with our organisation at the time. We have always looked to benefit the societies around us and to operate with respect to the environment. However, we were also looking for a way to focus anew and accelerate our impact on global prosperity.

In close consultation with Porter and Kramer, we analysed our entire value chain for those areas with the greatest potential for joint value optimisation between our business and society, where the needs of both our shareholders and society were addressed. We found these to be nutrition, water and rural development.

We then put a framework in place to guide our actions and investments, with clear goals, measures and reporting. In 2009, our CSV advisory board met for the first time. Its remit is to help us further develop our CSV strategic vision and suggest potential actions as we continue to find new ways to deepen our impact.



Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
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A message from our Chairman and CEO

The global water challenge

By 2050 we will have to feed 9.3 billion people and food production has to double. The key is water, the scarcest natural resource on earth. At the current rate of overuse, we will run out of water long before we run out of oil. This is why we say: no food for fuel.

At the current rate, the overuse of freshwater will severely slow economic development. Worse, it will be the cause of massive food shortages within the next 15 to 20 years. Exacerbating the problem will be a further 2.3 billion people on the planet by 2050, adding to existing demand for food and energy, which both critically depend on fresh water.

As the world's leading Nutrition, Health and Wellness Company, Nestlé too, at every level, depends on reliable access to clean water, in order to maintain our ability to meet our consumers' needs.

We therefore care deeply about water and remain committed to act. This year we have reviewed the five W.A.T.E.R. commitments we set out in our 2006 Water Report, ensuring that these continue to drive water performance through our operations, supply chain and within communities. We are now working on a set of performance indicators to monitor our progress.

Water is a local issue. But the effects of local shortages quickly become global issues in today's interlinked economies. While we can have an impact through our own operations, a truly sustainable solution can only come from a collaborative response from multiple stakeholders; so we are actively promoting global dialogue on water while also engaging in direct actions in our own right.

In recent years, water has moved to the top of the global agenda. In 2008, the World Economic Forum established the 2030 Water Resources Group, bringing together key players in addressing this issue, and highlighting the critical status of water availability.

This group, under the leadership of the Nestlé Chairman, has elaborated a landmark report, *Charting Our Water Future*, whose key findings are now being transformed into concrete actions under the leadership of national governments together with other stakeholders. This is an important first step to bring freshwater withdrawals back into balance with natural renewal.

Nestlé is also a founding signatory of the UN Global Compact CEO Water Mandate, whose reporting requirements are reflected in the structure of this report. We actively engage in the public policy debate around water and advocate for better understanding of the consequences of mistaken biofuels policies. We hope that the Rio+20 summit will deliver an unequivocal commitment to 'no food for fuel'. Food is for people; waste may be used for fuel.

It is our firm conviction that access to adequate, safe freshwater is a human right. Beyond the need for hydration and basic hygiene, sustainable water policies should adequately price water to cover costs and reflect its true value (and scarcity).



NESTLÉ CHAIRMAN IN KENYA: Nestlé Chairman Peter Brabeck-Letmathe (left) visits a water facility at a farm that delivers milk to the East African Dairy Development project factory in Kibiyet, Kenya.

Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
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We strongly believe that for a company to be successful in the long term, it must create value for its shareholders and at the same time for the communities where it operates and for society at large. We call this Creating Shared Value. Analysing our entire value chain, we have identified three focus areas where Nestlé can optimise the creation of shared value: besides water, these are nutrition and rural development.

So while water is the main theme of our Creating Shared Value Summary Report 2011, you will also read about our other two priority areas, as well as our progress and challenges in Environmental Sustainability and in Compliance; the essential foundations of Creating Shared Value.

As part of this, we also reiterate our continued strong support for the UN Global Compact and its Blueprint. Nestlé is a founding member of UN Global Compact LEAD.

Nutrition

In nutrition, through our support for the UN initiative, Every Woman Every Child, Nestlé is committed to continuing to address today’s health challenges by expanding its global Healthy Kids Programme to teach children about the value of nutrition and physical activity.

We are also creating more opportunities for women through income-generating activities and continuing to provide access to education, focusing on women and children. These efforts on behalf of women and children reflect our commitment to the UN Millennium Development Goals.

Rural development

Responsible Sourcing is intrinsic to our rural development goals and we have conducted 1910 audits in 2011, to ensure our suppliers’ responsible workplace commitments are being implemented.

Our traceability programme is also reaching milestones; we began in 2010 with palm oil and paper and pulp and by 2012 will have extended it to ten further areas and main commodities.

A particularly serious challenge is the occurrence of child labour. For a few years we have worked to further ensure it has no place in our supply chain, so we have become the first food company to work with the NGO Fair Labor Association to help us bring transparency into our specific cocoa supply chain and assist us in defining and implementing corrective measures, together with the other stakeholders involved.

We invite you to read more about our progress and challenges in this website, which is our full CSV report. We hope you find the information engaging and informative, and we welcome your input and views.



NESTLÉ CEO IN INDIA: Nestlé CEO Paul Bulcke visits a school close to our new plant in Karnataka, India. Nestle works with local government in the region to provide clean drinking water and sanitation facilities to village schools.



Peter Brabeck-Letmathe
Chairman of the Board



Paul Bulcke
Chief Executive Officer



Our performance

2011 highlights

Nutrition

- Continued to improve the availability of affordable micronutrient-fortified foods targeting lower-income groups.
- Enhanced our understanding of nutritional priorities of different consumer segments using our Nutritional Landscaping protocol.
- Committed to expanding our global Healthy Kids Programme, launched in Nigeria.
- Became the first food and beverage company to pledge our commitment to the UN Every Woman Every Child programme, to improve the lives of vulnerable women and children through training and education.

Water

- 274 water-saving projects run in our factories, Water Resources Review programme conducted at 100 Nestlé sites and CHF 28 million invested in water-saving and cleaning programmes during the year.
- 28% reduction in water withdrawals since 2001 [KPI], while our food and beverage production volume increased by 73% [KPI].
- Helped provide access to water and sanitation for over 100 000 people (since 2007), through our work with the International Federation of Red Cross and Red Crescent Societies.
- Received the Stockholm Industry Water Award 2011, a prestigious award given in recognition of actions taken to address water challenges.

Rural development

- Developed a new Traceability programme as a major part of our Responsible Sourcing audit programme, to cover 12 major raw materials by 2012.
- Became the first food company to partner with the Fair Labor Association, focusing initially on hazelnuts and then on the cocoa supply chain in Côte d'Ivoire.
- Continued our global *Nescafé* Plan, which will invest CHF 500 million by 2020 to support responsible farming, production and consumption.
- Trained 200 000 farmers through our Nestlé Cocoa Plan.
- Invested CHF 2.25 million in water and sanitation, food security and emergency relief initiatives in Côte d'Ivoire through a new three-year partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC) and the Red Cross Society of Côte d'Ivoire.

Environmental sustainability

- Defined specific objectives to reduce absolute greenhouse gas emissions and waste, in addition to our long-standing focus on water and energy efficiency.
- Reduced greenhouse gas emissions by 17% by 2001.
- Reduced energy consumption by 42% per tonne of product since 2001.
- Water withdrawals reduced by 58% per tonne of product since 2001.



Compliance and human rights

- Audited 110 sites through our CARE (**C**ompliance **A**ssessment of Human **R**esources, Occupational Health & Safety, **E**nvironment and Business Integrity) programme in 2011, with no critical non-compliances identified.
- Became the first infant formula manufacturer to be included in the Financial Times Stock Exchange Responsible Investment Index (FTSE4Good).
- Rolled out a global online human rights training tool, which is mandatory for employees working in high-risk countries.
- Began rolling out an integrity reporting system to provide an independent mechanism to raise any concerns relating to our policies and procedures.
- Achieved a 99.5% compliance rate with the EU Pledge on responsible advertising to children.

Data above is for year ending 31 December 2011 unless stated otherwise.

Key performance indicators

Nestlé has developed a comprehensive series of strategic key performance indicators (KPIs), as part of our commitment to more evidence-based reporting. We welcome feedback on these KPIs, and how they may be developed further.

The summary below forms part of our Communication on Progress on the UN Global Compact Principles. Unless stated otherwise, performance indicators are for the year ending 31 December 2011.

The content of this page was externally assured by Bureau Veritas, March 2012.

Creating Shared Value performance indicator	GRI	2010	2011
Economic			
<i>Economic performance</i>			
Total Group sales (CHF million) (a)	EC1	93 015	83 642
Net profit (CHF million) (a)	EC1	34 233	9487
Nutrition			
Nestlé Nutrition sales (CHF million) (a)	FP4	7700	7233
Products meeting or exceeding Nutritional Foundation profiling criteria (as % of total sales) (b) (c)	FP4	73.2	74.1
Renovated products for nutrition or health considerations (d)	FP7	6502	5066
Products with increase in nutritious ingredients or essential nutrients (d)	FP7	3847	3851
Products with reduction of sodium, sugars, trans-fatty acids, total fat or artificial colourings (d)	FP6	2655	1215
Products analysed and improved or confirmed via 60/40+ programme (sales, CHF million) (b) (e)	PR1	36 420	28 715
Products containing Branded Active Benefits (sales, CHF million) (a)	FP7	5335	5563
Products featuring <i>Nestlé Nutritional Compass</i> labelling (% of sales worldwide) (b) (f)	PR3	97.1	98.0
Products in EU with Guideline Daily Amounts (GDA) labelling on front of pack (% of sales) (b) (g)	PR3	98.7	98.9
Products with specific portion guidance (sales, CHF million) (b) (h)	PR3	21 305	21 894
Nestlé television advertising to children under 12 in compliance with policies on responsible marketing (%) (i)	PR7	99.5	99.1
Nestlé contraventions of infant food marketing policy requiring remediation (j)	PR7	7	19
Infant formula marketing staff in higher-risk countries trained in the WHO Code (% of staff) (k)	PR6	100	100
Popularly Positioned Product SKUs	FP4	4860	5556
Popularly Positioned Products (sales, CHF million) (a)	FP4	9848	10 610
Total number of significant product recalls or incidents of non-compliance (l)	PR2	8	10

Creating Shared Value performance indicator

GRI

2010

2011

Environmental sustainability

Production volume

Total production volume (million tonnes)		43.74	45.21
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Materials

Raw materials used (million tonnes)	EN1	23.27	22.87
Materials for packaging purposes (million tonnes)	EN1	4.59	4.58
Packaging source optimisation (kilotonnes saved)		70.8	39.3

Energy

Total on-site energy consumption (petajoules)		88.6	90.1
Total on-site energy consumption (gigajoules per tonne of product)		2.03	1.99
On-site energy generated from renewable sources (% of total)		12.3	11.6
Total direct energy consumption (petajoules)	EN3	63.0	64.3
Total indirect energy consumption (petajoules)	EN4	67.6	70.1

Water

Total water withdrawal (million m ³)	EN8	144	143
Total water withdrawal (m ³ per tonne of product)	EN8	3.29	3.17

Biodiversity

Total size of manufacturing sites located in protected areas (hectares) (I)	EN11		44.2
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Emissions, effluents and waste

Direct GHG emissions (million tonnes CO ₂ eq)	EN16	3.98	3.81
Direct GHG emissions (kg CO ₂ eq per tonne of product)	EN16	91.0	84.2
Indirect GHG emissions (million tonnes CO ₂)	EN16	3.14	3.23
Indirect GHG emissions (kg CO ₂ per tonne of product)	EN16	71.9	71.5
Total water discharge (million m ³)	EN21	94	94
Total water discharge (million m ³ per tonne of product)	EN21	2.15	2.08
Quality of water discharged (average mg COD/l)	EN21	78	69
By-products (kg per tonne of product)	EN22	32.16	31.32
Waste for disposal (kg per tonne of product)	EN22	8.45	7.59

Environmental sustainability governance

Manufacturing sites certified against ISO 14001 (% of total manufacturing sites)		91	90
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Creating Shared Value performance indicator

GRI

2010

2011

Rural development

Farmers trained through capacity-building programmes		144 900	200 751
Markets covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes		45	46
Direct procurement markets covered by SAIN programmes (%)		100	100
Percentage of suppliers, key vendors and quality key suppliers compliant with company's sourcing policy (l)	FP1		96
Percentage of purchased volume compliant with the Nestlé Supplier Code (l)	FP1		75.2

Our people

Total workforce (number of employees) (m)	LA1	281 005	327 537
Total rate of new employee hires (%) (l) (n)	LA2		12.01
Total rate of employee turnover (%) (l) (n)			10.8
CARE gaps identified, related to Business Integrity and HR		425	57
Of which: Minor		393	49
Major		32	8
Critical		0	0
Lost-time injuries among employees and on-site contractors (per million hours worked)	LA7	1.8	1.8
Total recordable injury rate among employees and on-site contractors (per million hours worked)	LA7	4.2	3.8
Fatalities of employees and on-site contractors	LA7	11	18
Average hours of training per year per employee per category (o)	LA10	0.58	2.02
Leadership positions held by women (%) (n)	LA13	27.3	28.0
Local Management Committee members native to country in developing countries (%) (p)	EC7	48	53

Notes

- a) Sales recognition changed from 1 January 2011 (see Note 1 of the Group Financial Statements: Changes in presentation – Revenue). To provide a basis of comparison, 2010 figures have been accordingly restated.
- b) 2010 KPI not comparable to 2011 (see Note 1 of the Group Financial Statements: Changes in presentation – Revenue).
- c) 2011 assessment scope: 70% total Nestlé sales volume.
- d) Based on reports of approximately 75% of worldwide product development teams.
- e) This KPI 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.
- f) Excludes total petcare and, for US only, *Dreyer's*, *Haagen-Dazs* and pizza business.
- g) Across EU 27 plus Norway, Switzerland, Adriatic Region, Ukraine and Moldova. Excludes plain coffee, tea and water, products for Nestlé Professional, gifting chocolate, seasonings, petcare, Nestlé Health Science and Nestlé Nutrition.
- h) 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. This currently represents only a subset of the portfolio with portion guidance.
- i) The Nestlé Marketing Communication to Children Policy was updated in 2011. Previously, a media channel or programme was defined as targeted to children if 50% or more of its audience were children between 6 and 12 years old. As of September 2011, the percentage has been redefined to 35%. The compliance percentage shown above has therefore been calculated to reflect the previous Policy of 50% audience threshold (January to August 2011) and the new 35% threshold (September to December 2011).
- j) Based on internal and external audits. Following a change in the criteria in July 2010 to differentiate higher- and lower-risk countries, more countries are now part of the "higher-risk" category where the Nestlé Policy and Instruction on Implementing the WHO Code applies as a minimum requirement.
- k) "Higher-risk" countries are those with mortality rates for under-fives of more than 10 per 1000 under-five, or more than 2% acute malnutrition (moderate and severe wasting) among under-fives. All other countries are "lower-risk".
- l) New KPI.
- m) Covers all Nestlé employees including Joint Ventures.
- n) Covers Nestlé employees registered in the HR system (approximately 80% of all employees).
- o) Covers Nestlé employees whose training is tracked in the HR system (approximately 65% of all employees).
- p) Covers all Nestlé employees including Cereal Partners Worldwide.



External assessments

Nestlé's activities, business principles and impacts on the environment and society are externally assessed and rated by a number of sustainability indices.

FTSE4Good

FTSEGroup confirmed that Nestlé has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.

FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards including breast milk substitutes, supply chain and human rights.

Companies in this Index Series have met stringent social and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.

Carbon Disclosure Leadership Index 2011

For the second year running, we have been included in the Global 500 Carbon Disclosure Leadership Index for our proactive approach to climate change.

SAM Dow Jones Sustainability Index 2011

Nestlé is included again in the Dow Jones Sustainability Index. Each year, the 2500 largest companies in the world are invited to participate in the Sustainable Asset Management's (SAM) Corporate Sustainability Assessment.

Full details about the Dow Jones Sustainability Index are available on the SAM website.

SAM Dow Jones Sustainability Index

In 2010, Nestlé once again received Gold Class ranking and featured in the SAM Sustainability Yearbook 2011. Each year, the 2500 largest companies in the world are invited to participate in SAM's Corporate Sustainability Assessment.

Full details about the Dow Jones Sustainability Index are available on the SAM website.



Global Reporting Initiative content index

This report is aligned to the Global Reporting Initiative (GRI) 3.1 guidelines. The GRI has verified our report as meeting level A+. The GRI index, showing which indicators we have reported against is outlined below.

Global Reporting Initiative™

Statement GRI Application Level Check

GRI hereby states that **Nestlé S.A.** has presented its report "Creating Shared Value Report 2011" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, March 21st 2012


 Nelmara Arbex
 Deputy Chief Executive
 Global Reporting Initiative



The "+" has been added to this Application Level because **Nestlé S.A.** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on March 14th 2012. GRI explicitly excludes the statement being applied to any later changes to such material.



GRI content index

Our fully linked GRI index is available [online](#).

Key: ● Fully ◐ Partially ○ Not

Profile Disclosures

1. Strategy and Analysis

Profile Disclosure	Description	Reported	Cross-reference/Direct answer
1.1	Statement from the most senior decision-maker of the organization.	●	CSV: A message from our Chairman and CEO
1.2	Description of key impacts, risks, and opportunities.	●	CSV: Key performance indicators CSV: Material issues CSV: Materiality matrix N: Context RD: Context and challenges W: Context ES: Context and challenges OP: Context

2. Organizational Profile

Profile Disclosure	Description	Reported	Cross-reference/Direct answer
2.1	Name of the organization.	●	Creating Shared Value Summary Report 2011
2.2	Primary brands, products, and/or services.	●	AR: The Nestlé Roadmap to Good Food, Good Life (p11–29) AR: The Nestlé Roadmap to Good Food, Good Life: Overview (p30) COM: Brands (http://www.Nestlé.com/AboutUs/OurBrands/Pages/OurBrands.aspx)
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	COM: Financial Overview (http://www.Nestlé.com/Investors/FinancialOverview/Pages/FinancialOverview.aspx) CFS: Notes (p52–74) CFS: Companies of the Nestlé Group (p120–138)
2.4	Location of organization's headquarters.	●	AR: Shareholder information (p48)
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	AR: Geographic data: people, factories and sales (p46–47)
2.6	Nature of ownership and legal form.	●	AR: Corporate Governance and Compliance (p8–9) CFS: Companies of the Nestlé Group (p120–138)



Profile Disclosure	Description	Reported	Cross-reference/Direct answer
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	AR: Geographic data: people, factories and sales (p46–47)
2.8	Scale of the reporting organization.	●	AR: Front inside flap (pII–III) AR: Geographic data: people, factories and sales (p46–47) CSV: Key Performance Indicators CFS: Financial information – 5 year review (p118–119)
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	AR: Letter to our shareholders (p2–5) CFS: Acquisitions and disposals (p58–59)
2.10	Awards received in the reporting period.	●	CSV: External assessments ES: Mitigating GHG emissions

3. Report Parameters

Profile Disclosure	Description	Reported	Cross-reference/Direct answer
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	●	CSV: About our reporting
3.2	Date of most recent previous report (if any).	●	CSV: About our reporting
3.3	Reporting cycle (annual, biennial, etc.)	●	CSV: About our reporting
3.4	Contact point for questions regarding the report or its contents.	●	CSV: A message from our Chairman and CEO CSV: About our reporting
3.5	Process for defining report content.	●	CSV: Material issues CSV: About our reporting
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	●	CSV: About our reporting
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●	CSV: About our reporting
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	CSV: About our reporting
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	●	CSV: About our reporting



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Profile Disclosure	Description	Reported	Cross-reference/Direct answer
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	●	CSV: About our reporting
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	CSV: About our reporting
3.12	Table identifying the location of the Standard Disclosures in the report.	●	CSV: GRI content index
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	CSV: Assurance statement CSV: About our reporting

4. Governance, Commitments, and Engagement

Profile Disclosure	Description	Reported	Cross-reference/Direct answer
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	●	C: Governance CGR: Group structure and shareholders, Capital structure, Board of Directors, Executive Board (p3–19)
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	CGR: Board of Directors (p6–14) The chairman is not also the CEO.
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	●	CGR: Board of Directors (p6–14) All members of the Board of Directors are independent/non executive officers with the exception of the Nestlé CEO.
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	AR: Shareholder information (p48) OP: Employee engagement CGR: Appendix 2: Articles of Association of Nestlé S.A. (p37–42)
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	●	CGR: Appendix 1: Compensation Report 2011 (p25–36)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	CGR: Board of Directors > Internal organisational structure > Tasks and area of responsibility for each Committee of the Board of Directors (p11–12) CGR: Appendix 1: Compensation Report 2011 (p25–36)



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Profile Disclosure	Description	Reported	Cross-reference/Direct answer
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	●	<p>C: Governance</p> <p>CGR: Board of Directors > Definition of areas of responsibility, Information and control instruments vis-à-vis the Executive Board; Executive Board (p13–19)</p> <p>CGR: Appendix 1: Compensation Report 2011 (p25–36)</p>
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	<p>C: Governance</p> <p>NCBP</p> <p>CBC</p> <p>CSV: Creating Shared Value at Nestlé</p> <p>CSV: Creating Shared Value – An Overview</p>
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	<p>CSV: A message from our Chairman and CEO</p> <p>AR: Overview > Principal Risks and Uncertainties (p40–41)</p> <p>C: Governance</p> <p>CGR: Board of Directors > Definition of areas of responsibility, Information and control instruments vis-à-vis the Executive Board (p13–14)</p>
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	<p>C: Governance</p> <p>CGR: Appendix 1: Compensation Report 2011 (p25–36)</p>
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	<p>AR: The Nestlé Roadmap to Good Food, Good Life (p12–25)</p> <p>AR: Overview > Principal risks and uncertainties (p40–41)</p>
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	<p>C: Global principles and goals</p> <p>C: UN Global Compact</p> <p>C: CEO Water Mandate</p> <p>C: UN Millennium Development Goals</p> <p>C: Human rights and labour rights</p>



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Profile Disclosure	Description	Reported	Cross-reference/Direct answer
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	●	CSV: Memberships C: Global principles and goals C: Responsible advertising and marketing C: Advertising to children N: Education and Innovation ES: Building scientific knowledge ES: Communicating environmental information ES: Partnering on climate change ES: Moving to Natural Refrigerants ES: Climate change adaptation ES: Biodiversity – our approach W: Engagement and disclosure W: Developing industry standards W: Supply chain W: Supply chain initiatives W: Engagement initiatives RD: Farmer programmes RD: Tackling child labour RD: Combating deforestation RD: Promoting human rights among our suppliers RD: Other commodities RD: Responsible Sourcing Audit Programme OP: Promoting strategic partnerships OP: Safety and health at Nestlé – Initiatives
4.14	List of stakeholder groups engaged by the organization.	●	CSV: Stakeholder engagement
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	CSV: Stakeholder engagement
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	CSV: Stakeholder engagement CSV: CSV Advisory Board OP: Employee Engagement
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	●	CSV: Stakeholder engagement CSV: Stakeholder convenings



Disclosures on Management Approach

DMA SC Disclosure on Management Approach SC

Aspect	Reported	Cross-reference/Direct answer
Protecting natural resources	●	RD: Our Systems RD: Implementing the Nestlé Supplier Code ES: Overview ES: Context and challenges ES: Governance and systems
Minimizing toxicity	●	C: Product safety
Fair trade	●	RD: Overview RD: Context and Challenges RD: Our Systems
Fair compensation for labor	●	RD: Overview RD: Context and Challenges RD: Our Systems RD: Implementing the Nestlé Supplier Code
Traceability	●	C: Product safety
Genetically modified organisms (GMOs)	●	RD: Overview RD: Sourcing overview GMO FAQ: http://www.Nestlé.com/common/peripherals/faqs/pages/faqs.aspx#gmo
Animal welfare	●	RD: Our Systems RD: Animal welfare
Biofuels	●	RD: Combating deforestation Biofuels FAQ: http://www.Nestlé.com/common/peripherals/faqs/pages/faqs.aspx#biofuels

DMA EC Disclosure on Management Approach EC

Aspect	Reported	Cross-reference/Direct answer
Economic performance	●	AR: Financial Review (p30–31) NCBP C: Governance
Market presence	●	AR: Financial Review (p30–31) NCBP C: Governance
Indirect economic impacts	●	AR: Financial Review (p30–31) NCBP C: Governance



DMA EN		Disclosure on Management Approach EN	
Aspect	Reported	Cross-reference/Direct answer	
Materials	●	RD: Sourcing overview ES: Overview ES: Performance	
Energy	●	ES: Overview ES: Context and challenges ES: Performance ES: Governance and systems ES: Improving energy efficiency	
Water	●	W: Overview W: Context W: Expert views ES: Overview ES: Context and challenges ES: Performance ES: Governance and systems	
Biodiversity	●	ES: Overview ES: Context and challenges ES: Governance and systems ES: Biodiversity	
Emissions, effluents and waste	●	ES: Overview ES: Context and challenges ES: Governance and systems ES: Climate change ES: Waste and recovery	
Products and services	●	ES: Overview ES: Context and challenges ES: Governance and systems	
Compliance	●	ES: Overview ES: Context and challenges ES: Governance and systems	
Transport	●	ES: Overview ES: Context and challenges ES: Governance and systems ES: Transport and distribution	
Overall	●	ES: Overview ES: Context and challenges ES: Governance and systems	



DMA LA		Disclosure on Management Approach LA	
Aspect	Reported	Cross-reference/Direct answer	
Employment	●	OP: Overview OP: Context OP: Policies and systems	
Labor/management relations	●	OP: Overview OP: Context OP: Policies and systems OP: Labour practices	
Occupational health and safety	●	OP: Overview OP: Context OP: Policies and systems OP: Safety, health and security OP: Safety and health at Nestlé	
Training and education	●	OP: Overview OP: Context OP: Policies and systems OP: Training and learning	
Diversity and equal opportunity	●	OP: Overview OP: Context OP: Policies and systems OP: Diversity	
Equal remuneration for women and men	●	OP: Overview OP: Context OP: Policies and systems OP: Diversity	
DMA HR		Disclosure on Management Approach HR	
Aspect	Reported	Cross-reference/Direct answer	
Investment and procurement practices	●	RD: Overview RD: Our Systems RD: Implementing the Nestlé Supplier Code RD: Promoting human rights among our suppliers OP: Human rights – Assigning organisational responsibilities OP: Human rights – Performance and initiatives	



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Aspect	Reported	Cross-reference/Direct answer
Non-discrimination	●	<p>OP: Overview</p> <p>OP: Context</p> <p>OP: Policies and systems</p> <p>OP: Human rights – Performance and initiatives</p> <p>CBC</p> <p>OP: Human rights – Assigning organisational responsibilities</p>
Freedom of association and collective bargaining	●	<p>RD: Our Systems</p> <p>OP: Overview</p> <p>OP: Context</p> <p>OP: Policies and systems</p> <p>OP: Labour practices</p> <p>OP: Labour practices – Performance and challenges</p> <p>OP: Human rights – Assigning organisational responsibilities</p>
Child labor	●	<p>RD: Our Systems</p> <p>RD: Tackling child labour</p> <p>RD: Improving social conditions</p> <p>OP: Overview</p> <p>OP: Context</p> <p>OP: Policies and systems</p> <p>OP: Human rights – Performance and initiatives</p> <p>OP: Human rights – Assigning organisational responsibilities</p>
Prevention of forced and compulsory labor	●	<p>RD: Our Systems</p> <p>RD: Promoting human rights among our suppliers</p> <p>RD: Implementing the Nestlé Supplier Code</p> <p>OP: Overview</p> <p>OP: Context</p> <p>OP: Policies and systems</p> <p>OP: Human rights – Performance and initiatives</p> <p>OP: Human rights – Assigning organisational responsibilities</p>
Security practices	●	<p>OP: Context</p> <p>OP: Policies and systems</p> <p>OP: Safety, health and security</p> <p>OP: Human rights – Assigning organisational responsibilities</p>



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Aspect	Reported	Cross-reference/Direct answer
Indigenous rights	●	RD: Community Engagement OP: Human rights – Assigning organisational responsibilities
Assessment	●	OP: Overview OP: Policies and systems OP: Human rights – Identifying and managing human rights risks OP: Human rights – Assessing and addressing human rights impacts OP: Human rights – Assigning organisational responsibilities
Remediation	●	OP: Overview OP: Policies and systems OP: Human rights – Assessing and addressing human rights impacts OP: Human rights – Assigning organisational responsibilities

DMA SO	Disclosure on Management Approach SO	Aspect	Reported	Cross-reference/Direct answer
		Local communities	●	RD: Overview RD: Context and Challenges RD: Our Systems RD: Community Engagement RD: Rural development impacts of our factories RD: Factory impact survey
		Healthy and affordable food	●	N: Overview N: Context N: Our systems N: Our global R&D N: Combining taste and better nutrition N: Nutrition policies N: Understanding nutrition is everybody's business at Nestlé N: Nestlé's Portion Guidance® programme N: Micronutrient deficiencies: addressing the global burden N: Popularly Positioned Products N: Maternal and Infant nutrition N: Nutrition for the elderly



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Aspect	Reported	Cross-reference/Direct answer
Corruption	●	OP: Overview OP: Context OP: Policies and systems OP: Anti-corruption OP: CARE Audit Programme CBC
Public policy	●	CSV: Public Policy and Engagement W: Public policy engagement
Anti-competitive behavior	●	NCBP CBC AR: Corporate Governance and Compliance
Compliance	●	AR: Corporate Governance and Compliance

DMA PR Disclosure on Management Approach PR

Aspect	Reported	Cross-reference/Direct answer
Customer health and safety	●	N: Overview N: Our systems C: Product safety
Product and service labelling	●	N: Overview N: Our systems N: Nestlé's Portion Guidance® programme N: Consumer information
Marketing communications	●	N: Overview N: Our systems C: Responsible advertising and marketing C: Advertising to children C: Infant food marketing N: Consumer information ES: Communicating environmental information
Customer privacy	●	C: Consumer privacy
Compliance	●	AR: Corporate Governance and Compliance

DMA AW Disclosure on Management Approach AW

Aspect	Reported	Cross-reference/Direct answer
Breeding and genetics	○	RD: Animal welfare
Animal husbandry	○	RD: Animal welfare
Transportation, handling and slaughter	○	RD: Animal welfare

Nestlé raises animals as part of a small test farm setting, and does not process any animals. We do not consider the disclosure to be material in its current state, however we will be considering alternative ways of reporting this indicator in future in a way that more material to the business as we develop our Responsible Sourcing Guidelines for animal welfare. More context available in the Meat and fish/Animal Welfare section.



Performance Indicators

Sourcing

FP1	Percentage of purchased volume from suppliers compliant with company's sourcing policy.		RD: Implementing the Nestlé Supplier Code
FP2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard.		RD: Implementing the Nestlé Supplier Code

We provide information on spend and some volumes purchased to give a representation of scale, but are unable to report the details due to commercial sensitivities.

Economic

Economic performance

EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.		<p>AR: Financial Review (p30–47)</p> <p>CFS</p> <p>RD: Rural Development impacts – Factory impact survey</p> <p>Contextual information is provided on community investments, but community spend is not systematically collected across all Nestlé markets. This information will be collected and reported for the 2013 CSV report, which will be available in March 2014.</p>
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.		<p>ES: Climate Change</p> <p>CDP submission (http://www.Nestlé.com/Common/NestléDocuments/Documents/Creating%20Shared%20Value/Performance/CDP_Investor_2011_Final.pdf)</p>
EC3	Coverage of the organization's defined benefit plan obligations.		CFS: Employee benefits (p82–84)
EC4	Significant financial assistance received from government.		<p>CSV: Public Policy and engagement</p> <p>Based on existing information, we do not currently receive significant financial assistance from government that would materially affect our position. However, we will be further developing our data collection processes for reporting in the 2013 CSV report, which will be available in March 2014.</p>

Market presence

EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.		
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.		RD: Rural development impacts of our factories – Local manufacturing commitment
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.		OP: Training and learning

Indirect economic impacts

EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.		RD: Farmer programmes As per EC1, community investment spend is not systematically collected across Nestlé operations. This information will be provided in the 2013 CSV report, which will be available in March 2014.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.		RD: Rural development impacts of our factories RD: Factory impact survey RD: Community engagement

Environmental

Materials

EN1	Materials used by weight or volume.		RD: Sourcing overview ES: CEPI
EN2	Percentage of materials used that are recycled input materials.		ES: Packaging optimisation ES: CEPI

Energy

EN3	Direct energy consumption by primary energy source.		ES: CEPI ES: Overview ES: Improving energy efficiency
EN4	Indirect energy consumption by primary source.		ES: CEPI ES: Overview
EN5	Energy saved due to conservation and efficiency improvements.		ES: Improving energy efficiency
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.		ES: Expanding renewable energy use ES: Life Cycle approach
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.		ES: Improving energy efficiency

Water

EN8	Total water withdrawal by source.	●	ES: CEPI W: Performance
EN9	Water sources significantly affected by withdrawal of water.	○	
EN10	Percentage and total volume of water recycled and reused.	○	

Biodiversity

EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	ES: CEPI ES: Biodiversity – Impacts and response
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	●	ES: Biodiversity – Impacts and response
EN13	Habitats protected or restored.	●	ES: Biodiversity – Impacts and response
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	●	ES: Biodiversity – our approach ES: Biodiversity – Impacts and response
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	○	

Emissions, effluents and waste

EN16	Total direct and indirect greenhouse gas emissions by weight.	●	ES: CEPI ES: Mitigating GHG emissions
EN17	Other relevant indirect greenhouse gas emissions by weight.	●	ES: Overview ES: Mitigating GHG emissions
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	ES: Partnering on climate change ES: Mitigating GHG emissions ES: Moving to Natural Refrigerants ES: Improving energy efficiency ES: Expanding renewable energy use
EN19	Emissions of ozone-depleting substances by weight.	●	ES: CEPI ES: Overview
EN20	NO _x , SO _x , and other significant air emissions by type and weight.	●	ES: CEPI ES: Overview
EN21	Total water discharge by quality and destination.	●	ES: CEPI W: Performance
EN22	Total weight of waste by type and disposal method.	●	ES: CEPI ES: Waste and recovery
EN23	Total number and volume of significant spills.	●	ES: CEPI ES: Overview



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EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	○
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	○

Products and services

EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	ES: Life cycle approach
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	●	ES: Packaging optimisation

Compliance

EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	ES: CEPI CFS: Note 12 – Provisions and contingencies (p90–91)
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Transport

EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	ES: Transport and distribution
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Overall

EN30	Total environmental protection expenditures and investments by type.	○
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Labour Practices and Decent Work

Employment

LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	●	OP: Overview OP: Diversity
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	●	OP: Diversity
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	○	
LA15	Return to work and retention rates after parental leave, by gender.	◐	OP: Training and learning – Initiatives Consolidated information for all markets will be reported in the 2012 CSV report, which will be available in March 2013.



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Labor/management relations

LA4	Percentage of employees covered by collective bargaining agreements.	●	OP: Labour practices – Performance and challenges
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	●	OP: Labour practices – Performance and challenges
FP3	Percentage of working time lost due to industrial disputes, strikes and/or lock-outs, by country.	●	OP: Labour practices – Performance and challenges

Occupational health and safety

LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	○	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	◐	OP: Safety and health at Nestlé – Performance Nestlé does not currently report occupational health and safety metrics by gender because it is not seen as material. Absenteeism is reported as “sickness absence” and in the 2012 CSV report, Nestlé will introduce a new standardised definition. Total Recordable Injury Frequency Rate and Lost Time Injury Frequency Rate are rates of combined injuries and occupational illnesses, and we plan to separate the injury rate and occupational illness rate starting in the 2013 CSV report, which will be available in March 2014.
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	OP: Workplace wellness OP: Safety and health at Nestlé – Initiatives
LA9	Health and safety topics covered in formal agreements with trade unions.	○	

Training and education

LA10	Average hours of training per year per employee by gender, and by employee category.	◐	OP: Training and learning Consolidated information for all markets will be reported in the 2012 CSV report, which will be available in March 2013.
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	◐	OP: Training and learning OP: Training and learning – Initiatives Information on career endings is not included in the current internal reporting systems. We aim to address this in the future.
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	○	



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Diversity and equal opportunity

LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.		OP: Diversity CGR: Board of Directors (p6) Employees are not separated out by minority groups due to privacy concerns in some of our markets.
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Equal remuneration for women and men

LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.		OP: Diversity We will be assembling relevant data through our salary review tool to cover basic salary and remuneration by gender of middle management and professional administrative staff, to be reported upon in the 2012 CSV report, which will be available in March 2013.
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Human Rights

Investment and procurement practices

HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.		OP: Human rights – Performance and initiatives
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.		RD: Promoting human rights among our suppliers
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.		OP: Policies and systems OP: Human rights in our business activities OP: Human rights – Performance and initiatives

Non-discrimination

HR4	Total number of incidents of discrimination and corrective actions taken.		OP: Human rights – Performance and initiatives
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Freedom of association and collective bargaining

HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.		RD: Promoting human rights among our suppliers OP: Labour practices – Performance and challenges
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Child labor

HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.		OP: Human rights – Performance and initiatives RD: Tackling Child Labour RD: Improving social conditions
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Forced and compulsory labor

HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	●	RD: Promoting human rights among our suppliers OP: Human rights – Performance and initiatives
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Security practices

HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	○	
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Indigenous rights

HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	○	
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Assessment

HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	●	OP: Human rights – Identifying and managing human rights risks
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Remediation

HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	○	OP: Human rights – Performance and initiatives We have undertaken significant work in terms of assessing Human Rights in our operations and supply chain. Detailed reporting process for Human Rights grievances filed, addressed, and resolved, are being implemented and data will be reported upon in the 2012 CSV report, which will be available in March 2013.
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Society

Local communities

SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	◐	RD: Community engagement We have provided contextual information for this indicator, with data collection systems being implemented to allow full reporting in the 2012 CSV report, which will be available in March 2013.
SO9	Operations with significant potential or actual negative impacts on local communities.	●	RD: Community engagement
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	●	RD: Community engagement



Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
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Healthy and affordable food

FP4	Nature, scope and effectiveness of any programs and practices (in-kind contributions, volunteer initiatives, knowledge transfer, partnerships and product development) that promote healthy lifestyles; the prevention of chronic disease; access to healthy, nutritious and affordable food; and improved welfare for communities in need.	●	N: Overview N: Micronutrient deficiencies: addressing the global burden N: Popularly Positioned Products N: Healthy Kids Programme
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Corruption

SO2	Percentage and total number of business units analysed for risks related to corruption.	●	OP: Anti-corruption Nestlé has conducted a review of approximately 80 per cent of the markets it operates in for corruption. In addition the company has identified 50 countries/markets as high risk for corruption (based on generally available statistics by external bodies). We have conducted interviews with representatives from those markets.
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	○	OP: Anti-corruption We address corruption through our Code of Conduct and specific training in high risk countries. However, we are currently developing data collection processes and systems for determining training metrics and data will be reported in the 2012 CSV report, which will be available in March 2013.
SO4	Actions taken in response to incidents of corruption.	◐	OP: Anti-corruption

Public policy

SO5	Public policy positions and participation in public policy development and lobbying.	◐	CSV: Public Policy and Engagement W: Public policy engagement For the 2012 CSV report to be released in March 2013, we commit to improving alignment across functions and markets of Nestlé positions, building on an improved public policy database. We also commit to building on the process started under FTSE4Good of making public our key policies. In 2011, we made public policies in the areas of Human Rights, Supply Chain and Infant Formula and this will continue. In our role with industry associations we will continue to argue for transparency of positions taken.
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	○	



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

SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.		
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Compliance

SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.		CFS: Note 12 – Provisions and contingencies (p90–91)
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Product Responsibility

Customer health and safety

PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.		N: Nutritional profiling ES: Life cycle approach ES: Applying eco-design
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PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		C: Product safety CSV: Key performance indicators
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FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards.		C: Product safety
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FP6	Percentage of total sales volume of consumer products, by product category, that are lowered in saturated fat, trans fats, sodium and sugars.		N: Overview N: Nutrition Policies We are currently assembling the recipe management system to meet these indicators. The data will be reported in the 2013 CSV report, which will be available for March 2014.
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FP7	Percentage of total sales volume of consumer products, by product category sold, that contain increased fiber, vitamins, minerals, phytochemicals or functional food additives.		N: Overview N: Nutrition Policies We are currently assembling the recipe management system to meet these indicators. The data will be reported in the 2013 CSV report, which will be available for March 2014.
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Product and service labelling

PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.		N: Consumer information ES: Life cycle approach
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FP8	Policies and practices on communication to consumers about ingredients and nutritional information beyond legal requirements.		N: Consumer information
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Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
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PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	C: Responsible advertising and marketing C: Advertising to children C: Infant food marketing
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	○	

Marketing communications

PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	C: Responsible advertising and marketing C: Advertising to children C: Infant food marketing
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	C: Responsible advertising and marketing C: Infant food marketing

Customer privacy

PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	○	
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Compliance

PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	CFS: Note 12 – Provisions and contingencies (p90-91)
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Animal welfare

Breeding and genetics

FP9	Percentage and total of animals raised and/or processed, by species and breed type.	●	RD: Animal welfare
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Animal husbandry

FP10	Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic.	○	RD: Animal welfare
FP11	Percentage and total of animals raised and/or processed, by species and breed type, per housing type.	○	RD: Animal welfare
FP12	Policies and practices on antibiotic, anti-inflammatory, hormone, and/or growth promotion treatments, by species and breed type.	○	RD: Animal welfare

Nestlé raises animals as part of a small test farm setting, and does not process any animals. We do not consider the disclosure to be material in its current state, however we will be considering alternative ways of reporting this indicator in future in a way that more material to the business as we develop our Responsible Sourcing Guidelines for animal welfare. More context available in the Animal Welfare section.



- Creating Shared Value at Nestlé
- Nutrition
- Rural development
- Water
- Environmental sustainability
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Transportation, handling and slaughter

FP13	Total number of incidents of non-compliance with laws and regulations, and adherence with voluntary standards related to transportation, handling, and slaughter practices for live terrestrial and aquatic animals.	<input type="radio"/>	RD: Animal welfare Nestlé raises animals as part of a small test farm setting, and does not process any animals. We do not consider the disclosure to be material in its current state, however we will be considering alternative ways of reporting this indicator in future in a way that more material to the business as we develop our Responsible Sourcing Guidelines for animal welfare. More context available in the Animal Welfare section.
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Abbreviations:

- AR:** Annual Report 2011
- CBC:** Code of Business Conduct
- CFS:** Consolidated Financial Statements of the Nestlé Group
- CGR:** Corporate Governance Report 2011
- CSV:** Creating Shared Value at Nestlé
- NCBP:** Nestlé Corporate Business Principles
- RD:** Rural development
- N:** Nutrition
- W:** Water
- ES:** Environmental sustainability
- OP:** Our people
- COM:** Nestlé corporate website
- C:** Compliance

Key:

- Fully
- Partially
- Not



Assurance statement

To: The Stakeholders of Nestlé S.A

Introduction and objectives of work

Bureau Veritas has been engaged by Nestlé S.A. (Nestlé) to provide independent assurance over the Creating Shared Value (CSV) content and performance data published on the Nestlé website [www.nestle.com/CSV]. The overall aim of this process is to provide reassurance to Nestlé's stakeholders that the reported CSV information is accurate, reliable and objective and covers the issues material to the business.

Scope of work

The assurance process was conducted in line with the requirements of the AA1000 Assurance Standard (2008) Type 2¹ assurance. The scope of work included a review of CSV activities and performance data over the reporting period January 1st to December 31st 2011. Specifically, this included the provision of assurance over:

- i) Selected information and performance data in the CSV pages of the Nestlé website [www.nestle.com/CSV]; and
- ii) Nestlé's reporting against the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines, at the A+ application level.

We applied a **moderate**² level of assurance to the reported information. Information and performance data subject to assurance is clearly indicated by the inclusion of the following statement on individual web pages: *"The content of this page was externally assured by Bureau Veritas, March 2012."*

Opinion and commentary

In our opinion, the content of the CSV pages of the Nestlé website provides an accurate and objective account of Nestlé's performance on material issues during the reporting period.

Errors or misstatements identified during the engagement were corrected prior to the report being published. On this basis, the reported information is considered to be reliable and free from material misstatement. It is our opinion that the CSV information:

- i) adequately represents the material issues of the business;
- ii) provides a reliable account of CSV related information and performance activities during 2011;
- iii) meets the GRI 3.1 requirements for the A+ application level; and
- iv) adheres to the principles of inclusivity, materiality and responsiveness as outlined in the AA1000 Accountability Principles Standard 2008.

For our detailed methodology which explains the work undertaken to inform our opinion, please see '**Methodology**' below.

1 Type 2 Assurance: An assurance engagement in which the assurance provider gives findings and conclusions on the principles of Inclusivity, Materiality and Responsiveness and also verifies the reliability of specified reported sustainability performance information (AA1000AS (2008) Standard). For further information see www.accountability.org/standards/aa1000as.html

2 All relevant text was supported by interview evidence as a minimum, and supported by corroborating interview evidence or another source wherever possible. A moderate level of assurance is commensurate with "limited" assurance as defined in the ISAE3000 assurance standard.



Positive Developments

We are pleased to observe progress in the following areas:

- The presentation and discussion on material issues has been expanded to provide stakeholders with more information and detail across a wider and more specific range of identified issues;
- The creation of the Traceability Programme and Responsible Sourcing Guidelines for 12 key commodities is a key development in ensuring suppliers of key raw materials are aligned with Nestlé's stated policy commitments. Furthermore, we believe that the model of working with civil society partners (e.g. The Forest Trust) in delivering this programme demonstrates how Nestlé is increasingly listening and responding to stakeholder concerns.
- Nestlé has improved its understanding of the risks and opportunities that CSV presents through progressing with a comprehensive series of risk assessments during the reporting year. Work completed to understand the impact of its operations in the context of human rights, communities, biodiversity and water scarcity are all positive developments. We are also encouraged by evidence that learning from these assessments are being incorporated into existing corporate governance and risk management processes.

Key observations and recommendations for 2011

- Nestlé has produced a comprehensive report for 2011 covering its key material issues and their management. However, more information could be provided to readers on the overall objectives and targets of the CSV strategy. Furthermore the transparency and balance of the reporting would be improved by increased disclosure of the challenges facing the business in delivering its CSV strategy, areas for improvement and lessons learned from CSV activities already in place.
- Nestlé has continued its ambitious approach to reporting on CSV activities across its diverse product and organisational footprint. Nestlé should review its strategic direction in CSV reporting to ensure that data collection and reporting processes are refined so it can meet its ambition.
- Whilst the achievement of the A+ level of disclosure for the GRI 3.1 Sustainability Reporting Guidelines should be commended, to continue reporting at this level it is critical that Nestlé enhance its internal reporting systems to allow for more comprehensive disclosure on certain Labour, Society and Human Rights indicators.
- The reporting against the Rural Development pillar within CSV is still largely based on case studies to demonstrate Nestlé activities and as such is relevant to a point in time. Stakeholders expect future reporting in this area to be more performance orientated and as such, Nestlé needs to focus its efforts in setting its overall objectives and developing a methodology to measure the impacts (and benefits) of its rural development projects on a comparable basis across its markets.
- As Nestlé continues to further expand its portfolio of health and wellness products and explore the link between food and pharmaceuticals, the use of animals within Nestlé's research activity and supply chain, and subsequently animal welfare, is likely to become an issue to which external stakeholders will expect further disclosure. Nestlé should consider providing more information on the internal processes for the management of this issue in future reporting.



