

PROGRESS REPORT

on Responsible Sourcing of

Dairy, Meat, Poultry & Eggs

THE NESTLÉ RESPONSIBLE SOURCING GUIDELINE

(RSG) was developed to complement our group-wide Nestlé Supplier Code. This mandatory Code defines the non-negotiable minimum standards that we require our suppliers and their sub-tier suppliers to respect and to adhere to when conducting business with Nestlé. Our RSG sets out requirements that Nestlé has publicly committed to implementing in its upstream value chain back to the primary production level.

In late 2013, we developed category specific requirements for dairy, meat, poultry and eggs with the expertise of World Animal Protection, (formerly the World Society for the Protection of Animals). We formally partnered with World Animal Protection in March 2014. This marks the first such partnership between an international food company and a global animal welfare NGO.

OUR REQUIREMENTS

Our requirements on dairy and MPE cover breeding, feeding, housing and husbandry, health, transport and slaughtering. They are fully aligned with the internationally accepted “Five Freedoms” of the World Organisation for Animal Health (OIE):

1. Freedom from hunger, thirst and malnutrition
2. Freedom from fear and distress
3. Freedom from physical and thermal discomfort
4. Freedom from pain, injury and disease
5. Freedom to express normal patterns of behaviour

OUR COMMITMENTS

Our Nestlé Commitment on Farm Animal Welfare forms the basis of our RSG of which these responsible sourcing requirements on dairy, meat, poultry and eggs are an integral part. This public Commitment has been in place since 2012 and we further strengthened it in 2014

Furthermore, our RSG and the requirements within them, underpin Nestlé’s specific Commitments on human rights. These include labour conditions in our agricultural supply chains, environmental sustainability and water stewardship. Our Commitments reflect the high priority that Nestlé assigns these matters in ensuring that the products we purchase for use in our products are sourced responsibly and sustainably.

OUR OBJECTIVES

1. Achieving traceability of Nestlé supply chains for dairy and meat, poultry and eggs all the way back to the farms. In some cases there are only two tiers between Nestlé and farms. This is therefore relatively straightforward exercise. In other cases, this can be an extremely challenging undertaking as there are many intermediaries involved (e.g., the complex beef supply chain in the US).

2. Ensuring that our suppliers demonstrate continuous progress in meeting our responsible sourcing requirements for dairy and meat, poultry and eggs. Nestlé is working closely with our suppliers and World Animal Protection to ensure compliance with our RSG through a process which comprises of supplier coaching, farm assessments and remediation plans as required.

OUR PRIORITIES

We have prioritised our assessment activities and segmented countries from which we source dairy and meat, poultry and eggs into “waves.” This segmentation is based on volume, country related sustainability risks, and consumer and stakeholder expectations. Countries selected to date are:

- In Europe: France, Germany, Spain, Italy, The Netherlands, Poland
- In Asia Oceania: China, New Zealand & Australia
- In Americas: USA & Brazil

MEETING EXPECTATIONS

We share concerns about the welfare of animals raised for food in our global supply chain and are committed to making sustained progress in meeting expectations to ensure the highest possible levels of farm animal welfare along our global supply chain. We do this by working closely with our suppliers, as well as our external audit partner SGS and our NGO partner, World Animal Protection, to ensure compliance with our responsible sourcing requirements on dairy and meat, poultry and eggs. Our supply chain partners understand that this is a non-negotiable requirement to continue to do business with Nestlé.



2014 TARGETS FOR DAIRY PRODUCTS

15%Traceable by
December 2014**Dairy Products**

We exceeded our target of 15% and were able to achieve 35% traceability back to the farm over the relatively short period of 15 months. This was largely due to the limited number of tiers between Nestlé and the farms in our dairy supply chains, which have been assessed to-date.

8%Responsibly Sourced by
December 2014**Dairy Products**

We exceeded our target of 8% and 27% of our dairy products as responsibly sourced despite the challenges involved in assessing a large number of farms and providing coaching where needed. This is in part due to the number of suppliers and/or countries that have in place programmes on good agricultural practices, which proved helpful in accelerating the roll-out of our responsible sourcing requirements.