Findings and conclusions concerning adherence relating to the AA1000 principles of Inclusivity, Materiality and Responsiveness and specified performance information.

Inclusivity³ – Nestlé engages with a range of key stakeholders including government officials, intergovernmental organisations, NGOs, charities and industry associations and has undertaken a number of formal stakeholder engagements in 2011. Nestlé is increasing its focus on the communities where it operates, therefore we encourage the business to continue its approach to open engagement with these groups. The future continuation and extension of its stakeholder engagement programme represents an opportunity for Nestlé to improve its understanding and quantification of the direct impacts of its CSV activities.

Materiality⁴ – The identification of material issues and the capturing of material concerns of stakeholders for the purposes of CSV reporting continues to be conducted on an annual basis. For 2011, the materiality determination process has improved and is now more forward-looking and includes wider societal concerns. Nestlé's materiality determination process could be further strengthened by greater interaction between the group's risk management framework, internal validation process and undertaking stakeholder engagement earlier in the annual reporting cycle.

Responsiveness⁵ - Nestlé's approach to responsiveness has improved. The views of key stakeholders are being listened to and considered, both in the development of this report and within internal governance processes for developing the CSV approach. Nestlé should ensure it provides a more timely and appropriate response to the issues raised by key stakeholders during engagement events to demonstrate its responsiveness and to encourage further dialogue.

Specified Performance Information – Nestlé gathers performance data for inclusion in the report through a variety of continual and annual data collection systems and processes. We consider the performance information presented in the CSV pages of the Nestlé website to be accurate.

Methodology

We undertook the following activities to inform our assurance engagement:

- interviewed over 50 personnel at various levels throughout the organisation. The majority of interviews were conducted at Nestlé's head office in Vevey, Switzerland and further follow-up conversations via telephone were held with representatives from other Nestlé entities worldwide;
- document reviews, data sampling and interrogation of supporting databases and associated reporting systems as they relate to selected content and performance data in the CSV pages of the Nestlé website;
- reviewed a selection of external media reports relating to Nestlé and the food sector to evaluate the coverage of topics within the CSV pages of the Nestlé website;

3 **Inclusivity** is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

4 **Materiality** is determining the relevance and significance of an issue to an organisation and its stakeholders.

5 **Responsiveness** is the extent of an organisation's response to stakeholder issues and is realised through decisions, actions and communication with stakeholders.



- attended, as observers, the stakeholder convening held in London in October 2011. Prior to attendance we also met with AccountAbility, the convening facilitators to review the methodology for the selection of participants;
- reviewed the AccountAbility report to Nestlé which summarised the outcomes from the stakeholder convening's held in London and New Delhi;
- reviewed the materiality analysis undertaken by SustainAbility, Nestlé's independent advisors and the outputs provided to Nestlé; and
- evaluated Nestlé's public disclosures against the G3.1 Sustainability Reporting Guidelines. This included cross checking the content of the GRI index table against corresponding weblinks.

Exclusions and Limitations

Excluded from the scope of our work is information relating to:

- Activities outside the defined reporting period or scope;
- Company position statements (including any expression of opinion, belief, aspiration, expectation, aim or future intent);
- Historic text which was unchanged from previous years and did not relate to ongoing activities;
- Financial data which is taken from Nestlé's Annual Report and Accounts, audited by an external financial auditor;
- Content of external websites or documents linked from within www.nestle.com/CSV pages; and,
- Country or business unit specific CSV reports of other Nestlé entities or joint ventures.

This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist within the Report. The scope of our work was defined and agreed in consultation with Nestlé. Our work covers global operations and relies upon the accurate collation of global information at Nestlé head office in Vevey, Switzerland.

Responsibilities

The preparation, presentation and content of the 2011 Creating Shared Value pages of Nestlé's website is the sole responsibility of Nestlé. The responsibility of Bureau Veritas is to provide independent assurance to stakeholders on the accuracy, reliability and objectivity of the information therein, and to express our overall opinion as per the scope of assurance engagement defined in this statement.

Bureau Veritas recognises the need for a robust, transparent assurance process to ensure credibility and to act as a tool to drive performance improvement in Nestlé's CSV reporting and strategy. This is achieved by providing an impartial commentary on the reporting process and recommendations for further development in this assurance statement, and in an internal management report presented to Nestlé.



Statement of Bureau Veritas Independence, Impartiality and Competence

Bureau Veritas is an independent professional services company that specialises in quality, environmental, health, safety and social accountability with over 180 years history in providing independent assurance services, and an annual turnover in 2011 of €3.35 billion euros.

Bureau Veritas has implemented a Code of Ethics across its business which ensures that all our staff maintains high standards in their day to day business activities. We are particularly vigilant in the prevention of conflicts of interest.

Bureau Veritas has a number of existing commercial contracts with Nestlé. Our assurance team does not have any involvement in any other projects with Nestlé outside those of an independent assurance scope and we do not consider there to be a conflict between the other services provided by Bureau Veritas and that of our assurance team.

Our assurance team completing the work for Nestlé has extensive knowledge of conducting assurance over environmental, social, health, safety and ethical information and systems, and through its combined experience in this field, an excellent understanding of good practice in corporate responsibility reporting and assurance. The work has been led and reviewed by lead assurers.



London, March 2012

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 and thereby material to the Company. With the exception of the section below on Bottled Water, this page is authored by SustainAbility.

Based in part on a media and competitive scan, SustainAbility identified global megatrends, assessed their relevance to our CSV focus areas and economic, environmental and social issues, and prioritised issues on a materiality matrix based on level of stakeholder concern and level of potential impact on Nestlé. Following internal validation of this work, key topics were discussed with external stakeholders in Autumn 2011 as part of our regular engagement processes (see Stakeholder Engagement).

Megatrends

SustainAbility identified the following megatrends as particularly important for Nestlé: resource constraints, economic uncertainty, demographic shifts (including urbanisation, ageing and the rise of middle-class consumers), health and wellness, climate change, and continuing technological developments.

Materiality

SustainAbility's analysis, along with the stakeholder convenings in New Delhi and London, identified a number of issues that are new and/or rising in importance for Nestlé compared to previous years. The highest-priority issues are highlighted by SustainAbility as follows:

The growing number of product recalls means **product safety** continues to be a top concern for Nestlé and the food and beverage industry. **Water**, and its complex links to food, energy and a range of other social, environmental and economic issues, continues to rise on the agenda. While **climate change mitigation** remains a central concern, stakeholder interest in **climate change adaptation** is rising as the effects of climate change begin to make themselves felt, particularly in rural communities. Given rising obesity, unemployment and poverty in many regions, the **affordability and accessibility** of healthful foods are becoming specific targets for industry initiatives and stakeholder concern in Europe, the US and India, to name three regions. Ten years after the signing of the Harkin-Engel Protocol aimed at ending child labour in the production of cocoa, **supplier human rights** remains a key and growing area of stakeholder interest across a wide range of agricultural and other sectors. Finally, general **resource availability** is taking centre stage as raw material prices and commodity volatility reach unprecedented levels and supply appears to be becoming more inelastic.

SustainAbility's analysis of issues, prioritised according to level of impact on Nestlé and level of stakeholder concern, is available in the materiality matrix.



Bottled water

In addition to SustainAbility's analysis above, we monitor and engage with a wide range of stakeholders, and recognise that some have been concerned about the perceived impact of the bottled water industry on the human right to water and on the environment.

Despite Nestlé Waters' status as the worldwide leader in bottled water, we use 0.0009% of global estimated freshwater withdrawals. We use water not only in the bottle itself but also in industrial processes, including cleaning and cooling, and depend on a reliable supply of water in sufficient quantity and consistent quality to ensure the long-term success of our business. Our vision is to provide good-quality products where consumers expect to find them and to play a leading role in promoting healthy hydration.

We are therefore deeply aware of how precious water is and are committed to responsible water management, which we base on three main approaches. First, we continuously monitor the status of each of the sources we operate. Second, we carry out risk assessments and put measures in place to safeguard sources against any potential risks. The third main approach is that we optimise the water used during production on a continuous basis. Going further, Nestlé Waters shares its expertise and best practices in water resource management with stakeholders in the local communities in which we operate. We are equally committed to educating children, the water stewards of the future, about the importance of water for the environment and the role of water in healthy hydration.



Materiality matrix

This matrix shows issues that are most material to Creating Shared Value (CSV) at Nestlé. It is based on research by SustainAbility, who analysed global megatrends and issues, and economic, environmental and social topics of most relevance to Nestlé and our stakeholders.

These topics were mapped and prioritised according to level of stakeholder concern and level of potential impact on Nestlé. Following internal validation of this work, key topics were discussed with external stakeholders in Autumn 2011, as part of our regular stakeholder engagement processes.



Legend



Stakeholder engagement

Engaging with our stakeholders underpins Creating Shared Value, enabling us to identify emerging issues, shape our responses and continue to drive performance improvements.

Topics raised by our stakeholders and discussed with them in a variety of local and international forums include: nutrition, health and wellness – education and access; Nestlé’s role in public policy issues; auditing and disclosure of infant formula marketing practices; and food safety. Read about our 2011 Stakeholder convenings.

Stakeholder group	How we engage	Purpose	Frequency
<ul style="list-style-type: none"> Global business leaders NGOs Academics International organisations Government officials 	CSV Forum series	To share fresh thinking on how businesses, NGOs and governments can work together to close the gap between commercial needs and development goals.	First CSV Forum held in New York in 2009, second held in London in November 2010. Both held in conjunction with the UN Office for Partnerships. Third forum held in Washington, DC in May 2011 in partnership with the Atlantic Council.
<ul style="list-style-type: none"> Experts from social and environmental areas relevant to Nestlé 	Stakeholder convening events held in various countries where we have operations.	To communicate our approach and invite feedback on our CSV efforts and plans.	Washington DC, 2008; Geneva and Kuala Lumpur, 2009; London and New Delhi, 2011.
<ul style="list-style-type: none"> Farmers Traders Key processors 	The Sustainable Agriculture Initiative at Nestlé (SAIN).	To support farmers and promote sustainable development in agriculture worldwide.	SAIN is an ongoing initiative that celebrated its ten-year anniversary in 2011.

We also engage with our stakeholders through global and national networks – for example:

- the independent Nestlé Foundation for the Study of Problems of Nutrition in the World, the Nestlé Nutrition Institute and the Nestlé Nutrition Council;
- forums including the International Food and Beverage Alliance, the Consumer Goods Forum, the European Food Sustainable Consumption and Production Round Table;
- multi-stakeholder collaborations focused on the supply chain including the International Cocoa Initiative, the Common Code for the Coffee Community, and the Round Table on Sustainable Palm Oil (RSPO);
- charitable organisations including the International Federation of Red Cross and Red Crescent Societies;
- platforms for transparent reporting, benchmarking and development of standards, including Carbon Disclosure Project (CDP) Water Project and the Alliance for Water Stewardship.

For further details, please see Memberships.



Stakeholder convenings

Regular stakeholder convenings form an important part of our engagement processes in combination with our Creating Shared Value (CSV) Forum series.

In 2011, we held stakeholder convenings in London and New Delhi to discuss our CSV performance, understand stakeholder expectations and concerns, and discuss ideas for developing our CSV implementation strategy particularly in the areas of water, nutrition and rural development.

The convenings were facilitated by AccountAbility, and each was attended by more than 25 expert stakeholders including multi-lateral agencies, non-governmental organisations (NGOs), industry associations, government representatives, academics, investors and social entrepreneurs.

These convenings followed on from those previously organised in Washington DC in 2008, and Geneva and Kuala Lumpur in 2009.

Stakeholders were supportive of the overall CSV approach and were highly complimentary about the spirit in which the convenings were conducted. There was a wide-ranging discussion of relevant issues and specific areas of concern were highlighted by stakeholders, including:

- the growing importance of climate change adaptation strategies;
- the increasing challenges of both obesity and under-nutrition;
- the depletion of soil health and biodiversity from poor land management;
- the loss of skills and knowledge in farming communities as low incomes drive people away from the sector;
- increasing water stress and water scarcity driven by climate change, over-consumption of water and poor water management;
- competition for agricultural land and for water resources from biofuels;
- the enduring problem of child labour and its connection to broader needs in respect of community development and access to education; and
- insufficient attention given to supporting the vital role of women in agriculture.

According to AccountAbility's summary of the convenings, in respect of the topic of infant formula marketing, stakeholders were impressed by the leadership Nestlé is showing in the industry, but felt that the Company still needs to do more to restore trust.

Specifically, it was suggested that Nestlé build on FTSE4Good and look at establishing an ongoing system for the disclosure and independent, external auditing of infant formula marketing practices with the involvement of suitable, reputable international organisations.



Stakeholders also made a number of recommendations on improving the overall strategic CSV approach, including the following suggestions:

- extend the Company's collaboration with civil society and government players;
- provide greater disclosure in respect of forward-looking CSV targets;
- share learnings more actively;
- take a more active lead on public policy issues;
- undertake more community engagement;
- do more to positively influence consumer behaviour;
- provide more senior management participation in future convenings; and
- integrate stakeholder engagement more widely across the businesses.

We value all suggestions and recommendations as part of developing our CSV approach for the future.

CSV Forum 2011

Nutrition, Water and Rural Development 2030: the Changing Role of Business

On May 19, 2011, we hosted our third Creating Shared Value Forum in Washington, D.C. in the United States, in partnership with the Atlantic Council.

The Forum provided a platform for global business leaders and top government officials to offer fresh thinking on how businesses and governments can work together to close the gap between commercial needs and development goals.

Panel discussions explored the opportunities, obstacles, and future directions in nutrition, water and rural development in Latin America and Africa. Furthermore, another panel session outlined a way forward for businesses, governments and development up to 2030.

Our Chairman, Peter Brabeck-Letmathe (above), emphasised the role of business in a changing global context, and said: "Development flourishes when companies act in a socially responsible way. Making your products responsible, respecting the environment and improving peoples' lives delivers growth and development."

CSV Forum in the news

Ahead of the Forum, Mr Brabeck-Letmathe spoke to Fox News and CNBC in the United States about Nestlé and Creating Shared Value.

Forum highlights

A selection of video highlights from the Forum are available to watch here.

The five Forum sessions can also be downloaded in full as individual audio podcasts or video podcasts from our media library.

Event Programme

9:00-9:05 | Welcome and description of the Forum.

9:05-9:45 | Creating Shared Value: The Role of Business in a Changing Global Context

Panellists:

- Peter Brabeck-Letmathe, Chairman, Nestlé S.A.
- Frederick Kempe, President and CEO, Atlantic Council



WORKING TOGETHER: Nestlé Chairman Peter Brabeck-Letmathe highlighted the role of business in a changing global context.

**9.45-11.45 | Panel Discussion: Creating Shared Value in Latin America: Opportunities, Obstacles, and Future Directions in Nutrition, Water, Rural Development**

Panellists:

- Peter Brabeck-Letmathe, Chairman, Nestlé S.A.
- Carlos Fernández Gonzáles, CEO, Grupo Modelo
- Julio Frenk, Dean, Harvard School of Public Health, Former Minister of Health (Mexico)
- Luis Alberto Moreno, President, Inter American Development Bank (IADB)
- Ernesto Zedillo, Former President, Mexico and Director, Center for Globalization, Yale University
- *Moderator:* Maria Cattai

13:00-14:45 | Creating Shared Value and the Case of Africa: Opportunities, Obstacles, and Future Directions in Nutrition, Water, Rural Development

Panellists:

- Paul Bulcke, CEO, Nestlé S.A.
- Ruth Oniang'o, Professor of Food Science and Nutrition at Jomo Kenyatta University of Agriculture and Technology
- Clive Tasker, CEO, Standard Bank Africa
- Ajay Vashee, President, International Federation of Agricultural Producers (IFAP)
- *Moderator:* Maria Cattai

14:45-16:30 | Looking to 2030: The Way Forward for Business, Government, and Development

Panellists:

- Peter Brabeck-Letmathe, Nestlé S.A.
- Michael Porter, Professor, Harvard Business School
- Lars Thunell, CEO, International Finance Corporation (IFC)
- Ann Veneman, Former Executive Director, UNICEF; Former US Secretary of Agriculture
- Julie Howard, Deputy Coordinator for Development USAID; Director, Feed the Future
- *Moderator:* Maria Cattai

16:30 | General Conclusions and Lessons learned

Panellists:

- Paul Bulcke, Nestlé S.A, CEO
- Chuck Hagel, Former US Senator; Chairman, Atlantic Council



Memberships

A small selection of our memberships are listed below. These and others at local, national and global level help us to learn from others, share experiences, and enhance our approach to Creating Shared Value. For information on Nestlé's approach to transparent interaction, please see Public policy and engagement.

UN Global Compact LEAD

The UN Global Compact (UNGC) LEAD, of which Nestlé is a member, is designed to challenge highly engaged companies in the UNGC to reach further.

UN Global Compact CEO Water Mandate

Nestlé is a founding signatory of the UN Global Compact CEO Water Mandate, a unique private-public initiative in which approximately 87 companies, including Nestlé, support water disclosure, public policy engagement and the human right to water.

Water Footprint Network

The mission of the Water Footprint Network, founded in 2008, is to promote the transition towards sustainable, fair and efficient use of fresh water resources worldwide.

Alliance for Water Stewardship

As a participant in the Alliance for Water Stewardship (AWS), we are working with others towards establishing a voluntary certification programme.

Fair Labor Association (FLA)

In 2011, Nestlé began working with the FLA (a non-profit multi-stakeholder initiative) on the hazelnut supply chain in Turkey. Also with the FLA, we are looking into child labour in the cocoa supply chain in Côte d'Ivoire. We became a formal member of the FLA in 2012.

The Forest Trust

In 2010, Nestlé entered into a partnership with The Forest Trust (TFT), a global non-profit organisation whose main focus has been to provide solutions to the issue of deforestation. Nestlé is the first global consumer goods company to become a TFT member. We work together on palm oil and pulp and paper.

Roundtable on Sustainable Palm Oil

The Roundtable on Sustainable Palm Oil (RSPO) was formed in 2004 in response to the global call for sustainably produced palm oil. It aims to promote the growth and use of sustainable palm oil products through credible global standards and engagement of stakeholders.

Common Code for the Coffee Community

The Common Code for the Coffee Community (4C) is a non-profit, industry-wide initiative building on a voluntary code of conduct adopted by the coffee producers, traders, civil society and other stakeholder organisations.



International Cocoa Initiative

The International Cocoa Initiative (ICI), of which Nestlé is a founder member, works with the cocoa industry, civil society, and labour unions and governments. Although much remains to be done, ICI programmes have shown a way forward in combating issues of child labour and forced labour in cocoa-growing areas. Through the Nestlé Cocoa Plan Initiative we have committed to help ICI ensure that children in cocoa-growing communities are not exploited and have access to education.

International Food & Beverage Alliance

Through our membership of the International Food & Beverage Alliance (IFBA), a global group of food and non-alcoholic beverage companies, we share the common goal of helping consumers in all nations to achieve balanced diets and healthy lifestyles.

Consumer Goods Forum

The Consumer Goods Forum (CGF) is a global industry network that brings together the CEOs and senior management of over 650 retailers, manufacturers, service providers and other stakeholders across 70 countries. It is focused on advancing the industry through strategic priorities including sustainability.

International Business Leaders Forum

Nestlé is a member of the International Business Leaders Forum (IBLF), an independent members organisation working with leading multinational companies on the responsible business agenda. Its goal is 'inspiring business leaders to help build a sustainable world.'

Global Reporting Initiative

The Global Reporting Initiative's (GRI) guidelines inform Nestlé's approach as a best practice reporter in sustainability topics. Our Creating Shared Value report is aligned with the GRI G3.1 Guidelines and Food Processing Sector Supplement published in 2010.



Public policy and engagement

Working in collaboration with governments, authorities and other relevant bodies towards the development of public policies is an important responsibility.

Nestlé's principles on transparent interaction are based not only on what is good for the Company, but also for consumers and society, in line with our Creating Shared Value approach. Currently, subsidy funding from governments is not tracked, but in future years it will be.

Policy and systems

The Nestlé Policy on Transparent Interaction with Authorities and Organisations ensures that Nestlé employees assigned to conduct advocacy activities have a good understanding of transparent, responsible and professional interaction, and that accurate and consistent processes and procedures are implemented so that the public are reassured that lobbying is carried out professionally and with high standards.

In line with this policy, Nestlé is registered in the EU interest representation register and is committed to its code of conduct governing transparency and legitimacy in relations with EU institutions.

As required by United States law, Nestlé files quarterly publicly available reports with the US Congress that outline lobbying activities. To ensure compliance, in late 2009, Nestlé USA instituted a quarterly survey of employees asking them to report actions that may include either lobbying contacts or lobbying activities on behalf of the Company.

IFBA

Nestlé is a founding member of the International Food and Beverage Alliance (IFBA). Through the initiative, major food and non-alcoholic beverage manufacturers have committed to support the World Health Organization's (WHO) 2004 Global Strategy on Diet, Physical Activity and Health by taking action in five areas:

- reformulate and develop new products that support the goals of improving diets;
- provide easily understood nutrition information to all consumers;
- extend responsible advertising and marketing to children initiatives globally;
- raise awareness on balanced diets and increased levels of physical activity; and
- seek or promote public-private partnerships that support the WHO's Global Strategy.

On 19 September 2011, the first UN High Level Meeting on Non-communicable Diseases (NCDs) took place, with the IFBA providing a statement for one of the round tables. As part of the high-level meeting, Nestlé also participated in events arranged by The Global Health Council, the International Food Information Council Foundation, the Pan American Health Organization (PAHO), World Economic Forum (WEF), UN meeting on the Global Strategy for Women's and Children's Health, the UN Secretary General initiative, Every Woman, Every Child and the Global Business Council for Health.



PAHO initiative on salt reduction

In 2011, Nestlé participated in a Pan American Health Organization (PAHO) survey on industrial salt reduction, one of the organisation's multi-stakeholder projects. As well as providing detailed input, Nestlé signed a statement on 'Dietary Salt Reduction in the Americas' at a meeting in Rio de Janeiro, which was organised in partnership with the WEF.

EU Platform for Action on Diet, Physical Activity and Health

The EU Platform for Action on Diet, Physical Activity and Health brings together food manufacturers, organisations from the agricultural sector, retailers, caterers, advertisers, non-governmental organisations (NGOs), healthcare professionals and public authorities to commit to a range of activities including food labelling, advertising and marketing, reformulating products, modifying portion sizes and promoting healthy lifestyles.

Since the launch of the platform in 2005, Nestlé has been an active member through its membership of FoodDrinkEurope and the World Federation of Advertisers (WFA). The important commitment on advertising to children, the EU Pledge, of which Nestlé is also a member, takes place within the framework of WFA. More information can be found in the Responsible advertising and marketing section.

2030 Water Resources Group

Nestlé's Chairman, Peter Brabeck-Letmathe, is chair of the 2030 Water Resources Group. It has already started to test the group's water cost curve approach through pilot projects in India, Pakistan, South Africa, Jordan, Mexico and Mongolia.

World Economic Forum

We continue to engage with the World Economic Forum (WEF), an independent, international organisation committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas. At the WEF's annual meeting in Davos-Klosters in January 2011, Nestlé's Chairman, Peter Brabeck-Letmathe, discussed the topics of water security and the link between water, food and energy.

UN Global Compact CEO Water Mandate

As a founding signatory of the UN Global Compact CEO Water Mandate, we work with environmental organisations and other stakeholders on initiatives to support water disclosure, public policy engagement and the human right to water. We actively participate in the Mandate's working groups on these areas of engagement, and publish a public Communication on Progress every year. This is our Creating Shared Value Summary Report, which focuses on water.

World Water Week

For several years we have taken an active role in World Water Week in Stockholm, at which experts, practitioners, decision-makers and leaders from around the globe exchange ideas, foster new thinking and develop innovative solutions. During the week, the Stockholm Industry Water Award was presented to Nestlé in recognition of our improved management and efficiency of water use in our operations.

CSV Advisory Board

The Nestlé Creating Shared Value Advisory 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.

Its members, all internationally recognised experts in corporate strategy, nutrition, water and rural development, were appointed for three years to act as advisers to the Nestlé Chairman and CEO.

Nancy Birdsall is the 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 14 years in research, policy and management positions at the World Bank.

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.

Joachim von Braun is Director of the Center for Development Research (ZEF) and Professor of Economics and Technological Change at the University of Bonn. Dr Von Braun was previously Director General of the International Food Policy Research Institute (IFPRI), where he oversaw the Institute's highly recognised efforts to provide research-based sustainable solutions for ending hunger and malnutrition.

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."

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 non-governmental organisations (NGOs) to expand and strengthen national programmes through a combination of technical, operational and funding support.

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.

Irwin Rosenberg is the Professor of Physiology at the Friedman School of Nutrition Science & Policy at Tufts University. He is also the 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.

Ismail Serageldin, Director, Library of Alexandria, 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'Égypte, TWAS (Academy of Sciences of the Developing World), the Indian National Academy of Agricultural Sciences and the European Academy of Sciences and Arts.

Robert L. Thompson, Professor Emeritus of Agricultural Policy at the University of Illinois in Urbana-Champaign, is an international authority on agricultural development and international agricultural trade policy. He 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.

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 Organizing 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.

Ajay Vashee was, most recently, President of the International Federation of Agricultural Producers (IFAP), which represented farmers at the world level. Elected at the 38th IFAP World Farmers' meeting in June 2008, he was the first President from a developing country (Zambia).

Ann M. Veneman has a distinguished career in public service. Most recently, she served as Executive Director of UNICEF from May 2005 to April 2010; previously, she was US Secretary of Agriculture from 2001 to 2005. While at UNICEF, Veneman worked 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. In 2009, Veneman was named in the Forbes 100 Most Powerful Women list, ranking 46th. Veneman serves as co-Chair of Mothers Day Every Day, a bipartisan campaign to raise awareness and resources to improve the health of mothers and newborns globally.



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

The Nestlé Prize in Creating Shared Value (CSV) is awarded every other year to encourage and reward innovative projects in the areas of water, nutrition and rural development. It is open to individuals, governmental and non-governmental organisations, academia and social enterprises.

The Prize Laureate is selected by the Nestlé Creating Shared Value Advisory Board, and the winning entry benefits from an investment of up to CHF 500 000 (more than USD 540 000) to scale up its project.

The nominations for the 2012 Nestlé Prize in CSV have now closed and the Prize Laureate will be announced in November 2012.

Prize Winner 2010

In May 2010, International Development Enterprises (IDE) Cambodia won the inaugural Nestlé Prize in CSV for their Farm Business Advisors (FBA) programme. Through an innovative and market-based approach, the non-profit organisation has developed a network of FBAs – independent small rural entrepreneurs – who give technical advice while selling high-quality products to small-scale farmers. Between May 2010 and September 2011, IDE Cambodia leveraged the Nestlé Prize in CSV to recruit and train an additional 47 FBAs. More than 100 FBAs are now serving almost 13 000 farmers and have generated sales revenues of more than USD 215 000 (CHF 195 000).

In 2012, there will be an expansion of the FBA network in Cambodia, with approximately 140 FBAs being added. IDE will continue to adapt its successful FBA model in Ethiopia, Ghana and Mozambique, taking into account the experience and lessons learnt from Cambodia.

If you have further questions about the Nestlé Prize in CSV, please contact us at CSVPrize@nestle.com.



FARM BUSINESS ADVISOR: The first Nestlé Prize in Creating Shared Value was awarded to IDE Cambodia for its innovative approach to increasing agricultural productivity and income for Cambodian farmers.



About our reporting

Through our Creating Shared Value reporting, we aim to share information transparently about our long-term impact on society and how this is intrinsically linked to the creation of our long-term business success.

Our reporting history

We have issued global CSV reports every two years since 2007, and have now migrated to full online CSV reporting on an annual basis. This shows our progress against key performance indicators (KPIs) across our value chain and outlines the actions we have taken to address the main challenges facing our business. This year, we have also developed an interactive online tool enabling users to make comparisons between selected metrics and time periods.

Our 2011 focus: water

We supplement our online reporting with topic-specific printed summary reports concentrating on one of our three focus areas: nutrition, rural development and, in the case of 2011, water: Creating Shared Value Summary Report 2011.

Nestlé Waters, the global leader in bottled water, also reports in-depth on its own activities in its Creating Shared Value Report at www.nestle-waters.com.

Our wider communications

This full online Nestlé CSV report, the summary report and the case studies, audio content, videos and downloads (all available in the Creating Shared Value section of www.nestle.com), are companions to our 2011 Annual Report, which outlines our business and financial performance.

Together, they form an integral part of our overall communication on CSV performance and cover the UN Global Compact Advanced/LEAD Communication on Progress requirements.

Future reporting

Our objective is to increasingly align our external reporting with good-practice guidelines, such as the Global Reporting Initiative (GRI) G3.1 guidelines and the GRI Food Processing Sector Supplement, the development of which we were involved in. Our Chief Financial Officer participated as a member of the International Integrated Reporting Committee (IIRC), which was set up by The Prince's Accounting for Sustainability Project (A4S) and the GRI in August 2010.

Report boundary, scope and assurance

The information contained in this full online report and the Creating Shared Value Summary Report 2011 covers Nestlé's global operations for the year ending 31 December 2011, unless otherwise stated.

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 (excluding some recent acquisitions), and safety and health figures cover approximately 290 000 Nestlé employees (permanent and temporary), as well as approximately 80 000 contractors working on Nestlé sites.

Our CSV reporting is subject to independent third-party assurance by Bureau Veritas – please see assurance statement.

Data measurement

Nestlé has developed performance indicators to provide a focus for measuring and reporting Creating Shared Value, sustainability and compliance. Unless stated otherwise, performance indicators are for the year ending 31 December 2011.

Contact details

We hope you find this report engaging and informative, and welcome your input and views, which can be forwarded via this website.



We aim to provide our customers with food and beverages that not only taste delicious, but are also healthy and nutritious. To achieve this, we use science-based solutions to improve quality of life through food and diet, contributing to the health and wellbeing of consumers. We also aim to generate greater awareness, knowledge and understanding among consumers through clear, responsible communication.

Nutrition

We aim to provide our customers with food and beverages that not only taste delicious, but are also healthy and nutritious. To achieve this, we use science-based solutions to improve quality of life through food and diet, contributing to the health and wellbeing of consumers. We also aim to generate greater awareness, knowledge and understanding among consumers through clear, responsible communication.



Our global R&D

We have more than 5000 people involved in R&D across 32 research centres.



Tasty nutrition

We invest in better consumer understanding, product innovation and renovation to create nutritious, superior tasting food products.



Fortification

Thousands of our products provide people on lower incomes with affordable, nutritious food.



Infant nutrition

We help educate parents on the impact that simple dietary changes can have on the growth and development of their children.



For seniors

We work to enhance quality of life for those with special nutrition needs.



Education

We provide engaging information to consumers on various digital platforms to better support them in making informed diet and lifestyles choices.



Overview

Nutrition and Creating Shared Value

Value for Nestlé: deeper understanding of nutrition and health issues as well as fruitful collaborations with various stakeholders, both informing our innovation and renovation efforts, brand awareness and recognition; consumer loyalty; long-term enhanced growth, market share and profitability.

Value for society: greater access to safe, high-quality, responsibly produced, nutritious food; greater knowledge of health issues, better understanding of how to use Nestlé products as part of a healthy and enjoyable diet.

Context

As the world's leading Nutrition, Health and Wellness Company, we believe that our future lies in helping people to eat a healthier diet, whether the problem is deficiency in vitamins and minerals at one end of the spectrum, or obesity at the other.

Goals

Our nutrition, health and wellness strategy is based on the principle that consumer choice will increasingly be driven by nutritional awareness and the desire for improved health and wellness. This strategy is guided by the Nestlé Nutrition Council – a council of internationally recognised experts, chaired by Executive Vice President Werner Bauer – that meets regularly with our management to consider key topics in nutrition relevant to Nestlé business interests.

We have two main goals within nutrition. Firstly, we aim to use science-based solutions to improve consumers' health and wellbeing through food and diet, with a particular focus on people with specific nutritional needs and those on low incomes. Secondly, we seek to generate greater awareness, knowledge and understanding among consumers through clear, responsible communication.



Our actions

- Becoming the first food and beverage company to pledge its commitment to the United Nations Every Woman Every Child initiative.
- Becoming the first infant formula manufacturer to be included in the Financial Times Stock Exchange Responsible Investment Index (FTSE4Good).
- Co-chairing the work leading to the development and adoption of nutrition and health resolutions by the Consumer Goods Forum.
- Facilitating discussion of the global burden of micronutrient deficiencies at the Nestlé Nutrition Institute (NNI) workshop in March 2011.
- Further strengthening our Policy on Marketing Communication to Children with two significant amendments.
- Enhancing both the taste and nutritional value of our products by using our unique 60/40+ approach to continuously invest in innovation and consumer understanding.
- Addressing the increasing incidence of chronic inflammatory disorders, allergies and asthma at the eighth Nestlé International Nutrition Symposium in October 2011.
- Being the first company within the food industry to introduce comprehensive policies for the systematic reduction of all public-health sensitive nutrients: trans-fatty acids (issued in 2003), salt (2005), sugar (2007) and saturated fats (2009).
- Providing 47 181 additional employees with NQ (Nutrition Quotient) booster training in 2011 (193 103 since 2007), as well as reaching out to 67 159 past trainees with "booster" training.

Performance summary

- CHF 28.7 billion of products (sales volume) thoroughly assessed – and improved where needed – in 2011 [KPI].
- 70% of products assessed, of which 74.1% meet or exceed Nutritional Foundation profiling criteria (% sales).
- 5066 products renovated in 2011 resulting in nutritional improvement [KPI].
- CHF 21.9 billion of products with specific portion guidance (sales volume).
- Nestlé Nutritional Compass included on 98% of product packaging (% sales).
- Per cent GDA (Guideline Daily Amount) indication for energy featured on the front of pack of 98.9% of our products in Europe.
- WHO (World Health Organization) Code training provided for all Nestlé staff involved in infant formula marketing in developing countries.
- Our Healthy Kids Global Programme reaches 4 million children and is active in more than 50 countries.
- 1215 of our products (52.4%) now contain less sodium, sugars, trans-fatty acids, total fat or artificial colours [KPI], and 3851 of our products (75.9%) bring more essential nutrients or nutritious ingredients to consumers, such as vitamins, probiotics, prebiotics, vegetables and many more [KPI].

Systems

Underpinning our goals and strategy is our long-established governance structure with clearly defined management responsibilities and a comprehensive suite of policies and tools.



Context

The global context in which we operate influences our strategy and initiatives in nutrition, health and wellness. The nutrition and health status of consumers varies widely due to several factors including geography, socioeconomic status and age. Under-nutrition, comprising protein energy malnutrition and micronutrient deficiencies, and over-nutrition, comprising overweight and obesity and related non-communicable diseases, affect a large proportion of populations. Many developing countries are undergoing a “nutrition transition” in which both under-nutrition and over-nutrition co-exist, often side by side.

Increase in life expectancy

Global life expectancy at birth is expected to reach 75 years by 2050 (UN 2007). This is mainly due to better nutrition, hygiene and medicine.

Under-nutrition

Hunger

The global number of people suffering from chronic hunger is currently estimated at 925 million (FAO 2010).

Anaemia

It is estimated that 1.62 billion people (24.8% of the global population) are anaemic (WHO, 2008). The highest prevalence is in pre-school children (47.4% of pre-school children population; 293 million in total), followed by pregnant women (41.8%; 56 million).

Vitamin A deficiency

In 2009, the WHO estimated that a total of 209 million people were considered to be vitamin A deficient, 90% of which were pre-school children and the remainder pregnant women.

Iodine deficiency

The WHO (2008) considers that, worldwide, around two billion people have insufficient iodine intake (about 30% of the global population).

Over-nutrition

Childhood obesity

In 2010, 43 million children worldwide (35 million in developing countries) under five years of age were estimated to be overweight or obese (Am J Clin Nutr 92: 1257-1264, 2010).

Adult obesity

In 2008, 1.5 billion adults, 20 and older, were overweight. Of these, over 200 million men and nearly 300 million women were obese. 1.46 billion adults worldwide are classified as overweight (BMI of 25 kg/m² or greater), 34% of which are considered to be obese (BMI of 30 kg/m² or greater) (Finucane M. et al, Lancet, 2011).



Non-communicable diseases (NCDs)

A total of 57 million deaths occurred in the world during 2008; 36 million (63%) were due to NCDs, principally cardiovascular diseases, diabetes, cancer and chronic respiratory diseases. Nearly 80% of these NCD deaths (29 million) occurred in low- and middle-income countries (WHO, 2011).

Cardiovascular disease (CVD)

An estimated 17.3 million people died from CVDs in 2008, representing 30% of all global deaths. Over 80% of CVD deaths take place in low- and middle-income countries. By 2030, almost 23.6 million people will die from CVDs, mainly from heart disease and stroke. These are projected to remain the single leading causes of death (WHO, 2012).

Diabetes

346 million people worldwide have diabetes. In 2004, an estimated 3.4 million people died from consequences of high blood sugar. More than 80% of diabetes deaths occur in low- and middle-income countries. Diabetes deaths are projected to double between 2005 and 2030 (WHO, 2011).

Cancer

Cancer accounted for 7.6 million deaths (around 13% of all deaths) in 2008. About 70% of all cancer deaths in 2008 occurred in low- and middle-income countries. Deaths from cancer worldwide are projected to continue rising, with an estimated 13.1 million deaths in 2030 (WHO, 2012).

Osteoporosis

Osteoporosis is estimated to affect 200 million women worldwide. One in three women over 50 will experience osteoporotic fractures, as will one in five men (International Osteoporosis Foundation, 2012).



Our systems

The Nestlé Corporate Business Principles (NCBP) describe our 10 principles of business operations, including nutrition, health and wellness, quality assurance and product safety, and consumer communication.

Nutrition, health and wellness (NHW)

The NCBP summarise our NHW principles as follows:

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

Specific NHW policies cover a wide range of topics including the reduction of saturated fats, trans-fatty acids, salt and sugar levels in products, and the fortification by relevant nutrients.

The Nestlé Nutritional Profiling System, based on public health recommendations and consumer science, is designed to support product development in constantly optimising the nutritional composition of products.

Quality assurance and product safety

Through our Quality Policy and quality management system, we aim to build consumer trust by complying with all internal and external food safety, regulatory and quality requirements.

Consumer communication

Our Consumer Communication Principles contain mandatory rules, including on the accurate representation and portrayal of foods in a way that does not encourage over-consumption.

Organisational responsibility and implementation

- Executive Board – sets direction and monitors NHW performance indicators. Ultimate organisational responsibility rests with the Nestlé CEO Paul Bulcke.
- Highest level of direct responsibility – José Lopez, Executive Vice President of Operations and GLOBE (Global Business Excellence). Patrice Bula, Executive Vice President, is responsible for the Strategic Business Units, Marketing and Sales, and Kurt Schmidt, Deputy Executive Vice President Nestlé S.A., is Head of Nestlé Nutrition. All are Executive Board members and report directly to Nestlé’s CEO.
- The Nestlé Nutrition Council – an independent advisory panel comprising renowned experts advises Nestlé’s top management on key NHW issues including diabetes and childhood obesity.
- Nestlé R&D – our global R&D network gives our consumers products, systems and services that they can trust, and which help to enhance the quality of their lives – through nutrition, pleasure and convenience. We have external collaborations and partnerships at every stage of the product development process, including universities, start-up companies and key suppliers.



Training, awareness, monitoring, follow-up

We ensure that, where relevant, our employees are fully trained to implement policies that are relevant to nutrition. In higher-risk countries, for example, all our infant formula marketing staff are trained in the WHO International Code of Marketing of Breast-Milk Substitutes. [KPI]

Our global R&D

Nestlé’s growth in providing new nutrition, health and wellness solutions to meet consumer needs is based on our R&D network. With more than 5000 people involved in R&D, across 32 research centres, as well as corporate venture funds and research partnerships with businesses and universities, the scope and reach of the network is truly global.

The Nestlé Research Center (NRC) is a private facility for food, nutrition, health, quality and safety research.

NRC research provides the scientific basis for product innovations and processes through Product Technology Centres and R&D Centres, and Nestlé scientists in more than 300 Application Groups ensure that these are applied locally to meet different consumer needs and preferences.

The R&D Sustainability Council was formed in 2009, and the head of the council is Werner Bauer, who also sits on the Creating Shared Value Alignment Board.

Investing in R&D

Nestlé continued to invest in nutrition-related research and development last year.

This included the creation of the Nestlé Health Science Company and the Nestlé Institute of Health Sciences – a major strategic move for Nestlé to pioneer a new industry between food and pharmaceuticals.

Both entities began operations in 2011 and made a strong start in their quest to develop science-based personalised nutrition to prevent and treat increasingly prevalent health conditions that are placing an unsustainable burden on the world’s healthcare systems.

Nestlé Health Science

Pioneering science-based nutritional solutions

Nestlé Health Science aims to develop science-based personalised nutritional solutions in six disease areas. The Company already has a strong and growing business in acute disease areas of Ageing Medical Care, Critical Care and Surgery, and Paediatric Medical Care. The chronic disease areas being created include Gastrointestinal (GI) Health, Metabolic Health and Brain Health.

These have been supported by key acquisitions:

- Vitaflo International Holdings Ltd (UK) – with a growing portfolio of solutions for metabolic disorders;
- CM&D Pharma Ltd (UK) – has a range of products for inflammatory bowel disease, colon cancer and hyperphosphataemia;
- Prometheus Laboratories Inc (USA) – has a diagnostics and therapeutic GI and oncology business;
- a minority stake investment has been made in Vital Foods (New Zealand) in the area of GI.

Nestlé Health Science is a distinct and separate business within the Nestlé Group, governed by its own Board of Directors. Its worldwide headquarters are in Lutry, Switzerland.

“The combination of health economics, changing demographics and advances in health science show that our existing healthcare systems, which focus on treating sick people, are not sustainable and need redesigning. Nestlé has the expertise, the science, the resources and the organisation to play a major role in seeking alternative solutions. Personalised health science nutrition is about finding efficient and cost effective ways to prevent and treat acute and chronic diseases in the 21st century.”

Nestlé Chairman
Peter Brabeck-Letmathe



Nestlé Institute of Health Sciences

The Nestlé Institute of Health Sciences has the ultimate goal of translating its research findings into science-based nutritional solutions that support healthy ageing and prevent or help treat chronic diseases.

In the next 40 years, the world's population aged over 60 will more than triple, causing a substantial change in health economics. But nutrition has the potential to provide sustainable, long-term solutions for preventing or treating chronic diseases, thereby helping to manage the healthcare burden.

The Institute focuses its research on gastrointestinal health (IBS, IBD, Crohn's disease), metabolic health (diabetes and obesity) and brain health (cognitive decline and Alzheimer's disease), all of which affect healthy ageing.

It aims to gain a detailed understanding of the relationship between nutrition, lifestyle, inherited factors and individual metabolism, all of which influence susceptibility to chronic disorders.

This will allow Nestlé to develop science-based, health-effective, personalised nutrition, and will also support our understanding of nutrition and lifestyle as key factors in healthy ageing and long personal productivity, or being able to contribute to society for longer. The Institute will translate its research findings into nutrition products that can not only help individuals achieve a high quality of life, but can also delay or prevent chronic diseases in a cost-effective and sustainable way.

CPW Innovation Centre

A Cereal Partners Worldwide (CPW S.A.) Innovation Centre opened in Orbe, Switzerland in February 2011. The CHF 47 million facility, which adds to CPW's 15 factories and two R&D centres worldwide, aims to build on Nestlé's long-standing R&D experience and General Mills' technical strengths, as well as both partners' expertise in food processing technologies.

As headquarters of CPW's global R&D network, the Innovation Centre employs more than 80 people and focuses on breakfast cereal solutions that deliver consumer benefits such as improved nutritional content, freshness, taste and texture.

The building also demonstrates our commitment to environmental sustainability having received LEED (Leadership in Energy and Environmental Design) Platinum certification from the U.S. Green Building Council.

Symposium discusses the influence of diet on chronic conditions

Nestlé held its second International Nutrigenomics Symposium in Mexico City in September 2011, in partnership with the National Institute of Genomic Medicine (INMEGEN).

During the conference, entitled *Diet, Genomics and Health*, experts discussed the role of diet in the development of chronic conditions such as obesity, diabetes mellitus type 2, high blood pressure and cancer – all of which have major financial and social consequences across the world.

As well as considering the development of nutrition-based strategies to prevent and manage these complex health conditions, the event was also an opportunity to establish collaborations with other institutions.



Global workshop advances sustainability in product design

A workshop in California in July 2011 focused on integrating sustainability into product design and packaging. The five-day event at the Art Center College of Design in Pasadena – one of the world's leading design schools – brought together college academics, independent sustainability specialists and members of Nestlé's Global R&D, brand communication and product design networks.

The aim was to embed sustainability into designers' thinking from the beginning of the design process, and topics ranged from current sustainability initiatives at Nestlé to the challenges facing the consumer goods industry as a whole and the latest design practices. Experts also examined how current consumer and design trends might lead to opportunities for the Company to develop more sustainable products, services and systems.

"By using life cycle assessment tools, developed in collaboration with our scientists at the Nestlé Research Center in Switzerland, we have the opportunity to consider the total social and environmental impact of our product designs. In this way, we are connecting science and design to responsibly support Nestlé on a global basis."

Gordon Lane, Head of Nestlé R&D Global Industrial Design

Marking a decade of research and development in China

In October 2011, we celebrated 10 years of nutrition and food science at our pioneering research and development centre in Shanghai, China. The centre, part of Nestlé's global research and development network, was the first of its kind in the country when it opened in November 2001. It specialises in the development of culinary products such as cooking sauces and seasonings, ice cream and products for the Nestlé Professional business.

Johannes Baensch, Nestlé's Global Head of Research and Development, was joined by local Chinese government representatives and professors from Chinese universities and research institutes at a ceremony to mark the anniversary. He said: "Right at the outset, Nestlé's vision for R&D Shanghai was that it would be a place for understanding Chinese culture, exchanging and transferring culinary ideas, as well as for making advances in nutrition and food science – both within our own R&D network and externally with Chinese universities and research institutions. Its accomplishments over the past 10 years have exceeded our expectations."



Education and innovation

Nestlé Nutrition Institute

Based on our conviction that innovative, science-based nutrition can help enhance the quality of people's lives, in 2005, the Nestlé Nutrition Institute (NNI) was established as a non-profit entity. The institute formalised Nestlé Nutrition's long-standing commitment to support, inform and educate the global scientific and medical community on nutritional subjects.

Today, the institute is the world's largest private publisher of nutritional information and through its website, its primary communication tool, it provides access to the latest medical and scientific thinking, online learning tools and workshops as well as news of forthcoming events. The website has more than 120 000 registered members from around 200 countries who use it to access information on a broad range of nutrition topics from paediatrics to geriatrics, sports nutrition to weight management and disease states.

In May 2011, Nestlé Nutrition Institute held two satellite symposia at the 44th annual meeting of the European Society of Paediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN), in Sorrento, Italy.

The first symposium considered how personalised maternal and infant nutrition is key to improving healthy growth and development, covering topics such as the dynamic composition of breast milk, the use of partially hydrolysed proteins to induce oral tolerance and the use of specific probiotics to manage and prevent infections. The second symposium explored the importance of taking an holistic approach in paediatric nutrition to improve the overall health prospects of sick children. The topics included the importance of the quantity and quality of protein for improving growth and cognitive function, and the role of fat blends in infant nutrition for long-term health.

In September 2011, a satellite symposium held during the European Society for Clinical Nutrition and Metabolism annual congress in Gothenburg, Sweden, looked at the importance of immunonutrition as an integral part of the treatment protocol in cancer patients before and after surgery.

The following month, at the European Society of Intensive Care Medicine (ESICM) in Berlin, Germany, experts explored the nutritional challenges in the management of patients who require a prolonged stay in intensive care. A satellite symposium also took place at the seventh European Union Geriatric Medicine Society annual congress in Malaga, Spain in October 2011, where keynote speakers highlighted the benefits of integrated management of dysphagia and malnutrition.

In December 2011, leading international experts explored new perspectives on dietary prevention, treatment and management of childhood allergies at a symposium during the XXII World Allergy Congress in Cancun, Mexico.



Nestlé Nutrition Council

The Nestlé Nutrition Council (NNC), which was first convened in 1978, is an independent advisory panel composed of world-renowned nutrition scientists who review current and developing nutrition issues and advise senior management on their impact on Nestlé's policies and strategy.

The NNC has examined many nutrition issues, most recently including diabetes, childhood obesity, cancer and brain function, and has reviewed Nestlé policies on micronutrient fortification and the reduction of public health sensitive ingredients such as saturated fats, sugar and salt.

The NNC is also responsible for the scientific organisation of the Nestlé International Nutrition Symposium, which is an annual two-day meeting where leading experts debate current issues in human health and physiology, and identify future research directions.

The eighth Nestlé International Nutrition Symposium, held in October 2011, addressed the increasing incidence of chronic inflammatory disorders, allergies and asthma. These disorders are widely recognised as the result of a combination of environmental and individual risk factors, constituting a very significant health burden for both developed and developing countries. Leading scientific experts and key opinion leaders from around the world gathered in Lausanne, Switzerland to discuss advances in systemic and mucosal immunity, allergy, inflammation and the role of specific nutrients in circumstances of immune suppression and inflammation.



Combining taste and better nutrition

Our 60/40+ approach

Nestlé strongly believes that healthy diets must be enjoyable to be sustained, but combining superior taste and superior nutrition in the same product can be challenging. By continuously investing in better consumer understanding, as well as product innovation and renovation, we can enhance both the taste and nutritional value of our products through our unique 60/40+ approach.

This proprietary programme has two objectives:

- the preference of at least 60% of a large consumer panel in a blind taste test against the most prominent competitor products (the '60/40' dimension);
- an additional nutritional "plus" where relevant, based on criteria recommended by world-renowned nutrition and health authorities, the product's role in the diet, consumers' needs and local public health priorities.

These two dimensions are managed together, not as either/or options. The assessments are conducted locally to ensure that wherever Nestlé operates, it is the nutritional needs and taste preferences of the local consumer that dictate the formulation of our products.

The programme is applied to a rolling selection of products each year, across all our 18 food and beverage categories, and we maximise its impact on consumer health by prioritising our best-selling products. Our advertising efforts then focus on those products that have successfully "won" in terms of taste and nutrition, to ensure our better nutrition proposition is made visible to consumers in the market.

We have continued driving our 60/40+ programme in 2011, focusing even more on increasing portfolio coverage and confirming the consumer preference for our products, while ensuring these products bring superior nutrition where relevant. Also, we implemented a reporting approach that better reflects the dynamic nature of our programme.

The range of new product innovations launched as result of 60/40+ include *Naturness* apple/mango purée in Europe, *Svelty Acticol* and *Svelty Descremada sin lactosa*, two milk products targeting adults in Chile, as well as iron, zinc and vitamin C-fortified *Bear Brand* instant milk drink in the Philippines, where consumer communication on the importance of drinking milk was developed in collaboration with the Food and Nutrition Research Institute. Other examples from different product categories include the iron, iodine and vitamin A-fortified *Maggi Masala-ae-Magic* seasoning mix in India, which was developed to provide lower-income consumers with a low-cost but nutritious seasoning mix to add to meals, and iodine and iron-fortified *Maggi* bouillons in the Dominican Republic and Central America. In Australia, the lunchbox snack *Uncle Toby's Fruit Fix* has been developed to provide schoolchildren with one serving of fruit and a source of vitamin C, folate and fibre.

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Between 2003 and 2011, as part of the 60/40+ programme, Nestlé made significant salt reductions across a range of mainstream product categories around the world. The salt removed during this period already represents more than 12 200 tonnes, and our R&D teams continue to work at it. By renovating existing products and introducing new ones, Nestlé is implementing a stepwise reduction of the salt content over several years, in order to help consumers gradually re-educate their taste buds. This has included a 30% reduction in salt in *Maggi Masala Noodles* in India, a 20% reduction in the entire *Maggi* soup range in France, and a 33% salt reduction in *Maggi* bouillon cubes in the Netherlands. Among the innovations are *Maggi* soups in Hungary, which offer 35% less salt than the market average, as well as *Knacki* sausages and *Le Bon Paris* cooked ham in France, *Benebien* bouillons in the Dominican Republic and *Winiary* bouillons in Poland, all of which offer 25% less salt than the market average.

In 2011, products that had been thoroughly assessed – and improved where needed – amounted to a total sales value of CHF 28 715 million [KPI]. Assessment results are valid for a maximum of three years and only if all parameters remain equal. Within the reported sales value, some products have been frequently reassessed.

Water, hydration and health

Nestlé Waters promotes water as the first choice for daily hydration. Water is the major constituent of the human body (75% in infants to 50% in the elderly) and a key nutrient. Adequate daily hydration is necessary to help maintain a myriad of body functions, including nutrient transportation.

We are also committed to funding scientific research into water, hydration and health, which helps to drive the development of our bottled water business and supports public health goals. This includes funding clinical studies and meta-analyses, and communication at public health congresses. In 2010, two scientific reviews were published on water, hydration and human health, reporting on fluid needs for adequate hydration, impact of dehydration, such as impairment of cognitive function and physical performance, and knowledge gaps requiring further study.

Water: the first choice to quench thirst

Access to safe drinking water is often a major challenge, especially in developing countries. Even in developed countries, easy access to water is not guaranteed in workplaces and schools. While not a solution for everyone, bottled waters do provide safe hydration options for many consumers worldwide.

Water is rapidly absorbed by the body and contains no calories, which makes it the first choice for daily hydration. Research has indicated that healthcare professional advice to replace caloric beverages with water could result in a significant reduction of overall energy intake in their patients⁵.

Yet until recently, hydration was not covered in most dietary recommendations issued by authorities to help consumers maintain their water balance. Raising awareness about the distinct roles of water, nutritious beverages and other fluids in a healthy diet is an important public health priority considering the incidence of overweight and obesity around the world, which can also co-exist with deficiencies in essential nutrients. Some natural mineral waters provide important quantities of essential minerals such as calcium and magnesium.



CLEAN WATER: Local residents collect free clean drinking water provided by the Nestlé factory in Agbara, Nigeria

Nutritional profiling

Although only a subset of the entire product portfolio undergoes a full 60/40+ assessment each year – to confirm the taste is preferred and the nutritional proposition is superior to competitor products – Nestlé is keen to attain and maintain full clarity on the nutritional value of its products.

To analyse their nutritional profile, each product is measured against a set of criteria, which is regularly updated in line with the available recommendations for dietary intakes issued by authorities such as the World Health Organization (WHO) and the US Institute of Medicine. The criteria for every product are established on the basis of four principles:

- the role of the product in a balanced diet;
- relevant nutritional factors (such as calories, fat, added sugar, calcium, whole grain, etc);
- thresholds for each of these factors;
- the individual serving as consumed by the intended consumer, adults and/or children.

Products meeting or exceeding all criteria are said to achieve the Nestlé Nutritional Foundation (NF), and are considered appropriate choices in the context of a balanced diet for the majority of people, even when consumed regularly. If a product that does not achieve the Nestlé NF is consumed frequently, the consumer's diet may need to be rebalanced by other dietary choices; frequent consumption of salty snacks, for example, would require moderation in the use of salt and other salty foods.

Nearly all Nestlé product categories (apart from highly regulated categories such as infant formulas, specific healthcare and performance nutrition products, and products developed by joint ventures) are assessed in this way.

In 2011, 70% of our total sales were for products that had been analysed against the Nestlé Nutritional Profiling System. Of those products, 74.1% [KPI] met or exceeded the required standards and attained the Nestlé Nutritional Foundation status (in % sales).

As we launch new products and continue renovating our existing ones, our ambition is to continue progressing. However, we do not aim for 100% of our portfolio as some products in our very diverse ranges are meant to bring more indulgent choices to the table, such as for festive occasions, for example. In addition, products not meeting a threshold for one nutrient, like sodium or sugar, may nonetheless provide important quantities of protein, vitamins and minerals, vegetables or whole grains such as Lean Cuisine entrées or Nestlé breakfast cereals.



Adding whole grain at the breakfast table

Cereal Partners Worldwide (CPW S.A.), a joint venture of Nestlé and General Mills, continues to make improvements in the health profile of its breakfast cereals. Since 2003, it has increased global consumption of whole grain by more than three billion servings. All its global brands – *Fitness*, *Cheerios*, *Chocapic* and *Nesquik* – now have at least eight grams of whole grain per serving. In addition, it has reduced salt by about 900 tonnes and sugar by more than 9 000 tonnes. In 2009, CPW pledged to reduce sugar by an additional 20% in its breakfast cereals advertised to children.

As one recent example of our commitment to healthier options, 44 of our Australian breakfast cereal brands, including *Uncle Toby's*, *Cheerios* and *Milo*, carried the *Heart Foundation Tick* in 2011. The breakfast cereals had been reformulated to increase whole grain and fibre content, while cutting down on saturated fat, sugar and salt.

CPW continues to work with the scientific, government and regulatory communities in whole grain matters, for example by funding whole grain research in Ireland and Chile.

The Nestlé Nutritional Profiling System

Nestlé's worldwide strategy is to offer products that meet consumer taste preference and provide nutritional value. Nestlé has established a rigorous system to assess the nutrient profile of its products called the Nestlé Nutritional Profiling System.

For more information on the product categories and sets of criteria of the Nestlé Nutritional Profiling System visit our Nestlé Research website.



Nutrition policies

Since 2003, Nestlé has issued mandatory policies to reduce the level in its products of specific nutrients that are considered to be detrimental to health when consumed in excess. We were the first company within the food industry to have comprehensive policies in place for the systematic reduction of all public health sensitive nutrients: trans-fatty acids (issued in 2003), salt (2005), sugar (2007) and saturated fats (2009).

To further accelerate our nutrition renovation efforts, we are implementing a Recipe Management System to match the vast scope of our product range, both geographically and qualitatively, and our ambitious nutrition, health and wellness goals. The current method of monitoring the level of sensitive nutrients is in the process of being replaced by this new system, designed to track accurately a wide variety of nutrition and health specifics at a global level.

The global recipe database, which is still in the process of being implemented and populated with detailed ingredient information, will overcome the current difficulties in assembling data on the removal of trans-fatty acids, salt, sugar and saturated fats in Nestlé markets throughout the world. It will also provide global visibility on the recipes with more essential nutrients and nutritious ingredients.

Our product development teams pursue recipe reformulations continuously, delivering against public health priorities in the various regions in which we operate. In 2011, an additional 5066 products were renovated resulting in nutritional improvement (more than 31 000 products in the last five years [KPI]). Of the products renovated in 2011, 1215 now contain less sodium, sugars, trans-fatty acids, total fat or artificial colours [KPI], and 3851 bring more essential nutrients or nutritious ingredients to consumers, such as vitamins, probiotics, prebiotics, vegetables and many more [KPI].

Nestlé UK has been working with the UK Government on the public health agenda for a number of years and we very much welcome the partnership approach being developed under the Public Health Responsibility Deal announced in March 2011. Nestlé has signed up to all the Food Pledges, all the relevant and applicable Physical Activity Pledges, and a number of the Health at Work Pledges. The Responsibility Deal's strength comes from organisations across varying sectors working together to improve people's health and we believe this is just the beginning of what we hope becomes an engaging and constructive partnership.



Understanding nutrition is everybody's business at Nestlé

As part of our overall commitment to continuous training and learning, Nestlé's NQ (Nutrition Quotient) training programme equips our people with the right nutrition skills and insights to make informed choices for themselves and their families, and make enlightened business decisions where appropriate.

All employees undertake a general Foundation Module, while those with product development or product communication responsibilities attend advanced and specialised workshops.

Eighteen different modules, most of which are in numerous local versions, had already been deployed by the end of 2011, each representing between four to 15 hours of learning. More than 193 000 employees around the world have undergone NQ training since the programme was launched in mid 2007 [KPI]. An additional 7900 have also taken part in a pet nutrition course.

By engaging with our employees around the world with these various NQ modules, we have also developed a deep understanding of the need for various self-paced or combined learning options. To supplement classroom and workshop sessions for the Foundation Module, for example, we deployed an interactive e-learning programme version starting in 2009, which by the end of 2011 had been tailored for use in 46 different countries or businesses.

In 2010, we also developed an innovative approach for our harder-to-reach audiences, such as factory-based employees and their families. Based on a specially designed educational poster series, combined with work site activities and creative handouts for the employee and his/her family, this approach aims to make nutrition learning more interactive and meaningful beyond the work environment. Close to 25 000 employees in Brazil and the Greater China Region had already completed the full cycle at end 2011.

Since nutrition training is a continuous effort at Nestlé, follow-up campaigns and tools are issued regularly, with 67 159 past trainees having received such boosters in 2011.



Portion Guidance programme

What constitutes in the eyes of a consumer a “normal” portion of food has gradually increased in size over the years; at the same time, many consumers are becoming more sedentary. The resulting excess calorie intake often leads to obesity and an array of related chronic diseases. In other cases, inadequate portions are leading to malnutrition, nutrient deficiencies and related diseases, even in developed markets.

Governments and regulatory authorities, particularly those associated with the public health sector, are increasingly vocal about the need for clear and coherent portion information for consumers. When committing to our 60/40+ programme, Nutritional Profiling System and Nutritional Compass on packaging, we had already set ourselves to support consumers with practical portion guidance.

Building on its Portion Guidance Framework developed in 2010, Nestlé is accelerating innovation and renovation efforts in this area. Be it in terms of product form or size, specific packaging, serving devices or equipment, our goal with portion guidance is to make “eating the right amount at the right frequency” as easy and intuitive as possible.

Implementing further portion guidance

Exact portion definition is, of course, paramount in several Nestlé product categories such as healthcare nutrition, infant nutrition, performance nutrition and Jenny Craig-branded products and services, where education about the volumetric and satiety effect of various foods and beverages is an integral part of the energy management benefit brought to consumers by Nestlé.

Estimates indicate that specific product- or pack-related portion guidance efforts applied to Nestlé products representing sales of at least CHF 21 894 million [KPI] at the end of 2011, which again puts the Company in a leading role in terms of nutrition, health and wellness within the food and beverage industry. This includes products sold as single servings, meeting our rigorous Nutritional Foundation (NF) criteria on all counts (including sodium or fibre, for example), sold with or via a device/equipment delivering a serving that meets all NF criteria, or sold to caregivers with detailed instructions on adjusting servings to evolving nutritional needs.



Davigel: the right nutrition in the right portion to facilitate a healthy recovery

When the kitchen equipment at Toulouse Hospital, the fourth largest in France, needed renewing in 2010, three choices were considered: continue on the same path with meals being prepared by hospital kitchen staff; sub-contract the catering; or, work with a partner. Davigel (a Nestlé Professional operating company) was already a product supplier. The hospital decided to opt for a close partnership with Davigel and to benefit from its nutrition, health and wellness expertise.

Healthy nutrition is clearly important for hospital patients. Research shows that while malnutrition can complicate and delay the healing process, adapted and individualised nutrition can reduce length of hospital stay and overall healthcare costs. To meet the needs of the hospital, Davigel created 60 customised culinary solutions with a high nutritional density and appropriate portion size.

Davigel teams comprise dedicated nutritionists, dieticians and top chefs; it was the first out-of-home company to sign the *“Charte d’engagement volontaire de progrès nutritionnel”* (Charter to undertake voluntary nutritional improvement) with the French government in 2010.

Nestlé Symposium on Portion at the European Congress on Obesity

On 26 May 2011, Nestlé held a symposium on the challenges of healthy portion size as a satellite event to the 18th European Congress on Obesity in Istanbul, Turkey. An international panel of researchers discussed portion sizes and food choices among adolescents, cultural and environmental determinants of portion size, and translating research on portion size into policy and practice. Dr. Cioran Forde, scientist at the Nestlé Research Center in Lausanne, also shared recent results of his work on the application of the “expected satiety” approach to understand meal portion size selection.

Micronutrient deficiencies: addressing the global burden

Micronutrients (i.e. vitamins and minerals) are essential nutrients required in small amounts by the body to help growth and development. Despite their vital role, over one-third of the world's population, mainly in developing countries, is deficient in several of these nutrients.

Close to one billion people live in chronic hunger while another 1.5 billion are overweight. And yet many of both are deficient in micronutrients. Populations in developing countries can suffer a triple burden of malnutrition: under-nutrition (especially deficiencies of energy and to some extent protein), over-nutrition (leading to obesity and related non-communicable diseases such as diabetes and cardiovascular disease) and micronutrient deficiencies.

The four most prominent micronutrient deficiencies worldwide concern iron, vitamin A, iodine and zinc. Ideally, these essential nutrients should be obtained from a balanced diet, but for a variety of reasons many people do not, or are not able to, consume a healthy varied diet. Important deficiencies can have many adverse effects on human health, such as permanent impairment to physical and mental growth and development, immune function and eyesight.

While vitamin and mineral supplements can offer a short-term solution to providing essential nutrients, fortification of food and beverages offers the most cost-effective solution over the medium to long term to deliver nutrients to large numbers of people without requiring them to significantly change their food consumption habits.

Nestlé is committed to helping to reduce micronutrient deficiencies on a global scale. We have more than 140 years' experience in enhancing the nutritional profile of food products and today the Company has a range of products that are fortified with micronutrients, especially where deficiencies are more commonly seen, such as iron and vitamin A. We use information from local governments and international health authorities to identify the different nutritional "gaps" in diets to improve the nutrition value across our portfolio by adding the relevant nutrients, focusing on fortification of popular foods.

Micronutrient-fortified Nestlé products 2011

Iron	53 billion servings
Iodine	102 billion servings
Vitamin A	35 billion servings
Zinc	14 billion servings

We are committed to continuing to develop our expertise and understanding in this area. In March 2011, the Nestlé Nutrition Institute brought together leading independent experts in the fields of malnutrition and fortification to review the burden and impact of micronutrient deficiencies and how these deficiencies could best be addressed. The three-day workshop focused on child health in developing countries.

We are dedicated to playing our part in addressing this important public health challenge, and micronutrient fortification will remain a focus in 2012.

Popularly Positioned Products

Affordable and nutritious

We aim to provide consumers with products that are nutritious, tasty and affordable. Popularly Positioned Products (PPPs) are high-quality food products that provide nutritional value at an affordable cost and in appropriate formats to address the needs of some 3 billion lower-income consumers worldwide. Our current PPPs spread from culinary products to beverages, to dairy and confectionery: with over 4000 products overall, sold under a number of major global brands including *Maggi*, *Nido* and *Nescafé*.

For more detailed information about PPPs, and our ongoing research in this area, please read our Affordable and nutritious report.

Micronutrient fortification

With a large proportion of the world's emerging consumers suffering the consequences of deficiencies in key micronutrients such as iron, zinc, iodine and vitamin A, fortifying our Popularly Positioned Products (PPPs) with micronutrients can help to address deficiencies where they are most prevalent; among lower-income consumers.

For example, to help address the most widespread micronutrient deficiency, iodine, which affects two billion people in the world, we have developed iodine-enriched *Maggi* products (bouillons, seasonings and noodles) using iodised salt. In Central West Africa alone, we sold several billion *Maggi* cubes in 2011. Over 90% of the *Maggi* product range now carries added iodine.

To address other prevalent deficiencies, we have launched *Maggi* PPP seasonings fortified with iron, vitamin A and iodine in India, Pakistan, Sri Lanka and Bangladesh, as well as *Maggi* Chicken bouillon in the Caribbean and Central America fortified with iron and iodine. Additionally, micronutrient-fortified noodles have been launched in India (*Maggi* Dumdar Masala+ Noodles), Bangladesh (*Maggi* S-e-M Noodles), Pakistan (*Maggi* Chicken 2-minute noodles) and South Africa (Mealie Noodles).

Developments such as these have brought a 30–40% improvement in market penetration among lower-income consumers in the last two years and have been a key factor in the increased distribution of *Maggi* noodles in small towns, supported by advertising that communicates both the health and affordability messages.

Fortified milk powders

For those on lower incomes, dehydrated milk powders, which are naturally rich in many essential nutrients (such as protein, calcium, other minerals and vitamins) but not a good source of others (like iron), are good carriers of micronutrient fortification. This is another viable, long-term way to deliver nutrients to large segments of the population, without requiring changes in food consumption habits, which are generally more difficult to change.



AFFORDABLE AND NUTRITIOUS:
Click on the image above to find out how the Maggi Instant Noodles factory in Feira de Santana, Brazil, has benefited the local community.

Nestlé invests over CHF 12 million a year directly into research and development for dehydrated and liquid milk-based products, and this know-how is applied in the production of affordable milks for local populations in emerging countries, and fortifying them with relevant micronutrients in each location. At the end of 2011, the affordable milk range – including brands such as *Nido*, *Klim*, *Bear-Brand*, *Nespray*, *Essentia* and *Ideal* – was present in over 80 countries. Annual sales for 2011 reached 80 million tonnes, worth CHF 400 million, which represents a growth rate of 13.8% compared to the previous year. Additionally, a new micronutrient-fortified Nestlé Cerevita milk and cereal recipe was launched in Ghana in 2011.

Reach of fortified Maggi products end 2011



Maternal and infant nutrition

We know today that it is much easier to establish good eating habits when children are young than try to correct poor habits later. Parents need consistent messages about how to feed young children in a healthy way. Our idea is to help educate parents on the impact that relatively simple dietary changes can have. With that, we may be able to help prevent obesity and chronic disease in future generations.

Nestlé's belief is that good nutrition starts with pregnancy and after delivery through breast milk, followed by developmental, stage-appropriate feeding choices, helping infants and young children to grow and develop into healthy adults.

Start Healthy, Stay Healthy™ and the FITS

To deliver on that belief, our *Start Healthy, Stay Healthy™* stage-based nutrition system includes products designed to foster healthy growth and development and good eating habits at an early age, supported by sound feeding guidance and support services. The system was developed following the 2002 FITS (Feeding Infants and Toddlers Study) commissioned by Gerber – now part of Nestlé – which provided insight into the diets of 3000 US infants and toddlers aged between four and 24 months.

In 2008, Nestlé Nutrition conducted a similar study, The Nestlé FITS 2008, but expanded it to include 3273 US infants, toddlers and pre-schoolers up to four years of age. It examined their eating habits and nutrient intake, provided important information on what foods are eaten as children transition from an all-milk diet to the food of the family, and enabled comparisons with 2002.

The findings suggest that infants are being breastfed for longer, which supports brain, eye and immune system development, and that fewer infants and toddlers are consuming sweets and sweetened beverages. However, it also appears that parents and caregivers need more guidance to meet the unique nutrition needs of growing children; in particular, pre-schoolers are not consuming enough fruits and vegetables, and are taking in too much saturated fat and sodium.

Through the results of FITS 2008 and by leveraging the expertise of the Nestlé Nutrition Institute, we are furthering our understanding of early childhood eating patterns and providing a road map for future product innovation.

“Good nutrition from birth through pre-school sets the foundation for healthy habits later in life. The Nestlé Feeding Infants and Toddlers Study (FITS) provides a rich source of information and we will continue to analyse the data for new insights, sharing and applying our findings to advance the quality of children's diets.”

**Dr. Kathleen Reidy, Head,
Nutrition Science, Meals & Drinks,
Nestlé Nutrition**

“The 2008 data shows us that more feeding guidance is needed during the transition to table foods. We are seeing eating patterns in toddlers and pre-schoolers that mirror those of adults – 24% of children aged two to five are overweight or obese in the United States. We need to put more focus on establishing healthy eating patterns during the first four years.”

**Dr. Nancy Butte, Professor, USDA/ARS
Children's Nutrition Research Center,
Department of Pediatrics,
Baylor College of Medicine**



Mom & me

We believe that nutrition during the first 1000 days of life, especially at the very early development stage, influences health throughout life. The Nestlé Mom & Me nutritional milk drink for pregnant and lactating mothers features a combination of minerals, vitamins, DHA and Bifidus BL active cultures for this crucial period of development.

Breast milk substitutes

Nestlé supports exclusive breastfeeding for the first six months of an infant's life, in line with World Health Organization (WHO) recommendations, and continued breastfeeding thereafter for as long as possible. But for babies who are not breastfed, Nestlé provides high-quality breast milk substitutes, such as *NAN* and *Lactogen*.

Looking forward

Nestlé remains committed to delivering integrated, science-based nutrition solutions and feeding guidance, and expanding *Start Healthy, Stay Healthy™* is an important part of such a commitment. A global rollout will see these services and tools adapted to meet local conditions, tastes and traditions, as well as widen the opportunities for shaping public policy and engaging with the medical community.



Nutrition for the elderly

Health, growth and development are defined to a large extent by an individual's diet and nutritional consumption.¹ Regardless of age or culture, improper nutritional consumption can have negative effects on one's health. For children, an unbalanced nutritional diet is associated with an increased risk for chronic diseases and stunted growth.¹

There is also an association in adults between improper nutritional consumption and an increased risk of susceptibility to chronic diseases.¹ It is therefore absolutely paramount to more efficiently leverage nutrition by personalising intervention to better prevent and manage major chronic diseases. In addition, it is critical to develop and implement guidelines that highlight the importance of proper nutrition and the role it can play in preventing specific health disorders. That is why our scientists at Nestlé Health Science believe that personalised, scientific nutritional solutions can play a key role in the prevention of chronic conditions and illness.

Malnutrition affects people of all ages, but is significantly more common in older people, and in an ageing population the problem can only get worse.^{3,6} Currently, more than one in three patients in care homes, and approximately the same proportion of elderly people living independently, are malnourished or at risk of malnutrition.⁶ This can have a particularly adverse effect on these people, impairing function, mobility and independence.³

But malnutrition is not only an issue for the elderly or those in developing countries, and in the EU alone an estimated 20 million people are at risk of the condition. Malnutrition is associated with markedly increased morbidity and poorer quality of life, and malnourished people are hospitalised more frequently than healthy people and are three times more likely to pick up an infection.³

The subsequent costs of malnutrition are staggering. In Europe, the problem drains healthcare systems of €170 billion per year.^{8,9} In the United Kingdom alone, public expenditure on malnutrition in 2007 was €15 billion,³ exceeding the cost of obesity. Most of this cost is due to the treatment of malnourished patients in hospitals and long-term care facilities.¹¹

Mini-Nutritional Assessment tool

Screening tools can help to identify malnourished elderly people, or those at risk of malnutrition, at an early stage, allowing for nutritional intervention that can make a difference. The Mini-Nutritional Assessment (MNA) is a validated nutrition screening and assessment tool that can identify geriatric patients aged 65 and above who are malnourished or at risk of malnutrition. The MNA, which was developed jointly by the Nestlé Research Center and Toulouse University in 1991, originally comprised 18 questions. The current MNA Short Form now consists of six questions and streamlines the screening process, retaining the validity and accuracy of the original MNA in identifying older adults who are malnourished or at risk of malnutrition. The revised MNA Short Form makes the link to intervention easier and quicker and is now the preferred form of the MNA for clinical use. The tool also includes a tape for measuring calf circumference when a BMI measurement is not possible, or is difficult due to logistical or cultural reasons.

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The MNA and calf circumference measuring tape received the Good Design Award 2011 from the Japan Institute of Design Promotion, which is given for designs that enrich both people’s lives and society as a whole. After the 2011 Japan Earthquake, the MNA-SF was used in evacuation centres to quickly and easily detect nutritional status in vulnerable older adults.

The Interactive MNA is now available in Chinese, English, French, German, Greek, Italian, Sinhala, Spanish, Turkish and Thai. Other languages forthcoming.

For more information about the Mini- Nutritional Assessment tool, please visit the Mini Nutritional Assessment website.

iPhone app

The MNA Short Form is now available as an iPhone, mobile digital device application. The app, which is available free of charge through i-Tunes, means busy clinicians can quickly screen for malnutrition and obtain results and intervention recommendations while maintaining patient confidentiality.

Eating Assessment Tool

Nestlé Health Science has also developed the Eating Assessment Tool, EAT-10, which helps to identify dysphagia problems early in vulnerable patients who have swallowing difficulties. Dysphagia is particularly prevalent in frail, elderly people, and those with recurrent pneumonia or neurological conditions, but 75% of dysphagia patients are never diagnosed^A. EAT-10 is a fast, flexible and clinically validated screening tool, which detects dysphagia risks^B.

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Consumer information

We need to communicate responsibly to consumers, particularly to children, so all Nestlé companies are required to abide by the Nestlé Consumer Communication Principles, over and above any applicable laws.

As part of our overall responsibilities, we participate in local, regional and national nutrition education programmes, provide nutrition, health and wellness information on our websites and we use clear, user-friendly on-pack labelling, such as the Nestlé Nutritional Compass. This information panel helps consumers make more informed decisions about the food they eat through four elements: a standardised nutrient table; explanations of the ingredients and nutrients the product contains; tips for responsible product enjoyment; and contact details and links to more information.

Nestlé Nutritional Compass

The Nestlé Nutritional Compass® appears on product packaging representing 98% of our total sales volume around the world [KPI]. Launched in 2005, the Compass is designed to be a clear, transparent labelling guide that goes beyond simply listing figures to help consumers choose a healthier and tastier product.

With our research revealing that 60% of consumers find the Nutritional Compass more helpful than other comparable product information systems, we have introduced subtle changes to make it even more helpful and relevant to consumers. Firstly, a *Nutritional Information* box clearly states the amount of specific nutrients the product contains, such as protein, carbohydrate, fat and sugar. A *Good to know* or *Good question* box features product-specific information. A *Good to remember* box offers tips on healthy usage of the product in a healthy lifestyle and the *Good to talk* section provides contact details for the relevant consumer services teams.

In Poland, Nestlé recently partnered with two major retailers to create an in-store Nutritional Compass campaign, offering consumers nutrition education and customised nutrition advice. Meanwhile, in the Middle East, Nestlé has commissioned recipe books that use the Nutritional Compass to convey helpful nutritional facts, and in India we have adapted the Nutritional Compass for use on mobile phone platforms to provide busy consumers with rapid access to nutrition, health and wellness information.

In Europe, the Nestlé Nutritional Compass has been adapted to feature a complete Guideline Daily Amounts (GDA) table for the “big 8” nutrients (energy, carbohydrates, proteins, fats, sugars, saturated fats, sodium and fibre). GDA labelling was developed by Food&DrinkEurope (formerly the CIAA, i.e. the European Confederation of the Food and Drink Industries) as a voluntary nutrition labelling scheme, but their inclusion is Nestlé policy from the onset.



CASE STUDY: Nestlé Nutritional Compass



At the end of 2011, the GDA indication for energy featured on the front of pack of 98.9% of our products in Europe (in sales value) compared to 98.7% in 2010 [KPI]. This is in line with the FDE's long-term EU-wide target of 100%. The front-of-pack information is systematically complemented with additional GDA values in a nutrition table on back of pack for these same products, thus providing consumers with the appropriate information to contextualise and make informed choices. In 2011, Nestlé also committed to deploy GDA labelling worldwide to ensure all our consumers access this useful information (already 45.2% achieved in global sales value at end of year).

We also aim to communicate environmental information to our consumers, and all business units are encouraged to embed Creating Shared Value and sustainability into their business strategy and consumer communication. These environmental and socio-economic dimensions are of increasing interest to the public and our trade partners, and complement our existing focus on taste and nutrition.

Promoting daily hydration with water

Healthy habits, including drinking water regularly throughout the day, should be acquired during childhood. Surveys have confirmed that mothers recognise good hydration as important and most often think their children are not sufficiently hydrated but do not know how much is needed.

To better help parents, we endeavour to make recommendations engaging and educational. Information campaigns are being deployed in the public press and the Nestlé Nutritional Compass® on product labels proposes practical tips. The taste of various bottled waters is also described on the labels to encourage awareness and enjoyment, and bottles for children's lunchboxes are made attractive and convenient for little hands.

Other key caregivers are also involved. Teachers, for example, are offered appealing hydration toolkits within the WET initiative and, increasingly, within the Nestlé Healthy Kids curriculum. Our Healthy Kids Programme already reaches 4 million children and is active in more than 50 countries.

To equip communities further, the Nestlé Nutrition Institute provides healthcare professionals with the latest information on hydration.



Digital tools and support for consumers

In an increasingly digital age, with over 50% of consumers globally considering the internet as a key resource for nutrition or health (up to 78% in countries such as France, UK, Canada, Australia and Japan), providing interactive support online has been and will continue to be a focus for Nestlé. Working at a country level to ensure communication is culturally tailored, we aim to provide practical information and interactive tools to support consumers in making informed choices about their diet and lifestyle. Websites are complemented with newsletters, practical videos on YouTube, Facebook communities and mobile apps.

Germany

Nestlé Ernährungsstudio (Nutrition Studio), launched in 2005, is one of the most popular nutrition websites in Germany. Consumers can email nutritionists with questions and sign up to a personalised coaching programme offering tailored individual weekly nutrition and fitness plans. In 2011, there were over 380 000 registered users and more than three million visits.

Spain

Nestlé Spain offers consumers a comprehensive source of nutritional information, a cooking site with recipes with nutrition facts, advice and ideas for healthier eating and Nestlé TV – which has a dedicated wellbeing channel. There are also live online chat sessions with nutritionists.

Australia

Exploring the principle that health and happiness often go hand-in-hand, Nestlé Australia is currently evaluating “how happy and healthy” Australians are.

The Happily Healthy Quotient, the first study of its kind, offers consumers the opportunity to have their level of fulfilment with life rated based on their answers to a 10-minute survey looking at both lifestyle factors and emotional responses. More than 80 000 people had taken part by the end of 2011. Once participants have completed the survey, a team of experts in psychology, nutrition and fitness, provide them with tips to improve their lifestyles and overall wellbeing.

Japan

Nestlé Japan responded to a key concern of their consumers, weight management, by providing an innovative smart phone app to help consumers track and achieve their goal of reaching a healthy weight.

The app provides healthy recipes, weight assessment and goal setting, as well as easy tracking and management of calories.

Brazil

Nestlé Brazil provides consumers with a variety of interactive tools including BMI calculator, personalised recommendations on diet using the Brazilian Food Pyramid, food calorie search and guidance on exercising at home.



Healthy Kids Programme

The large-scale and increasing global health and development burden posed by non-infectious diseases is a concern to Nestlé. Solving this issue requires the involvement and cooperation of many parties including scientists, academics, consumers, health leaders, the food and beverage industry and national and international authorities.

The objective of the Nestlé Healthy Kids Global Programme, which started in 2009, is to raise nutrition, health and wellness awareness of school-age children around the world, and we intend to implement the scheme in all countries where we have direct operations.

The Nestlé Healthy Kids Global Programme forms an integral part of our commitment to improving global nutrition and health through the promotion of greater awareness, improved knowledge and effective practice of healthy eating and regular physical activity. We believe that regular exercise and healthy eating helps children achieve and maintain a healthy body weight. Education is therefore a powerful tool for ensuring that children understand the value of nutrition and physical activity, and continue leading healthy lives as they get older.

The programme is based on multi-partnership approaches, and more than 50 Healthy Kids programmes around the world are endorsed by national ministries of health or education. Additionally, Nestlé works together with over 250 other organisations including NGOs, nutrition institutes, national sport federations and local governments. While our nutrition expertise is at the heart of these programmes, Nestlé is not an education specialist, and Healthy Kids programmes are therefore implemented by our partners and designed in collaboration with them.

Global reach

In 2011, Nestlé Healthy Kids programmes reached more than six million children and pilot programmes started in countries such as Belarus, Bulgaria, Czech Republic, Georgia, Jamaica, New Zealand, Nigeria, Panama, Serbia, Trinidad and Tobago. At the end of 2011, there were 65 programmes operating in 60 countries and another 21 are in the pipeline for 2012 to 2014.

Adapting to local circumstances

As well as fulfilling stringent criteria, each programme is carefully monitored and evaluated and varies from country to country. With every country or community facing a different set of challenges, each solution must be based on a thorough understanding, and must also be tailored to local health needs if they are to truly succeed over time.

Nestlé Healthy Kids Programme – global criteria

- Assessment of community needs.
- Focus on nutrition education and physical activity for school-age children.
- Expert implementing partners.
- Intensity of the programme to ensure impact.
- Corporate programmes, therefore unrelated to product brands and marketing.
- Programme monitoring and evaluation.



NUTRITION EDUCATION: Nigerian children using textbooks provided by the Nestlé Healthy Kids global programme. Launched in Nigeria in 2011 for 8 to 10 year olds, it promotes a healthy lifestyle, balanced diet and physical activity and reached 5000 pupils in the first six months.



Challenges, improvement areas and future plans

- Monitoring and evaluating results will be a key improvement area for 2012. Some of the pilot programmes did not meet expectations and were therefore abandoned in 2011.
- Healthy Kids programmes' implementation was delayed in several countries, in particular in Africa, where some challenges did not yet allow for the criteria to be met.
- The global financial crisis also had consequences, for instance in Greece, where one of the two pilot programmes was abandoned to refocus resources on one programme.
- While scaling up the programme is important, the emphasis in 2012 will be on deepening quality and impact of existing programmes and widening the partnerships to new expert groups.

Ecuador – Nutrir programme

The Nutrir programme in Ecuador teaches children in public schools important and practical topics on the basics of healthy eating habits, food safety, physical activity and hygiene. Some unique aspects of the programme include teaching children about local Ecuadorian products and setting up organic family orchards in the area. Launched in 2009, the programme has now reached 62 000 children in 300 schools across the country. The teaching material is reviewed by the Ministry of Education and Ministry of Sport. Tests before and after the schemes have shown a gradual increase in nutrition knowledge with 60% of children having improved their knowledge on matters related to nutrition.



Italy – NutriKid

Nestlé Italy's NutriKid programme offers a variety of teaching material to make learning about nutrition engaging and memorable and, in an effort to adapt to new needs and habits of society, the programme has been revamped to include a range of foods present in Italian society. In 2011, the programme reached 60,000 primary school-age children in 400 public schools in the country, and results show that 99% of the children monitored have started a regular habit to have breakfast.





Rural development



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



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Factory impacts

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



Farmer impacts

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



Supply chain

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



Milk

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



Coffee

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



Cocoa

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



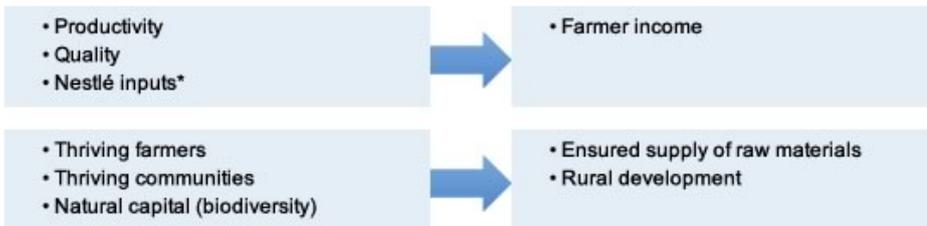
Overview

Rural development and Creating Shared Value

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

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

Ensuring supply, driving rural development



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

Context and challenges

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

Goals

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

Action

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



Performance summary

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

Systems

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



Context and challenges

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

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

Other global challenges include:

Population growth

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

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

Rural poverty

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

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

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

Agricultural production

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

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



Land availability

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

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

Agriculture and water

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

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



Our systems

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

Organisational responsibilities

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

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

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

Farm-level and community-level impacts

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

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

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



Sourcing and supplier development

Key policies and commitments

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

Management and monitoring

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

Environmental management in our factories

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



Rural development impacts of our factories

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

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

What is a “rural” factory?

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

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

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

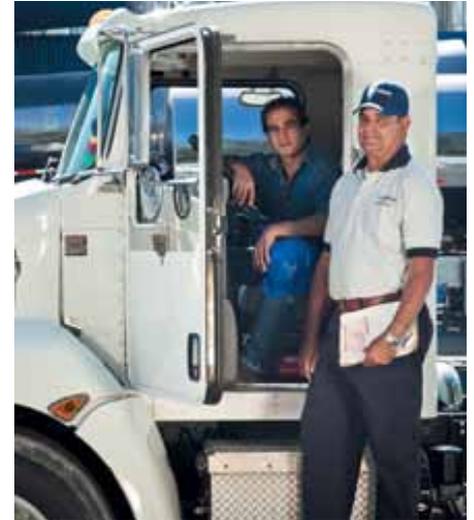
Today, roughly half our factories are located in the developing world. 73% of our developing-country factories – based on a 2010 sample of 422 of our factories – are located in rural areas.

The rural development impacts of a factory

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

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

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



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

Factory impact survey

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

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

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

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

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



Local manufacturing commitment

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

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

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

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

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

New breakfast cereal factory to meet local demand in Malaysia

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

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



Farmer programmes

Our approach

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

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

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

Building capacity, technical assistance and training

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

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

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

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

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

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



Multi-stakeholder programmes

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

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

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

Local Cow Financing Scheme, Pakistan

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

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

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



Community engagement

Our approach

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

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

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

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

Respecting the rights of indigenous peoples

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

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

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



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

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

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

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

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

Location of the operations with significant potential or negative impacts

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



Prevention and mitigation

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

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

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

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

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

Level of compliance

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

Achievement

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



Complaints handling and resolution

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

Nestlé Waters brings relief

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





Sourcing overview

Our supplier base

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

Our supplier base includes:

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

Our sourcing profile

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

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

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

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

Read about:

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



Tackling child labour

Our commitments

Child labour has no place in our supply chain.

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

Our actions

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

Cocoa supply chain

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

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

Hazelnut supply chain

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

Vanilla supply chain

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

Our approach

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

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

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

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



Key elements

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

Working with the Fair Labor Association

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

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

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

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

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



Combating deforestation

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

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

Palm oil

Specifically on palm oil:

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

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

Supplier selection

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

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

Scott Poynton, Executive Director, The Forest Trust

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

Andy Tait, Senior Campaign Advisor, Greenpeace



Global zero-net deforestation

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

Recognition for our commitments

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

Project RiLeaf: supporting palm oil communities in East Malaysia

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

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

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

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

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



Promoting human rights among our suppliers

Our commitments

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

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

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

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

Human rights assessments

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

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

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



Milk

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

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

The milk district model

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

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

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

Value for Nestlé, farmers and communities

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

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

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

Nestlé Dairy HUB Project, Pakistan

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



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

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

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



Coffee

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

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

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

The coffee supply chain

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

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

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

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



The Nescafé Plan

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

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



By 2015, we will have:

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

By 2020, we will have:

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

Marketing certified coffee to consumers

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

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

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



Sustainable coffee platforms

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

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

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

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

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



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



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



Nespresso

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

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

Goals and performance

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

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

About the *Nespresso* AAA Sustainable Quality™ programme

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

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

Central America

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

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



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

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

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

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

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

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

Extending the the Nespresso AAA Sustainable Quality™ programme

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



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



Cocoa

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

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

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

The Nestlé Cocoa Plan

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

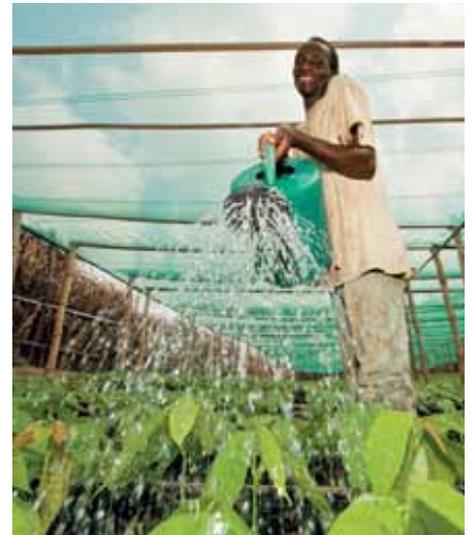
- investing CHF 110 million in cocoa plant science and sustainability initiatives from 2010-2019;
- distributing 1 million high-yielding, disease-resistant cocoa plantlets each year from 2012, which helps to address the issue of declining quality and yields are linked to old and dying cocoa plants;
-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

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

Focus areas

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

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



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



Certification

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

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

Performance

In 2011 we:

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

Targets

Our targets for 2012 are to:

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

Recognition for The Nestlé Cocoa Plan

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



Training farmers

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

Training for farmers in Côte d'Ivoire

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



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

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

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

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



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

Investing in plant research

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

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

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

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

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

Improving cocoa quality in Ecuador

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

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



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



Improving the supply chain

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

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

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

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

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

Extending The Nestlé Cocoa Plan to Indonesia

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

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



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



Improving social conditions

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

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

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

Children’s education in Côte d’Ivoire

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

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

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

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



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



Creating Shared
Value at Nestlé

Nutrition

Rural
development

Water

Environmental
sustainability

Compliance

Our people

Framework for action

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



Animal welfare

Context

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

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

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

The meat and fish supply chain

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

Goals

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

Systems, actions, performance

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

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

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

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

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



Other commodities

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

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

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

Responsible sourcing of sugar

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

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

Responsible sourcing of soya

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

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

Responsible sourcing of natural vanilla

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

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

Responsible sourcing of hazelnuts

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



Responsible sourcing of pulp and paper

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

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

Millet: Introducing a new crop in central Spain

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

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

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

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

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

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



Hazelnuts

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

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

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

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

For the Government:

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

For International buyers:

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



Nestlé Action Plan:

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

More information:

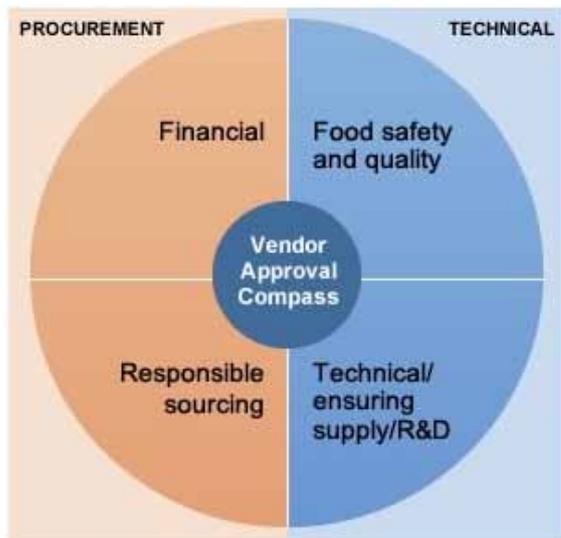
For more information on our work with the FLA, visit the Fair Labor Association website.