2014 RESULTS FOR DAIRY PRODUCTS

35%

Traceable back to farm

27%

Responsibly Sourced



2015 TARGETS FOR DAIRY

50%Traceable by
December 2015**Dairy Products****45%**Responsibly Sourced by
December 2015**Dairy Products**



2014 TARGETS FOR MEAT, POULTRY & EGGS

5%

Traceable by
December 2014

Due to the high complexity of meat supply chains, further significant investment of resources is required in order to achieve traceability, which is an essential prerequisite to commencing work on the ground with respect to our RSG in these heavily fragmented industries. We have more than six tiers of sub-suppliers between Nestlé and farms for several of our ingredients. Nonetheless, we are committed to making sustained progress in this area in 2015.

5%

Responsibly Sourced by
December 2014

At this early stage of our responsible sourcing journey, we have carried out more than one hundred assessments on farms in our meat, poultry and eggs supply chain in a number of countries around the world. These assessments identified both good and unacceptable practices. We are engaging with suppliers to discuss remediation plans for areas of improvement which were identified in the farm assessments. Such plans require the suppliers concerned to demonstrate continuous progress in meeting our RSG as a condition of doing business with our company.



2014 RESULTS FOR MEAT, POULTRY & EGGS

1.5%

Traceable back to farm

1%

Responsibly Sourced

Meat, Poultry and Eggs (These results are based on assessments of meat, poultry and eggs which are used in our food products. 75% of the global volume of meat and poultry which we source is used in our Nestlé Purina Pet Care business)



2015 TARGETS FOR MEAT, POULTRY & EGGS

10%

Traceable by
December 2015

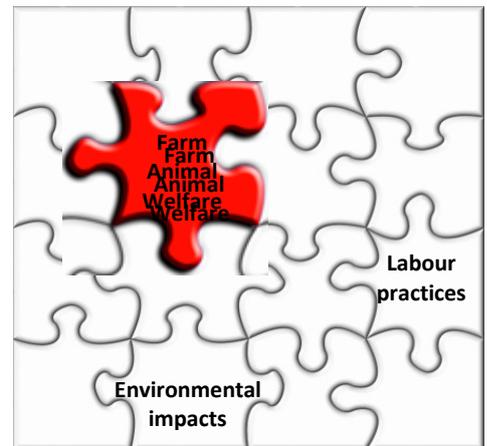
5%

Responsibly Sourced by
December 2015

COACHING AND RSG FARM ASSESSMENTS

The Process

1. Traceability is the first step toward ensuring that our suppliers meet our RSG requirements and tracing the animal-derived ingredients which we purchase back to farms is the beginning of our responsible sourcing journey. Nestlé does this in a number of ways; from a simple Excel spreadsheet to more advanced supply chain mapping procedures using innovative IS/IT technologies.
2. Following the completion of this traceability analysis, our Nestlé buyers together with our external audit partner, SGS evaluate how to sample these farms in a statistically representative manner (using size, location). We will then arrange farm assessments followed by improvement actions if required. We began carrying out these farm assessments in 2013, beginning with dairy farms in Europe and the US.
3. These assessments are carried out by qualified SGS auditors (in the areas of agricultural practices and sustainability) and are shadowed by World Animal Protection and/or their approved affiliates.
 - Farms are assessed against our Responsible Sourcing Protocol, which was developed with the expertise of World Animal Protection in 2013. Farm animal welfare is a key component of this Protocol, which also includes:
 - Conservation of natural vegetation
 - Environmental impacts
 - Creation of Shared Value
 - Legal compliance
 - Labour conditions
 - Mutual understanding and collaboration between SGS, our suppliers and World Animal Protection is core to our responsible sourcing assessment process. World Animal Protection provides expert training to SGS and acts as a coach during farm assessments. This includes helping to ensure that no farm animal welfare issues are overlooked. Its representatives and approved affiliates also raise awareness of these requirements among Nestlé buyers, and our suppliers and farmers as needed. Based on the findings of these independent assessments, we take action to ensure that our suppliers make continuous progress in meeting our responsible sourcing requirements on dairy and MPE. Together with our suppliers, we establish farm-level remediation plans to address specific practices which are identified as requiring improvement, and we will monitor the progress. This is a non-negotiable requirement to continue to do business with Nestlé.