Vendor approval process

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

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



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

Financial

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

Responsible sourcing

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

Food safety and quality

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

Technical/Ensuring supply/R&D

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

Implementing the Nestlé Supplier Code

Driving compliance, sustainability and Creating Shared Value

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

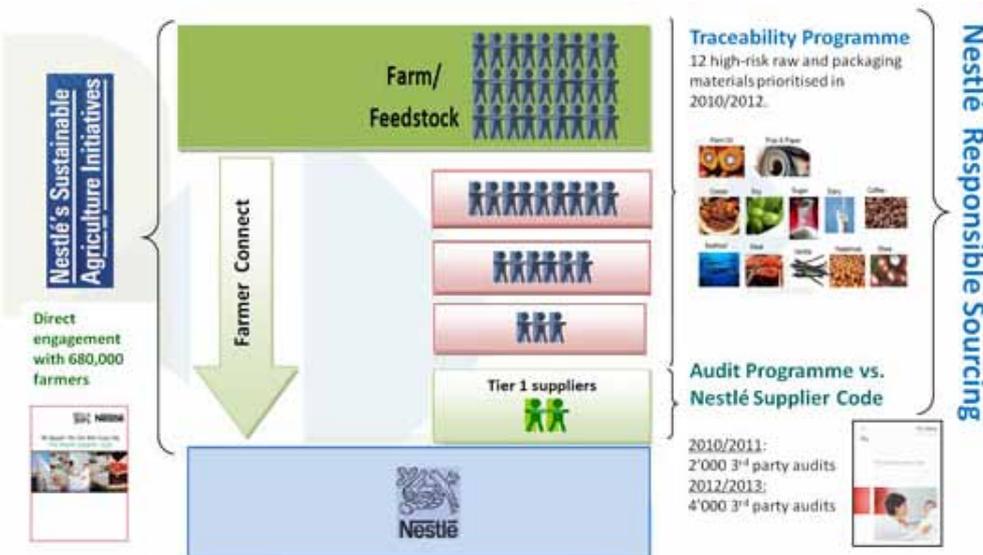
The Nestlé Supplier Code

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

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

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

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





Communication, compliance and verification

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

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

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

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

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

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

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

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

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



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

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

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

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

Coffee and cocoa

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

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

Third-party certifications and Responsible Sourcing

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

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

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

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

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

Duncan Pollard, Sustainability Advisor, Nestlé



Responsible Sourcing Audit Programme

Overview of process

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

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

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

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

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

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

Current status and compliance results

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

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

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



Looking ahead

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

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

Improving the efficiency of supplier assessments

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



Responsible Sourcing Traceability Programme

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

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

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

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

The programme is based on:

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

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

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



Supplier compliance

Audit programme results 2011

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

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

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

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

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



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 one of the focus areas of Creating Shared Value. Nestlé's water efforts are centred around the six elements of the UN Global Compact (UNGC) CEO Water Mandate.

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 one of the focus areas of Creating Shared Value. Nestlé’s water efforts are centred around the six elements of the UN Global Compact (UNGC) CEO Water Mandate.



Public policy

We are committed to action-oriented dialogue with all stakeholders to help formulate strategies aimed at addressing the water “overdraft”.



Partnerships

We are working with others, through the Water Resources Group, UNGC CEO Water Mandate and other networks, to exchange ideas, foster new thinking and develop innovative solutions.



Operations

We are embedding sustainable water management into our business, implementing water-saving programmes and working to improve the water efficiency of our products.



Supply chain

To secure our long-term access to raw materials, we support hundreds of thousands of farmers through direct investment and training in water management, and work with other local stakeholders to share best practices.



Communities

Working with non-governmental organisation (NGOs), we help fund, support and run sustainable water management schemes to help improve conditions in communities on whom we depend for our raw materials.



Our commitments

Our W.A.T.E.R. Commitments in water use and stewardship, first announced in 2006, are key to driving water performance through our operations, supply chain and within communities.



Overview

Water and Creating Shared Value

Value for Nestlé: continuously improving environmental performance; productive factories; reduced risks; reduced costs; long-term availability of raw materials and water; and sustainable, profitable growth.

Value for society: addressing water challenges including universal access to clean water and sanitation facilities; raising water management standards in agriculture; and safeguarding farm viability and farmer incomes.

Context

Though we have enough freshwater across the world as a whole, a growing, more prosperous and increasingly urban population, combined with the impact of climate change, is making water scarcity a serious reality in many parts of the world.

Our goals

Our W.A.T.E.R. commitments in water use and stewardship, first announced in 2006, are key to driving water performance through our operations, supply chain and with communities:

- W**ork to achieve water efficiency across our operations
Leading in water resource management and excelling in the direct reduction of the direct water use in all our facilities.
- A**dvocate for effective water policies and stewardship
Promoting public policies that place value on water at every level.
- T**reat effectively the water we discharge
Setting strict targets for returning clean water to the environment.
- E**ngage with suppliers, especially those in agriculture
Helping to improve their water management with focus on impacts at watershed level.
- R**aise awareness of water access and conservation
Engaging employees, communities and consumers in the water imperative.

Since making these commitments, we have continued to gather feedback from stakeholders. In 2011, we undertook an extensive internal review and at the same time consulted externally with leading experts.

We are developing a set of key performance indicators (KPIs) that will underpin our qualitative W.A.T.E.R. commitments.

Systems

Nestlé manages its water impacts through The Nestlé Policy on Environmental Sustainability, which is detailed in the Environmental sustainability section.



Context

The ever-expanding demand for water by the world's growing, more prosperous and increasingly urbanised population, combined with the impacts of climate change policies and responses, mean that water is of increasing strategic importance for business and economic prosperity. Yet water scarcity is a reality in many parts of the world and with it, livelihoods, human health and entire ecosystems are under threat.

Increasing shortage of freshwater

By 2030, demand for water is forecast to be 50% higher than today, and withdrawals could exceed natural renewal by over 60%, resulting in water scarcity for a third of the world's population. With more than two-thirds of all water being withdrawn by agriculture, food security is also at stake if we are not able to solve the world's water crisis. (2030 Water Resources Group 2009; IWMI 2003)

Impact on food security

There are documented risks of global cereal production falling short by up to one-third. And due to the overuse of groundwater, fluctuations in availability and prices of food worldwide resulting from weather patterns will become more severe. The water crisis has become global. (2030 Water Resources Group 2009; IWMI 2003)

Increased competition for freshwater

Currently, 70% of freshwater withdrawn is for agricultural use, and 85% in developing countries (World Bank). Further pressure will be put on water in agriculture due to changing dietary habits (increased meat consumption – meat production uses 10 times more water than vegetarian production) and subsidised biofuels (Hoekstra).

Access to safe drinking water

There has been significant improvement since 1990, but 884 million people (1,215 million in 1990, 850 million in 2006) – 37% of whom live in Sub-Saharan Africa – still use "unimproved sources" for drinking water, which includes unprotected wells and vendor-provided water. The poorest pay up to 10 times higher prices for water of precarious quality from street vendors. The sanitation situation is even worse; 2.6 billion people have no access to improved sanitation. (UNICEF/WHO 2010)

Water quality

During 1999–2000, the United States Geological Survey conducted the first nationwide investigation of the occurrence of pharmaceuticals, hormones and other organic contaminants in 139 streams from 30 states. A total of 95 contaminants were targeted including antibiotics, prescription and non-prescription drugs, steroids and hormones. A surprising 80% of streams sampled were positive for one or more contaminant; 13% tested positive for more than 20 targeted contaminants. (<http://www.usgs.gov/>)

Bottled water

Indeed, 70% of total global freshwater withdrawals are used by agriculture, 20% by industry, and 10% by households. Nestlé Waters uses 0.0009% of global freshwater withdrawals. It is not in the interests of our long-term business activities to mismanage the water resources we use.



Expert views

Nestlé has invited two leading water experts, Edna Molewa MP, Minister of Water and Environmental Affairs in South Africa, and Professor John Briscoe of Harvard University, to consider the global water challenge from differing perspectives.



“In our country of about 50 million people, we face the challenge of freshwater scarcity, which is exacerbated by its growing demand, pollution of its sources, unsustainable usage and wastage. Factors such as climate change and population growth also lead to an increase in water consumption.”

Edna Molewa MP, Minister of Water and Environmental Affairs in South Africa, discusses the challenges faced by South Africa in relation to freshwater scarcity – a problem exacerbated by growing demand, the pollution of sources, unsustainable usage and wastage.



“Water insecurity looms as one of the great challenges of the 21st century, and it is one that policy makers and business leaders must face together.”

Professor John Briscoe, who was Senior Water Advisor and Brazil Country Director for the World Bank and is now the Gordon McKay Professor of the Practice of Environmental Engineering at Harvard University, considers how the private sector is becoming an increasingly important contributor to the debate on water policy.



The view from South Africa

Mrs Edna Molewa, MP, is the Minister of Water and Environmental Affairs in South Africa.

In our country of about 50 million people, we face the challenge of freshwater scarcity, which is exacerbated by its growing demand, pollution of its sources, unsustainable usage and wastage. Factors such as climate change and population growth also lead to an increase in water consumption.

We admit that there are real and significant challenges with regard to water management in our country. In this regard, we have already begun to think creatively about different ways of preserving and protecting this precious resource, thus making more water available for economic growth and the creation of decent jobs.

South Africa is a water-scarce country with a low rainfall – about 50% of the world average – and one of the lowest run-offs in the world. Rainfall is also highly seasonal, with around 80% occurring within a span of five months. While this raises many concerns regarding water availability and security in the country, the South African government believes that if we manage our resources well and use water judiciously, there will be no imminent shortage of water. Current projections indicate that South Africa will, in all probability, exceed the limits of our economically useable land-based water resources by 2050. However, my department is working on innovative measures to ensure that there will be clean water for human consumption for future generations

We have no option but to change our behaviour and attitudes towards water use, as part of our ongoing endeavours to build sustainable livelihoods for the people of our country. Indeed, if we do not change the way we use our water resources, challenges will be experienced in our initiatives to make more water available for economic growth and the creation of decent jobs. Water limitations will create constraints to meet the energy generation capacity we need for economic growth. It will also impact negatively on the agricultural sector's ability to create jobs and provide food security for our country. The mining and industrial sectors will also experience constraints in contributing to economic growth and employment creation.

We therefore have a collective responsibility to proactively protect our water resources. In this regard, the work that Nestlé's Mossel Bay factory in South Africa has done in reducing its water consumption by 50% in 2010 is to be applauded. It is encouraging to note there are companies that look internally into their processes to improve the efficient use of water, thereby encouraging other water users to do the same.

We also congratulate Nestlé as the winner of the 2011 Stockholm Industry Water Award for its leadership, performance and efforts to improve water management within its supply chain globally. The education of the general public on water conservation continues to be highly imperative. Thus, we have begun with campaigns aimed at raising awareness about water conservation and encouraging our communities to get involved in waging war against water wastage. We have also commenced a programme to desalinate sea water for domestic consumption in severely water-stressed areas.



EDNA MOLEWA: Mrs Edna Molewa, MP, is the Minister of Water and Environmental Affairs in South Africa.



Collectively, these interventions contribute towards making more water available to allow our country to pursue the strategic objective of growing the economy and creating more decent jobs. To improve the collaboration with business, we signed a Memorandum of Agreement with the Water Resources Group (WRG), an influential public-private global network on water, supported by the World Economic Forum and the International Finance Corporation. The intent is to forge a partnership with WRG through a public-private group, chaired by a Director-General of my department, to oversee the activities to address critical water issues in South Africa: water conservation, demand management and developing more sustainable management of groundwater resources.

We invite all citizens of South Africa to support us in this quest to make our country a water-conscious country for the benefit of present and future generations. As we chart a new policy context, we shall continue to infuse in our approach the constitutional and human rights imperatives towards our service delivery model.

We trust that we can continue to rely on the support of various stakeholders, particularly companies like Nestlé, as we do our work to make more water available for economic growth and the creation of decent jobs.

The comments on this page are the author's independent opinions and are not necessarily shared by Nestlé.



The business of water

Professor John Briscoe was Senior Water Advisor and Brazil Country Director for the World Bank. He is now the Gordon McKay Professor of the Practice of Environmental Engineering at Harvard University.

Water insecurity looms as one of the great challenges of the 21st century, and it is one that policy makers and business leaders must face together.

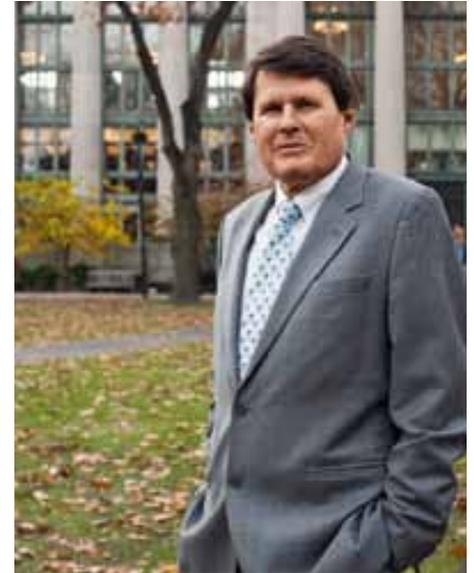
Public sector leaders and non-governmental organisations have long dominated the debate on water policy. However, over the last decade, a growing number of private sector companies (with Nestlé playing a leading role) have also started to engage, on two tracks.

Track One is being defined by companies that are developing technologies, which can enable society to get more product – more food, energy, income, employment – per drop of water. There are three broad segments. The first comprises companies that develop productivity-enhancing seeds and agricultural technologies. A second segment of companies is developing new technologies for treating water and wastewater. The third segment comprises companies that provide users with just-in-time and just-what’s-needed information, such as on the probability of rainfall, on soil moisture, on water and on fertilizer requirements. Precision agriculture can produce much more crop per drop than traditional methods can, and industries and cities can use much less water too.

Track Two is motivated by the understanding that growing concerns regarding water scarcity and quality can become a threat to a company’s social licence to operate. Companies have responded in several ways. Some have made large donations to activist groups in the hopes of buying peace; others have focused on the water standards that they can then meet in their plants. The most far-sighted of these companies, however – with Nestlé a leading example among them – recognise that while companies have to manage water and other resources efficiently behind their factory gate, society (along with companies and their suppliers) needs an equitable, efficiency-stimulating, and predictable legal and regulatory environment that governs all water uses in a watershed. These companies also believe that private businesses have useful and legitimate inputs to make into the policy formulation process.

I have seen, first-hand, two examples where companies are engaging on this big stage.

The first example was in Brazil, where improving the quality of public sector performance is, arguably, the biggest systemic challenge facing the country. Eight years ago, a newly elected Governor of one of the largest states realised this but did not have the people or tools to address the problem. The Governor approached executives from two of Brazil’s most successful high-morale companies (InBev and Gerdau). Together, they laid down two basic ground rules: that they would assist only if the effort were led by the Governor, and there would be very careful avoidance of even the hint of a conflict of interest. The companies then provided human and financial resources, which the state used to execute a hugely successful “management shock”, a process that is now being emulated in a dozen other Brazilian states.



JOHN BRISCOE: Professor John Briscoe was Senior Water Advisor and Brazil Country Director for the World Bank. He is now the Gordon McKay Professor of the Practice of Environmental Engineering at Harvard University.



The second example is in Pakistan, where the Chief Minister of the largest province is pulling together public and private expertise to address the existential challenges of water productivity and water security. The private effort has been led by the local private sector, with multinationals – led by Nestlé – playing a strong supporting role.

Nestlé engages for three reasons. First, its corporate philosophy of Creating Shared Value plays a major role, because Nestlé in Lahore is not just the milk factory, but includes the 190 000 farmers who provide milk to the factory. These farmers tell Nestlé that water is a major challenge – not only for their cattle, but for their crops and their families.

Second, Pakistan is an important and profitable market for Nestlé and the Company realises that its corporate well-being is dependent on a more prosperous and secure country.

And third, while Nestlé is, of course, a multinational, in any place (like Pakistan) it is at least as much local as international. One of Pakistan's most far-sighted business leaders is a major shareholder, and Nestlé's staff is almost exclusively Pakistani. And every Pakistani knows just how vulnerable his or her country is when it comes to water. And so Nestlé – like InBev and Gerdau in Brazil – is putting its management know-how at the service of reforming political leaders, and encouraging other domestic and international companies to do the same.

Dealing with the growing and changing threat of water insecurity is one of mankind's great, existential challenges. The glass is certainly half empty. But it is also half full, as political leaders increasingly engage with the fundamentals of reform, and as business leaders understand that this is an issue where they can, in partnership with progressive political leaders, make a big, systemic difference.

The comments on this page are the author's independent opinions and are not necessarily shared by Nestlé.



Public policy

The global issue of water “overdraft” cannot be solved by the private sector alone. To stimulate concrete action, we are heavily involved in the public policy debate, and are convinced that committed engagement with relevant stakeholders at watershed, government and international levels is the right way to develop effective strategies.

Key challenges

- Engaging effectively with governments to demonstrate that water shortage can be overcome at an affordable cost.
- Although our pilot projects are encouraging, getting government buy-in and leadership remains crucial.

Goals

- Participate in the public policy debate on balancing water withdrawals with natural renewals.
- Contribute to action-oriented dialogue that will increase the efficiency of water use at a watershed level, to deliver a balanced regulatory framework.

Actions

- Engaging in public sector dialogue with national governments and inter-governmental fora.
- Chairing the 2030 Water Resources Group and leading the World Economic Forum water effort.

Performance

- Water cost curves tested in India, Pakistan, South Africa, Jordan, Mexico and Mongolia, with the Water Resources Group.
- Participation at high level in public-private sector dialogue in several fora including World Economic Forum, World Water Week and Chatham House.



BRINGING LOCAL STAKEHOLDERS TOGETHER: A World Economic Forum Water Resources Group Meeting in Mongolia in June 2011.



Contributing to the public debate

Water has been an issue of concern and action for us since the 1930s, when we built our first wastewater treatment plant. Today, we remain active and concerned, exemplified by the engagement of Nestlé Chairman Peter Brabeck-Letmathe with the World Economic Forum (WEF) over many years, including its Annual Meeting in Davos, Switzerland, in January 2011.

Since 2008, we have also played a leading role in the 2030 Water Resources Group (WEF-WRG), formed with the International Finance Corporation of the World Bank Group, McKinsey & Company and a consortium of business partners. Under the leadership of Mr Brabeck-Letmathe, the WEF-WRG seeks new insights into water scarcity, explores the opportunities and costs of possible solutions, and fosters results-based stakeholder dialogue. Beyond the debate, we also want to be part of the solution with our own efforts within the context of a cost-effective, comprehensive strategy.

Stockholm Industry Water Award

At World Water Week, the Stockholm Industry Water Award was presented to Nestlé in recognition of our improved management and efficiency of water use in our operations. Since 2001, we have reduced total water withdrawals by 28%, and aim to reduce water use by a further 10% by 2015.



RECOGNITION: Nestlé Chairman Peter Brabeck-Letmathe accepts the Stockholm Industry Water Award on behalf of the Company



Charting our water future

After a year-long collaboration, the World Economic Forum – Water Resources Group (WEF-WRG) published its landmark report, *Charting Our Water Future*, in November 2009. As well as providing a clear insight into global challenges, the work also provides practical tools to help stakeholders compare the impact, scale, cost, trade-offs and effectiveness of different measures and technologies to reduce the water gap at a watershed level, enabling water management to be integrated into wider economic and social decisions.

The water cost curve is a key tool, designed to add to stakeholder understanding by providing a comprehensive assessment of supply- and demand-side levers that can bring water withdrawals in individual watersheds back into line with natural renewal.

India, for example, has long invested heavily in large-scale water infrastructure but managing its water resources remains a key challenge. In *Charting Our Water Future*, the WEF-WRG analysed 140 measures and selected 37 that could help close India's projected supply/demand gap across 19 major catchment areas. If the cheapest options were selected for managing water resources, annual expenditure in 2030 would be USD 5.9 billion.

Major water challenges for us all

Long daily treks to collect and carry water (six kilometres on average by African women and children (International Federation of Red Cross and Red Crescent Societies)), no access to improved water sources, and no access to adequate sanitation are difficult realities for many. Better public policy and governance are important to Nestlé because they are on the critical path towards universal access to clean water for every person – an ambition which we wholeheartedly support – and at the same time, in working towards solutions that tackle water security issues faced by millions of people we are also minimising the risks to our own business.

6 km

The average daily walk to collect water by African women and children.



José Lopez, Nestlé Executive Vice President, Operations, meets the King and Queen of Sweden at the Stockholm Industry Water Award ceremony in August 2011.

Testing the water cost curve

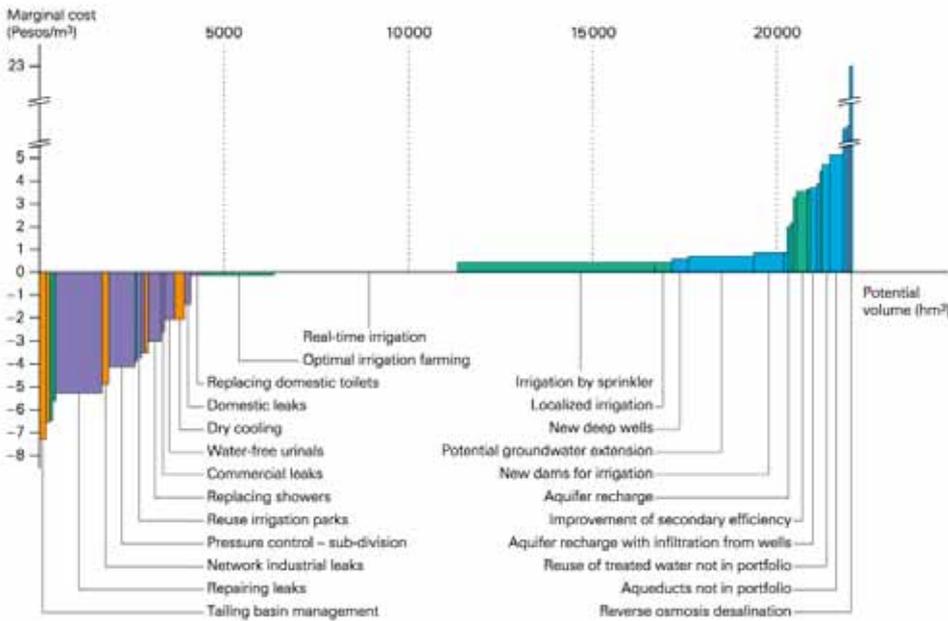
Ultimately, solutions are needed for watersheds, river basins and aquifers and Nestlé is leading the way through several multi-stakeholder pilot projects to assist governments in setting priorities and developing strategies.

In Mexico (see cost curve below), an intense effort has been made to carry out rigorous prospective scenarios in each of the country's 13 hydrological-administrative regions. In order to achieve balanced supply and demand for water, it will be necessary to concentrate on four lines of action: increasing the modernisation (relining primary and secondary channels) and the technification of irrigation districts and units; continuing with the construction of infrastructure to supply areas of growth; boosting efficiency of drinking water and sanitation systems; and increasing the use of efficient technologies in homes, businesses and industry.

We are also supporting coordinated action to deepen the Mongolian authorities' understanding of water resources, future demand and the full range of possible solutions, and develop a 'Mongolian Water Initiative' implementation plan.

The 2030 Water Resources Group Water Cost Curve

Measures that integrate technical solutions, nationwide



Source: 2030 Water Agenda (National Water Commission of Mexico)

Bringing local stakeholders together

The World Economic Forum-Water Resources Group is led by Nestlé Chairman, Peter Brabeck-Letmathe, and is actively seeking coordinated action involving all stakeholders at national and international levels.



ENGAGEMENT: A World Economic Forum-Water Resources Group meeting in Mongolia, co-hosted by the Office of the President of Mongolia and the Water Resources Group in June 2011, attended by Nestlé Chairman Peter Brabeck-Letmathe.



Collective action

The water challenge is a global issue that calls for joint action. Nestlé is committed to learning from others, as well as sharing our own learning – as a founding signatory of the UN Global Compact CEO Water Mandate, and as an active member of national and international networks.

Key challenges

- Selecting appropriately from a multitude of risk and impact assessment tools, which are set to expand, driven by demand from investors.
- Co-ordinating and harmonising across initiatives to deliver local, practical and multi-stakeholder solutions.

Goals

- Demonstrate leadership in voluntary multi-stakeholder initiatives, which recognise water issues as shared risks and responsibilities and promote water stewardship.
- Pursue collective action in watersheds relevant to our operations to balance water use.

Actions

- Acting in all workstreams of the CEO Water Mandate and one of the first companies to contribute to the Water Carbon Disclosure Project (CDP).
- Advocating for common standards through ISO 14046, the Alliance for Water Stewardship (AWS) and the Water Footprint Network.
- Engaging in local water preservation and stewardship initiatives in countries including Colombia, India and France.

Performance

- Appointment to AWS International Standard Development Committee: first draft standard by Q1 2012.
- Harmonisation of CEO Water Mandate and Water CDP reporting requirements.
- “Ecological corridors” in the Nestlé Waters Switzerland ECO-Broye project.



Managing water issues

We have embedded responsibility for water into our business units, providing a solid cross-functional platform to manage water-related issues. Our Water Task Force, chaired by José Lopez, sets high-level strategy, while our Operations Water Task Force translates this in operational targets, objectives and KPIs, enabling us to face current and future challenges, and delivering competitive advantage through responsible water management.

The Nestlé Water Taskforce also coordinates the Company's involvement in the various collective action initiatives, which translate our ambition to contribute to solutions to the global water crisis.



MANAGING WATER USE: Nestlé's Leonardo Manrique (wearing blue cap) joins dairy farmers and their families in Montanita, Ecuador in planting new saplings following a workshop on water value and conservation.

COLOMBIA – Improving water management

Through the SuizAgua project, we work with the Swiss Development Agency and a consortium of Swiss companies in Colombia to assess water use impact along the product life cycle. The project seeks to improve water management in dairy operations and the supply chain in Florencia and Bugalagrande, by estimating water use in traditional and silvopasture systems, helping farmers with water stewardship and improving the environmental performance of our products.

SWITZERLAND – Nestlé Waters partnership approach

Since acquiring the *Henniez* brand in 2007, Nestlé Waters' ECO-Broye programme has fostered local partnerships to help preserve natural resources and maintain farmer income in this region of Switzerland. The initiatives, which will be extended by the stakeholders themselves, involve farmers establishing "ecological corridors" across **1500 hectares of farmland** to preserve and stimulate local biodiversity; organic filtration in a tributary of the River Broye to improve surface water quality; and a biogas digester to turn organic farm waste into clean energy, to be controlled by Nestlé Waters.



PRESERVING NATURAL RESOURCES: Michel Marcuard, a Nestlé Waters Water Resource Champion, carries out sampling at the filtration area serving the Nestlé Waters plant in Henniez, Switzerland.



Engagement and disclosure

Nestlé is a founding signatory of the UN Global Compact CEO Water Mandate, a unique private-public initiative in which approximately 87 companies, including Nestlé, are working with environmental organisations and other stakeholders to support water disclosure, public policy engagement and the human right to water. We actively participate in the Mandate's working groups on these areas of engagement, and publish a public Communication on Progress every year; this report forms our 2011 communication.

In 2011, the Mandate held two working conferences in Copenhagen and Stockholm. Initiatives underway through the working groups include:

- *Water Disclosure Guidelines* to advance a more standardised global approach to corporate water disclosure;
- the *Water, Business and Human Rights* report of the Institute for Human Rights and Business, to which we contributed. A specific guidebook on how companies should implement the right to water and sanitation is also underway; and
- a Water Action Hub, bringing together companies, governments, NGOs and communities at a basin level. On the ground, collective action initiatives are ongoing in Southeast Asia and South Africa as well as continued engagement in the international water policy arena.

Stockholm International Water Institute

We also play an active role in Stockholm World Water Week in order to exchange ideas and innovations among experts, practitioners and decision-makers. This is an annual event hosted by the Stockholm International Water Institute and at the 2011 event, themed Water in an Urbanising World, the Stockholm Industry Water Award was presented to Nestlé. As well as participating in World Water Weeks, we collaborate with the Institute's experts on specific topics including the water impact of food waste.

CDP Water Disclosure Project

We believe that transparent disclosure is vital to aid financial and policy decision-making and therefore actively participate in the Carbon Disclosure Project (CDP) Water Disclosure Project. We helped extend the CDP questionnaire beyond carbon to include water, and were among the first companies to contribute to the CDP's Water Disclosure report in 2010, and again in 2011, detailing how we assess, manage and respond to water-related risks in our operations and supply chain. We have also been part of the CDP Supply Chain Leadership Collaboration initiative to assess our suppliers since its creation in 2007.

"Nestlé continues to demonstrate how important water is to its long-term success by assigning board-level responsibility for its Company-wide water policy and taking local action to reduce its exposure to water-related risk."

Marcus Norton,
Head of CDP Water Disclosure

Water Footprint Network

We are a member of the Water Footprint Network, founded in 2008, and participate in a working group, providing response options from the private sector aligned with the work we conducted in the 2030 Water Resources Group. We have also shared our water management experiences in Vietnam, India, the UK and Colombia.



Developing industry standards

Developing standards for assessing water use impact

Due to the current lack of global standards, organisations around the world apply different methodologies to assess the impact of water use. We support internationally consistent measurement and management tools, processes and practices, and we are actively participating in the development of a new ISO 14046 Standard Water Footprint – Requirements and Guidelines. Based on a life-cycle approach, the standard will deliver principles, requirements and guidelines for assessing the water impact of products, processes and organisations. It will also define how different water sources and releases, and local environmental and socio-economic conditions can be considered. This standard is expected to be complete by 2014.

Alliance for Water Stewardship

As a participant in the recently formed Alliance for Water Stewardship (AWS), we are working with others towards establishing a voluntary certification programme over the next two years, allowing water managers and users to demonstrate compliance with, or support for, a new International Water Stewardship Standard. This voluntary standard will help companies to measure, manage and engage with others, improve water stewardship practices beyond their own activities, and will complement regulatory efforts to reduce water-related impacts.

FRANCE – Product environmental communications to consumers

Nestlé France, Nestlé Waters and Nestlé Nespresso are participating in a national experiment on environmental communication to consumers in France. The initiative, launched in July 2011 by the French Ministry of Ecology, Sustainable Development, Transport and Housing, communicates environmental performance (greenhouse gas emissions, water, biodiversity) of products from *Vittel*, *Nescafé* and *Nespresso*. The year-long project will explore what is required to introduce environmental labelling on products in France. A similar test on consumer goods assessment has been started by the European Commission, in which we participate with *Nespresso*, *Nescafé*, *Vittel*, *KitKat* and *Purina Gourmet*. We are also co-chairing the Steering Committee of the European Food Sustainable Consumption and Production Roundtable, together with the European Commission, to develop a harmonised methodology to assess the environmental performance of food products.



EMBRACING TECHNOLOGY: A consumer in a Paris Nespresso boutique scans the barcode of a Nespresso product to learn about its environmental impact.



Direct operations

While acknowledging that we have made good progress over the years towards greater water efficiency, we know there is much more to do. We will continue to pursue rigorous water management standards and water-saving programmes throughout our operations.

Key challenges

- Developing and supporting collective action within watersheds from which our factories withdraw water, because most water stewardship challenges lie beyond our factory gates.
- Maintaining progress in water efficiency while delivering business growth.

Goals

- Be the most efficient water user among food manufacturers and lead in water resource management.
- Continuously improve water efficiency across our operations, further reduce water withdrawals and discharges, and return clean water to the environment.

Actions

- Embedding sustainable water management into business decisions by preserving water availability and quality, and by improving the environmental performance of our products, including their water efficiency.
- Implementing programmes to reduce water withdrawal and reuse water, use alternative water sources such as rainwater harvesting and invest in water-saving technologies.

Performance

- 274 water-saving projects run in our factories, Water Resources Review programmes conducted at 100 Nestlé sites and CHF 28 million invested in water-saving and cleaning programmes during the year.
- 28% reduction in water withdrawals since 2001 [KPI], while our food and beverage production volume increased by 73% [KPI].



Water management

Driving operational efficiency

As part of our commitment to drive operational efficiency, we are focused on reducing water withdrawal and increasing reuse, using alternative water sources such as rainwater harvesting, and continually working to improve the water efficiency of our products. We aim to return clean water to the environment.

NIGERIA – Optimising water reuse and efficiency

The Agbara manufacturing complex is one of two Nestlé factories in Nigeria, producing a wide range of brands and products including *Maggi* Cubes, *Milo* and *Cerelac*. The close proximity of our food manufacturing plant and the Nestlé Waters plant at Agbara has enabled us to install a connection so that all surplus water from the Nestlé Waters deep well is used by Nestlé Nigeria plants, leading to a reduction in the water ratio (m³/tonne of finished product) and an annual water saving of 100 000 m³/year.



Determining water management action plans

Assessing the water-related risks facing our factories is crucial to identifying where to prioritise our water management efforts. The risk of reduced water quantity or quality – “physical risk” – is often linked to local **competition** among domestic, industrial and agricultural users.

Our factories are widespread in all continents and therefore share the same geographical distribution of water-stress level faced by our suppliers, customers and consumers. From our Combined Water-Stress Index, which takes an average of two leading publicly available water-stress indicators (water withdrawals to availability ratio; estimated annual renewable water supply per person for 2025), we evaluate that 40% of our factories are located in water-stressed regions, and 10% are situated in areas of severe water scarcity. Especially in water stressed areas, we strive to be the most efficient water user. We conduct Water Resources Reviews in these factories first – a process through which we evaluate the long-term availability of water resources around our factories, and through which we engage with stakeholders from academia, civil society and the public sector in order to address water management beyond our factory gates at a watershed level – to raise awareness, identify key issues and devise action plans.

The approach outlined above ensures that our operations not only respect the human right to water, but at the same time consider collective, long-term, local water sustainability.

We carried out Water Resources Reviews around 12 sites in 2011 and a total of 100 factories worldwide.



SOUTH AFRICA – Raising employee awareness and buy-in to water conservation

In 2010, the Western Cape region experienced its worst drought in 132 years, and in response Nestlé introduced a multi-pronged approach which included engineering interventions and awareness campaigns. The programme, which will run until 2015, is part of our work with organisations including the South African Government, the Water Resources Group (WRG) and several multi-national companies to help close the water gap by 2030, ensuring the availability of water in the future.

Conserving precious water

Nestlé, responding to the drought and need for enhanced water conservation, accelerated water use reduction projects and initiatives at the Mossel Bay factory.

The water saving project at the Nestlé factory, which is supplied by the municipality, reduced its water consumption by approximately 50% in 2010 compared to 2009 values. Significant savings of municipal water were due to the recovery and use of condensate from the milk evaporation process. This recovered water was used as make-up water for the boiler, refrigeration plant and cooling tower, to wash the Company's fleet of milk tankers, and washing the floor in the boiler.

Raising employee awareness

Nestlé used a multi-pronged approach to realise and sustain the water savings. This included awareness campaigns, measuring and monitoring water usage, sharing results and engineering interventions. Specific actions included:

- sharing information through notice boards and emails to reinforce the water saving message to staff, while water saving suggestions by staff were implemented and rewarded;
- using a water measurement system to monitor water usage in the various sections of the plant; and
- implementing water saving measures such as shortening automated wash times, modifying hosepipe nozzles to reduce water flow, reducing shower head water flow and reducing the pressure in ablution blocks.

By the end of 2010, the average monthly water consumption at the factory had dropped to approximately 13 600 kilolitres, equivalent to 7.5 kilolitres of water consumed per tonne of product produced. Phase three, which will run from 2012 to 2015, will involve engineering work to convert the factory into a zero water intake facility.

The Mossel Bay case study was featured in the 2030 Water Resources Group: Catalogue of Good Practices in water use efficiency document, which was prepared for the World Economic Forum 2012 Annual Meeting.



PHILIPPINES – Recovering and reusing rainwater

Our Lipa factory has constructed a system that collects rainwater from catchment areas, such as the *Coffee-Mate* warehouse roof, and supplies it to the cooling tower for use as make-up water. This is expected to enable the factory to reduce its overall water withdrawals by around 10 000 m³.



Performance

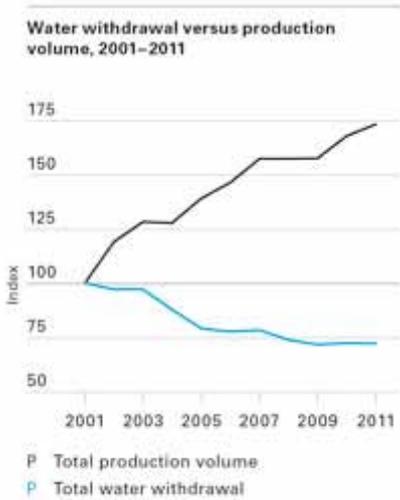


CHART: Water withdrawal versus production volume, 2001-2011

We aim to be the most efficient water user among food manufacturers. We withdrew 143 million m³ of water in 2011 [KPI], or 3.17 m³ per tonne of product [KPI]; this is a 4% reduction in withdrawal per tonne of product from 2010.

Since 2001, water withdrawals have fallen by 28% [KPI], while our food and beverage production volume increased by 73% [KPI]. For example, our bottled water business, Nestlé Waters, needs water to fill the bottle and also for additional uses such as cleaning and cooling. Between 2005 and 2011, Nestlé Waters reduced its additional water use by 36%, reaching a global average of 0.63 litres of additional water per litre that we produce.

ITALY – Using water twice

At the Nestlé Waters San Pellegrino plant, we have developed a “cascade” system enabling water to be used not once but twice, for rinsing and washing of the bottles, which saves water while still meeting all requirements in hygiene and product quality.



Water-saving projects

Between 2001 and 2011, the wastewater from our factories was reduced by 38% [KPI] through recovering water from production processes and reusing it for other applications, from cooling to landscape irrigation. In 2011, we recycled 7.8 million m³ of water, as we seek to reduce water discharge.

Continuous improvement, driven by Nestlé Continuous Excellence, has resulted in a range of water-saving initiatives at many of our factories:

Creating Shared Value at Nestlé

Nutrition

Rural development

Water

Environmental sustainability

Compliance

Our people

Location	Initiative	Annual water saving
LaVie, Vietnam	Frequency inverter adjusts water flow from wells according to production needs.	150 000 m ³ /year
San Pellegrino, Italy	Treated rinse water reused for washing glass bottles and pasteurisation.	119 000 m ³ /year
Agbara, Nigeria	Surplus water from bottled water production sent to nearby Nestlé Nigeria for reuse.	100 000 m ³ /year
Guelph, Canada	Frequency inverters optimise water flow; capacity of water tanks increased.	62 000 m ³ /year
Lipa, Philippines	Rainwater collected from new <i>Coffee-Mate</i> warehouse roof used in cooling tower.	9600 m ³ /year
Anderson, USA	Membrane Bioreactor system uses treated rinse water from production lines to cool the plant.	86 000 m ³

Treating wastewater effectively

We use municipal wastewater treatment facilities wherever possible, but where these are not efficient enough, we invest in our own facilities, returning treated water to the environment according to local legislation and internal standards, whichever is more stringent. We have 301 on-site treatment plants, and in 2011 invested CHF 6 million in new and improved facilities.

We discharged 93.9 million m³ of water [KPI] in 2011, with an average of 68.6 mg Chemical Oxygen Demand per litre [KPI].

AFRICA – Returning clean water to the environment

A **USD 2.2 million investment** at our factory in Tema, Ghana, provided a new wastewater treatment plant to improve on the local municipal facilities. The plant began operations in 2010 and treats the wastewater from the factory as well as the adjacent Nestlé Distribution Centre, in full compliance with local environmental legislation and our own standards. Although legislation in the Democratic Republic of Congo requires nothing more than a septic tank, our newest water treatment plant – at the *Maggi* factory in Kinshasa – became operational in October 2011.

USD 2.2m

Invested by Nestlé in wastewater treatment at Tema



WORKING TOGETHER: Nestlé factories manager Luc Niesseron with Kwamina Quaison of the Ministry of Environment, Science and Technology at the Nestlé waste water treatment plant in Tema, Ghana.



Supply chain

The answer to many water challenges is beyond the scope of Nestlé alone and we fully recognise the important role of our suppliers. Through our interaction with millions of farmers, we are committed to join our efforts to theirs, to develop good water management practices and find effective solutions at watershed level.

Key challenges

- Implementing good water management practices across complex supply chains.
- Delivering the water stewardship message beyond those suppliers with whom we interact directly.
- Sensitising farmers to the value of water in the frequent absence of adequate pricing structures.

Goals

- Help ensure that water is managed effectively throughout the agricultural value chain.
- Protect the livelihoods of 25 million million people involved in Nestlé's entire value chain.

Actions

- Engaging in water preservation activities with local stakeholders.
- Sharing sustainable water use best practice and guidelines with other food companies.
- Promoting sustainable development in 46 countries through the Nestlé Sustainable Agriculture Initiative (SAIN).

Performance

- A new SAIN pilot project in India suggests that water use could be reduced by around 30–40%.
- Ongoing implementation of Responsible Sourcing Guidelines for 12 of our key commodities and extension of our Water Guidelines for Suppliers of Agricultural Raw Materials.



Overseeing water use

Partnerships on water impacts in the supply chain

We are encouraging efficient water management practices at a watershed level – for example, through our leadership of the Sustainable Agriculture Initiative (SAI) water and agriculture working group, and by implementing and testing methods designed to increase water-use efficiency on farms.

In India, for example, a new pilot project led by SAI and run by the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), uses a simple water impact calculator to determine the amount of water required under differing landform and irrigation conditions. Tests on rice, potatoes, tomatoes and fruit at five locations in Gujarat, Rajasthan and Andhra Pradesh revealed that water use could be reduced to around 30–40% by using the calculator, without affecting yields. ICRISAT will conduct further tests on maize and cotton during the monsoon period, and is also looking into the feasibility of farmers providing data via mobile phones.

Assessing water use in coffee production

Growing coffee, a major ingredient in many Nestlé products, uses a significant amount of water, and sometimes takes place in countries where water is already scarce. To better understand and quantify potential risks to key production inputs – such as water – and to coffee itself, we launched a study in 2011 in partnership with the International Water Management Institute, the Swiss Agency for Development and Cooperation and EDE Consulting. The initiative includes:

- a global assessment of the “consumptive water use” (water consumed in the production process without being returned) of coffee production at farm level; and
- a two-year, site-specific study at Dak Lak in Vietnam.

In response to the rapid growth of Robusta coffee production in Vietnam, which has led to deforestation and land degradation, the study will promote the value of water among smallholders and recommend practical ways to optimise water use.

COLOMBIA – Investing in supply chain water management

Investing in supply chain water management

In the new central coffee mill in Jardín, Antioquia, the water infrastructure is designed to **reduce water consumption by half and treat 100% of the waste water**. The first AAA coffee from the mill was produced in 2011, and included in the first AAA Limited edition grand cru, Dhjana, launched in September.

-50%

Water saving



INCREASING EFFICIENCY: The new community processing centre in Jardín, Colombia, co-funded by Nespresso, enables coffee farmers to mill and dry coffee more efficiently.



Supply chain initiatives

SAIN water projects

The Sustainable Agriculture Initiative at Nestlé (SAIN) is our initiative to support farmers and promote sustainable development worldwide, which celebrated its 10-year anniversary in 2011. SAIN focuses on a broad range of commodities including milk, coffee and cocoa, and enables us to address some key challenges in water management and irrigation. For example:

- three farms in El Piñal, Venezuela, have planted trees to control soil erosion, provide shade for livestock and reduce water loss to evaporation and run-off;
- 90% of the wastewater processed at Gerber’s baby food factory in Fremont, United States, is returned to the local aquifer by irrigating local crops;
- our chicory supplier in Gujarat, India, built a rainwater collection pond to mitigate the decline of the local water table;
- in China, water use at our coffee demonstration farm in Yunnan Province was reduced by 80% in 2010 through the introduction of new post-harvest equipment; and
- a partnership with the Swiss College of Agriculture is using the updated Response-Inducing Sustainability Evaluation (RISE) 2.0 tool to improve the sustainability of water use in Mexico’s dairy industry at 13 farms in the Torreon municipality.

SOUTH AFRICA – Addressing long-term drought

The Western Cape region of South Africa has experienced lengthy droughts for years, leaving the Wolwedans dam, near Mossel Bay, only 10% full at times. In response, our Mossel Bay milk factory installed equipment that enables condensate from production lines to be reused, helping halve water usage between October 2009 and May 2010.

In 2010 the Western Cape region experienced its worst drought in 132 years, and in response Nestlé introduced a multi-pronged approach which included engineering interventions and awareness campaigns. The programme, which will run until 2015, is part of our work with organisations including the South African Government, the Water Resources Group (WRG) and several multi-national companies to help close the water gap by 2030, ensuring the availability of water in the future.

In 2011, we launched phase two of the programme, a SAIN project to optimise water use further up the value chain engaging with 17 dairy farmers, five of whom work within the dam’s catchment area, to increase milk production. Local experts, including Nestlé Agricultural Services, are providing training and financial assistance to help with soil moisture monitoring, soil fertility management, irrigation scheduling and the use of drought-resistant crops. Phase three, which will run from 2012 to 2015, will involve engineering work to convert the factory into a zero water intake facility.



MONITORING: Farmer Anton Roets measures irrigation at Goue Akker Farm, which supplies milk to the Nestlé factory in Mossel Bay, } South Africa.



Nespresso AAA programme

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

At the end of 2011, 37 000 farmers in Colombia have already joined the AAA Programme.

Nespresso has been working closely with the Federación Nacional de Cafeteros de Colombia and other partners to create innovative and efficient solutions to address water conservation issues. The first of these has led to the installation of 17 000 water treatment units including 2 700 in 2010/11. The second initiative has been the co-financing and implementation of a central mill in Jardín, Antioquia.

Local community partnerships in Greece

In Greece, a Nestlé Waters project is supporting local communities in reducing potential threats to the quantity and quality of regional water resources. The initiative, which began in 2007, has involved hydrogeological investigation, assessing the vulnerability of the local groundwater and the identification of potential drilling sites in less water-scarce areas. Our engagement with local stakeholders in the planning process has helped secure a win-win approach for the local authorities, the farmers and their communities, and Nestlé.

Guidelines on Responsible Sourcing and water

We have recently begun introducing guidelines on the responsible use of water in agriculture. The guidelines apply to all relevant agricultural and forest-based raw materials and complement our Supplier Code and the Responsible Sourcing Guidelines (RSGs) that we are developing and implementing for 12 major agricultural materials and packaging materials. The water guidelines contain general requirements on water management in agriculture as well as specific provisions for water-stressed areas.

We have also recently adapted the 10 main principles of SAI's Water and Agriculture programme, through which we engage with farmers on areas such as water efficiency, irrigation, pollution, drought-tolerant crops and preventing leaks. From these principles, we have introduced Nestlé's Water Guidelines for Suppliers of Agricultural Raw Materials to a series of commodities through our Responsible Sourcing guidelines. New materials have also been developed to inform, train and educate sourcing personnel, support staff and farmers.



INDIA – Partnerships and awareness-raising

A 2010 joint study by Nestlé and the International Water Management Institute into the water intensity of milk, wheat and rice production in the Punjab determined that groundwater levels are falling rapidly due to agricultural over-use. Nestlé India therefore designed a programme to raise awareness among Punjab dairy farmers, and another for school students, to highlight the effects of over-exploitation of groundwater and the remedial action possible.

In 2011, we also joined a Department of Agriculture project to learn about Systems of Rice Intensification (SRI): innovative paddy cultivation techniques promoted by NGOs in southern India that increase yields using fewer seeds, pesticides and fertilizers, and less water. The study compared SRI and non-SRI yields for the summer harvest and if results are positive, we will extend the techniques to our milk suppliers.



ADVICE: Nestlé's Aman Bajaj Sood (left) and farmer Harinder Kaur take part in a Farmer Water Awareness Programme provided near the Nestlé factory in Moga, India.



Community engagement

Nestlé helps to address local water issues in communities where we operate because improved water availability and access is essential for rural development and quality of life in the communities we depend on for raw material supply. Working with others, we contribute funding, operational support and training for sustainable water management schemes around the world.

Key challenges

- Helping to change the wholly unacceptable reality that 884 million people have no access to improved water sources, 2.6 billion people have no access to adequate sanitation, and the poorest pay up to 10 times more for water than the rich.
- Supporting effective solutions, which are needed because these challenges can lead to serious public health problems and exacerbate potential conflicting demands for water connected to our operations.

Goals

- Contribute to the universal goal of translating the human right to water and sanitation into reality.
- Support this worldwide, in areas close to our operations, by fostering access to clean drinking water and sanitary installations as well as water, health and hygiene education.

Actions

- Developing sustainable, technologically adapted community water management schemes, jointly with expert partners from NGOs.
- Sharing best practice with employees in all Nestlé sites.
- Delivering water, sanitation and hygiene projects in schools and villages near our operations around the world.

Performance

- Access to water and sanitation for over 100 000 people, through our work with the International Federation of Red Cross and Red Crescent Societies since 2007.
- 40 water and sanitation partnership projects worldwide in 2011, and 126 factories provided clean drinking water to communities in 2010.
- Water Education for Teachers programmes established in a dozen countries.



Engagement initiatives

Water, hygiene and sanitation

Since 2007, we have worked with the International Federation of Red Cross and Red Crescent Societies (IFRC) and the Red Cross Society of Côte d'Ivoire to provide water and sanitation facilities and hygiene training in Côte d'Ivoire. More than 60 000 adults and children are starting to feel the benefit, and the programme will be further extended in the next three years, covering 55 schools, 65 water points and sanitation facilities and at least 53 000 beneficiaries in the cocoa-growing areas of Côte d'Ivoire.

Due to serious civil unrest and the displacement of thousands of people following the 2010 presidential elections, the IFRC's ability to implement the activities planned for 2011 was significantly restricted, but the Nestlé project's technical staff was temporarily refocused to assist 31 000 people in 50 communities in Côte d'Ivoire and neighbouring Liberia with safe drinking water and hygiene-awareness support. The Nestlé-IFRC programme in Côte d'Ivoire is part of their global 2010-13 partnership of CHF 2.25 million on water and sanitation, food security and the IFRC World Disasters Report. In 2011, we also supported the emergency relief operations of the IFRC and its National Societies in Japan and the Horn of Africa with a total of over CHF 800 000.

Meanwhile, in India, our Water Awareness programme has been rolled out, promoting responsible water use among children in schools near our factories and installing 156 drinking fountains. These now provide 66 000 students with clean drinking water.

Project WET and World Water Day

Project WET (Water Education for Teachers) is an international NGO that uses educational tools to raise awareness of water issues among school children around the world. Nestlé Waters has been its main sponsor since 1992, helping Project WET to establish programmes in a dozen countries including Vietnam, China, the United Arab Emirates, Lebanon and, most recently, Egypt.

Every March, Nestlé Waters marks World Water Day in partnership with Project WET. Children and teachers participate in Together for Water festivals, to increase awareness of the importance of freshwater for nature, healthy hydration, good hygiene and disease prevention. In 2011, more than 10 000 children and 400 Nestlé Waters employees participated in events across 25 countries.

Nestlé Waters brings relief

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



AID: Nestlé Waters North America donated 87 truckloads (more than 3.3 million bottles of water) to emergency provisions sent by the US government to earthquake-struck Haiti



INDIA, BANGLADESH AND SRI LANKA

Provision of clean drinking water and education programme

We have constructed clean drinking water facilities for the communities surrounding our factories in India, Bangladesh and Sri Lanka. Investing in the drilling of deep bore wells and new water tanks, for example, has given school children regular access to clean drinking water. In addition, our Water Awareness programme teaches students about the importance of clean water, the need for water conservation and the link between clean water, hygiene, health and wellness.

Nestlé has launched 184 clean drinking water projects in the South Asia region, benefitting over 100 000 pupils in village schools, and in an effort to encourage more girls to attend village schools we have constructed 51 sanitation facilities reaching more than 25 000 girls in rural areas. Furthermore, our Water Awareness programme has been rolled out, promoting responsible water use among children in schools near our factories and installing 156 drinking fountains. These now provide 66 000 students with clean drinking water.

CAMBODIA – Access to clean water

Many communities in Ratanakiri, Cambodia, have poor hygiene and little access to clean water, meaning that the local population can suffer from respiratory infections and diarrhoeal diseases. With support from Nestlé Nordic countries – Denmark, Finland, Norway and Sweden – the Cambodian Red Cross has constructed seven wells to ensure clean drinking water to hundreds of households. Some 875 people in 175 households now live within 500 metres of a well and have been trained by the Red Cross to maintain the water points themselves. Those living further away receive a household water filter to provide safe drinking water.

Water user groups and water maintenance committees have also been established around each water point, and two Water, Sanitation and Hygiene (WASH) clubs have been set up to educate local people about clean drinking water and the importance of good hygiene.



MALAYSIA – WWF Project for the conservation of the Setiu Wetlands

As well as being rich in natural resources, the Setiu Wetlands on the East Coast of Malaysia are vital for the fishing sector and provide flood control for the region. To help preserve the area, Nestlé Malaysia has been working with the World Wildlife Fund (WWF) to increase environmental awareness among local communities and create sustainable income opportunities for local people, particularly women who play a major role in the area's sustainable development.

Participants are offered training on basic entrepreneurial skills and eco-tourism, and Nestlé Malaysia and WWF also provide workshops on how they can sustain a local snack business, covering topics such as packaging, hygiene, marketing, environmental awareness and communication skills. To sustain the project, the participants are also taught how to pass the training on to other women. The initiative has generated increased income for the local community and is helping protect the environment for future generations.

NEW ZEALAND – Nestlé Community Environment programme

The Nestlé Community Environment programme (NCEP) was launched in 2003 and is now active in 19 Nestlé production sites across the Oceania region. The programme, which involves Nestlé sites, community organisations, schools and local government, aims to make a positive environmental impact in the communities in which Nestlé operates, enhance and maintain Nestlé's reputation as a careful steward of the environment, and foster positive relationships with local residents and organisations.

So far, the programme has resulted in:

- 44 re-vegetation, regeneration or conservation projects leading to more than one million trees being planted;
- 13 water conservation projects including the installation of eight water tanks in schools;
- six waste reduction and education projects within schools and communities; and seven habitat protection and education projects that support the conservation of endangered species.



The future for Nestlé and water

This report has documented our progress and some key challenges to date in the Creating Shared Value key focus area of water. To conclude, we examine the future for Nestlé in the water arena.

Our W.A.T.E.R. commitments in water use and stewardship, first announced in 2006, are key to driving water performance through our operations, supply chain and within communities. Our commitments are being developed under continuous review, and we continue to gather feedback on them from our stakeholders. In 2011, they underwent an extensive internal review and at the same time we consulted externally with leading experts. The result is the five commitments outlined below, which will be further refined as we continue to gather feedback, including inviting comment from water experts attending our stakeholder convenings.

We are grateful to the following expert reviewers who have provided opinions to date, and whose comments will be taken into account as we move forward: Professor Asit K. Biswas, Founder of Third World Centre for Water Management; Professor John Briscoe, Gordon McKay Professor of the Practice of Environmental Engineering, Harvard University; Colin Chartres, Director General, International Water Management Institute; Professor Jan Lundqvist, Senior Scientific Advisor, Stockholm International Water Institute; Stuart Orr, Freshwater Manager, WWF International, Switzerland; Gavin Power, Deputy Director of the UN Global Compact and Head of the CEO Water Mandate; Professor Ismail Serageldin, Director, Library of Alexandria and Chair and Member of advisory committees for academic, research, scientific and international institutions.

Our W.A.T.E.R. commitments

- W**ork to achieve water efficiency across our operations
Leading in water resource management and excelling in the direct reduction of the direct water use in all our facilities.
- A**dvocate for effective water policies and stewardship
Promoting public policies that place value on water at every level.
- T**reat effectively the water we discharge
Setting strict targets for returning clean water to the environment.
- E**ngage with suppliers, especially those in agriculture
Helping to improve their water management with focus on impacts at watershed level.
- R**aise awareness of water access and conservation
Engaging employees, communities and consumers in the water imperative.

Towards W.A.T.E.R. KPIs

We are developing a set of key performance indicators (KPIs) that will underpin our qualitative W.A.T.E.R. commitments and enable systematic measurement of performance. This is work in progress and requires wide consultation across the business and with experts to define comprehensive, robust measures that we can use to track performance over the next five years and beyond. We also recognise the need, and the challenge, to track performance in terms of end impacts at the watershed level, because this is the ultimate measure of progress towards meeting today's global water challenges.



Environmental Sustainability



We apply a life cycle approach, involving our partners from farmer to consumer, to improve the environmental impacts of our products and activities. At all stages of the cycle, we aim to use natural resources efficiently, promote the use of sustainably managed renewable resources and achieve zero waste.



Environmental sustainability

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Products

We apply a product life cycle approach in order to improve the environmental impact of our products.



Climate change

We are committed to reducing GHG emissions by improving energy efficiency, switching to cleaner fuels and investing in renewable sources.



Air emissions

We aim to control and reduce greenhouse gases by using efficient technologies and best practices.



Energy savings

We are pursuing energy efficiency in our factories and increasing the amount of renewable energy we use.



Distribution

We aim to optimise the transport and warehousing of our products to minimise greenhouse gas emissions.



Packaging

We strive to reduce the weight and volume of the materials we use for packaging, support initiatives to recycle and use recycled materials.



Overview

Environmental sustainability and Creating Shared Value

Value for Nestlé: continuously improving environmental performance; efficient operations; reduced impacts; natural resource and cost savings; long-term availability of raw materials and water; sustainable, profitable growth.

Value for society: raising environmental standards; higher incomes; better standards of living; improved food security; waste reduction.

Context and challenges

Businesses, including Nestlé, together with governments and civil society, must act to safeguard the natural resources on which we all depend.

Goals

To achieve our ambition of producing delicious food and beverages that also have better environmental performance, we strive to continuously improve our operational efficiency and environmental impact.



Topic	Key short-term goal	
Water	Improve our water management further and continue to use water sustainably.	To reduce water consumption and water discharges on a comparable basis by a further 10% by 2015.
Climate change mitigation	Target the reduction of greenhouse gas (GHG) emissions from our direct operations, with an emphasis on energy efficiency, cleaner fuel and renewable energy. Expand the roll-out of natural refrigerants.	To reduce GHG emissions on a comparable basis by 5% by 2015.
Energy efficiency	Pursue our energy efficiency programmes across our operations.	To achieve energy efficiency improvements of at least 5% by 2015.
Biodiversity	Develop and extend our systematic methodology, launched in 2011, for the assessment of biodiversity sensitivity around our operations.	To source palm oil only from sustainable sources by 2015 and to help achieve zero net deforestation by 2020.
Waste and recovery	Achieve zero waste and the full recovery of unavoidable by-products.	To reduce waste for disposal on a comparable basis by 5% by 2015.
Compliance	Extend the environmental certification programme to include our distribution facilities and R&D centres.	To achieve and maintain certification to ISO 14001 of all 461 Nestlé factories.

Actions

- Invested CHF 143 million in environmental improvements.
- Identified and implemented projects to improve our environmental impact by reducing water use, non-renewable energy consumption, GHG emissions, avoiding waste and improving the environmental performance of our products including packaging.
- Worked alongside suppliers to promote best practice in our supply chain.

Performance summary

- GHG emissions reduced by 17% since 2001.
- Water withdrawals reduced by 58% per tonne of product since 2001.
- Energy consumption reduced by 42% per tonne of product since 2001.
- Renewable energy consumption is 12% of total energy consumption.
- Water discharges reduced by 64% per tonne of product since 2001.



Awards and recognition

- 2011 Stockholm Industry Water Award.
- 27th World Environment Center Gold Medal award for our commitment to environmental sustainability.
- Special commendation in 2010 for the “Best site management initiative in biodiversity” by the French Ministry for Sustainable Development and the French Environment and Energy National Agency (ADEME).
- Inclusion in the Dow Jones Sustainability Index; highest score in the environment section of the 2011 SAM–DJSI Indexes among food producers.
- Inclusion in the Global 500 Carbon Disclosure Leadership Index; highest score among food producers.
- Nestlé Mexico received the United Nations Development Programme award for Best Practices in the Application of Solar Water Heating installed in the Chiapa de Corzo factory.
- Nestlé UK received the Food and Drink Federation Gold Award for Community Partnership.

Systems

- The Nestlé Policy on Environmental Sustainability sets out our principles, approach, commitments and priorities.
- The Nestlé Environmental Management System (NEMS), which has been implemented throughout the Company since 1996, sets out how the policy is implemented across Nestlé sites and markets.



Context and challenges

Human life, sustainable development and economic activity rely on the continuing availability of natural resources including water, agricultural crops, and ecological diversity of plant and animal species.

We believe that environmental performance is a shared responsibility and requires the cooperation of all parts of society. We are determined to continue providing leadership within our sphere of influence. The following are key issues for environmental sustainability and Creating Shared Value at Nestlé:

Water

Water is a key global issue for Nestlé, and in order to maintain our ability to meet our consumers' needs we depend on reliable access to clean water. We therefore care deeply about water and remain committed to act. This topic is covered extensively in the dedicated water section of this report.

Population growth

The United Nations (UN) is projecting a global population, according to the high scenario, of up to 9.3 billion people in 2050. A key challenge for Nestlé is to continue providing this growing population with tasty and nutritious food and beverages while maintaining our focus on sustainability.

Climate change

The Intergovernmental Panel on Climate Change (IPCC) has attributed rising atmospheric temperatures to an increase in the concentration of greenhouse gases (GHGs) emitted into the atmosphere through human activities (primarily burning fossil fuels and land use change).

We are committed to reducing GHG from our operations by improving energy efficiency, switching to cleaner fuels and investing in renewable sources.

Biodiversity and natural capital

The UN Millennium Ecosystem Assessment stated that "human actions are depleting the earth's natural capital [the total of nature's resources and services] and putting such strain on the environment that the ability of the planet's ecosystems to sustain future generations can no longer be taken for granted." The UN Convention on Biological Diversity predicts a continuing decline in global biodiversity in the future, particularly in tropical regions, freshwater wetlands and oceans.

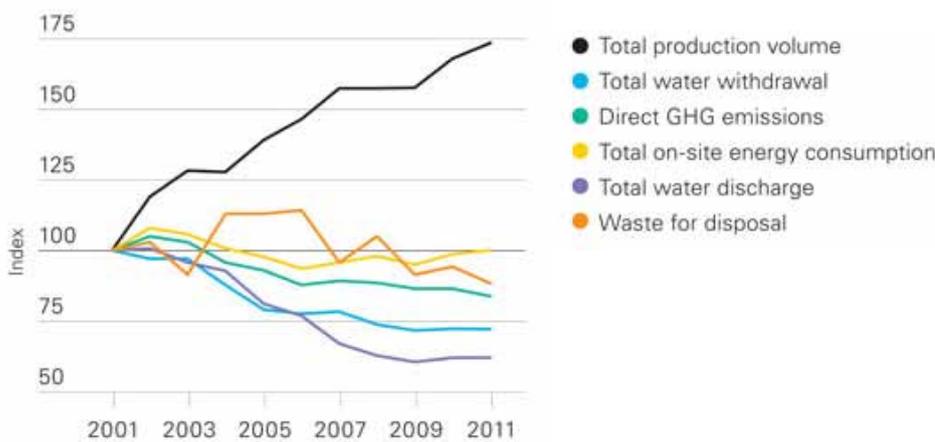
Our Company depends on biodiversity and natural capital in various ways. We employ business practices that safeguard natural capital (the goods and services from nature which are essential for human life) and we work to protect and promote biodiversity by focusing on areas such as raw material procurement, factory operations and policy interventions.

Performance

Our environmental performance

As part of the Nestlé Environmental Management System, we continue to implement projects that help us reduce our use of water, non-renewable energy and greenhouse gas (GHG) emissions, and improve the environmental performance of our products.

Resource consumption and waste generation versus production volume, 2001-2011



In addition to our long-standing focus on water and energy efficiency, we have now defined specific objectives to reduce absolute GHG emissions and waste, while demand for our products continues to rise.

Approximately 12% of the energy we use in our factories is from renewable sources in 2011, and an increasing number of factories achieved zero waste to landfill. When it is not possible to reduce waste, we reuse, recycle or at least recover energy. At 20 of our 32 *Nescafé* factories, for example, coffee grounds from the manufacturing process are used as a source of renewable energy.

We continue to optimise the weight and volume of our packaging. In 2011, our source optimisation programme saved 39 000 tonnes of packaging material by weight [KPI], worth CHF 65 million. We use materials from sustainably managed renewable resources in some of our packaging – for example, the *Ninho* cap in Brazil and Purina ONE® *beyOnd*™ bags are now made with renewable materials, and the *Vittel* bottle in France is partly made with renewable materials.

Some 413 Nestlé factories are certified to ISO 14001, the internationally recognised standard for environmental management, and we have extended the environmental certification programme to include our distribution facilities and R&D centres. We also work with our suppliers to promote and help implement more sustainable practices in our supply chains.



Areas of progress

Our key areas of progress within environmental sustainability include:

- **Developing the scientific knowledge needed to accurately understand environmental evolution and phenomena in order to inform decision making.** We are building greater knowledge internally and externally. Our R&D work includes packaging design, and we are collaborating in pilot projects with the European Commission.
- **Helping consumers better understand and improve the environmental impacts of products.** We continuously enhance the environmental information we provide to consumers about our products, based on scientific evidence.
- **Ensuring the provision of raw materials satisfies our demanding environmental requirements.** We give preference to suppliers who continuously strive to improve efficiency and sustainability of their operations. Read about *Nespresso's* commitment to source 80% of its coffee from its AAA Sustainable Quality™ programme and Rainforest Alliance Certified™ farms by 2013; the Nestlé Cocoa Plan and the *Nescafé* plan.



Governance and systems

The Nestlé Policy on Environmental Sustainability and the Nestlé Environmental Management System

The Nestlé Policy on Environmental Sustainability incorporates the United Nations Global Compact's three guiding principles on environment (principles 7, 8 and 9). It defines our global environmental strategy in response to the environmental commitments made in the Nestlé Corporate Business Principles.

We implement our Policy through the Nestlé Environmental Management System (NEMS), which is fully aligned with the international standard ISO 14001:2004. The objectives of NEMS are to ensure compliance with environmental legislation and Nestlé environmental requirements, continuously improve the Company's environmental performance, enable certification of our factories to the ISO 14001 international standard, and contribute to sustainable development.

Driving operational excellence

Our commitment to environmental sustainability is integrated into Nestlé Continuous Excellence (NCE), the key element of our strategy to drive operational efficiency and strip out waste throughout the value chain. The overriding goal of NCE is to engage employees' hearts and minds using three main principles:

- **excelling in compliance:** this includes complying with legal and strict Nestlé internal requirements at all times;
- **delighting our consumers:** Creating Shared Value and sustainability are increasingly becoming a driver for product development, and we aim to share our aims and achievements with consumers through brand and product communications; and
- **driving competitive advantage:** this includes making progress towards our ambitions for zero waste and improving water efficiency and energy efficiency.

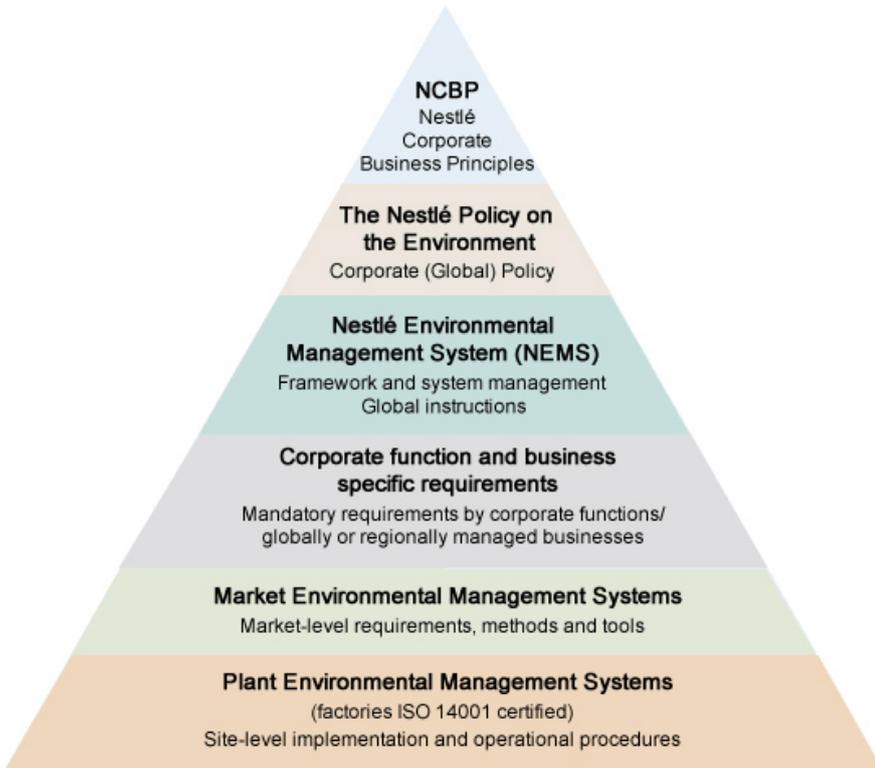
More detail on NCE and operational efficiency can be found in Our people.

Organisational responsibility and implementation

The highest level of direct responsibility sits with José Lopez, Executive Vice President of Operations and GLOBE (Global Business Excellence). He is an Executive Board member and reports directly to Nestlé CEO, Paul Bulcke. Ultimate organisational responsibility rests with the Nestlé CEO.

Our heads of markets are accountable for implementation of the NEMS across the business, and a range of people are responsible for implementation at market and plant level; this includes management team members, market environmental officers reporting to the technical manager, and plant managers supported by plant environmental officers.

Diagram: Implementation by Nestlé Markets and Businesses: Relationship Between Functional Levels for Environmental Management:



Training and awareness

Nestlé provides detailed guidelines and instructions to employees on the global intranet to complement our Policy on Environmental Sustainability and the NEMS. We also regularly communicate progress, performance and good practice through the intranet and other channels, including face-to-face meetings, and employees are trained to follow procedures as part of their induction and on-the-job coaching.

Nestlé has a Creating Shared Value (CSV) Alignment Board that is chaired by the CEO, Paul Bulcke. Three sustainability groups feed into the board: the Operations Sustainability Council, chaired by Executive Vice President of Operations José Lopez; the Brands and CSV Advisory Team, chaired by Head of Marketing and Consumer Communication, Tom Buday; and the Research & Development (R&D) Sustainability Council, chaired by Chief Technology Officer, Werner Bauer. The Operations Sustainability Council, which meets monthly, aims to ensure the integration of sustainability throughout the Company, while the Brands and CSV Advisory Team guides best practice in communicating our initiatives to consumers.



Monitoring and follow up

All Nestlé factories monitor the corporate key performance indicators (KPIs) through the Nestlé Environment and Safety Performance Tracking tool (NEST). Environmental incidents at plants are also reported through NEST, as required by the NEMS. Any major incidents are immediately reported to the Safety, Health & Environmental Sustainability Group and the appropriate senior management using the process outlined in the NEMS. Nestlé's requirements for compliance with the NEMS, and our management of non-conformities and corrective or preventative action, are aligned with ISO 14001.

The NEMS must be formally reviewed at all Nestlé business premises at least once a year.

Performance

By the end of 2011, a total of 413 factories had achieved ISO 14001 certification. This mainly represents sites that have been part of the Nestlé Group for more than three years. Sites that are not certified are mainly recent acquisitions which are currently working towards certification. In 2011, 93 distribution facilities and five R&D centres were certified ISO14001 and we continue to extend the environmental certification programme.



Life cycle approach

To better understand and to optimise the environmental performance of our products, we apply a life cycle approach, systematically assessing our product categories along the whole value chain through the use of Life Cycle Assessments (LCAs). In order to identify possible trade-offs between different impact categories, for instance, reducing greenhouse gas (GHG) emissions at the expense of water consumption or land occupation, we systematically assess the most significant impacts in line with the recognised ISO 14040/44 standards on LCA. We have developed an online LCA Communication tool to increase consumer awareness and help them improve their environmental performance when using our products.

LCAs of major product categories

We have been conducting LCAs to identify the environmental impacts of our major product categories, including their packaging. This process, which considers the production of agricultural raw materials, product manufacturing, packaging, distribution, consumption and end-of-life, enables us to work with our business partners to continuously improve the environmental performance of our products.

An LCA of *Nescafé* Classic, for example – including a comparison with drip-filter coffee, as published in the *Journal of Cleaner Production* – found that approximately 50% of total energy use occurs during consumption. The study also showed that overall, *Nescafé* Classic uses about half the energy, emits approximately half the GHG and consumes around two-thirds of the water of drip-filter coffee.

The study contributed to the *Nescafé* Plan, which focuses on three areas: responsible farming, responsible production and responsible consumption.

Nestlé has also used LCAs to develop its Creating Shared Value (CSV) and environmental sustainability strategy for the Prepared Dishes and Cooking Aids Strategic Business Unit. According to the LCAs of six representative products, sourcing (farming and transport to factories) has the most significant environmental impact, followed by distribution in the Frozen Food category and consumer use in the Ambient category, which covers grocery products stored at room temperature. Waste has been identified as a key focus area.



Key objectives

Based on the LCA findings, our objectives include:

- promote the roll-out of impact assessments to identify key contributors at a local level, with the aim of improving our total performance;
- reduce waste and water usage across the whole value chain;
- promote sourcing based on the selection of the best suppliers, helping them to develop the best agricultural practices, making the right ingredient selections, providing the best quality and promoting locally grown products as part of our social responsibility, provided it also brings an environmental advantage;
- optimise our packaging and use the Packaging Impact Quick Evaluation Tool (PIQET) to help select better alternatives; and
- improve the environmental impacts of distribution through transport optimisation and the promotion of best supply chain networks.

Our ambition is to further assess the environmental performance of our products and identify ways by which we, our broader supply chain and our consumers, can contribute to a better environment.

Improvement in *Nescafé Dolce Gusto*

An LCA helped us to identify areas of improvement in *Nescafé Dolce Gusto*. By implementing the new eco-mode (auto standby after 20 minutes), our new machine range, Melody, has improved its environmental performance (per 120 ml cup and compared to the first model launched in 2006) as follows:

- GHG emissions – CO₂ equivalent emissions reduced by 32%;
- non renewable primary energy – use of fossil fuels reduced by 41%; and
- water use – reduced by 25%.



Building scientific knowledge

Nestlé continues to develop in-house scientific expertise in environmental assessment at our Nestlé Research Centre. This builds capacity throughout the Nestlé R&D network and supports the provision of reliable information to our business decision makers.

We also actively collaborate with stakeholders, including civil society and governments, to embed sustainable consumption and production into the food chain.

Nestlé was selected by the European Commission (EC) to participate in the testing of the EC product environmental footprint methodology, and in 2011 took part in the pilot scheme with *Nespresso*, *Nescafé*, *Vittel*, *Kitkat* and *Purina Gourmet*.

The results of the pilots will be used by the EC with the aim of achieving a harmonised methodology at EU level and beyond for the environmental assessment of products. This work reinforces our current efforts in the European Round Table on Food Sustainable Consumption and Production, which we co-chair.

Applying eco-design

Assessing our products

To systematically optimise the environmental performance of our products, we use a worldwide Packaging Impact Quick Evaluation Tool (PIQET) and the Global Environmental Footprint (GEF) tool for bottled water, which is ISO 14064-1 and ISO 14040/44 certified.

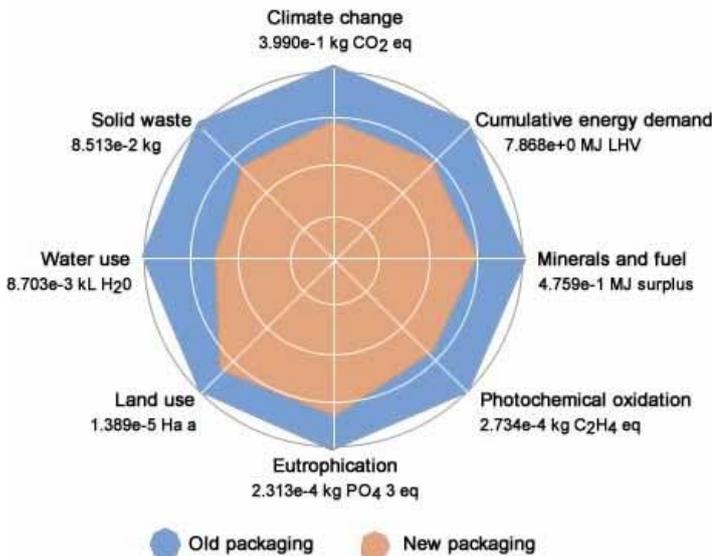
Nestlé has also started developing Eco-D, a multi-criteria eco-design tool that covers both packaging and ingredients in all product categories, partnering with recognised Life Cycle Assessment (LCA) scientists and experts, as an extension of PIQET. Eco-D takes into account the entire life cycle of our products, using environmental indicators such as climate change, land use, ecosystem quality, mineral and non-renewable resources and water consumption.

Both Eco-D and the GEF tool are certified to ISO standards on LCA.

Optimising packaging at design stage

PIQET was used to improve the environmental performance of the packaging for our *Crunch* and *Galak* chocolate in Italy. The new packaging, which is more easy to recycle, has resulted in an annual saving of €160 000.

The diagram below illustrates the environmental performance improvements achieved with the new packaging compared to the old packaging:



Key challenges

The quality of LCAs is constrained by the availability of environmental data on food ingredients. We intend to finance the development of an environmental food ingredients database, to enable us to obtain more accurate information. We also encourage the development of public databases by governments, such as the database currently provided by the French Agency for Environment and Energy Management, ADEME.

Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
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Communicating environmental information

Enhancing consumer understanding

We continuously enhance the environmental information we provide to consumers about our products, based on scientific evidence. This increased transparency not only helps consumers decide what to purchase, but also enables them to reduce their environmental impact when preparing and using our products, including minimising energy and water use.

The interactive *Nescafé* Life Cycle Assessment (LCA) communication tool in France, for example, invites consumers to click on the different stages of the *Nescafé* life cycle to learn about the level and nature of impacts at each product phase. Users can also look at GHG emissions, water use or biodiversity impacts across the full product life cycle.

The 123 Recycle application for iPhone (above) and Android devices is the first of its kind to help people recycle waste packaging correctly.

We launched the world's first free mobile application for iPhone and Android devices to help consumers correctly dispose of, recover or recycle their packaging.

We also participate in voluntary initiatives in Europe and Thailand to provide consumers with environmental information about our products.

Multi-stakeholder initiatives

Nestlé France and Nestlé Waters are currently participating in a national initiative, led by the French Ministry of Ecology and Sustainable Development, to communicate with French consumers about GHG emissions, water and biodiversity, particularly in relation to products such as *Vittel*, *Nescafé* and *Nespresso*.

Launched in July 2011, the results are available through the ProxiProduit mobile phone application. Nestlé France is actively promoting the pilot results of this initiative through internal communication, such as the Company intranet and employee emails, and consumer-facing channels, including websites and magazines.

The year-long project will test and evaluate different methodologies for the environmental assessment of consumer goods along their life cycles, as well as various approaches to consumer communication.

A similar test on consumer goods has been launched by the European Commission, in which Nestlé participates with *Nespresso*, *Nescafé*, *Vittel*, *KitKat* and *Purina Gourmet*.



The 123 Recycle application for iPhone (above) and Android devices is the first of its kind to help people recycle waste packaging correctly

Together We Can

Following the success of the 2010 Together We Can campaign in the US, the *Purina* brands *Winalot* and *Felix* launched a UK version of the initiative to help educate consumers about the benefits of recycling. Supported by in-store messaging and social media, consumers were able to register their pet food can recycling rates, and we have now exceeded our target of 50 000 cans. Online resources also encouraged customers to learn more about recycling and to adopt it as a positive lifelong habit.





Water

We report our response to the global water challenge – a key focus area of Creating Shared Value (CSV) – in a section of our CSV website dedicated to the topic.

Please go to our Water section to read about our efforts in support of the UN Global Compact CEO Water Mandate:

- Public policy
- Collective action
- Direct operations
- Supply chain
- Community engagement



Edward Dawutey, Waste Water Treatment Plant Technician, tests treated water at our Tema factory in Ghana.



Climate change

We are committed to reducing greenhouse gas (GHG) emissions from our operations by improving energy efficiency, switching to cleaner fuels (from coal to gas, for example) and investing in renewable sources, such as spent coffee grounds and wood from sustainably managed forests as well as solar and wind energy.

Risk and opportunity

Climate change is integrated into our multi-disciplinary, company-wide risk management processes. An in-depth discussion on climate change risk and opportunity is included in our 2011 Carbon Disclosure Project (CDP) submission, pages 17 to 29.

Performance [[Link to performance section](#)]

Since 2001, we have halved the GHG emissions from our factories per tonne of product. As well as continuing our efforts in climate change mitigation by exploiting GHG emission reduction potential in our direct operations and supply chain, we acknowledge that we have an increasing role to play in society's adaptation to a changing climate.

Our commitments

Climate change mitigation remains a key priority for us and in this respect we are committed to:

- Continuing to target the reduction of GHG emissions from direct operations. The emphasis at our factories will be on energy efficiency; renewable energy through increasing use of cleaner fuels (from coal to gas, for example); and investing in renewable sources such as spent coffee grounds, and wood from sustainably managed forests as well as solar and wind energy.
- Extending the scope of GHG reduction efforts beyond manufacturing along the value chain, including procurement, logistics, consumer product use and end-of-life.
- Identifying the reduction potential and implementing programmes for the different GHGs, particularly CO₂, methane, NO_x and F-Gases.
- Further reducing waste along the product life cycle.
- Implementing our strategy to tackle deforestation associated with our procurement of agricultural commodities, including protection for high carbon soils and forests.

Partnering on climate change

In addition to schemes such as the Sustainable Agriculture Initiative, through which members engage with suppliers to help them improve their environmental performance, we also share our strategy and results via a number of leading networks.

Carbon Disclosure Project

We have participated in the Carbon Disclosure Project (CDP) since it was founded. This year we were again included in the Global 500 Carbon Disclosure Leadership (CDL) Index for our proactive approach to climate change. In recognition of our improved performance, we received the highest score among food producers in the CDL Index 2011.

Optimising the supply chain

Our award-winning 'Greening the Supply Chain' (GSC) programme in the Philippines, which has helped 182 business partners develop their own environmental management systems (EMS), reflects our policy of sharing knowledge and best practice.

Through the GSC, we educate business partners on using the EMS to improve environmental performance. This includes visiting them on-site to assess environmental aspects of their operations, making recommendations to improve their impacts, and keeping them updated on environmental issues, regulations, technologies and best practice through a quarterly forum.

Prince of Wales' Corporate Leaders Group on Climate Change

Ahead of global negotiations about climate change held in Durban in December 2011, The Prince of Wales' Corporate Leaders Group on Climate Change – of which, José Lopez, our Executive Vice President, Operations and Global Business, is a member – published a statement that called for an ambitious, robust and equitable global deal on climate change, which responds credibly to the scale and urgency of the crises facing the world today.

José Lopez is a member of the advisory board of the University of Cambridge Programme for Sustainability Leadership. Nestlé continues to be a strategic partner of this programme, which, through seminars, working groups and other initiatives, helps business, government and civil society to understand and address critical global issues such as climate change, biodiversity loss and resource depletion.



United Nations initiatives

Nestlé has contributed to the United Nations (UN) Framework Convention on Climate Change (UNFCCC) Adaptation Private Sector Initiative by providing a business case study to help raise awareness about the engagement of the private sector in this field. A database of case studies, featuring Nestlé and other companies, was launched at UNFCCC in South Africa in November 2011. It contains information about corporate adaptation activities and actions pledged under the UN Nairobi Work Plan (NWP), which helps stakeholders improve their understanding and assessment of impacts, vulnerability and adaptation to climate change.

Since 2001, Nestlé has halved the greenhouse gas emissions from its factories per tonne of product. In addition to these mitigation efforts, we are increasingly helping farmers to adapt to climate change through the *Nescafé* Plan and the Nestlé Cocoa Plan. Together these will help farmers become more resilient to increasing variability in the climate and changes in weather patterns.



Mitigating GHG emissions

Through our energy efficiency efforts and the expansion of renewable energy use, our greenhouse gas (GHG) emissions decreased at 3.8 million tonnes of CO₂ equivalent (eq) [KPI] in 2011, although our production volume increased by 3.4%.

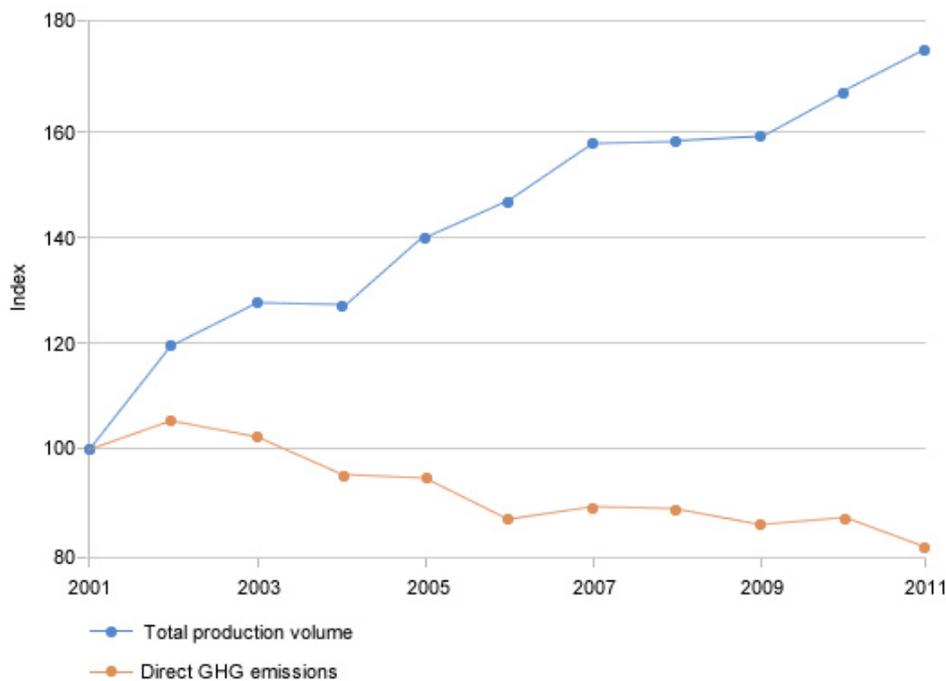
Per tonne of product, we reduced our direct GHG emissions from 91 kg of CO₂ eq in 2010 to 84 kg of CO₂ eq per tonne of product [KPI] in 2011.

This equates to a 0.8 million tonne (17.4%) reduction, or a 52% reduction per tonne of production, since 2001, during which period our production volume increased by 73%.

Thus, our indirect GHG emissions from purchased energy increased by only 2.8% to 3.2 million tonnes [KPI], which equals a 0.5% reduction per tonne of product compared to 2010.

In 2010, our third-party transportation emitted approximately 2.4 million tonnes of CO₂ including the transportation of products from our factories to our customers, including warehousing and distribution.

Total production volume versus direct GHG emissions 2001–2011





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

Nestlé UK has embarked on an ambitious project to use the Fawdon factory, near Newcastle, as a pilot location to test techniques before implementing them elsewhere. In addition to the factory achieving zero waste to landfill, water and energy reduction programmes are being accelerated, and over the next two years the aim is to reduce both water consumption and GHG emissions by 50%. We have already successfully piloted on-site anaerobic digestion, a process by which microorganisms break down biodegradable material in the absence of oxygen, and are now finalising plans for a full size digester. The project also involves establishing a natural garden in the grounds. The project won the Food and Drink Federation Gold Award at 2011 Community Partnership Awards.

Key challenges

We will estimate some of our Scope 3 GHG emissions, based on Life Cycle Assessments (LCAs) conducted on different product categories, and continue to work on the requirement of the GHG Protocol Initiative to calculate indirect GHG emissions. We engage with some of our suppliers to obtain detailed information on their emission generating activities in order to promote and help them implement more sustainable practices.



PILOT PROJECT: Fawdon Shift Manager Kenny Baxter with daughter Caitlin at the butterfly meadow planting event.



Moving to natural refrigerants

The widespread use of refrigeration fluids based on fluorinated chemicals (known as 'F-gases') is increasingly problematic due to their contribution to climate change. We are therefore committed to phasing out the use of these substances, such as hydrofluorocarbons (HFCs), and replacing them with safe and more environmentally acceptable alternatives.

By switching to more energy-efficient refrigeration systems in our industrial installations, we have already reduced our electricity consumption and greenhouse gas (GHG) emissions.

The move to natural refrigerants

We use refrigeration in manufacturing (industrial installations) and commercial applications (point of sale units). We strive for continuous improvement in the technology and management of industrial refrigeration systems. We have already pioneered the replacement of synthetic refrigerants in large-scale industrial installations with natural refrigerants such as carbon dioxide and ammonia, investing over CHF 200 million to date.

As we have now phased out more than 90% of refrigerants with high global warming and ozone depleting potential in our industrial operations, the focus has shifted to smaller refrigeration systems such as ice cream freezers. However, for such commercial applications, a universally satisfactory replacement solution does not yet exist.

The best currently available alternatives to synthetic refrigerants are hydrocarbon (HC) refrigerants such as propane and butane. These are, however, inherently flammable and explosive, and require special precautions and maintenance. We carefully design, build and operate all our refrigeration systems to ensure they are safe, and regularly look at ways to improve performance. We also work with major equipment suppliers and international organisations to continuously test and monitor different refrigerants in various applications, and are currently monitoring over 11 000 hydrocarbon ice cream freezers in seven countries.

In Switzerland, all new ice cream freezers now use HC refrigerants under controlled conditions, and we are testing a further 2 300 HC freezers in Australia, Spain, Malaysia, Chile and the United States.

Our new HC freezers are equipped with high-efficiency fans, improving the energy efficiency by 80%. We estimate that the reduction in GHG emissions from these freezers will be around 10 000 tonnes of CO₂ equivalent (CO₂e) over their expected 10-year lifetime.

Exploring alternative refrigeration options

We are also intensifying our research into alternatives to hydrocarbons that are both environmentally sound and inherently safe. Currently, the two major alternatives are CO₂ and Stirling technology. Both options are technically proven, but not yet commercially available at the required performance level.

As far back as 2000, we converted our coffee freeze-drying factory in Hayes (UK) to an innovative CO₂/ammonia cascade system, which received several prestigious awards. All of our coffee freeze-drying factories globally are now using natural refrigerants.



In a further effort to promote CO₂, we have worked with our suppliers to design a system using CO₂ as a secondary coolant. This system is now installed at several of our cold store distribution centres where the ammonia charge is kept to a minimum and its distribution confined to the machine room.

In terms of commercial applications, CO₂ refrigerants work well for small-scale equipment, such as plug-in cooled vending machines. A detailed evaluation of CO₂ for ice cream freezers concluded that for low temperatures, this technology is not yet as efficient as required. We are therefore in discussions with suppliers, in the hope that we can accelerate their technical development and reduce power consumption.

Phasing out HFC refrigerants

Nestlé contributed to and fully endorses a resolution by the Consumer Goods Forum, which pledges to “take action to mobilise resources within our respective businesses to begin phasing out HFC refrigerants as of 2015 and replace them with non-HFC refrigerants (natural refrigerant alternatives) where these are legally allowed and available for new purchases of point-of-sale units and large refrigeration installations”.