Dairy farm assessment



Assessment preparation: SGS and World Animal Protection

KEY FINDINGS AND FIGURES

Good Practices

- Dairy cows that have received veterinary treatment are clearly and painlessly marked and separated from the herd.
- Cooling and ventilation systems installed in covered areas and operating at dairy farms to help maintain a comfortable climate-controlled environment for dairy cows.
- Water from dairy operations collected, cleaned and reused for pasture irrigation.
- Poultry farm assessments attended by World Animal Protection welcomed by our suppliers and farmers.

Improvement Areas

- Dehorning and disbudding without anaesthetic: this is among the most recurring challenges identified in our farm assessments performed to-date.
- Lameness in dairy cows was found to be a concern at a number of farms.
- Unsatisfactory cleanliness of farm animal enclosures, waste management practices, and feed storage practices (e.g. feed stored directly on the ground) at a small number of farms were among other areas identified for improvement at some of the farms assessed.
- Our assessments also identified some areas of improvement with respect to labour standards at some of the farms assessed. These were primarily related to farm employees work hours and insufficient training.

TAKING ACTION

Based on learning from our farm assessments, we plan to implement remediation activities in North America and we are in the process of engaging with suppliers in Europe on remediation plans to ensure that suppliers meet our requirement to make continuous improvement in meeting our RSG. We will initially focus our efforts on:

- Ensuring better practices with respect to anaesthesia and analgesia for calf disbudding in line with our strengthened Commitment on Farm Animal Welfare;
- Sharing best practices to more effectively prevent lameness in dairy cows based on expert input;
- Implementing ongoing animal welfare monitoring processes at farm level to ensure progress is made on remediation plans to ensure compliance with our RSG;
- Eradicating confinement systems such as barren battery cages and sow gestation crates.

We will publicly report on our progress in Q1 2016.

Key figures

Coaching and training provided to 30 SGS lead auditors in three key regions: Europe, North America & China

- 255 farm assessments
 - 156 dairy
 - 99 meat, poultry and eggs
- Main findings
 - Good farm animal welfare practices:
 - Cooling & ventilation systems at dairy farms
 - Improvement areas
 - Dehorning, disbudding without anaesthetic

FARM ASSESSMENTS

GOOD PRACTICES



Treated cows marked and separated for identification



Cooling system: water sprayer and ventilation



Water collection at a dairy farm



Poultry farm assessment supported by World Animal Protection

IMPROVEMENT AREAS



Cleanliness



Waste management



Feed storage



Disbudding

OUR WORK WITH OUR SUPPLIERS

New Zealand - Fonterra



Fonterra is the world's largest dairy exporter and a Nestlé supplier. Fonterra has from the beginning fully engaged in meeting our ethical and sustainability practices demanded by

our responsible sourcing requirements, which reflect its own standards and requirements. In March 2014, Fonterra facilitated 50 pre-announced farm assessments in the South Island of New Zealand.

None of the farms visited revealed any major or critical non-compliance and most of the assessments revealed good practices. Our assessments identified a number of good practices, such as the collection and reuse of water used to clean milking equipment, no remediation actions were required. The assessment process and farm visits were welcomed by Fonterra farmers and considered as beneficial by Fonterra, which through the process reconfirmed the robustness of its own programme (in New Zealand), called Supply Fonterra.

As there are differences in the dairy businesses on South and North Islands, Nestlé will continue to assess farms on the North Island in 2015. We will further extend the scope of our assessments to include Fonterra dairy farms in Australia.