The Consumer Goods Forum also recognises “that barriers exist to wide-scale adoption of more climate-friendly refrigeration, namely legislative restrictions in some markets, availability, cost, safety, maintenance and servicing”.

We have committed to work to overcome those barriers by strengthening existing collaborative platforms and initiatives. We also support the Consumer Goods Forum in using its collective influence to encourage our supply base to develop natural refrigerant technologies that meet our business demand under commercially viable conditions.



Climate change adaptation

While climate change mitigation remains our high priority (focused on greenhouse gas (GHG) emissions reduction potential in our direct operations and supply chain), we increasingly recognise we have a role to play in helping our stakeholders to adapt to climate change impacts.

We are committed to helping farmers to adapt and become more resilient, thereby enabling them to continue to grow crops. This will help Nestlé reduce the risk to our long-term supply of materials and also help to ensure food security.

We are developing a range of approaches, including taking part in public dialogue and providing expert advice and technical support at farm level to safeguard yields. We are also participating in public policy dialogue to support adaptation to changing regional patterns of agricultural production.

We see the need to act on climate adaptation as a pre-competitive issue that requires the collaboration of all parties. Therefore, we contribute at an industry level to further develop understanding and collaborative action on coffee and cocoa.

The Nescafé Plan

The Nescafé Plan provides training to farmers on better farming practices to improve both quality and yield; conserve water, optimise fertiliser use and increase soil fertility. By 2015, Nestlé will ensure all coffee purchased from Farmer Connect (our direct purchasing programme) meets the sustainability standards of the Common Code for the Coffee Community (4C) Association. This is a voluntary code of conduct to improve efficiency, profitability, transparency and sustainability in the production, processing and trading of coffee through training and verification. It includes a module on climate mitigation and, more importantly, on adaptation. In addition, by 2020, we will procure 90 000 tonnes of green coffee compliant with Rainforest Alliance and Sustainable Agriculture Network (SAN) principles.

Research and development

The Nestlé Research and Development (R&D) Centre in Tours, France, works with its sister R&D Centre in Abidjan, Côte d'Ivoire, as well as other research institutes, to produce drought-resistant clones and large quantities of cocoa plants that, once they reach full productivity, are stronger, less vulnerable to disease and potentially yield more than average trees in cocoa farms today.



EDUCATION: Oura Frédéric Kouadio, agronomist at the R&D Centre in Abidjan, left, is explaining the benefits of sustainability and better working practices.



Improving energy efficiency

We aim to become the most efficient energy user among food manufacturers and are continuing to pursue energy efficiency in our factories, as well as increasing the amount of energy derived from renewable sources.

Based on the life cycle assessments conducted in our different product categories, our manufacturing operations are responsible for a relatively small proportion of the energy used across product value chains. However, it is the area where we can directly manage our performance to continuously improve it.

Our performance

In 2011, our on-site energy consumption was 90 PJ [KPI], which equates to 2 GJ per tonne of product [KPI], and is a reduction of 2% compared to 2010.

On a constant production volume basis (i.e. neutralising the influence of relative production volume change at factory level), this ratio remains unchanged. Indirect energy consumption, through the purchase of electricity, heat and steam, was 70 PJ in 2011 [KPI].

Since 2001, Nestlé has maintained its energy consumption while increasing its production volume by 73%. This reflects:

- energy reduction initiatives at factory level, which form part of the continuous improvement efforts driven by Nestlé Continuous Excellence;
- changes in our product mix reflecting an overall strategy towards more value-added products; and
- changes resulting from acquisitions and divestitures.

Target setting

As we seek to achieve energy efficiency improvements of at least 5% by 2015, we continue to investigate the setting of energy consumption targets by product category and are exploring the viability of additional lead performance indicators. As an integral part of Nestlé Continuous Excellence, we use i-nexus, a project-management system, to report any type of improvement projects, including energy savings.

Our Energy Target Setting Initiative completed 16 projects in 2011, during which we identified more than 379 projects for a total investment of about CHF 86 million. These projects have resulted in an annual energy saving of about 8 million GJ and a reduction of approximately 191 000 tonnes of CO₂ equivalent. Furthermore, we saved 2.6 million m³ of water and CHF 41 million.

Energy-saving equipment

The worldwide consumption of fossil fuels is constantly increasing, but the world's resources are becoming more limited and energy prices are rising. Therefore, when we look at investing in energy-saving industrial equipment, we assume that energy prices will continue to increase, and industrial equipment will continue to be used as long as the factory is operational.

Therefore, investments made in energy-saving projects and renewable energy solutions do generally provide long-term benefits, and we have both increased our investment in such schemes and extended the acceptable return on investment periods beyond our normal criteria.



Expanding renewable energy use

Renewable energy

Our renewable energy use accounts for 12% of the total consumption of Nestlé factories [KPI]. Spent coffee grounds represent 3.5%, wood represents 2.8%, and an estimated 5.3% can be attributed to the purchase of electrical energy generated from other renewable sources.

Below are a few examples of the different ways that we use renewable energy at our sites across the world:

- From 2012, following a power purchase agreement with CISA-GAMESA, 85% of the total electricity consumed by Nestlé factories in Mexico will be supplied by wind power. It is estimated that the project will reduce air emissions, including greenhouse gas (GHG), by more than 120 000 tonnes CO₂ equivalent annually.
- At our Bugalagrande factory in Colombia, a boiler fuelled by spent coffee grounds allows the recovery of energy from this biomass. This renewable fuel provides 13% of the total energy required in the factory and has 95% lower CO₂ emissions than the fossil fuel it replaces. We have been implementing this type of technology for the last 30 years; of its 32 coffee factories where spent grounds are a by-product, 20 are equipped with such technology.
- At our Coppa del Nonno ice cream factory in Ferentino, western Italy, we have installed a unique solar power system, which is the only one of its kind in the country to use a combination of three different solar power technologies on the same site. Supported by a smaller solar power system built in 2009, it provides all the energy needed to power the Coppa del Nonno ice cream production line.
- We have jointly developed a project to provide warm water using solar energy at our *Coffee Mate* factory in Chiapa de Corzo, Mexico. This required a total installation of 325 flat-plate collectors made in Mexico, which generate about 7% of the total energy used throughout the factory, thereby cutting the generation of CO₂ by around 240 tonnes. In 2011, Nestlé Group Mexico received the United Nations Development Programme award for Best Practices in the Application of Solar Water Heating.



WIND POWER: Nestlé employees Miguel A. Mendoza, energy champion, Antonio Nuñez L., technical manager and Enrique Mayer, chief engineer, visiting the new wind turbines that will supply Nestlé factories in Mexico.



Air emissions

We continue to reduce environmentally adverse air emissions, such as SO_x and NO_x, which are sulphur and nitrogen gases arising from essential combustion processes in our factories that use fossil fuels. During the manufacturing and distribution of our products we use efficient technologies and apply best practices to control and, where possible, eliminate emissions.

The many measures we have taken include changing to alternative energy fuels, thereby reducing SO_x and NO_x emissions and improving energy efficiency.

Since 2001, absolute air acidification potential in our factories has decreased by more than a third, and the air acidification potential rate per tonne of product by more than half respectively. These reductions have been achieved through energy savings replacing fuels such as coal and heavy fuel oil by cleaner burning fuels such as natural gas.

Key challenges

These improvements are constrained by the availability of cleaner fuels, such as gas, around manufacturing locations. Also, at sites we have to run diesel generators in case of electricity supply disruption.

From 2012, following a power purchase agreement with CISA-GAMESA, 85% of the total electricity consumed by Nestlé factories in Mexico will be supplied by wind power. It is estimated that the project will reduce air emissions, including greenhouse gas (GHG), by more than 120 000 tonnes CO₂ equivalent annually.

Ozone-depleting substances

We are reducing our impact on the ozone layer by phasing out the use of refrigerants that are ozone depleting. These substances are primarily refrigerants in equipment used to cool or freeze products.

We have already pioneered the replacement of synthetic refrigerants in large-scale industrial installations with natural refrigerants, such as carbon dioxide and ammonia, investing over CHF 200 million to date. As we have now phased out more than 90% of refrigerants with high global warming and ozone depleting potential in our industrial operations, the focus has shifted to smaller refrigeration systems such as ice cream freezers. For full details, go to refrigerants.



Transport and distribution

Our distribution network ensures that every day more than 100 000 tonnes of products are transported to customers from our factories and distribution centres.

Goals and actions

Our goal is to optimise our distribution network (transport and warehousing) in order to minimise greenhouse gas (GHG) emissions. Our main focus is to ensure the most efficient use of our transport to reduce the distances travelled.

Transportation

We aim to shift long distance transportation from the road to either rail or short-sea shipping, both of which result in significantly lower GHG emissions.

Much of our short to medium distance transportation continues to be by road, and as such we ensure that the following mitigation measures are adhered to:

- optimising truck efficiency (new engines, aerodynamic devices and eco-driving training);
- increasing the load factor to optimise transport capacity;
- avoiding empty runs; and
- exploring alternative vehicles (smaller delivery vehicles, electric engines, hybrid vehicles, alternative fuels such as liquefied petroleum gas, methane or hydrogen).

Warehousing

We are reducing energy consumption in warehouses by using natural and low-energy lighting and improved insulation, and we are currently exploring options for on-site energy production by using solar panels in our warehouses.

Measuring, reporting and improving environmental performance

In the last two years we have made significant progress in environmental performance reporting and are confident that the existing data allows us to estimate our overall environmental impact from transport and distribution.

Overall emissions

In 2009, we began estimating the overall GHG emissions resulting from the transportation of products from our factories to our customers, including warehousing and distribution centres. Approximately 2.4 million tonnes of CO₂ equivalent (eq) were emitted in 2010.

Transportation

According to estimations from our global markets, our global GHG effectiveness is, on average, 61 gr CO₂ eq per kg of product and 30 gr CO₂ eq per litre of bottled water. Globally, therefore, we estimated that Nestlé's GHG emissions from transportation amount to approximately 2 million tonnes in 2010.

Warehousing

We estimate that approximately 450 000 tonnes of direct and indirect GHG emissions was generated from our warehousing in 2010.



Key initiatives

Alternative engines

In the UK we worked with Eddie Stobart Ltd (ESL; a logistics and warehousing company) to successfully integrate liquefied methane powered trucks into our transport operation.

Volvo, who designed and built the first heavy truck to run on liquefied methane, asked ESL to field test five trucks in the UK. In 2010, Nestlé UK and ESL established a partnership to trial three trucks dedicated to Nestlé, which entered service in mid-December 2010.

Achievements:

- 225 000 km travelled, 25,800 tonnes lifted.
- 40 275 litres diesel saved, equating to 25,400 kg of CO₂ equivalent.

As a result of the initiative, Nestlé UK and Eddie Stobart won the 2011 Efficient Consumer Response (ECR) Award for Sustainable Distribution at the IGD Food Industry Awards.

In Germany, Mercedes-Benz is currently testing 50 hybrid trucks, which have the potential to reduce fuel consumption and carbon dioxide emissions by 10% to 15% in short-radius distribution work. One of the trucks is being used by Nestlé Schöller for the delivery of freezer cabinets.

In 2012, Nestlé will begin testing electric trucks for our deliveries to customers.

Changes to UK transport and distribution

In the UK we have made extensive changes to our distribution centre and transport network. Our transport operations are now in-house and we use only two regional distribution centres (Bardon and York) to deliver the full range of products. This has delivered the following results:

- 38% improved trailer fill from factory to distribution centre;
- 20% improved trailer fill from distribution centre to customer;
- Approximately 806,000 transportation kilometres saved;
- Reduction of around 640 tonnes of CO₂ equivalent.

Transport shifts in Europe

In our European operations, shifting from road to rail and short-sea shipping has delivered a reduction of approximately 2400 tonnes of CO₂ equivalent in 2011. An additional 2500 tonnes of CO₂ equivalent were also saved as a result of optimising vehicle loads and sourcing.



PARTNERSHIP: One of three trial trucks dedicated to Nestlé as part of the partnership with Eddie Stobart Ltd.



Warehousing energy improvements

In 2011, photovoltaic panels, which generate electricity from solar energy, were installed on the roofs of the Singen and Weiding warehouses in Germany. At both sites, around 50% more energy was produced in 2011 than consumed onsite.

There are now plans to improve the thermal insulation and review heat generation and lighting design, all of which will lead to a significant reduction in energy consumption.

The installation of LED lighting systems in warehouses in Poland and Russia has reduced energy consumption by more than 60%, with a corresponding reduction in indirect GHG emissions. Power efficient heat insulation, which has been used in the roof of a distribution centre in Kinel, Russia, now delivers yearly energy savings of more than 75 707 kWh.



Packaging optimisation

Packaging reduces waste by protecting food products during transportation and storage, in stores and at home, and is also essential for food safety, freshness and providing consumers with nutritional information and portion guidance at the point of purchase.

Our approach

Packaging represents a small part of the total environmental impact of food products, but Nestlé has adopted an integrated approach to packaging in its continuous improvement policy. This involves what we call a '4R' approach:

- **R**educing the weight and volume of packaging materials;
- leading in the development and use of packaging materials made from sustainably managed **R**enewable resources;
- aligning with and supporting initiatives to **R**ecycle or recover energy from used packaging, and helping to inform consumers through the use of identification and recycling symbols, and by encouraging consumers to recycle where programmes are available; and
- using **R**ecycled materials wherever it makes sense.

Our performance

Packaging source optimisation

In 2011, our source optimisation programme has helped to save 39 000 tonnes of packaging material by weight [KPI], which is equivalent to CHF 65 million.

Recyclable packaging

We use polyethylene terephthalate (PET) for water packaging and ready to drink products in a number of countries because it is a lightweight material that is easy to recycle.

We also encourage the development of packaging recycling schemes by local authorities and other stakeholders. For example, the Together We Can tin can recycling campaign by *Purina PetCare* aims to increase recycling rates of tin cans. In the USA and Thailand, meanwhile, we have launched campaigns to encourage PET bottle recycling. We are expanding the recycling capacity of *Nespresso* capsules to 75%, while an iPhone app in Singapore – i-Sort – allows consumers to receive information on proper disposal, recovery and recycling of used packaging by scanning the product bar code.

The Purina cat litter product, *Yesterday's News*, is made from post-consumer paper and corrugated paper. The paper bag packaging was modified by changing the adhesive and the type of lacquer to improve the acceptance of the re-pulped bags in the paper recycling process. These improvements allowed the bag to be recycled as corrugated or mixed paper material.

Recycled materials

Nestlé uses recycled paper, cardboard, PET, glass or tin plate wherever the safety and quality of the product is not jeopardised. We are also working with paper suppliers to make improvements in the quality of recycled paper.



RECYCLING: Aluminium is separated from the coffee grounds of returned, used Nespresso capsules at a recycling centre.



ADAPTATION: Changes to the Purina cat litter product, *Yesterday's News*, allowed the bag to be recycled as corrugated or mixed paper material.



Key challenges

There are limitations on the applications of recycled board in our packaging in order to avoid migration of residual mineral oils and the possible consequent health concerns.

PIQET tool

Our Packaging Impact Quick Evaluation Tool (PIQET) is a streamlined multi-criteria Lifecycle Assessment (LCA) tool, which assists in the selection of the most appropriate packaging for many products. It strictly follows LCA methodology.

As part of their everyday work, 500 packaging specialists around the world are using PIQET, allowing a factual comparison of the environmental impact of different packaging choices across a range of environmental indicators. Approximately 1700 Eco Design analyses have already been completed.

Renewable materials

We use materials from sustainably managed renewable resources in some of our packaging – for example, the *Ninho* cap in Brazil and Purina ONE® beyOnd™ bags are now made with renewable materials, and the *Vittel* bottle in France is partly made with renewable materials.

Key challenges

In early 2011, we used Der Grüne Punkt – Duales System Deutschland GmbH (DSD) to estimate the recycling rate of different used packaging materials. This enabled us to perform an infrastructure and packaging waste management analysis at 11 Nestlé markets, representing approximately two thirds of our total turnover (see table below).

The table below shows the recycling rate by packaging material category in each of the 11 selected markets. The rates are averages and also apply to our used packaging. In 2012, we will extend this study to cover the 15 principal Nestlé markets.

Recycling Rate

	Year	Paper, Board, Cardboard %	Plastic %	PET-bottle %	Glass %	Tinplate %	Aluminium %
Brazil	2009	n.s.	21%	56%	47%	49%	98%
China	2009	56%	25–30%	n.s.	> 50%	> 50%	> 95%
France*	2009	54%	22.5%		80%	111%	32%
Germany	2009	83%	83.8%**	n.s.	86%	95%	84%
Italy	2008	74%	30%	n.s.	65%	70%	58%
Japan	2008	n.s.	20%	50%	49%	89%	87%
Mexico	2009	12%	0.5%	24%	19%	71%	13%
Spain*	2010	84%	42%	n.s.	n.s.	71%	
Switzerland	2009	57%	n.s.	81%	95%	82%	91%
United Kingdom	2008	80%	24%	39%	61%	62%	35%
United States	2009	71.8%**	13.7%**	28%**	31.1%**	66.2%**	38%

Our initiatives

Source optimisation

We are adopting a more global approach to packaging source optimisation. Using data from our Globe and LEAN tools, we are accelerating improved packaging performance by identifying key areas for source optimisation. Implementing these innovative solutions will help us avoid food waste across the value chain and improve our environmental performance.

Assessing our products

Nestlé has started developing Eco-D, a multi-criteria eco-design tool that covers both packaging and ingredients in all product categories, partnering with recognised LCA scientists and experts, as an extension of PIQET.

Eco-D takes into account the entire life cycle of our products, using environmental indicators such as climate change, land use, ecosystem quality, mineral and non-renewable resources and water consumption. Benefiting from a user-friendly interface, Eco-D is intended for non-expert use.

Developing packaging materials from renewable resources

Nestlé is exploring the potential of using bio-based material made from sugar cane waste, which is collected after processing, and other plant-based materials for our product portfolio. We are also investigating the properties of a third generation of plastics made from non-food sources such as algae, cellulose and waste products. Such materials are unlikely to be available on the scale required in the short term, but our goal is to optimise our packaging through the use of renewable resources that meet our quality standards.



Recycling@home initiative

The Recycling@home initiative has been introduced in a number of European markets to encourage the recycling of our *Nespresso* capsules.

Nespresso UK piloted the scheme at the end of 2010 in a few communities around London, giving *Nespresso* Club Members the chance to return their used *Nespresso* capsules to the courier when replacement capsules are delivered. *Nespresso* UK is looking to extend this programme to the whole country in 2012.

Nespresso Benelux (The Netherlands, Belgium and Luxembourg) launched the same concept end 2010 for all *Nespresso* Club Members of the three countries, while also proposing used capsules collection points in the *Nespresso* Boutiques and pick-up points. The recycling@home programme is free of charge for the consumers but they have to buy the specific bag (5 cents of euro per bag).

In Switzerland, there are around 2500 collection points (including *Nespresso* Boutiques and offices) where consumers can pick up capsules, and 84% of capsules sold are in an area that features a collection point.



Bottled water packaging

PET resin is from the polyester family. The bottled water industry accounts for 9% of the global market for polyester, and as the worldwide leader Nestlé Waters' core areas of responsibility include promoting the use and recycling of PET. Recycled PET (r-PET), which saves both energy and greenhouse gas (GHG) emissions, is used in textiles, building materials, furniture, toys and bottles, but availability lags behind demand. Therefore, we do not consider its use for manufacturing bottles to be a strategic priority, although where demand exists, it can be an appropriate solution. *Levissima* in Italy, *Resource* in the United States and *Montclair* in Canada all use bottles incorporating r-PET.

Key challenges

Globally, an estimated one-third of PET bottles are recycled, but collection remains a challenge for producers, bottlers, consumers and public authorities. National recycling rates differ significantly, but on average collection rates worldwide are continuously improving.

For now, our priority is to contribute to increasing the availability of r-PET by raising consumer awareness through labels, advertisements, websites and events, supporting public and commercial collection schemes, and working to increase collection capacity through our own initiatives and in collaboration with others. For example:

- in France, Nestlé Waters co-founded Eco-emballages, whose household packaging waste collections have increased PET recycling, as has a partnership with Der Grüne Punkt – Duales System Deutschland GmbH (DSD) in Germany;
- in 2011, we introduced a 50% recycled r-PET bottle for the *Deer Park* brand in our Baltimore and Washington DC markets in the US. The bottle features an icon to educate consumers that recycling can provide material for new bottles and other products, and we are now able to bottle nearly a quarter of our *Deer Park* volume using the new 50% r-PET packaging;
- Nestlé Waters China combined an online recycling campaign with in-store promotions;
- in the UK, BUXTON's Recycle-on-the-Go programme will provide 41 recycling points in the local community by the end of 2011; and
- we support the Canadian beverage industry in Manitoba, where an industry-funded Recycle Everywhere programme involving public and commercial recycling schemes and public education aims to transform the province's poor recycling record into the best in North America.



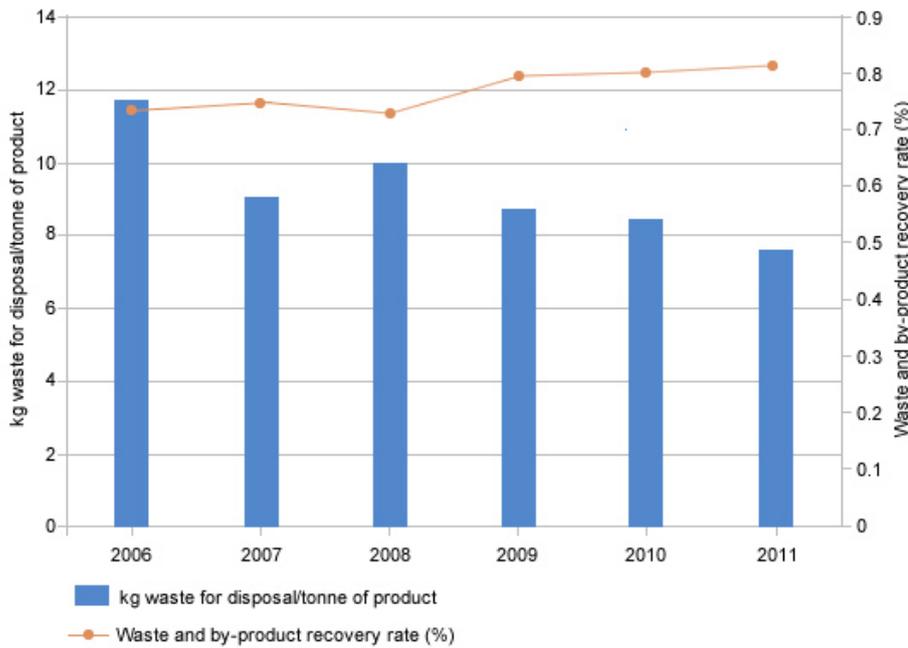
Waste and recovery

Our goals

Avoiding waste through the entire life cycle of our products is an important priority for Nestlé, as part of our commitment to preserve natural resources and to eliminate food wastage along the value chain. Our goal is zero waste and full recovery of unavoidable by-products.

Our performance

Since 2001, we have reduced the waste for disposal generated in our factories by more than a third per tonne of product, and we continue to increase the rate of by-product reuse or recovery. In 2011, 22 factories generated zero waste for disposal.



Waste for disposal

Waste is any material that arises during the manufacture or distribution stage of a product that is destined for final disposal to offsite landfill, or incineration without energy recovery. Since 2001, we have reduced more than a third of the waste for disposal per tonne of product.

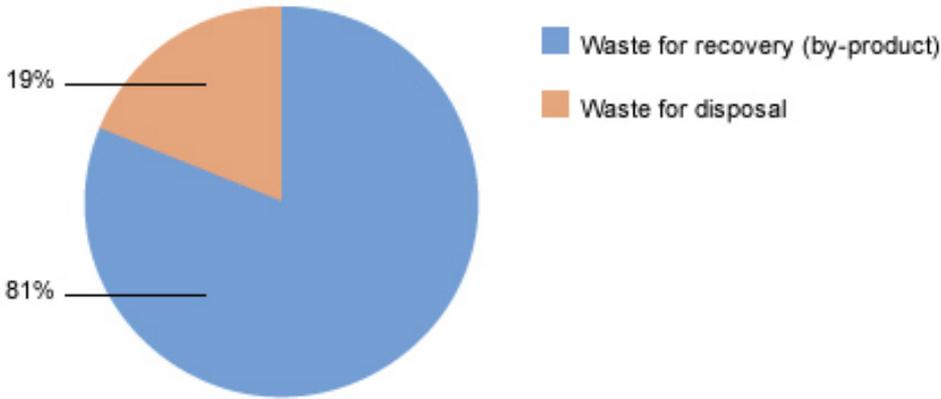
By-product

By-product is any material generated during the manufacture of a product that leaves the factory and is destined for reuse or recovery, including recycling, composting and incineration with energy recovery. More than 80% of the waste generated in our factories is reused or recovered.



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

Waste – recovery and disposal



We continue to work on fine-tuning the reporting of the volume of waste for disposal and by-products by type and destination.

Achieving zero waste to landfill

Our Girvan site was the first factory in the UK to achieve zero waste to landfill. Factory employees use techniques similar to those used at home to separate waste into streams for recycling or reuse. The waste wood generated by the site is crushed into chips and sold on to a local company, which manufactures chipboard for use in kitchen counters. Product waste is processed for inclusion into feeds for farm animals within 50 miles of the factory. Metals, plastics, paper, cans and cardboard are processed by our contractor and traded as commodities and any remaining material that does not currently have a viable recycling option is sent for incineration, which generates electricity.

Recovering sludge

More than 80% of the sludge generated from Nestlé owned waste water treatment plants is recovered, and is therefore destined for incineration with energy recovery, land spreading, methanisation, composting or reuse.

Hazardous waste

Only 1.6% of the waste we generate can be classified, as per local regulations and standards, as hazardous waste. This includes detergents, oils, fuels and grease.

Food waste

According to the Food and Agriculture Organization (FAO), about one third of food produced for human consumption – approximately 1.3 billion tonnes per year – is lost or wasted. The reasons vary widely depending on the product life cycle stage. While in developing countries a large proportion of the harvest is lost on its way to the consumer due to poor farming practices, infrastructure (streets, storage, cooling), inappropriate packaging and means of transportation, in developed countries a significant share of food is wasted during manufacturing, transport, retailing and consumer use.



ERO WASTE: 22 of our factories are already operating with zero waste for disposal.



In developed countries, losses along the entire food product value chain range from 3% to as high as 50%. Higher losses, usually estimated at 30% to 50%, occur in developing countries. At individual consumer level, 14% to 26% of household food in the United States, and almost 27% in the UK, is wasted, with most of the food thrown away untouched and still fit for consumption.

Food waste generates wastage of resources such as water, energy, land, labour, capital and superfluous emissions. As the leading food and beverage company, we transform more than 14 million tonnes of perishable, raw materials into finished, shelf-stable products. Thus, we preserve food resources and contribute to food waste reduction. Moreover, we strive to avoid food waste all along our value chain.

To reduce food waste in agriculture and post-harvesting stages of the product life cycle, Nestlé supports farmers through capacity-building programmes, technical assistance and knowledge transfer to improve crop quality and storage. Our Responsible Sourcing Guidelines are also concentrating on reducing post-harvest losses.

Improving environment impact in milk collection

With our system of collecting milk directly from farmers, Nestlé has succeeded in reducing milk losses to less than 0.6%. In India, for example, we have invested CHF 11 million in storage tanks, chillers and veterinary aid.

In manufacturing, we are committed to zero waste and full recovery of by-products, and 22 of our factories are already operating with zero waste for disposal. At consumer level, by offering consumers the right portion size of products we help them to better manage food at home.



Biodiversity

Biodiversity is defined by the UN Convention of Biological Diversity as “the variability among living organisms, which includes the diversity at ecosystem, species and genetic levels”. Ecosystem services are the benefits that people obtain from ecosystems, and include the formation of soil, the regulation of the water cycle and climate, and the pollination of plants.

Biodiversity is one aspect of Natural Capital, which includes both biodiversity and ecosystem services as well as inert resources. The two terms are often used interchangeably, although we treat biodiversity as a subset of Natural Capital. Here, we report on our efforts on both biodiversity and Natural Capital.

Improving biodiversity impacts

Nestlé is dependent on biodiversity in various ways. The Company operates 461 factories in more than 80 countries, some in locations of high biodiversity, and uses a range of products that originate from farms, forests and the oceans.

We are committed to business practices that safeguard Natural Capital, and in particular its constituent parts, including biodiversity and ecosystem services. To do this, we are working at various levels to:

- identify high biodiversity in proximity to Nestlé factories by applying a systematic, scientific methodology;
- develop Responsible Sourcing guidelines for commodities with a potential impact upon biodiversity;
- work with farmers from whom we buy directly to assess their agricultural practices and both mitigate their adverse impact upon biodiversity management and enhance the natural capital upon which they depend; and
- work with the University of Cambridge Programme for Sustainability Leadership to improve the understanding of Natural Capital and advocate for corporate and government action on the topic.

Our approach

In the last two years, we have given new emphasis to our approach to biodiversity. During the International Year of Biodiversity in 2010, scientists, governments and non-governmental organisations (NGOs) produced a series of assessments of the status of biodiversity. We have taken these assessments as the basis upon which to identify a series of courses of action at both operational and public policy level. In particular, we have focused our efforts on measures that focus on our raw material procurement, factory operations and policy interventions.

These measures, in addition to our existing use of Life Cycle Assessment (LCA) for product and packaging design, incorporate biodiversity impacts, and we have implemented measures – in line with the Convention on Biological Diversity (CBD) guidance – to ensure that, for any genetic resources, we obtained prior and informed consent, and with mutually agreed terms with local or indigenous communities.

Raw material procurement

Nestlé has identified 12 key commodities for the development of specific Responsible Sourcing Guidelines. As we develop and implement these guidelines, we are incorporating specific commitments on improving the impact of production and consumption of these commodities upon biodiversity.

Nestlé is actively engaged in efforts to curb deforestation through our Responsible Sourcing Guidelines, particularly in relation to palm oil, paper and soya. For more details, see the Rural Development section.

Sourcing directly from 680 000 farmers in our supply chain enables Nestlé to share good practice and work to reduce adverse biodiversity impacts at farm level.

Factory-based interventions

Nestlé has taken a systematic and scientific approach to assessing its reliance and potential impact upon biodiversity, drawing on the knowledge of scientific experts.

Working with the UN Environment Programmes World Conservation Monitoring Centre (UNEP-WCMC), we undertook an exercise to understand the relative importance of biodiversity and the presence of legally protected areas relative to our factory sites. This process produced a searchable database that has allowed us to identify a list of factories, which are in areas of high biodiversity and/or located in or adjacent to protected areas, and where we will focus our future actions. The biodiversity assessment methodology developed by UNEP-WCMC with Nestlé will be prepared for scientific peer review.

Our factories already operate according to the Nestlé Environmental Management System and 413 are certified to ISO 14001 standard on environmental management. This is a solid foundation on which to develop specific local and business sector approaches to further reduce our impact and, where appropriate, to work with stakeholders to enhance biodiversity.



Supporting public policy

Often, Nestlé is not alone in operating in a particular area, and it is therefore vital that we work in collaboration with other parties to take effective action where necessary.

We are keen to develop a balance sheet approach to Natural Capital. In other words, we see the necessity to safeguard biodiversity and ecosystem services at the same time as we rely upon them. A key element of this is to develop a better understanding of how to value the consequences of our activities throughout the value chain.

We are an active member of the Cambridge Natural Capital Leaders Platform, a major business-led programme focusing on practical evidence, action and policy influence. The cross-sectoral Platform, set up in 2010 as part of the Cambridge Natural Capital programme, addresses the impacts of ecosystems and Natural Capital loss and degradation on business, their customers and wider society.



Status of biodiversity

A starting point for focusing our work on biodiversity is to understand both the status of the world’s biodiversity and Nestlé’s dependence upon it. Nestlé has drawn upon a wide range of research from recognised organisations such as International Union for Conservation of Nature (IUCN), Food and Agriculture Organization (FAO), Convention on Biological Diversity (CBD), United Nations Environment Programme (UNEP) and World Wildlife Fund (WWF) to build up a detailed understanding of the state of the different aspects of biodiversity and the natural capital upon which the company is dependent. For example, understanding geographical differences allows our work on Responsible Sourcing to focus on countries and regions where there are the greatest threats and where Nestlé can make the biggest impact through its procurement activities.

Similarly, understanding dependency upon nature provides us with insights on where to focus our activities. For example, in various countries, Nestlé Waters bottles water that may originate from areas of high biodiversity, including national parks. Nestlé Waters therefore works with local authorities and land-owners to conserve and restore the habitat in order to preserve the quality of water.

The state of biodiversity

	Issues	Nestlé dependency
Forest	Deforestation; forest degradation.	Packaging, paper, timber pallets, shea, nuts, colorants.
Ocean	Overfishing; acidification; warming; nutrients/Dead Zones; plastics.	Seafood.
Freshwater	Water scarcity/over-extraction; water pollution.	Every stage of our value chain depends upon access to freshwater.
Grasslands	Loss of high value grasslands/biodiversity.	Agriculture, grazing (milk, meat).
Atmosphere	Increasing temperature; pollutants; ozone layer.	Stable climate, reliable precipitation, temperature.
Soil	Soil loss and degradation; increasing salinity.	All our agricultural crops rely upon soil with adequate structure and nutrients.



Raw material procurement

Nestlé has identified 12 commodities (palm oil, pulp and paper, sugar, soy, seafood, vanilla, hazelnuts, cocoa, meat, coffee, dairy and shea) with a potential threat to biodiversity. Whilst the suppliers of these materials are already subject to our Nestlé Corporate Business Principles and Supplier Code, we are now developing commodity specific Responsible Sourcing Guidelines, which incorporate safeguards on biodiversity, forest conversion and destructive harvesting, and water management (among other aspects).

The assessment of actual impacts of the production of these raw materials is being evaluated through work to map our supply chains back to the producer. With traceability back to the farm level established, we are able to work with suppliers to help them improve their performance to be able to meet our Responsible Sourcing Guidelines. Habitat conversion, loss of high conservation values, soil management and water stewardship are common potential impacts across many commodities and a particular focus of our work (complemented by work on social aspects and human rights issues).

Assessment and compliance audits occur through on-the-ground visits and our partners are developing key performance indicators to track progress on actions.

Based upon the assessment of the state of biodiversity, the focus of our current work is on a shortlist of countries where biodiversity values are highest and where, through our interventions, we believe that we can bring about significant improvement in performance. For example, with paper packaging we are focusing on fibre sourcing from USA, Canada, Brazil, Chile, Russia and South East Asian countries (including Vietnam, Indonesia, Malaysia and China). For sugar, we are concentrating on Mexico, Brazil and India, whilst with soya our focus is on Argentina, Brazil and USA. As we advance in this journey, we will expand the countries of focus to a second wave.

For palm oil, we concentrated on our factories in Thailand, China and India, as these are particularly sensitive markets where volumes are significant. The focus on these markets is such that:

- 75% of Nestlé annual spend on palm oil is currently being addressed by the project;
- the top 10 suppliers, representing approximately 66% of Nestlé annual spend on palm oil, have been mapped back to Palm Oil Mill; and
- 19 Responsible Sourcing Guideline assessments have been completed and actions plans have or are being developed with assessed suppliers (as at November 2011).

For our direct sourcing programmes, which cover more than half a million farmers – primarily milk and coffee – we are able to take a more hands-on approach to assess impacts and influence behaviours to protect biodiversity at the farm level.



POTENTIAL THREAT: Cocoa is one of the 12 commodities Nestlé has identified with a potential threat to biodiversity.



For milk, using our assessment and action planning tool, RISE (Response-Inducing Sustainability Evaluation), we are working with dairy farmers across our markets to review their methods before developing action plans focused on economic, social and environmental improvements at their sites.

In many countries, there is a need to invest in manure management to reduce the adverse impact on biodiversity, particularly freshwater supplies, and financial incentives are available to farmers for implementing the RISE action plans. Over 70% of milk volumes have been assessed in this way, and several high-priority factories have implemented the RISE tool and subsequent action plans. In Mexico, the assessment of 65 farms has resulted in 16 biogas digesters being built since 2009, and more than 7000 have been built in China since then.

For coffee, biodiversity issues are managed primarily through the use of the 4C Coffee Code and the *Nespresso* Sustainable Quality™ AAA programme for coffee sourcing. Both of these include safeguards against sourcing from protected areas, restrictions on pesticide use, soil conservation and water course protection. Following a 2007 World Wildlife Fund (WWF) report identifying that coffee cultivation in Sumatra was encroaching on the Bukit Barisan Selatan National Park, Nestlé Indonesia implemented a traceability programme to ensure that its Lampung factory does not source coffee from within the National Park. Traceability has subsequently become a cornerstone of Nestlé's approach.



POTENTIAL THREAT: Coffee is one of the 12 commodities Nestlé has identified with a potential threat to biodiversity.



Factory-level initiatives

To complement the work on Raw Material Procurement we have worked with UN Environment Programmes World Conservation Monitoring Centre (WCMC) to identify factories and business sectors that are most reliant upon biodiversity. We looked not only at the factory locations themselves, but also the direct sourcing of raw materials from the region around the factories.

The assessment of factory locations and biodiversity has permitted a more detailed understanding of not only the dependence of the Company on nature, but the potential impacts. Some 60 factories on 57 sites have been identified for future attention to reduce potential adverse impacts and, where appropriate, enhance biodiversity. There are currently 12 factory sites located within, and 12 factory sites within 2km of, legally protected areas. A further 33 factory sites are located in areas of high biodiversity that have also been prioritised by Nestlé for future detailed action.

Of the 12 factories within protected areas, eight are within International Union for Conservation of Nature (IUCN) Category V or VI protected areas, including the following:

- one factory is on the edge of a city within a buffer zone of a Category IV protected area;
- one factory is bisected by the boundary of a Category IV protected area;
- one factory is within a small town that is within a Category II protected area; and
- another is within a Natura2000 site.

Of the 60 factories that are therefore within areas of high biodiversity, 60% are either Nestlé Waters factories or milk factories. Both these businesses already have significant bodies of work that mitigate impacts, and in many cases strengthen local management of biodiversity.

Additional factories actions

Our initial focus is on actions in the two businesses that make up 60% of the identified factories – the dairy and bottled water businesses. The significance for the dairy factories is not so much the location of the factory itself, rather the high levels of biodiversity within the region from which milk is sourced. The dairy business, supported by Nestlé's Agriculture team, is already well advanced in responding to the need to safeguard biodiversity, by rolling out the RISE tool. This addresses biodiversity issues in milk production and has led to investments in pasture management and tree planting as well as cow waste management and biogas generation. This assessment will further guide the roll-out of the RISE tool to ensure that all the farmers supplying factories, in high biodiverse areas, have implemented appropriate measures to safeguard biodiversity.

For factories inside legally protected areas, Nestlé is committed to ensure that through its presence in protected areas there is effective management of the protected area to deliver upon the conservation objectives. During 2012, we will investigate a more formalised approach to working with protected area authorities to achieve this.



A more formal procedure on the assessment and due diligence around new factory sites has been developed to assess the status and likely impact on biodiversity, primarily focusing on the proximity to protected areas.

All factories will continue to implement measures to safeguard biodiversity, and continue to engage with employees, authorities and local communities. Nestlé has assessed each of its factories to determine their location with respect to water-stressed areas. A first analysis has been performed, and will be extended in the near future to determine overlaps and potential coordinated actions to the related issues of water stress and biodiversity.

Project examples

Watershed conservation and quality – Henniez, Switzerland

We are investing CHF 1.7 million into the Eco-Broye project over a five-year period, with the aim of optimising the nitrate content in the spring water. Actions have included a detailed risk assessment in the catchment area, implementation of agriculture regulations, tree planting and biogas production facilities to use excess manure.

Wetlands waterfowl habitat – Texas, USA

Healthy wetlands are good indicators of biodiversity, and in 2003 Nestlé Waters North America (NWNNA) began ecological baseline assessments to inform our management approach. More recently, NWNNA has been working with Ducks Unlimited, a non-profit organisation, to restore biodiversity and enhance wetlands habitats for wildfowl.

Restoration – Santa Maria, Mexico

The waters of the Santa Maria Atepatzingo spring now lie at the heart of a 2438 hectare protected ranch, thanks to a major restoration project. Formerly utilised for agricultural fields and fruit trees, restoration of the bare, unused land began in 2001. Within a few years, approximately 100 hectares of pine and oak – species that are important in preventing erosion and replenishing the groundwater – had been restored to native forest.

In 2006, a Mexican environmental agency classified the area as an experimental ecology zone devoted to the protection of forest and wildlife. Today, the ranch provides a diverse ecosystem that contributes to the protection of the watershed and provides the basis for the water needs of the surrounding community.

Best site management initiative in biodiversity – Vitte!, France

Nestlé received a special commendation for the best site management initiative in biodiversity, for a scheme to protect water reserves and restore biodiversity around the *Vitte!* water source, awarded by the French Ministry for Sustainable Development and the French Environment and Energy National Agency (ADEME).

Collaborative work on policy and advocacy

We are an active member of the University of Cambridge Natural Capital Leaders Platform, a major business-led programme focusing on practical evidence, action and policy influence. The cross-sectoral Platform, set up in 2010 as part of the University of Cambridge Natural Capital programme, addresses the impacts of ecosystems and Natural Capital loss and degradation on business, their customers and wider society. The results of the first part of this work will be launched prior to the Rio+20 Summit. A series of collaborative work programmes are currently further delving deeper into topics, such as the pricing of externalities, and will be used to advocate for changes by both businesses and governments.

1. Factories inside legally protected areas

Name	Location	Position in relation to PA	Size of factory site in ha	Protected status
Montes Claros Factory	Brazil	inside	2.1	IUCN cat. V
Petropolis Factory	Brazil	inside	1.2	IUCN cat. V
Ribeauville Carola Factory	France	inside	1.2	IUCN cat. V
St. Remy Les Chevreus Factory	France	inside	0.9	IUCN cat. V
Korpi Factory	Greece	inside	4.1	IUCN cat. IV (bisect.)
Pejo Factory	Italy	inside	2.4	IUCN cat. II
Matagalpa Factory	Nicaragua	inside	8.3	Nature Reserve cat. IV + Buffer Zone
Viladrau Factory	Spain	inside	2.5	IUCN cat. V
Karacabey Factory	Turkey	inside	9.2	IUCN cat. VI
El Tocuyo Factory	Venezuela	inside	9.8	IUCN cat. V
Santa Cruz Factory	Venezuela	inside	1.3	IUCN cat. V
S. Stefano Quisquina Factory	Italy	inside	1.2	Natura2000, Special Area of Conservation (SAC)
Total factories inside legally protected areas	12 factories	Total area [ha]	44.2	1 cat. II / 1 cat. IV / 7 cat. V / 1 cat. VI / 1 NR / 1 N2000

2. Factories adjacent (<2km) to legally protected areas (in high-risk countries and including Nestlé Waters)

Name	Location	Position in relation to PA	Size of factory site in ha	Protected status
Manama Factory	Bahrain	adjacent	0.6	Wetlands of International Importance (Ramsar)
Vila Velha I Factory	Brazil	adjacent	8.4	IUCN cat. II
Jacarepagua Factory	Brazil	adjacent	1.3	IUCN cat. II
Guayaquil Factory	Ecuador	adjacent	4.1	Wetlands of International Importance (Ramsar)
Cayambé Factory	Ecuador	adjacent	5.9	Wetlands of International Importance (Ramsar)
Yokneam Factory	Israel	adjacent	4.0	IUCN cat. II
Hope Factory	Canada	adjacent	1.4	IUCN cat. II
Aumuehle Factory	Germany	adjacent	10.0	IUCN cat. IV
Kekkut Factory	Hungary	adjacent	3.5	Wetlands of International Importance (Ramsar)
Cepina Factory	Italy	adjacent	10.3	IUCN cat. II
Henniez XIII Cantons Factory	Switzerland	adjacent	7.9	IUCN cat. IV
Buxton Factory	UK	adjacent	0.8	IUCN cat. IV
Jersey City Factory	USA	adjacent	1.5	IUCN cat. IV (Liberty State Nature Preserve)
Total factories adjacent (<2Km) to legally protected areas* *In high risk countries	13 factories 12 sites	Total area [ha]	59.8	5 cat. II / 4 cat. IV / 4 Wetlands

3. Factory sites in areas of high biodiversity

Name	Location	Position in relation to PA	Size of factory site in ha	Protected status
Aracatuba Factory	Brazil	Hi Biodiv.	4.3	-
Araraquara Factory	Brazil	Hi Biodiv.	2.5	-
Araras Factory	Brazil	Hi Biodiv.	2.7	-
Cacapava Factory	Brazil	Hi Biodiv.		-
Cacapava Factory	Brazil	Hi Biodiv.	49.6	-
Carazinho Factory	Brazil	Hi Biodiv.	3.5	-
Feira de Santana Factory	Brazil	Hi Biodiv.	35.0	-
Goiania Factory	Brazil	Hi Biodiv.	1.5	-
Ibia Factory	Brazil	Hi Biodiv.	52.1	-
Itabuna Factory	Brazil	Hi Biodiv.	67.7	-
Ituiutaba Factory	Brazil	Hi Biodiv.	2.0	-
Jatai Factory	Brazil	Hi Biodiv.	0.4	-
Marilia Factory	Brazil	Hi Biodiv.	4.7	-
NPPC Ribeirao Preto Factory	Brazil	Hi Biodiv.		-
Palmeira das Missoes Factory	Brazil	Hi Biodiv.	5.8	-
Rialma Factory	Brazil	Hi Biodiv.	0.8	-
Rio Pardo Factory	Brazil	Hi Biodiv.	33.4	-
Dongguan I Factory	China	Hi Biodiv.	10.3	-
Dongguan MAGGI Factory	China	Hi Biodiv.	10.0	-
Guangzhou Factory	China	Hi Biodiv.	10.2	-
Kunming Factory	China	Hi Biodiv.	5.6	-
NHL Hulunbeir Factory	China	Hi Biodiv.	12.0	-
NPPC Mosquera Factory	Colombia	Hi Biodiv.	4.6	-
Guane Factory	Cuba	Hi Biodiv.	2.8	-
Pant Nagar Factory	India	Hi Biodiv.	9.8	-
Batu Tiga Factory	Malaysia	Hi Biodiv.	2.2	-
Shah Alam Factory	Malaysia	Hi Biodiv.	8.2	-
Cajamarca Factory	Peru	Hi Biodiv.	4.3	-
Cabuyao Factory	Philippines	Hi Biodiv.	25.3	-
Cagayan de Oro Factory	Philippines	Hi Biodiv.	25.5	-
Lipa Factory	Philippines	Hi Biodiv.	29.6	-
Pulilan Factory	Philippines	Hi Biodiv.	5.0	-
Mossel Bay Factory	South Africa	Hi Biodiv.	6.2	-
Total factory sites in areas of high biodiversity	35 factories 33 sites	Total area [ha]	437.5	



4. Total area of factory sites adjacent to protected areas

Name	Location	Position in relation to PA	Size of factory site in ha	Protected status
In low-risk countries		Total area [ha]	773.6	
Total Area for GRI EN11			1315.1	

Note that the area for Water factories is for the factory itself. The water recharge and abstraction area is much larger, varying from several km² to over 300km². Due to the difficulties of measuring actual areas and relating these to protected area locations, this information is not provided in this report.



The trust that we earn from our stakeholders is one of our most precious assets. It is based on our commitment to act with honesty, integrity and respect for laws and regulations. This is what we refer to as compliance. Compliance is the foundation of how we do business and a non-negotiable requirement for everything we do.



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Principles

We actively support the United Nations (UN) Global Compact and UN Millennium Development Goals, including human rights and labour rights.



Marketing

Consumer communication commitments have been part of Nestlé's Corporate Business Principles since they were first published in 1999.



Product safety

Quality assurance and product safety are embedded in the Nestlé Corporate Business Principles and our commitment is never to compromise on the safety of any product.

Global principles and goals

Nestlé has a strong set of values and principles that we apply across all the countries where we operate. Our overriding objective is to ensure that our investments are beneficial both for our shareholders and people in the countries where we do business.

Global principles and goals	How we support them
United Nations Global Compact (UNGC)	Nestlé's Corporate Business Principles incorporate the 10 UNGC Principles on Human Rights, Labour, the Environment and Corruption. We are an active member of several of the Compact's Working Groups and Initiatives. We are a member of UNGC LEAD.
UNGC CEO Water Mandate	Nestlé is a founding signatory of the initiative, which is designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.
UN Millennium Development Goals (MDGs)	Nestlé regards the MDGs as highly important objectives. We contribute to partnerships that harness local knowledge and capabilities, for positive, sustainable change.
Universal Declaration of Human Rights	We are committed to promoting respect for human rights and recognise our responsibility for guaranteeing them, as set out in the Universal Declaration of Human Rights.
International Labour Organization (ILO) conventions	We are guided by international norms and principles, such as the fundamental International Labour Organization (ILO) conventions. We support the ILO's Tripartite Declaration for Multinational Enterprises.
Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises	We adhere to the OECD Guidelines for Multinational Enterprises, which were updated in 2011 to include human rights.



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

Global principles and goals	How we support them
World Health Organization's International Code of Marketing of Breast-milk Substitutes (WHO Code)	We have developed a strong policy articulating our commitment to and implementation of the WHO Code.
WHO Global Strategy on Diet, Physical Activity and Health	Nestlé sponsored and participated in a symposium that brought together members of government, academia, civil society and the private sector to discuss how different sectors of society need to work together to implement the strategy.
UN's high-level meeting on non-communicable disease prevention and control	Nestlé provided input on the prevention and control of non-communicable diseases (NCDs).
International Food and Beverage Alliance (IFBA)	Nestlé is a founding member of the IFBA, which supports the WHO's Global Strategy on Diet, Physical Activity and Health – for example, by reformulating and developing new products that support the goals of improving diets.

UN Global Compact

Supporting the UN Global Compact Principles

Nestlé's [Corporate Business Principles](#) incorporate the 10 UN Global Compact (UNGC) Principles on Human Rights, Labour, the Environment and Corruption. They reflect the basic concepts of fairness, honesty and respect for people and the environment in all our business actions.

We reiterate our strong support to the UN Global Compact, its 10 Principles and to its Blueprint for Corporate Sustainability Leadership.

Demonstrating leadership at global level

Nestlé is also a founding participant in [UN Global Compact LEAD](#), a leadership platform comprising a select group of 56 UN Global Compact "champion" companies. Nestlé is a member of the LEAD Steering Committee and participates in several LEAD taskforces.

We participate in the UNGC's Human Rights and Labour Working Groups, and its Supply Chain Advisory Group.

Furthermore, Nestlé is a founding signatory of the UNGC CEO Water Mandate, as mentioned elsewhere in this report. [Read more about our participation in the CEO Water Mandate.](#)

Demonstrating leadership locally

Subsequent to the clarification of the UNGC subsidiary engagement policy in 2011, we have encouraged our markets to join local UNGC networks.

In 2011, Nestlé China became a member of the Presidium of the Chinese UNGC network, and Nestlé UK joined the UK network in early 2012. In Switzerland, Nestlé S.A. sits on the board of the Swiss network and in Australia, Nestlé Australia was one of the founding members of the local UNGC network.

Communicating progress

We provide a Communication on Progress (COP) towards UNGC goals and principles in the form of our full Creating Shared Value (CSV) report, which covers the Company's efforts in implementing the Advanced criteria and the Blueprint for Corporate Sustainability Leadership.

This full CSV report covers the activities and aggregated key performance indicators of the entire Nestlé Group, including all our subsidiaries and Globally Managed Businesses (GMB). The list of all Nestlé companies can be found in the [Corporate Governance Report](#) and [Consolidated Financial Statements](#), which along with the CSV report forms an integral part of Nestlé's annual reporting to shareholders. The CSV report itself highlights specific examples of Nestlé subsidiaries and their performance in the various areas of the [Creating Shared Value Pyramid](#). In addition, we have a large number of [Case Studies](#) on CSV Community Projects on our website.

The Nestlé CSV report contains a comprehensive GRI (Global Reporting Initiative) index and has been externally verified by Bureau Veritas. As the first global food company, Nestlé has obtained a GRI A+ rating for the report in March 2012.

Links to the CSV report content can be found in the accompanying [Communication on Progress 2012 index](#).



Supporting the 10 UNGC Principles

UNGC Principles	Examples of recent and ongoing initiatives in this report	
Human Rights	Policy development, targeted training and human rights risk assessments in our operations	Identifying and managing human rights risks
	Assessing and addressing human rights impacts in partnership with the Danish Institute for Human Rights	Assessing and addressing human rights impacts
	Working with the Fair Labor Association (FLA) to combat child labour in the agricultural supply chain. We became a formal member of the FLA in 2012	Tackling child labour
	Community engagement	Community engagement
	Promoting human rights among our suppliers	Implementing the Nestlé Supplier Code
	Labour	New Nestlé Policy on Conditions of Work and Employment
Revised Nestlé Management and Leadership Principles		Our Corporate Business Principles
Ongoing CARE Audit Programme (Compliance Assessment of Human Resources, Occupational Health & Safety, Environment and Business Integrity)		Our Corporate Business Principles
Environment	Life Cycle Approach	Life cycle approach
	Eco-design	Applying eco-design
	ISO 14001 certification	Governance and systems
	CEO Water Mandate's work streams on Policy Engagement, Water Disclosure and Human Right to Water	Engagement and Disclosure
	Water Resources Review roll-out	Water management
	Carbon Disclosure Leadership Index 2011	Partnering on climate change
	Transport and distribution	Transport and distribution
	Energy Target Setting Initiative	Improving energy efficiency



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

UNGC Principles	Examples of recent and ongoing initiatives in this report	
Environment continued	Responsible Sourcing Audit Programme	<u>Responsible sourcing audit programme</u>
	Combating deforestation	<u>Combating deforestation</u>
Anti-corruption	Code of Business Conduct	<u>Anti-corruption</u>
	Anti-corruption training tool	<u>Anti-corruption</u>
	New Group-wide integrity reporting system	<u>Human rights and labour rights</u>
	Bribery and Corruption Policy	<u>Anti-corruption</u>



CEO Water Mandate

The CEO Water Mandate was launched in 2007 to better understand and advance water stewardship in the private sector.

It is based on six core elements, which are vital to addressing corporate water management: direct operations, supply chain and watershed management, collective action, public policy, community engagement, and transparency.

The eighth Water Mandate working conference was held in Stockholm, Sweden in August 2011. During the conference, key water-related challenges were discussed, with a particular focus on corporate water disclosure and the role of business with respect to the human right to water and sanitation.

The next Mandate working conference will be held in Rio de Janeiro, Brazil during the UN Conference on Sustainable Development in 2012. The meeting will provide more opportunities to discuss and garner feedback on the Mandate's on-going projects. The CEO Water Mandate will also hold an event at the 2012 World Water Forum in Marseille in March.

Communication on progress

Our 2011 Creating Shared Value report, focusing on water, is our Communication on Progress, and fulfils the six elements of the CEO Water Mandate.

The report is available for download and its contents are also available in the Water section of this website.



UN Millennium Development Goals (MDGs)

In 2010, two-thirds of the way to the UN's 2015 deadline, Nestlé prepared and issued a second report, charting our contributions to the MDGs. We identified 292 initiatives that contribute to one or more of the Goals worldwide. Fifty-six projects in 36 countries were focused on combating poverty and hunger issues (Goal 1), but others had notable impacts on environmental sustainability (Goal 7) and building partnerships (Goal 8).

Recent examples of Nestlé's actions:

		Our actions
MDG 1	Eradicate extreme poverty and hunger	The <i>Nescafé</i> Plan
MDG 2	Achieve universal primary education	Primary education project, Philippines or Adopt a school, South Africa (tbc)
MDG 3	Promote gender equality and empower women	Women livestock workers, Pakistan
MDG 4	Reduce child mortality	Water and sanitation projects, South Asia
MDG 5	Improve maternal health	Micronutrient fortification, Nigeria
MDG 6	Combat HIV/AIDS, malaria and other diseases	HIV/AIDS, South Africa
MDG 7	Ensure environmental sustainability	Combating deforestation: partnership with The Forest Trust
MDG 8	Develop global partnerships	International Federation of Red Cross and Red Crescent Societies

Announced our participation in the UN programme Every Woman Every Child to improve vulnerable lives.



Human rights and labour rights

The Nestlé Corporate Business Principles (NCBP) describe what we stand for as a Company and the high standards we set ourselves. Those standards are fully endorsed by the Chairman and CEO and communicated to all Nestlé employees.

Commitments and systems

Nestlé has direct influence over its own employees and indirect influence over the employees in its supply chain, and we continue to promote the principles of human and labour rights in both areas.

Our NCBP incorporates the 10 UN Global Compact (UNGC) Principles. See our UNGC Communication on Progress, including Human Rights, Labour and Anti-Corruption.

We recognise the "Corporate Responsibility to Respect Human Rights", outlined in the UN Framework and Guiding Principles on business and human rights. We are committed to the International Bill of Human Rights, as well as to the core Conventions of the International Labour Organization (ILO).

To further improve our performance, the Nestlé Employee Relations Policy adopted in 2010 was complemented by our new policy on Conditions of Work and Employment in November 2011, which covers areas such as temporary employment, outsourcing, working time or wages.

Additionally, the Nestlé Management and Leadership Principles were fully revised in autumn 2011 to reflect the changes in the NCBP, as well as the new policies and practices.

Compliance with our NCBP is monitored through external audits under our (CARE) programme, and internally by our Group Audit function. In 2011, 110 sites underwent CARE audits. No critical non-compliances were identified. [KPI]

The CARE programme was reviewed in 2011 to ensure coverage of the entire human rights spectrum.

A new [Integrity Reporting System](#) is being made available to all employees to provide an independent mechanism to raise concerns relating to any of our policies and procedures. This is a third-party operated reporting system that handles both open and anonymous reports. Reports received through this system are sent to the Nestlé Compliance Officer responsible in the respective country of operation, who, together with other relevant functions, evaluates and assesses the information received, determines the appropriate course of action and assigns the investigation if warranted.

Working with the Danish Institute for Human Rights

Since November 2008, we have worked with the Danish Institute for Human Rights (DIHR) to review our human rights policy, systems and procedures. This work fed into a revision of the NCBP and the Employee Relations Policy, which continues to inform our efforts at the policy level and led to the identification of specific human rights indicators, which are assessed and reviewed on an annual basis as part of our overall Risk Management System.

In July 2010, we began a new two-year partnership with the DIHR on Human Rights Due Diligence, to help ensure our human rights responsibilities are implemented globally.



Impact assessments

Comprehensive impact assessments of our operations were conducted together with the DIHR in Colombia (2010), Nigeria, Angola and Sri Lanka (all in 2011), and we have also rolled out a global online human rights training tool, which is mandatory for employees working in high-risk countries. For more information on our approach to human rights, see "Human rights" in "Our people" section.

We continue to tackle child labour and improve access to education in cocoa-growing areas, in association with the International Cocoa Initiative, and work with the Fair Labor Association (FLA) – the first food company to do so – on working conditions and child labour in the hazelnut and cocoa supply chain. We became a formal member of the FLA in 2012.

In Colombia, we continue our dialogue with Alliance Sud, an advocacy group for six Swiss non-governmental organisations (NGOs). After five years of engagement, Alliance Sud published their report on Nestlé's human rights and development impact in June 2011. Globally, the International Union of Food Workers (IUF) stopped its campaign against Nestlé in March 2011, when a solution to the labour conflict in Indonesia was found. Unfortunately, industrial relations in the Indonesian Panjang factory deteriorated again later in the year, which led to a resumption of the campaign.

NIGERIA – Labour rights

Nestlé Nigeria continues to take a proactive approach to embedding human rights principles within business operations. The bi-annual *MD-Union Forum* is an interactive approach to foster good workplace and industrial relations.



Responsible advertising and marketing

Nestlé is fully committed to contributing to good nutrition and a healthy lifestyle. We share concerns about rising obesity, specifically among children, throughout the world, including in developing countries where the double burden of over- and under-nutrition occurs.

Obesity is a complex societal problem, which requires the involvement and cooperation of many parties including scientists, academia, consumers, health leaders, the food and beverage industry, as well as national and international authorities.

Obesity is influenced by a range of factors, such as physical activity, school curricula and genetics. These, in combination with large portion sizes, foods and drinks with elevated calorie content, can contribute to an unbalanced diet.

Understanding the impact of advertising

Advertising is a minor element in the context of the many factors that determine individual food preferences, consumption and behaviour. This is demonstrated by the Obesity Systems Influence Diagram, which illustrates the many factors contributing to the obesity epidemic. The diagram shows 108 drivers of obesity (compiled from 38 science reviews) in a systemic view. Positive and negative influence arrows on the diagram link the variables into a web of causal relationships (Foresight Tackling Obesity Project).

Dealing responsibly with advertising and marketing to children is part of the larger solution, and one that Nestlé is well-placed to influence. For more details, please see Advertising to children, and below.

Our policies

Principles concerning appropriate communication with consumers have been part of Nestlé's Corporate Business Principles since they were first published in 1999, and they undergo periodic review.

A more comprehensive and detailed set of Consumer Communication Principles was released in 2002. These were further strengthened with regard to children in 2004, 2007 and most recently in September 2011.

Nestlé's Consumer Communication Principles:

- encourage moderation, healthy eating habits and physical activity without, in the case of children, undermining the authority of parents or creating unrealistic expectations of popularity or success; and
- must be referred to by all marketing staff and advertising agencies globally.

Our Policy on Marketing Communication to Children, in place since 2008, is that no advertising or marketing activity is directed to children below six years of age, and that advertising to children aged 6 to 12 is restricted to products with a nutritional profile which helps children achieve a healthy, balanced diet, including limits for ingredients such as sugar, salt and fat.



In September 2011, we further strengthened our Policy on Marketing Communication to Children by making two amendments.

First, with respect to digital media, the whole digisphere, including company-owned websites, is now included in our policy.

Second, to ensure that more programming is covered the policy applies when 35% or more of the audience (down from the previous threshold of 50%) is under 12 years of age.

Nestlé has a process in place to better ensure global compliance with our Consumer Communication Principles and Policy on Marketing Communication to Children. This includes a set of Implementation Guidelines, support and a monitoring system. For more detail on how we are implementing these policies, see Advertising to children.

Implementing our policies

In light of regulatory developments worldwide and increasing consumer interest, Nestlé has reviewed and reinforced its internal approach to the development and validation of nutrition and health claims.

A "General Instruction" document describing all mandatory procedures was published and promoted across the Company in late 2008.

A detailed Claim Development Standard was then issued in 2009, examining consumer understanding issues, rigorous scientific validation procedures, and multifunctional teamwork and responsibilities.

Deployment of more comprehensive tools and training for all marketing staff is ongoing.

Performance

99.1% Marketing to Children compliance rate [KPI]

We maintained tight control of our media planning and buying in an aim to retain close to 100% compliance at the end of the year.



Advertising to children

IFBA membership

Nestlé is a founding member of the International Food and Beverage Alliance (IFBA), which supports the WHO's 2004 *Global Strategy on Diet, Physical Activity and Health* by taking action in five areas.

One of these is extending responsible advertising and marketing initiatives to children globally, and in 2009 IFBA adopted a global policy on marketing communication and advertising to children under 12 years of age. This was further enhanced in 2011, to be implemented 31 December 2012, and is in line with Nestlé's global Policy on Marketing Communication to Children.

IFBA also promotes the adoption of this policy in the wider marketplace with national pledge programmes. These pledges, based on the core tenets of the IFBA global policy, encourage regional and local companies to follow IFBA's lead and to change the types of products they advertise to children.

IFBA pledge programmes have been launched in 45 countries including Australia, Brazil, Canada, the 27 Member States of the EU, the six countries of the Cooperation Council for the Arab States of the Gulf, India, Mexico, the Philippines, Russia, South Africa, Switzerland, Thailand, Turkey and the US. Monitoring is an intrinsic part of the various industry pledges and initiatives.

Another survey was conducted in 2011 to assess the compliance of IFBA members – The Coca Cola Company, General Mills, Grupo Bimbo, Kellogg's, Kraft, Mars, Nestlé, PepsiCo and Unilever – with their stated policies on marketing and advertising to children.

IFBA Progress Report

The Second IFBA Progress Report documents what member companies have been doing to support the WHO Global Strategy. IFBA companies have taken comprehensive steps to limit what they advertise to children in more than 200 countries, and these measures have been backed by third-party monitoring.

In the second year of monitoring, there has been 100% compliance in print and online advertising and 96% compliance in television advertising. These figures are based on studies in Chile, China, India, Mexico, Russia, the Kingdom of Saudi Arabia, the Philippines and South Africa.

EU Pledge monitoring

The EU Pledge is a commitment by 19 companies, including 11 leading food manufacturers, to voluntarily restrict their advertising to children under the age of 12 in print, on television and online.

Results from the 2011 third-party monitoring report show a 79% decline in advertising of products that do not meet companies' nutritional criteria in programmes targeted at children.



ADVERTISING TO CHILDREN: Nestlé has committed to voluntarily restrict advertising to children under 12 in print, on television and online.

Compliance across the industry is consistently high, and in most markets Nestlé's own performance was even higher (see table below). The slightly lower figure in Ireland is due to the low number of advertising spots; 160 Nestlé spots compared to 37 152 for all companies. The enhanced EU Pledge, which came into effect on 1 January 2012, is in line with the Nestlé Policy on Marketing Communication to Children.

EU Pledge Compliance 2011

For the third year running, the monitoring of 12 EU markets for advertising and 12 EU markets for in-school communications has demonstrated high compliance rates.

There was close to 100% compliance for advertising on all media, and 98% compliance for in-school communications. In primary schools, the overall compliance rate was 98%, while Nestlé's compliance rate was 99.5%.

Compliance by medium

Medium	EU Pledge overall compliance rate	Nestlé compliance rate
TV	99.1%	98.48%
Print	100%	100%
Online	100%	100%

Compliance by market

Market	EU Pledge overall compliance rate	Nestlé compliance rate
France	99.6%	99.7%
Ireland	98.3%	97.5%
Netherlands	99%	99.55%
Poland	98.9%	98.7%
Portugal	99.5%	99.6%
Romania	99.5%	99.6%
Slovakia	99%	99.4%



Infant food marketing

Addressing key challenges: Marketing of breast-milk substitutes and the WHO Code

Nestlé supports the World Health Organization recommendation of exclusive breastfeeding for the first six months of life followed by continued breastfeeding along with the introduction of complementary foods as advised by a health professional. We seek to promote safe, adequate nutrition for infants by encouraging breastfeeding as the best start in life, and by manufacturing high-quality breast-milk substitutes (BMS) when a safe alternative is needed.

We have developed a strong policy articulating our commitment to and implementation of the World Health Organization's International Code of Marketing of Breast-milk Substitutes (WHO Code), and apply a detailed global Management System, comprising explicit procedure manuals, an internal Ombudsman System, internal and external audits, training of staff and reporting on breast-milk substitute marketing and compliance. Some 22 countries were audited by corporate internal auditors in 2011, and Bureau Veritas conducted independent Code compliance audits in Laos, Cameroon and Jamaica.

FTSE4Good inclusion

In March 2011, we became the first infant formula manufacturer included in the Financial Times Stock Exchange responsible investment Index (FTSE4Good), the only index in the world that has criteria on the marketing of breast-milk substitutes in addition to several others. This index is designed to help investors identify companies that meet globally recognised corporate responsibility standards. After rigorous evaluation of our policies and procedures, PricewaterhouseCoopers conducted a verification assessment at our headquarters and businesses operations in India and Zambia and investigated on-the-ground evidence of our behaviour.

More information about our infant formula marketing policy is available on the Nestlé Baby Milk website or by downloading the following documents from the Creating Shared Value website:

- Nestlé Charter on Infant Formula
- Nestlé Policy and Instructions for Implementation of the WHO International Code of Marketing of Breast-milk Substitutes

Performance

In 2011, 100% of Nestlé staff involved in infant formula marketing in high-risk countries received specific WHO Code training [KPI]. Additional materials have been developed to facilitate guidance to marketing staff, including a web-based training and testing tool.

22 internal audits were carried out in 2011, and Bureau Veritas conducted independent Code compliance audits in Laos, Cameroon and Jamaica.

19 concerns about non-compliance with the WHO Code, attributable to Nestlé and requiring remediation, were raised in 2011; corrective action was taken in all instances.

We will continually work to improve our practices and encourage all stakeholders to communicate their concerns to us. They can do so through our Complaint Form available from the Nestlé Baby Milk website.



Product safety

Quality assurance and food safety

At Nestlé, we are committed to delighting our consumers with food and beverage products that are consistently both safe and of the highest quality. We maintain the same high standards in all countries in which we operate.

Quality assurance and product safety is one of Nestlé's 10 Corporate Business Principles, which form the foundation of all we do.

Nestlé Quality Policy

Our actions to ensure quality and food safety are guided by the Company's Quality Policy, which describes our commitment to achieve:

- consumer trust and satisfaction with all our brands, products and services;
- food safety and full compliance with all applicable regulatory requirements;
- quality as a group-wide objective; and
- a zero-defect, no-waste attitude by everyone in our company.

When necessary, we have recalled products. For more information see the KPI table (page 14).

Nestlé Quality Management System

Our Quality Management System ensures that we can deliver on our commitment to quality and food safety. The Nestlé Quality Management System encompasses our systems for food safety and our requirements for quality compliance, including compliance with all regulatory and legal requirements.

■ **Good Manufacturing Practices**

We apply internationally recognised Good Manufacturing Practices (GMP) to ensure quality and food safety. GMP addresses all aspects of manufacturing, including design of equipment, standard operating procedures, people management and training, machine maintenance, and handling of materials.

■ **Hazard Analysis and Critical Control Points**

We use the internationally recognised HACCP system to ensure food safety. This is a systematic approach for managing food safety covering the entire food production process from raw materials to distribution. It identifies food safety hazards (e.g. chemical or microbiological contaminants) and defines the appropriate measure to control the hazard, with a focus on prevention.

■ **Traceability**

Our traceability system follows the "one step up – one step down" principle. We know and have approved the manufacturer for all our raw materials and packaging materials. Equally we keep records of which product we have sold to which customer.

Compliance to the Nestlé Quality Management System is certified by independent Certification Bodies. The same applies to the Food Safety Management system, which is certified against the public standard ISO 22000 and ISO 22002-1.



Consumer services

Our worldwide consumer services organisation ensures that we can immediately respond to any consumer or trade complaints and can take any corrective actions without delay. The vast majority of Nestlé branded products carry an invitation to the consumer to “talk to Nestlé”. Addresses or phone numbers are printed on each label.

Responsibility

The quality assurance and food safety system is an integral part of Nestlé’s Corporate Business Principles, which are endorsed by the President and the CEO of the Company.

The quality organisation in the markets reports through the Technical or Operations Manager to the Market Head. Functionally, the quality organisation reports to Nestlé’s Head of Quality who reports to the Chief Operations Officer.



Consumer privacy

Nestlé respects the privacy of its consumers, employees and other stakeholders and is committed to protect their personal data. This includes the right of individuals to be informed of and make decisions regarding the processing of their respective personal data.

Our policy

Our internal Privacy Policy sets out the key principles that all employees and contractors of Nestlé companies must comply with when processing personal data.

In summary, personal data must:

- only be processed for specific and legitimate business purposes;
- be processed fairly and lawfully;
- be properly managed;
- be protected against unauthorised processing and damage;
- be accessible when in the form of data collections; and
- not be transferred to third parties or other countries without adequate safeguards.

Processing of sensitive personal data is subject to additional restrictions.

Nestlé's Group Data Protection Office (dataprotectionoffice@nestle.com) is a specific corporate function that verifies compliance with the Privacy Policy and provides advice, assistance and counsel to other departments on its implementation.



Governance

Governance structure

Within our general corporate governance structure, the Chairman, the Chief Executive Officer and other members of the Executive Board are ultimately responsible for the supervision and management of the Group, supported by a number of other governance bodies, including our Operations Sustainability Council, Issues Round Table, Audit Committee, Risk Management Committee, Research and Development Sustainability Council and Group Compliance Committee.

We have established a quarterly Creating Shared Value Alignment Board, chaired by our Chief Executive Officer, Paul Bulcke. This quarterly board is an umbrella organisation that oversees the strategic implementation of Creating Shared Value (CSV) across all Nestlé businesses. It leads the development and evolution of Nestlé's CSV and sustainability objectives and strategies at Group level, while reverting to the Executive Board for input and confirmation. It also liaises with and ensures coherence with our CSV Advisory Board, which gives external input to our activities.

Nestlé has embedded responsibility for water into its business units, providing a solid cross-functional platform to manage water-related issues. Our Water Task Force sets high-level strategy while our Operations Water Task Force translates this in operational targets, objectives and key performance indicators (KPIs), enabling us to face current and future challenges, and delivering competitive advantage through responsible water stewardship.

Principles and policies

The Nestlé Corporate Business Principles are the foundation of our corporate culture and describe our Company's core commitments to all of our stakeholders. These principles, together with the Nestlé Management & Leadership Principles and the Nestlé Code of Business Conduct, form the basis of how we conduct our business. They include our commitment to the 10 UN Global Compact Principles on Human Rights, Labour, the Environment and Corruption, and other relevant international human rights and labour standards.

Procedures and processes

The Corporate Business Principles were recently revised and reissued to all markets. A sustained communication campaign involving an email to all employees, a satisfaction survey, flyers, and presentations and videos at team meetings will be followed up by ongoing work to determine how best to integrate the Nestlé principles into key processes.

From the factory floor to the top management, training at Nestlé is a priority, including training our employees in the Corporate Business Principles. See Our People section for more detail on employee training and development.



Recognition

In January 2011, Nestlé Malaysia received the Best Corporate Social Responsibility Award and the Distinction Award for Corporate Governance at the Malaysian Corporate Governance (MCG) Index 2010 Awards. The annual event names the Top 100 companies that have met specific criteria in areas such as compliance, performance and quality of disclosure.

And at the 2011 Corporate Governance Awards ceremony held in London in April, Nestlé received the award for Best Corporate Governance in Switzerland. The ceremony is organised every year by World Finance Magazine in recognition of companies that have achieved excellent levels of corporate governance by serving the best interests of their shareholders with maximum transparency.

Nestlé Chairman, Peter Brabeck-Letmathe, who accepted the award for Best Corporate Governance in Switzerland on behalf of Nestlé, said: "We are in constant contact with shareholders. We listen very carefully to what they think and what they think good corporate governance should be. The creation of trust depends on good corporate governance. Employees want to work for a company that has integrity. Shareholders want to invest in a company that has good corporate governance. Consumers want to know how a company is being run, if it is honest and if it is controlled."



Our people

Our business is built on integrity, honesty, fair dealing and legal compliance, and we expect our global team of 327 537 people to live these values every day. As well as being committed to respecting human rights and ensuring the safety and health of our employees, we embrace cultural and social diversity throughout our workforce, our customers and the communities where we work.



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Human rights

We fully support the new United Nations Framework and Guiding Principles on Business and Human Rights, and we aim to be a best-practice example in the way we do business with respect for human rights.



Internal training

Our people are extremely important to us, and we offer them the opportunity of an exciting career supported by continuous development and training.



Wellness

It is our core aim to enhance the quality of consumers' lives every day, everywhere, and we apply these same principles to our employees.



Diversity

We embrace diversity across our workforce, our customers and the communities where we work.



Safety & health

Our Company is founded on caring: for our consumers, for the communities in which we operate, and most fundamentally for our colleagues.



Engagement

We invite our people to contribute to identifying and carrying out improvements to the way we do business.



Overview

Our People and Creating Shared Value

Value for Nestlé: sustainable growth, strong corporate reputation, skilled and motivated workforce, improved performance, better business results.

Value for society: better standard of living, protected human rights, a safe and healthy workplace, employment and personal development opportunities, higher incomes.

Context

The Nestlé team comprises 327 537 people [KPI]. 29% are based in Europe, 33.7% in the Americas and 37.4% in Asia, Oceania and Africa. Our challenge is to combine strategic corporate leadership with strong, responsive local leadership to achieve consistent high levels of performance and corporate responsibility across our business. Fostering our commitment to our principles, we have continued to build our focus on human rights and workplace relations. We are making every effort to maintain a safe, healthy, skilled, committed and stable workforce that will continue to deliver our competitive advantage.

Goals

Our ambition is to provide continuous learning and talent management to help our employees develop and adapt their capabilities and career prospects in a rapidly changing world. In return, we expect our people to behave in a way that supports the following corporate principles: human rights in our business activities; leadership and personal responsibility; health and safety at work. The table below summarises our goals within each area of focus.



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

Priority	Goals
Anti-corruption	Never engage in offering or receiving any financial or other advantage in return for preferential treatment or influence over decision makers.
Human rights	Fully support the United National Framework and Guiding Principles on Business and Human Rights and provide an example of good human rights and labour practices throughout our business activities.
Labour practices	Foster a culture based on values of trust, mutual respect and dialogue, and work together to create and maintain positive individual and collective relationships throughout our operations.
Training and learning	Provide continuous development and training for everyone from the factory floor to top management.
Workplace wellness	Provide workplace wellness programmes across the business to support a healthy workforce.
Diversity	Treat each other with respect and dignity and expect everyone to promote a sense of personal responsibility. Provide equal opportunities and do not tolerate any form of discrimination.
Health and safety	Prevent all accidents, injuries and illnesses related to work, and protect employees, contractors and others involved along the value chain.
Employee engagement	Invite everyone to contribute to identifying and carrying out improvements to the way we do business.



Policies and systems

- Corporate Business Principles;
- Management and Leadership Principles;
- Enterprise Risk Management Principles;
- Code of Business Conduct;
- Policy on Conditions of Work and Employment;
- Policy on Health and Safety at Work;
- Policy on Employee Relations;
- Policy on Human Resources; and
- Supplier Code.

Our actions

- Continued to roll out a programme of OHSAS 18001 and 14000 accreditation for factories and other operational sites.
- Initiatives to improve driving safety.
- Continued to roll out our CARE audit programme worldwide.
- Training to increase awareness of our Corporate Business Principles, especially relating to human rights and labour practices.
- A comprehensive approach to human rights due diligence, which includes: policy development and implementation; targeted training; in-depth risks and impact assessments; consistent monitoring, auditing and reporting procedures; and ongoing engagement with our stakeholders.
- A two-year partnership with the Danish Institute for Human Rights to further improve our corporate systems and strengthen our human rights performance due diligence approach.
- Actions to improve gender balance, especially at senior levels.
- More succession planning and talent management across the business.

Performance summary

- Our Corporate Business Principles have been made available in more than 50 languages; communication and training toolkits have been provided to every country.
- The average number of hours training per employee is 2.02 [KPI].
- Human rights impact assessments in our operations were carried out in three countries in 2011 (Nigeria, Angola, Sri Lanka), complementing the assessment in Colombia in 2010.



Context

The Nestlé team comprises 327 537 people [KPI]. 29% are based in Europe (71% male and 29% female), 33.7% in the Americas (73% male and 27% female) and 37.4% in Asia, Oceania and Africa (59% male and 41% female). As a company operating across the world, we need to understand the global context as well as local laws, cultures, consumers and the needs of our employees in every country where we operate. We combine strategic corporate leadership with local leadership to maintain consistency across the Nestlé businesses, while remaining responsive in a local context.

The economy

With the global economic challenge ongoing, it is vital that we retain our competitive advantage and continue to be a major contributor to economic development around the world. We need to be responsive to the changing circumstances of the markets and supply chains on which our success depends. At this challenging time, it is even more important that we focus on ensuring our business activities are sustainable and create shared value for society.

Employment

Nestlé is a leading employer globally, and we must continue to engage and develop our workforce to be responsive to a rapidly changing world. Good employee engagement is vital for maintaining commitment and performance at a time when people may be concerned about job security.

Where we need to re-organise or change working practices, strong workplace relations will ensure we achieve the most positive changes, maintain morale and retain our best people. Through learning and training, we are equipping our people with the professional and personal skills and employability they need to give them the best possible future career choices at Nestlé.

Human rights and labour relations

A key challenge for Nestlé is to meet the high human rights and workplace relations standards we set ourselves in our Corporate Business Principles, wherever we work in the world. Understanding and managing the risks is a priority, both within Nestlé and among our suppliers and contractors. We are increasingly focusing on the right to collective bargaining, non-discrimination, security practices and corruption.



Policies and systems

Since it was founded, Nestlé's business practices have been built on integrity, honesty, fair dealing and full compliance with all applicable laws.

We expect our employees around the world to uphold and live this commitment every day, and our corporate reputation remains one of Nestlé's most important assets.

Read more about Our Corporate Business Principles, including:

- Human rights in our business activities;
- Leadership and personal responsibility;
- Health and safety at work; and
- Our CARE Audit programme.



Our Corporate Business Principles

The Nestlé Corporate Business Principles are well established as the basis of our corporate culture. Our business is built on the fundamental principle that to have long-term success for our shareholders, we have to comply with all applicable legal requirements, ensure that all our activities are sustainable and create significant value for society. We call this Creating Shared Value.

Our Business Principles continue to evolve and adapt to a changing world and the changing needs of communities. The current version was adopted in 2010 and includes 10 overarching principles of business operation, linked to online copies of detailed policies, standards and guidelines to help achieve them. The Chairman and CEO of Nestlé are dedicated to ensuring the entire Company, including all individuals, is managed and committed to meet these standards. We permanently work to include them in all business planning, auditing and performance reviews across the Company.

Through 2010 and 2011, we have carried out a major programme of communication and internal engagement to raise awareness of our Corporate Business Principles. They are available in more than 50 languages, and communication and training toolkits have been used in every country. We have supported our people to help them understand our aims and what is expected of them. In 2011, our focus has been on building understanding of human rights and labour-related principles, especially among managers and employees in the countries where we face a greater human rights challenge.

Three of the Nestlé Corporate Business Principles – human rights in our business activities, leadership and personal responsibility, and health and safety at work – relate directly to our people, and we have a range of policies in place to ensure we adhere to them.

Human rights in our business activities

We fully support the United Nations Framework and Guiding Principles on Business and Human Rights and aim to provide an example of good human rights and labour practices throughout our business activities.

Our Nestlé Supplier Code establishes non-negotiable minimum standards that we ask our suppliers, their employees, agents and subcontractors to respect and to adhere to at all times when conducting business.

The Nestlé Enterprise Risk Management Principles apply to the entire Nestlé Group and guide the mandatory risk management processes at corporate and market level, including for human rights and workplace relations issues.

The Nestlé Employee Relations Policy provides a frame of reference for our collective relationships with trade unions and other employee representatives based on the “human rights and labour practices” chapter of the Nestlé Corporate Business Principles.

A new policy on Conditions of Work and Employment was introduced in November 2011, which tackles issues such as temporary employment, outsourcing, working time or wages.



Read more about human rights, including respecting international standards, upholding our policy commitments, assigning organisational responsibilities and managing risks.

Leadership and personal responsibility

We recruit competent and motivated people who respect our values, and provide equal opportunities for their development and advancement, protect their privacy and do not tolerate any form of harassment or discrimination.

Our Nestlé Management and Leadership Principles include the values and skills that every employee can adopt to help Nestlé maintain its competitive edge. The principles were fully revised in 2011 to reflect the changes in the Nestlé Corporate Business Principles, as well as the new policies and practices.

The Nestlé Code of Business Conduct establishes non-negotiable minimum standards of behaviour for all our people over issues such as compliance with the law, conflicts of interest, insider trading, fair dealing, confidential information, bribery and corruption, discrimination and harassment, and reporting non-compliance.

Our Human Resources Policy sets out guidelines for efficient and effective HR management across Nestlé businesses around the world.

In 2011, we began rolling out a new Integrity Reporting system to provide an independent mechanism for employees on Nestlé policies and procedures.

Safety, health and security

Safety and health

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

The Nestlé Policy on Safety and Health at Work sets out everyone's responsibility for achieving zero accidents, including compliance, continuous improvement, behaviour, and leadership and participation. It also covers community, supply chain, contractors and others.

The Nestlé Occupational Health and Safety Management System helps us monitor and improve health and safety policy, process and performance.

For more information, including performance data, see Safety and health at Nestlé.

Security practices

As part of Nestlé's commitment to providing employees with a secure work environment, Nestlé Group Security (NGS), a global network of security professionals, has a mandate to help ensure a protected work environment that facilitates high-level performance.

The core purpose is to protect the Company's employees, assets and reputation against physical threats of any kind, using the following principles:

- close cooperation with all relevant authorities, always taking into account the social context and striving towards an efficient yet subtle approach;
- compliance with applicable laws and regulations as well as with Nestlé's internal rules, including the Nestlé Corporate Business Principles, the Nestlé Code of Business Conduct and the Nestlé management Leadership principles;
- consultation and alignment with Market, Zone and Group management, using a cross-functional approach.

Nestlé has a three-year roadmap that guides its security practices. In 2011, new Security Requirements were rolled out across the Group. Additionally, all markets were made subject to a security self-assessment that identifies potential gaps with the NGS Security Requirements and allows for full compliance with all NGS requirements by the end of 2012.

In 2011, a security module/questionnaire was also integrated into Nestlé's CARE audit programme.

CARE Audit programme

Our CARE Audit programme (**C**ompliance **A**ssessment of Human **R**esources, Occupational Health & Safety, **E**nvironment and Business Integrity) monitors our support for international conventions and the social elements of the Nestlé Corporate Business Principles, as well as compliance with local laws.

The Group-wide programme uses three independent external certification bodies to assess our commitment to socially responsible and environmentally sustainable business practices in four areas: occupational health and safety, labour standards, business integrity and the environment.

We have carried out over 1460 audits since 2005.

In 2011, we carried out CARE audits at 110 sites. No critical non-compliances were identified [KPI].



Training and awareness

To complement policies and systems, Nestlé provides detailed guidelines and information on good practice, which are available to employees on the global intranet.

We also regularly communicate progress, performance and good practice to employees through the intranet and other channels, including face-to-face meetings.

Employees are trained to follow core business procedures as part of induction and on-the-job coaching.

We have also provided specific training for staff, including:

- general awareness training on the Nestlé Corporate Business Principles for all staff;
- a total of 7306 hours' training on human rights attended by 9653 employees;
- training on labour practices for employee relations managers across the three zones.



Anti-corruption

The Nestlé Code of Business Conduct supports our Corporate Business Principles by establishing non-negotiable minimum standards of behaviour that we expect of our staff in key business areas. We help people to understand the Code of Conduct and we encourage them to seek guidance when they are unsure about the proper course of action in any situation.

We make it clear that it is the ultimate responsibility of every Nestlé employee to “do the right thing” and that they should always be guided by the following basic principles:

- avoid any conduct that could damage or risk Nestlé or its reputation;
- act legally and honestly; and
- put the Company's interests ahead of personal interests.

The Nestlé Code of Business Conduct fully supports the 10th United Nations Global Compact Principle – that businesses should work against corruption in all its forms, including extortion and bribery. The code clearly states that Nestlé employees must never engage in offering or receiving any financial or other advantage in return for preferential treatment or to influence decision makers.

Any activity that infringes these rules is investigated on a case-by-case basis and may result in disciplinary sanctions or criminal charges.

Nestlé's CEO and Chairman regularly emphasise what is expected of people. Responsibility for compliance lies with the senior market managers, and Chief Compliance Officers ensure adequate compliance infrastructure across the business.

We also commit our suppliers to our core business integrity standards, including bribery and corruption standards, through the Nestlé Supplier Code.

Managing corruption risk

Anti-corruption monitoring is a core component of our business auditing, both internally and externally through our CARE programme. We use audit findings to identify areas for improvement but, as yet, Nestlé has not been subject to any public corruption allegation, and we are not aware of any pending cases.

After performing an anti-corruption assessment in 2010, we have developed an online training programme to help employees avoid inappropriate behaviour. This interactive tool, which incorporates seven short animations and a “best practice” document, has been made available to all markets and is designed to supplement existing training. We also have well established whistleblower procedures, local hotlines and a company-wide reporting system to supplement traditional reporting channels. The system, which we began rolling out in 2011, provides an additional option for anonymous, confidential reporting of non-compliance.



Our performance

- We have provided training on our Corporate Business Principles, Code of Business Conduct and/or specific anti-corruption training to employees, with a stronger focus on those working in high-risk areas. In our future reporting, we aim to report the percentage of employees receiving this training.
- We have completed a high-level assessment of 80% of Nestlé businesses and operational areas for risks related to corruption.
- In 2011, there were no public allegations of incidents of corruption against Nestlé or our employees, and so no actions were required.



Human rights

Respecting international human rights standards

Respecting human rights in our business activities is one of our Corporate Business Principles. We fully support the new United Nations Framework and Guiding Principles on Business and Human Rights, and we aim to provide a best-practice example of how we do business with respect for human rights at a corporate and market level.

As well as complying with all national laws, we expect all Nestlé business entities to respect internationally recognised human rights standards set out in:

- the new United Nations Framework and Guiding Principles on Business and Human Rights;
- the International Bill of Human Rights (consisting of the Universal Declaration of Human Rights and the main instruments through which it has been codified: the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights); and
- the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work (which builds upon the eight core Conventions of the ILO).

Through policy development and implementation, targeted training, in-depth risks and impacts assessments, consistent monitoring, auditing and reporting procedures, and ongoing engagement with our stakeholders, we fully support our managers and staff on the ground to ensure they all understand the requirements of our Corporate Business Principles and other relevant policies and standards and what is expected of them.

Upholding our policy commitments

In addition to our overall engagement to respect internationally recognised human rights standards, our commitments in Nestlé's Corporate Business Principles state that we:

- support and respect the protection of human rights within our sphere of influence (UNGC Principle 1);
- make sure we are not complicit in human rights abuses (UNGC Principle 2);
- are against all forms of exploitation of children;
- recognise privacy as a human right;
- expect each of our companies to respect and follow local laws and regulations concerning human rights practices. Where our own principles and regulations are stricter than local legislation, the higher standard applies; and
- adhere to the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO) and the OECD Guidelines for Multinational Enterprises.



A number of our human rights commitments are further addressed in more specific policies and standards, such as:

- the Policy on Conditions of Work and Employment (the right to just and favourable conditions of work);
- the Nestlé Employee Relations Policy (the right to freedom of association);
- the Nestlé Leadership and Management Principles and Our Code of Business Conduct (the right to freedom from discrimination);
- the Nestlé Policy on Health and Safety at Work (the right to health);
- Flexible Work Environment at Nestlé (the right to family life);
- our Privacy Policy (the right to privacy);
- the Nestlé Supplier Code (rights to freedom from forced labour; freedom from child labour; just and favourable conditions of work; freedom from discrimination; freedom of association; health; water);
- the Nestlé Group Security Standard; and
- Every Drop Counts, The Nestlé Commitments on Water (the right to water).



Identifying and managing human rights risks

The Nestlé Enterprise Risk Management Principles guide the integration process of human rights risks into our overall risk assessment and management system. For this purpose, in 2011 we conducted a corporate human rights risk assessment against 39 indicators covering the full human rights spectrum. This cross-functional exercise was carried out in close cooperation with relevant Nestlé departments, the Danish Institute for Human Rights (DIHR) and the Fair Labor Association, and led to the following main outcomes:

- five human rights risks were identified as “high” in the following areas: procurement and supply chain; freedom of association and collective bargaining; working hours; workplace equipment and training; procurement and supply chain; and community impacts. 27 indicators were identified as “medium” and five as “low” risks;
- a specific action plan has been drafted to address the risks identified as high. These risks have also been incorporated into our Market Risk Management (see box below);
- the Policy on Conditions of Work and Employment was developed; and
- three additional risk assessments were carried out, focusing on specific risks in our supply chain (separate assessments for tier 1 and upstream suppliers) and impacts on local communities. These assessments helped us identify 75 additional risks, among which 24 were rated as “high”.

Markets Human Rights Risk Assessments

From 2011, each high-risk market (identified based on the FTSE4Good list of countries of concern) is required to report on a specific set of human rights indicators on an annual basis. These indicators result from the corporate human rights risk assessment (see above), which is updated annually. This year, the Markets Human Rights Risk Assessments process resulted in:

- all high-risk markets but one have considered human rights risks as part of their overall Risk Management System. The missing market (consisting of nine high-risk countries) will integrate them in its 2012 assessment process;
- 61 different human rights risks being identified: 15 were assessed as “medium” in nine markets and 46 as “low” in 13 markets; and
- 16 different action plans being elaborated at the market level in order to prevent or manage existing human rights risks in areas such as: collective bargaining; employee grievance mechanisms; non-permanent workers; suppliers’ human rights commitments and record; community impacts.



Assessing and addressing human rights impacts

In 2011, in collaboration with the Danish Institute for Human Rights (DIHR), we conducted three comprehensive impact assessments of our operations in Nigeria, Angola and Sri Lanka, which complement the assessment carried out in Colombia in 2010.

These impact assessments typically include desktop reviews of the human rights situation at the national/regional level, in-depth interviews with Nestlé staff and management (based on a comprehensive set of human rights indicators from the DIHR Human Rights Compliance Assessment), a visit to all Nestlé facilities and a selection of direct and indirect suppliers, including farmers, and thorough stakeholder consultations with trade unions, national and local authorities, civil society organisations and, where relevant, international organisations.

Remediation action plans have to be drafted by each country, based on the independent assessment report and recommendations from the DIHR. In addition, the results of these assessments are reviewed at the corporate level and feed into our overall human rights due diligence and policy review processes.

We will continue to carry out more impact assessments in high human rights risk markets, based on the FTSE4Good list of countries of concern.

Read more in Community engagement, including respect for the rights of indigenous peoples.



Assigning organisational responsibilities

Adherence to the Nestlé Corporate Business Principles is required from all our employees around the world. The Chairman and Chief Executive Officer of Nestlé are committed to making sure that the entire Company is managed according to these Principles, including Principle 4 on "Human rights in our business activities". (See "Commitment of the Chairman and Chief Executive Officer" in the Nestlé Corporate Business Principles).

In 2011, a new cross-functional coordination structure was established within Nestlé to manage human rights. The Nestlé Human Rights Working Group (HRWG) has been set up to strengthen the effectiveness and improve the coordination of human rights-related activities and initiatives within the Company. It includes representatives from the relevant departments, including Risk Management, Legal, Human Resources, Health and Safety, Environment, Compliance, Security, Procurement and Public Affairs.

The HRWG is co-chaired by Human Resources and Public Affairs and meets at least once a month. It is in charge of:

- supervising and coordinating progress made on the implementation of human rights at a corporate and market level against Nestlé commitments;
- providing strategic orientation on areas that need to be prioritised to further embed human rights within Nestlé's structure and operations;
- contributing technical expertise to ongoing and future human rights initiatives and activities; and
- pre-empting and discussing specific Nestlé-related human rights issues and any action to be taken.

The HRWG also provides input to the Nestlé Corporate Compliance Committee and to the Nestlé Corporate Issues Roundtable. It reports directly to the Executive Board of Management, when necessary.



Promoting strategic partnerships

In addition to this internal structure, a two-year partnership was signed in 2010 with the Danish Institute for Human Rights with the aim of better integrating human rights into our corporate systems and strengthening our overall approach to human rights due diligence. This partnership formalises a collaboration that began in 2008, the main outcomes of which are summarised in an article in the Global Compact International Yearbook 2011.

Furthermore, in November 2011 we became the first food company to work with the Fair Labor Association (FLA) to identify the root causes of child labour, and discuss sustainable and lasting ways of addressing them. We became a formal member of the FLA in 2012.



Raising awareness and providing training to our employees

Our Corporate Business Principles, including Principle 4 “Human rights in our business activities”, have been translated into 52 languages and distributed to all our employees.

In addition, specific training sessions have been developed on the Principles and integrated into four existing training programmes: Advanced Marketing and Sales, Finance, Production and Executive. These training programmes are delivered on a regular basis to our employees at the Nestlé International Training Center (Rive-Reine) as well as in the markets.

In October 2011, we launched a specific online human rights training tool for Nestlé employees. This training explains how human rights relate to business and in particular how they apply in our operations, based on internationally recognised human rights standards and real case examples. The roll-out of this training has been made mandatory in high human rights risk markets, based on the FTSE4Good list of countries of concern. So far, it has been translated into Cambodian, Chinese, Cingalese, English, French, Japanese, Portuguese, Russian and Spanish. This first round of training will continue in 2012 and be completed with more in-depth, function-specific training to be implemented at the corporate and markets levels.

See the Performance and initiatives sub-section for interim results on the implementation of the human rights training.



Monitoring our performance

Our CARE external and independent audit programme helps us monitor compliance with a number of human rights issues in the fields of human resources, health and safety, environment, and business integrity.

CARE content was reviewed in 2011 and now incorporates a full and stand-alone section on Human Rights and Labour Practices, which includes audit indicators on hiring and layoff practices, employment practices, child and young worker labour, working time, wages (compensation and benefits), harassment, and non-discrimination. New sections on local communities and security have also been added to CARE. This new version has been tested in Cote d'Ivoire and will be launched in all markets from early 2012.

In addition to the external CARE audit process, the internal Nestlé Group Audit function monitors the implementation of the Nestlé Corporate Business Principles, including Principle 4 on "Human rights in our business activities".

See Assessing and addressing human rights impacts and Identifying and managing human rights risks sections for more information on additional monitoring and evaluation mechanisms at the market level.



Performance and initiatives

Our performance

In 2011, all our General Counsels based in the markets were asked to screen their major local investment agreements and contracts for human rights concerns. This exercise was completed by 63 out of our 64 market-level Legal Departments. No specific clause with direct negative impact on human rights was identified during the screening. Our work on this topic will continue in 2012.

Relevant human rights-related elements were included in the merger and acquisition (M&A) due diligence of the two Chinese companies Yin Lu and Hsu Fu Chi. A review of M&A due diligence guidelines from a human rights perspective is under consideration.

Four Nestlé markets (Nigeria, Colombia, Angola and Sri Lanka) have now been subject to in-depth impact assessments.

In addition, in 2011 we carried out CARE audits at 111 sites. No critical non-compliances were identified [KPI].

We are currently upgrading our management systems to improve the way grievances related to human rights are filed, addressed and resolved through formal grievance procedures. This data will be available in 2012.

Training

This year we rolled out a training tool on our Corporate Business Principles relating to human rights in our business activities. The training has been made mandatory in all high-risk countries (identified based on FTSE4Good countries of concern) and recommended in others.

So far 9653 employees in 53 countries (2.95% of employees) have completed this training, totalling 7306 hours. We will continue to roll out this training during 2012 with an ongoing focus on employees working in countries with a higher human rights risk.

Promoting Non-Discrimination

We make it a priority that our leaders and all staff are personally responsible for treating each other with respect and dignity, and we do not tolerate any form of discrimination. This is one of our 10 Corporate Business Principles.

In 2011, we were aware of 91 incidents of discrimination. For those incidents, corrective actions were implemented locally. In 20 cases, Nestlé reviewed the incident thoroughly, in six of the cases a remediation plan is currently being implemented, in five cases a remediation plan has been implemented and the results reviewed through internal management processes, and in 60 cases the incidents have been entirely resolved.

Combating child and forced or compulsory labour

Nestlé is against all forms of exploitation of children and any form of forced or compulsory labour, and we have been working to identify where we consider there to be a significant risk in our own operations. In 2011, we became the first food company to work with the Fair Labor Association (FLA) to identify the root causes of child labour, and consider sustainable and lasting ways of addressing them.



As part of our Corporate Human Rights Risk Assessment process, child labour and forced or compulsory labour were not identified as risks at the factory level. Nevertheless, child, forced or compulsory labour are verified on an ongoing basis through our worldwide CARE audit process covering Nestlé sites and Responsible Sourcing Audit programme covering our tier one suppliers.

Human rights initiatives

We are a founding member of the Common Code for the Coffee Community Association, and we follow a voluntary code of conduct to improve efficiency, profitability, transparency and sustainability across the global coffee industry. Protecting the human rights of workers in the coffee industry is a key aim of the Code.

In Colombia, we helped to set up “Guias Columbia” (Guidelines for Colombia), a set of Voluntary Principles on Security and Human Rights. We are involved in ongoing dialogue with Alliance Sud, a group of Swiss NGOs to improve relationships and dialogue with trade unions and communities on human rights issues in Colombia.

After five years of engagement, during which the impact of our activities and our relationships with trade unions and local communities on national development and human rights was examined, Alliance Sud published their report in June 2011. The report pointed out significant improvements in Nestlé’s operations in Colombia, which were confirmed by numerous stakeholders, but it also showed that a deep conflict persists between the Company and its majority trade union. Nestlé has taken the report very seriously, analysed it at the highest level and developed a follow-up action plan.

We set up the Cocoa Plan to help secure a sustainable future for the global cocoa industry and the communities depending on it. While there have been many positive changes in the last decade, labour practices on cocoa farms are still a considerable concern to us. Children are involved in hazardous farming tasks instead of going to school.

As well as taking action to eliminate child labour, we require our suppliers to abide by our strict Supplier Code, which includes child labour. We are continuing to work with others in industry, government, NGOs and international organisations including the International Cocoa Initiative to address labour practices on cocoa farms.

We also work with the Fair Labor Association (FLA) on working conditions and child labour in the hazelnut and cocoa supply chain, and became formal members of the FLA in 2012.

UNGC Human Rights Working Group

Nestlé has been an active participant of the UNGC Human Rights Working Group since becoming a member in 2009. Members of the multi-stakeholder group offer advice and engage in activities relating to business and human rights, to advance the UN Global Compact’s human rights principles.



Institute for Human Rights and Business

Nestlé continues to work with the Institute for Human Rights and Business, an independent organisation dedicated to helping improve global understanding of the relationship between the private sector and issues relating to internationally proclaimed human rights standards.

In August 2011, Nestlé took part in the “Business and the Human Right to Water and Sanitation” seminar, organised by the Institute for Human Rights and Business as part of World Water Week. The seminar explored how businesses can ensure their operations are in accordance with the human right to water and sanitation, and aimed to identify practical actions that companies can take to fulfil this human right.



Labour practices

Our commitment to long-term collective relationships with our employees is guided by our Corporate Business Principles. Since its founding, Nestlé has built a culture based on values of trust, mutual respect and dialogue. Our managers and employees work together to create and maintain positive individual and collective relationships throughout our operations.

Workplace relations at Nestlé

Our Employee Relations Strategy reinforces Nestlé's commitment to long-term business development through open dialogue with employees and external stakeholders in line with our Creating Shared Value concept.

We make it our priority, where local legislation applies, to support collective dialogue and negotiations with employee unions and other representative associations. We also aim to develop and maintain open dialogue with external stakeholders on labour matters.

Nestlé promotes a continuous improvement of working conditions, giving special attention to the following priorities, including:

- respecting the right of our employees to join organisations of their own choosing and to engage in constructive negotiations;
- offering competitive wages and benefits that allow our employees to cover their needs according to local standards of living;
- implementing the Policy on Conditions of Work and Employment regarding working time for our employees; and
- treating every employee with dignity and without tolerance of any discrimination, harassment or abuse.

Managing workplace relations

Improving workplace relations at Nestlé is a joint effort, combining strategic leadership and guidance at a corporate level with local leadership and action to consistently implement Group principles, policies and standards wherever we work in the world.

We constantly look for ways to consolidate the expertise of our Employee Relations Community, which connects more than 60 experts worldwide. During 2011, three decentralised training sessions were delivered in Europe (Switzerland), America (Chile) and Asia (Malaysia) in order to reinforce our knowledge on our policies and international commitments. In addition to the workshops, every three months our experts were connected by virtual meetings to exchange good practices.

Workplace relations is a clear responsibility of local management and we aim to handle it at the most appropriate level, from site level to national or Group level according to situations, laws and practices.



In many countries we have developed local initiatives and training to improve relations between managers, employees and trade unions. For example:

- in Malaysia, Chile and Spain, local teams have provided training on the Nestlé Corporate Business Principles to all employees in a creative manner, and adapted to local environment and needs;
- in Italy, management and trade unions are working together to promote the corporate commitment of achieving “zero accidents” and to foster female employment and specific work-life initiatives;
- Nestlé Philippines has received an award from the Employers’ Confederation of the Philippines in recognition of its “outstanding achievements for industrial peace and harmony”. The accolade recognises Nestlé’s success in building a partnership with the trade union to overcome the difficulties of the past through commitment, openness and constructive dialogue;
- in Europe, the Nestlé European Council for Information and Consultation meets regularly with union representatives to improve mutual understanding and have agreed to work closely on health and safety topics.



Performance and challenges

Our performance

In 2011, more than 50% of Nestlé employees were covered by collective bargaining agreements worldwide, demonstrating our strong commitment to industrial dialogue. Where local legislation does not allow minority groups to negotiate collective agreements, we aim to maintain regular, open dialogue with the unions over issues of common interest.

Prior to significant operational changes that could substantially affect our employees, we provide them with a minimum notice period of 42 days on average, although the period varies from country to country.

This minimum notice period is specified in collective agreements of 26 countries.

In 2011, we identified the following markets where freedom of association and collective bargaining are at risk in our factories: Brazil, Central and West Africa, Ecuador, Greater China, North East Africa, Colombia, Russia and Eurasia, Pakistan, Indochina, the Caribbean, Ukraine, the Middle East and Southern Africa. The Employee Relations Policy and the Policy on Conditions of Work and Employment aim to address this risk at the corporate level. In addition, specific action plans were designed in four markets; for the other markets, this risk is addressed through the normal employee relations network.

We also identified that the right to exercise freedom of association and collective bargaining is at risk in some of our suppliers, and we are working to address this through our Suppliers Code.

In 2011, 39 industrial actions took place globally. The percentage of working time lost due to industrial disputes, strikes and/or lock outs was 0.02% on average.

Workplace relations challenges

Even with our strong commitment and the dedication of our local management, Nestlé has faced sporadic incidents like a four-day illegal strike in Mossel Bay, South Africa, which was resolved using a conciliatory process.

Unfortunately, the Company has also faced longer conflicts. In 2008, the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF), a global federation of trade unions, filed a submission with the Organisation for Economic Co-operation and Development (OECD) for alleged violations of labour rights in our Panjang factory in Indonesia. Their focus was on exclusion of wages from collective bargaining negotiations. This is not covered by local law or by the International Labour Organization, but we agreed to include wages in the 2010/11 bargaining negotiation in Panjang. The case against us was closed in June 2010 and, in 2011, the Union of Nestlé Indonesia Panjang Workers (SBNIP) and Nestlé Indonesia reached a settlement that clarified the rules to start a new collective negotiation.



However, in September 2011, while parties in Panjang were negotiating, a group of workers went on an illegal strike followed by occupation of the factory. In accordance with local laws, Nestlé informed the workers that, since they refused legal summons to return to work, after two weeks they would no longer be deemed part of the Company's workforce. Nestlé has a right and responsibility to protect its business, its workforce and its suppliers, whose livelihoods have been damaged by this illegal stoppage.

In 2011, a group of contractors at our Kabirwala factory in Pakistan began legal action against the Company. Requesting permanent employment with Nestlé, the contractors carried out a series of violent protests in front of the factory, disrupting the operations there. The management has been working jointly with the IUF to resolve this conflict and ensure that our practices are fully aligned with our policies.

We are currently working to strengthen our relationship and engagement with the IUF, and have offered to enter into regular, structured dialogue with the organisation over issues of mutual interest.

In 2009, Colombia's majority trade union, Sinaltrainal, submitted a complaint against Nestlé to the ILO for labour and human rights violations. In June 2010, the ILO drew no negative conclusions against Nestlé's labour practices, but the case remains open while legal procedures are finalised in Colombia, and an additional submission by Sinaltrainal in November 2011 is reviewed by the ILO.

We are proud to have good relations with the vast majority of our unions, but at the same time we realise that the Company operates in diverse and challenging social contexts that require our permanent attention and efforts in order to ensure a sustained and constructive dialogue with every employee.



Training and learning

With 327 537 employees, made up of 100 different nationalities, Nestlé offers people the opportunity of an exciting international career supported by continuous development and training. Our people are our greatest asset and we place as much importance on their professional development as we do in the research and development of our products.

We aim to hire staff with the personal attitudes and professional skills that will enable them to develop a long-term career with Nestlé. That is why, from the factory floor to the top management, training at Nestlé is continuous.

Our approach to developing our people is based on the following:

- Training and learning reflects the Company's decentralised nature. Our employees are given the knowledge and tools they need to respond to local needs, whichever country they are working in.
- We encourage employees to work with people from many different countries and cultures in the course of their career.
- We promote opportunities to develop skills that will enable people to move to different areas of the business.
- We promote a common set of values that engender a Nestlé culture and spirit.
- We focus on "on the job" training given by Nestlé people, not solely professional trainers. That means training is always relevant and our managers are both mentors and teachers, communicating knowledge as part of their daily routine.

Our International Training and Conference Centre in Switzerland, Rive-Reine, is where Nestlé people from all over the world meet to exchange information and ideas in seminars and training courses. Rive-Reine offers a wide variety of courses, aimed at creating leaders and teams who will continue to provide Nestlé with a competitive advantage. Approximately 75% of speakers at Rive-Reine are internal experts and senior managers, including all members of the Nestlé Executive Board. This year, 2103 employees from around the world attended courses at Rive-Reine, of which 42% were women.

Our performance

Most markets keep track of learning KPIs either with a local Learning Management System (LMS) or manually. A Corporate LMS is scheduled for development during 2012 for deployment thereafter, which will allow us to provide more accurate global KPIs for average training hours and training by sector.

A comprehensive approach has been developed that includes the development of core and functional curricula, and a standard Job Success Profile document to assist in career development and the definition of learning gaps. Some 270 Job Success Profiles have been published covering major jobs in the Company, which detail the key outputs, experience, knowledge, skills and behaviours required for specific jobs. Those documents are used as part of Personal Evaluation and Progress Development Guides processes, which are monitored by human resources business partners, training and learning consultants and auditors. For operators on the factory floor, a skills matrix, fundamental in the TPM training pillar within our Nestlé Continuous Excellence initiative, is used to track development and learning needs.



A core curriculum, consisting of 52 courses, has been introduced in all markets. The courses are delivered locally by Nestlé trainers or selected globally approved providers. The number of courses will increase in the near future when a Leadership Development pillar is launched as part of our Nestlé Continuous Excellence initiative. We are working to ensure that best practice in training methodology, tools, support mechanisms and structures is in place in all markets.

These initiatives reflect our commitment to lifelong learning and to becoming a more effective organisation.

In 2011, each of our employees received an average of 2.02 hours training [KPI]. This figure reflects office-based employees and covers approximately 62% of Nestlé markets.

The proportion of senior management we hired from the local community at locations of significant operation in 2011 was 58%.

The proportion of Local Management Committee members in developing countries who were native to that country was 53% [KPI].

The above percentages reflect our approach to developing local talents while promoting international career possibilities for our employees.



Initiatives

Developing talent

We believe that the best indicator of talent is achievement and that people should be given responsibility as early as is reasonable, so that they have the opportunity to prove themselves. We run a number of talent management programmes at different levels and locations.

The Nestlé Academy is a new example of how this is done at Nestlé UK. The project aims to address gaps in talent across the organisation. Over the next two years we are running a broad programme of work experience opportunities and education to open up more flexible entry points to attract people at different life stages. We are aiming to at least double our current apprentice population in the UK and we are offering routes to NVQ, foundation and Honours degree qualifications to school leavers, graduates and current employees.

Employee mentoring

In our HR Policy we state that each manager has a duty to act as a mentor for his or her employees. We use mentoring as a powerful tool across the business, providing access to valuable personal experience, insights and guidance from more senior Nestlé people. Throughout Nestlé, we run several mentoring schemes for people working at different levels.

Our Corporate Mentoring programme aims to accelerate the professional development of more than 100 Nestlé executives. Mentees are paired with a top leader for 18 months as part of their formal professional development.

Examples of mentoring schemes at the market level include Nestlé Spain's MentorNes programme, Nestlé Oceania's Mentoring@Nestlé and Nestlé Nutrition's Corporate Mentoring programme.

Succession planning

We use succession planning to maintain a healthy supply of talented people who will help us meet future challenges to maintain our competitive advantage. We are continuing to increase our focus on succession planning and, in 2011, 79% of key Nestlé positions were filled through succession planning.

Promotions through succession planning are exclusively based on competence, insight, performance and potential. After a real effort to identify and develop our talent, 1237 people have now been identified as potential successors for key Nestlé positions at deeper levels within the organisation.

International career development

One of the things we think makes a Nestlé career unique is the international exposure, travel and opportunities for international assignments that are available to many of our employees. Our business is based on respect for different cultures, and we expect our staff to be comfortable and effective in different settings.

We provide opportunities for expatriates to help transfer technical and managerial expertise across the Nestlé Group. This strengthens our local presence, helps us build local flavour into our global brand, and provides more opportunity to develop local managers into senior executives.



We ensure that expatriation is a two-way process, and we aim for equal movement between emerging markets and developing markets. In 2011, 40% of all expatriates at Nestlé's Swiss headquarters and central functions were from emerging markets, and 64% of expatriates from Switzerland headquarters were based in developing countries.

Parental leave

At Nestlé we believe that people should have a good balance between their private and professional life, not only because it reinforces employee satisfaction and enhances efficiency, but also because it positively reflects on our reputation.

One example of the Company's commitment to help employees reconcile the demands of professional and personal life is the new Parental Leave guide for the HQ in Switzerland, which was distributed as a good practice guide to all markets. This guide informs expectant mothers and their managers about what is expected from them to successfully manage this period and ensures career continuity. For new fathers, it gives information about different options available to them helping them to best understand their new role at home.

Measuring various countries* and covering approximately 36% of Nestlé employees over a 12-month period, the return to work and retention rates following parental leave were 70% for women and 79% for men respectively¹.

* Argentina, Australia, Brazil, Bulgaria, Canada, Czech/Slovak, France, Germany, Greece, Israel, Mexico, Nordics, Poland, Portugal, Spain, Switzerland, Turkey, UK.

¹ 2010 data



Employee health and wellness

The first of our 10 Corporate Business Principles is about nutrition, health and wellness. It is our core aim to enhance the quality of consumers' lives every day, everywhere. We work to increase the nutritional value of our products and to develop brand communication that empowers consumers to make informed choices about their diet. We apply the same values to our people.

In 2008, Nestlé Chairman Peter Brabeck-Letmathe joined other heads of companies at the World Economic Forum to sign a call to action on workplace wellness. Nestlé also signed a multi-company commitment to the World Health Organization to help fight chronic diseases in the workplace.

Our performance

In 2007, a survey of 47 markets around the world showed that 95% have workplace wellness programmes in place or under development. This includes the provision of nutrition information and specialists, staff restaurants and healthy or vegetarian meals (65%–80% of sites); fitness centres (around 50%) and free bottled water (90%). At 96% of sites we offer disease prevention and health promotion programmes, providing for example vaccinations, HIV/AIDS prevention information, and cardiovascular and diabetes tests. We are supported by a network of occupational health professionals, nutritionists and rehabilitation experts, as well as voluntary "site champions" across the globe who provide health and wellbeing training and support to our employees.

Initiatives

With increasing numbers of people obese or overweight, Nestlé UK developed a now well-established employee wellness scheme covering 6000 employees. The programme has four strands:

- improved nutritional standards and information – mainly through catering contracts;
- increased physical activity – we encourage people to walk 10 000 steps per day during the 14 week Global Corporate Challenge;
- mental resilience – providing effective systems to help prevent and manage mental health difficulties; and
- health screening – providing subsidised private health assessments and free basic health tests for employees.

Nestlé Oceania encourages people to boost their wellbeing through:

- health-related store discounts, insurance offers and brain-training exercises;
- eye tests, massages and fitness games; and
- charity fundraising and overseas volunteering.

Nestlé South Africa runs a well-established HIV prevention, support and management programme for all employees and their spouses or life partners. This includes voluntary counselling and testing at each unit every three years, as well as ongoing testing, counselling and support by employee wellness specialists. Each site also marks World AIDS Day with activities for employees and community-based events.

"Nestlé wants its employees to experience the Company's vision as a daily reality. Through the provision of a healthy diet and sporting activities, Nestlé follows the principle of 'healthy minds in healthy bodies', knowing that a loyal and productive workforce is the key driver of its success."

Building Good Food, Good Life, Paul Bulcke, Chief Executive Officer, Nestlé S.A. and Peter Brabeck-Letmathe, Chairman, Nestlé S.A., October 2009



Our Flexible Work Environment at Nestlé guidelines are designed to improve the working lives of our employees. Young families are able to use crèches and breastfeeding rooms at a number of our head offices and factories, and new fathers are offered paternal leave to enable them to spend time with their families. In Japan, for example, 35 men have used paternal leave since the initiative was launched. At our head office in Italy, Nestlé daily childcare is provided during the school holidays in one of the building's conference rooms.



Diversity

Nestlé's success and culture are built on strong, multicultural diversity. We aim to integrate as much as possible into the cultures and traditions where we operate. And we know that our success is based on our people. We embrace cultural and social diversity across our workforce, our customers and the communities where we work. Our diversity is a critical competitive advantage we want to protect and build on that for future business.

We respect international conventions concerning employees' rights and we do not tolerate discrimination for any reason including origin, nationality, religion, race, gender, age or sexual orientation.

Our Human Resources Policy is a key component of our "Leadership and personal responsibility" Corporate Business Principles. It sets out the attitudes we expect from people such as mutual respect, trust and transparency in relating to one another, and it encourages open communication and cooperation. We ensure our employees understand what we expect of them through training and awareness of our Corporate Business Principles. In return, we provide equal opportunities for their development and advancement, protect their privacy and do not tolerate any form of discrimination against them.

Gender balance

Achieving a more balanced gender mix, which makes the best of the talents of both our men and our women, is a challenge we have made a priority at Nestlé. We want to develop the environment, culture and leadership that provides equal opportunities for everyone, especially at management levels.

We launched our Gender Balance Initiative in 2008 and, since then, we have:

- improved the percentage of women on market leadership teams by over 35% in four years;
- developed our leadership teams worldwide to ensure managers have the awareness and capability to help us increase gender balance through the network of 60 qualified gender balance trainers;
- reviewed and updated our human resources processes;
- introduced annually reviewed local action plans for all Nestlé businesses to improve gender balance;
- published Corporate Guidelines for a Flexible Working Environment;
- set up a mentoring initiative to accelerate the professional development of 130 senior executives; and
- used talent and succession planning to increase the number of women successors identified to 29.4% in 2011.

All local operating companies are now in the implementation phase of their action plans and tracking their progress. A global network of Gender Balance Champions – business leaders acting as ambassadors – regularly shares best practice across the organisation.

"Improving gender balance is absolutely necessary for our ability to survive and succeed as a company. Experience shows that building awareness, especially for managers, is a critical first step of this long journey. This is our business imperative."

Chris Johnson, Executive Vice President, Zone Director for the United States of America, Canada, Latin America and the Caribbean



Our performance

A total of 259 327 employees are registered in our HR system (approximately 80% of the total workforce). We have 173 813 male employees and 85 193 female employees, and of the entire workforce, 33% of employees are female and 67% male. There are 321 employees who have not declared their gender. We have 1365 male part-time employees and 5666 female part-time employees. When taking temporary workers into consideration, 30.6% are female and 69.4% are male. The number of disabled employees reported is 3874. Due to privacy regulations, and the fact that several markets were not tracking this information, this number only reflects those markets that were able to report it.

Total workforce broken down by gender and age group

- There are 66 821 employees aged <30, which represents 25.6% of the total workforce. Of these, 33% are female.
- There are 146 123 employees aged 30 to 50, which represents 56% of the total workforce. Of these, 32% are female.
- There are 46 079 employees aged >50, which represents 18% of the total workforce. Of these, 33% are female.

Total number of managers broken down by gender and age group

- There are 3646 managers aged <30. Of these, 1461, or 40%, are women.
- There are 28 065 managers aged 30 to 50. Of these, 8160, or 30%, are women.
- There are 7475 managers aged >50. Of these, 1344, or 18%, are women.

Overall, 28% of leadership positions at Nestlé in 2011 were held by women.

New employees

The total rate of new employee hires in 2011 was 12% [KPI].

Total rate of new employee hires by age group

- <30: 31%
- 30 to 50: 8%
- >50: 3%

Total rate of new employee hires by gender

- Male: 12%
- Female: 12%

Total rate of new employee hires by region

- Americas: 12%
- Asia, Oceania and Africa: 15%
- Europe: 9%



Employee turnover

The total rate of employee turnover (employees leaving Nestlé) in 2011 was 10.8% [KPI].

Total rate of turnover by age group

- <30: 17%
- 30 to 50: 9%
- >50: 10%

Total rate of turnover by gender

- Male: 10%
- Female: 12%

Total rate of turnover by region

- Americas: 12%
- Asia, Oceania and Africa: 10%
- Europe: 9%

Employee pay

The weighted comparative ratio average, which is used to calculate the competitiveness of an employee's pay level, is 94% for females and a 99% for males in our senior management worldwide. This is an encouraging result and reinforces our basic principles of fairness and non-discrimination.



Safety and health

Our Company is founded on caring: for our consumers, for the communities in which we operate, and most fundamentally for our colleagues. For this reason safety and health is a fundamental value and we believe that “one accident is one too many”. This foundation continues to inspire us as we seek new and better ways of engaging everyone in the organisation. For example, in 2011 our Executive Board decided to include regular reviews of safety and health performance in all their meetings. This model, which is now being followed in management meetings across the Company, also extends to the daily meetings of individual teams.

While our safety and health performance has improved significantly in the past few years, our goal remains zero accidents. We view this as a platform from which we aspire to move forward to become leaders in safety and health. A key area of concern for us remains the number of fatalities. We are determined to bring even greater focus to the management of fatality risks (in particular driving, construction, forklifts and machinery) and are developing new programmes based on extensive benchmarking and industry best practice.

For this reason, in the short to near term, we will also continue to focus primarily on our employees and on-site contractors. However, over the longer term we will seek to broaden our approach to encompass wellness and off-the-job safety, and seek to positively influence the safety and health of others throughout our value chain. This more holistic approach not only aligns with our philosophy of caring but also has the potential to bring broader benefits to our colleagues, our business and the communities in which we operate.

Managing safety and health

We continuously improve our safety and health policies, standards, procedures and processes through the Nestlé Occupational Safety and Health Management System, which is based on the internationally recognised OHSAS 18001 standard, together with Nestlé specific requirements. By the end of 2011, 410 out of 461 factories were certified to OHSAS 18001. The factories that are not yet certified are mainly recent acquisitions, which are currently working towards certification. In addition, 93 distribution facilities and five R&D centres are certified to OHSAS 18001 and we continue to extend the safety and health certification programme.

For facilities that are not certified to OHSAS 18001, the Nestlé CARE Audit Programme has helped us to verify, through independent auditors, compliance with local legislation and the Nestlé Corporate Business Principles in the areas of safety and health at work, human resources, business integrity and environmental sustainability. Our Internal Audit function brings a systematic and disciplined approach to evaluating and improving compliance and internal control in all areas of our business, including Safety and Health.



IMPLEMENTATION: In 2011 Nestlé started to implement a Safety, Health & Environment Pillar as part of the Total Performance Management initiative



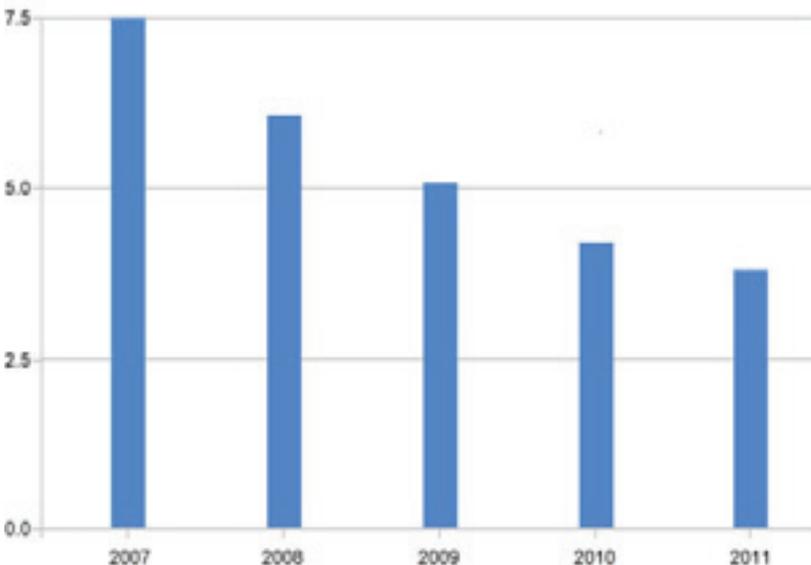
Performance

Work-related injury and illness rates

In recent years we have made continuous improvements in our safety and health performance and now we are among the top performers in the food and beverage industry. In 2011, we achieved a 10% improvement in Total Recordable Injury and Illness Frequency rate (TRIFr). Although we are proud that 196 factories operated a full year without any lost-time injuries or illnesses in 2011, our Lost Time Injury and Illness Frequency rate (LTIFr) remained unchanged. While some of this can be attributed to acquisitions and corrections of previously misclassified cases, the underlying trend is clearly unsatisfactory. Of greatest concern is that 18 individuals lost their lives while working at Nestlé in 2011. Of these fatalities, 14 were Nestlé employees – eight of whom died in traffic accidents – and four were contractors. Of the 14 employee fatalities, seven were from Asia, Oceania and Africa, three were from Europe and four were from the Americas. The four contractor fatalities were from Asia, Oceania and Africa. We deeply regret these fatalities and commit to strive for the only acceptable aspiration: zero accidents.

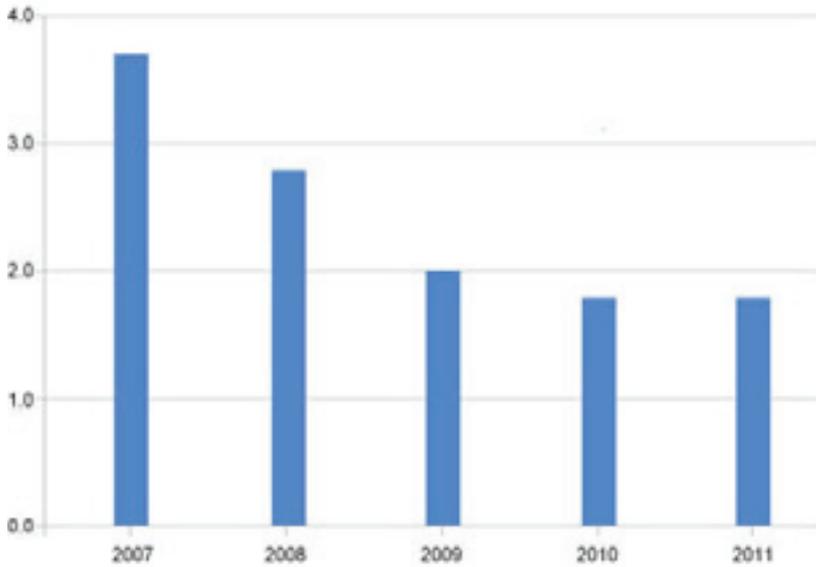
To address these challenges, we have enhanced our strategy and developed a new “Roadmap Towards Excellence” in 2011, which was endorsed by the Executive Board in January 2012. The Roadmap sets out five long-term strategic priorities, together with a number of short-term focus areas, and during 2011 we made significant progress in a number of these areas. For example, we have expanded safety and health beyond operations by increasing local management committee ownership, focusing even more on leading indicators and developing new safety and health standards for certain key risks, such as material handling equipment and filling and packing machinery. We have also started to develop a more holistic approach to health management and illness prevention, with a strong focus on occupational health issues, such as ergonomics. We continue to encourage all markets to increase personal ownership and engagement across their organisation, and in particular on developing manager capability and leadership behaviours.

Total Recordable Injuries and Illnesses per million hours worked, 2007 to 2011



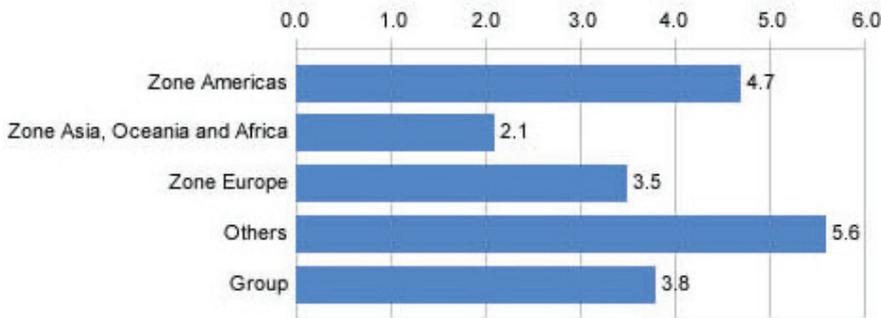


Lost Time Injuries and Illnesses per million hours worked, 2007 to 2011

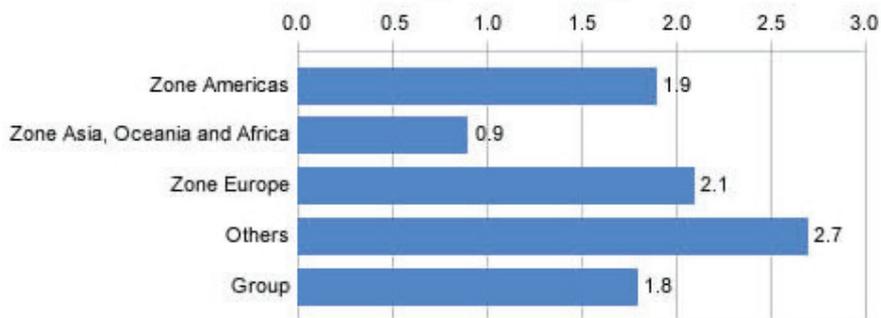


The two charts below show the performances of our units in 2011. This includes three geographic zones, globally managed businesses and major joint ventures, such as Cereal Partners Worldwide (CPW), as well as R&D.

Total Recordable Injuries and Illnesses per million hours worked



Lost Time Injuries and Illnesses per million hours worked



¹ Recordable injury and illness includes the following injury and illness categories: medical treatment beyond first aid, restricted work cases, lost time injury cases and fatalities.



Lost day rate

In 2011, we collated the Lost Day Rate of the Company for the first time. The rate is estimated to be 72 lost days per million working hours. This rate is an estimation because some countries currently report lost work days while others report lost calendar days. We will harmonise our reporting method for this indicator across the whole Group in 2012.

Sickness absence

In 2011, Nestlé collated sickness absence data across the Group for the first time. The overall sickness absence rate is estimated to be 2.1%. This percentage is only an estimation because markets have, until now, been using slightly different definitions for this metric, and because we have not been able to collate data within the USA. In 2012, we will:

- introduce a new standardised definition;
- review our systems in the USA to see how we could start to collect this data; and
- start to carry out a more detailed analysis of our sickness absence data across the organisation to better understand the principal causes and what interventions could be introduced or strengthened to enable improvement.



Initiatives

Nestlé Group Safety and Health forums

In 2011 we created two new forums: a Safety and Health Functional Leadership Team and a Safety and Health Steering Council. Comprising 12 senior safety and health professionals from across the world, the role of the Functional Leadership Team is to identify priorities, develop new programmes, provide leadership for the safety and health function, and share challenges, learnings and good practices. The Steering Council includes senior managers from different areas of the business, and is in place to oversee the development and implementation of programmes and provide the support and resources necessary.

Safe driving

Nestlé fleets drive about 1.3 billion kilometres a year, equivalent to driving around the equator 90 times per day. Improving road safety is a major priority for us, and we have implemented numerous initiatives to reduce the number of driving-related fatalities and injuries. The experience of managing such a diverse worldwide transport network has led Nestlé to join the Global Road Safety Partnership. Run by the International Federation of the Red Cross, the partnership between governments and the private and public sectors aims to reduce the 3000 deaths that occur daily on the world's roads. By taking part, Nestlé is also showing its support for the United Nations' Decade of Action for Road Safety, a 10-year campaign launched in May 2011 to improve road safety.

Increasing transport safety in Nestlé Philippines

Nestlé Philippines has a transport network that includes over 1600 trucks, 3500 drivers and helpers and 17 transport providers. It is therefore vital to ensure that road safety is promoted and monitored throughout the market.

In November 2009, Nestlé Philippines launched a programme to promote safer driving practices across the business. The initiative, which is aimed at all employees with a company car or Nestlé car loan, includes a defensive driving course, a driving test, a code of conduct and a safe driving handbook. In February 2011, employees were also encouraged to attend a defensive driving seminar, and in July 2011 the Supply Chain Management division visited Shell's Pandacan facility to benchmark the company's road safety management programme.

Nestlé Philippines has also extended the Nestlé CARE Audit programme across its third-party transport operations. The programme monitors compliance with local laws and support for international conventions and the social elements of the Nestlé Corporate Business Principles, and all 17 transport providers are now certified under the CARE programme. These initiatives have already helped to increase transport safety in the Philippines. From 2010 to 2011, for example, the market saw a 20% reduction in both vehicular accident frequency rate and vehicular hijacking frequency rate. For the next round of audits, the third-party transport operations will be audited as part of our Responsible Sourcing Audit programme.



Creating Shared Value at Nestlé	Nutrition	Rural development	Water	Environmental sustainability	Compliance	Our people
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Nestlé Switzerland telematics initiative

A telematic system, which is a device similar to black boxes used on aeroplanes, remotely collects data on how vehicles are being driven in order to improve safety, increase efficiency, decrease greenhouse gas emissions and reduce operational costs. Inspired by positive experiences in several countries, Nestlé Switzerland carried out an evaluation of five telematic systems early in 2011, involving 66 trucks. The test proved that telematics can help to improve safe driving behaviours and the environmental performance of our vehicles. A preferred system was selected and the devices have now been installed across the entire ice cream fleet of Nestlé Switzerland, which consists of 140 trucks.

Nestlé USA leadership programme

In 2010, the Nestlé corporate head office issued a set of guidelines on safety behaviours for managers, team leaders and frontline staff. Nestlé USA decided to build on this in a way that was highly visible and effective, and in late 2010 and early 2011, the Nestlé Safety Leadership Behaviours programme was rolled out across the organisation. The programme includes visible commitments, such as posters and banners, and a process of team and personal gap analysis and action planning.

In late 2011, several safety leadership questions were added to the employee opinion survey (“Nestlé and I”), and Nestlé USA is currently evaluating the results and determining action plans with all locations.

In 2012, they will develop a specific survey to gain greater feedback on behaviours.

Nestlé India safety programmes

In 2011, Nestlé India launched Safe By Choice, a safety engagement programme in collaboration with DuPont to improve the safety culture in the Nestlé South Asia region. The first phase of the initiative, which focused on contractor safety, was rolled out at Nestlé’s major construction sites in Ponda, Samalkha, Nanjangud, Manesar and Tahlival in April 2011. DuPont consultants visited each of the sites several times to coach managers, identify best practices and focus on opportunities for improvement. They have also assisted in the development of standards for high-risk activities such as working at height and excavation. Nestlé India has also formed a Safety Council, chaired by the head of the region, which is providing a strategic vision in driving towards excellence.

Later in 2011, Nestlé India rolled out a safety perception survey, “Safety and You”. The aim of this survey was to evaluate employee attitudes towards safety and to identify areas for improvement. The survey, the first of its kind in the Nestlé South Asian region, was launched in November in collaboration with DuPont, and covered all permanent employees in India and Bangladesh. The results will help them to further reinforce their safety culture and accelerate towards our ambition of zero injuries and illnesses. The “Safety and You” survey will be rolled out to Sri Lanka in March 2012.

Health management

At the end of 2010, we created a new global leadership position of Health and Wellness Advisor within the Company’s corporate safety, health and environmental sustainability function. In 2011, a number of initiatives were launched or enhanced in order to improve our health programmes and performance.



SAFETY: Antonio Helio Waszyk, Chairman and Managing Director of Nestlé in South Asian Region, on the eve of the launch of the Safety Perception Survey in India and Bangladesh.



Health survey

A baseline survey was carried out to understand the current state of health management across the Nestlé Group. The survey identified a number of aspects where current programmes are strong. For example, in addition to providing emergency medical assistance, many sites have also established health centres where sick or injured workers can receive professional care or advice. The survey also identified areas of opportunity, primarily in occupational health, which will form the basis for an action plan for the coming years.

Work-Related Upper Limb Disorders (WRULDs)

Nestlé Colombia has put in place a systematic programme focusing on management of ergonomic risks and muscular-skeletal disorders in their factories. This programme brings together different specialists, including ergotherapists, physiotherapists, psychologists, nurses, safety professionals and occupational physicians, as well as factory management and employee representatives. Efforts are showing positive effects in terms of risk reduction and employee awareness.

Within Nestlé UK, a similar programme was developed that involved standardising WRULD risk assessment tools across all their factories. Observations of repetitive tasks were made by safety and health professionals working together in teams, and videos were made to facilitate deeper analysis. Simple solutions were implemented immediately, such as minor adjustments to work stations and tasks. Longer-term action plans were developed for those issues requiring capital investment or re-engineering. Information and training was also provided to factory managers to ensure understanding of the importance of ergonomics in safe operations.

Total Performance Management Safety, Health & Environmental Sustainability Pillar (TPM SH&E Pillar)

We have started to implement a SH&E Pillar as part of our TPM initiative. The aim is to provide our employees with the knowledge and skills to achieve our targets of zero injuries, illnesses and zero waste. In addition to delivering both global and regional training, we have developed detailed guidelines and shared these across the Company. By the end of 2011, Nestlé had delivered three workshops focused on developing the SH&E Pillar, which were attended by 59 representatives from Nestlé businesses around the world.



RISK: Nestlé Colombia's employees now work by sitting on newly designed chairs with adjustable back, footrest, seat height and tilt



Employee engagement

At Nestlé, we know that our employees are the key to our success and that nothing can be achieved without their engagement. We also know that, to engage people at all levels across the organisation, we must provide information on our activities and on specific aspects of their work. Through open communication and active cooperation, we invite everyone to contribute to identifying and carrying out improvements to the way we do business.

As well as encouraging ongoing two-way communication through direct reporting lines and local initiatives, employees at all levels are invited to take part in the "Nestlé and I" global employee survey, which includes five questions covering employee engagement.

The most recent Nestlé & I survey has provided us with valuable feedback regarding employee engagement at Nestlé. As well as being proud to work for the Company, the survey revealed that our employees believe that Nestlé:

- has strong Company values;
- is clearly aligned to strategy and objectives;
- demonstrates a clear focus on ethics and safety; and
- is culturally diverse.

We will continue to invest and leverage these areas of competitive advantage.

Employees have also outlined some areas that they believe require additional attention. These include:

- recognising high performance and managing low performance;
- demonstrating transparency in relation to career development;
- ensuring higher levels of empowerment and accountability.

Action plans have been defined and are being implemented at both market and corporate level to address these issues.

Ongoing support for Japan

Since the massive earthquake and tsunami that struck Japan in March 2011, we have worked with our employees to help with the recovery effort. We were thankful that all Nestlé employees were safely accounted for, and many were keen to provide support to the communities affected by the disaster.

Nestlé Japan committed product donations worth around CHF 1.37 million, including healthcare nutrition products to hospitals and government distribution schemes. Nestlé Waters committed 20 000 cases of bottled water, half of which is for hospitals.

Through Nestlé's partnership with the International Federation of Red Cross and Red Crescent Societies, the Company and employees contributed approximately CHF 160 000 in 2011 to help support the people affected by the disaster.