USA – Leprino



Leprino is one of the world's largest manufacturers of quality cheese and is a Nestlé supplier. In late 2014, Leprino was the subject of a farm animal welfare campaign initiated by

Mercy for Animals as a result of unacceptable practices by one of its upstream supplying farmers.

Leprino had already agreed to engage with Nestlé on our responsible sourcing requirements for dairy prior to this incident. It subsequently decided to extend the scope of the RSG assessment and make our responsible sourcing requirements mandatory along its entire dairy supply. As a result of this corporate decision Leprino in December 2014 developed and began implementing in the US its Quality Animal Care Programme.

“Healthy, comfortable cows that are well fed, maintained, and cared for will always be the best and most productive source of milk,” Mike Reidy, Senior Vice President of Corporate Affairs for Leprino Foods.

Nestlé recognises that Leprino, in addition taking responsibility for the incident involving its supplier in 2014 has gone a step further in establishing a higher standard with respect to dairy cow care and welfare along its entire supply chain.



China – Tyson Foods

Tyson foods is a Nestlé supplier of meat ingredients and a major player

of the meat industry. Nestlé sources from Tyson Foods around the world and a significant volume of some of our poultry ingredients come from Tyson Foods operations in China. We have mapped this supply chain in China and Tyson Foods ensured access to its poultry farms for assessments to verify that its standards on farm animal welfare are applied and aligned with our responsible sourcing requirements.

The poultry farm visits by SGS and World Animal Protection revealed best in class farming operations, including knowledge of and respect for the “Five Freedoms.” This not only benefits farm animal welfare, but also makes business sense by helping ensure undisrupted supply due to the lessened risk of diseases or better productivity associated with healthy animals. “A healthy animal is the first step to great food” (The Tyson Foods FarmCheck™)

While Tyson Foods has in place full vertical integration, the supply chains of other poultry suppliers from which we source poultry around the world are more complex. As a result, further traceability is required and we have committed to continuing this process.

France



Eurosérum, the world's largest producer of demineralised whey powder for infant food was the first Nestlé supplier to be

assessed against our Responsible Sourcing Guideline. The goal of these initial assessments was to pilot our newly developed farm animal welfare assessment protocol, and to use the results to further refine the assessment process and protocol. Eurosérum and Sodiaal, the milk cooperative which supplies to Eurosérum, were very engaged in the process and provided valuable feedback. Eurosérum and Sodiaal have in place a number of best practices with respect to responsible sourcing and sustainability, including “Charte des Bonnes Pratiques d'Élevage” (Good Farming Practices) and “La Route Du Lait”, (a pioneering approach to quality

management and respect for the environment). These standards cover a good proportion of our RSG requirements.

NESTLÉ'S PARTNERS ON THIS JOURNEY



SGS is an independent auditing firm and Nestlé's assessment partner for dairy, and meat, poultry and eggs.

SGS has been commissioned to carry out farm assessments in Nestlé's suppliers' upstream supply chain against Nestlé's Responsible Sourcing Guideline.

Farm animal welfare practices are among the main focus areas of these assessments, along with labour practices and environmental impacts.

In 2014, SGS carried more than two hundred farm assessments worldwide. Some of these visits were also attended by World Animal Protection representatives or its affiliates whose role it is to coach the auditors.

World Animal Protection



In March 2014 Nestlé signed a global partnership with World Animal Protection.

World Animal Protection (formerly the World Society for the Protection of Animals) is an international NGO which has been in operation for more than 30 years. Its vision is "a world where animal welfare matters and animal cruelty has ended".

Nestlé has been working with World Animal Protection on how to specifically strengthen and further refine the [Nestlé Responsible Sourcing Guideline \(pdf, 2 Mb\)](#), which all suppliers must adhere to as part of the [Nestlé Supplier Code \(pdf, 2 Mb\)](#). Both build upon our [Nestlé Commitment on Farm Animal Welfare \(pdf, 2 Mb\)](#).

World Animal Protection supports Nestlé to train SGS auditors in different countries on animal health and welfare issues and attends farm assessments mandated by Nestlé.

Find out more...

Updates and information on [Nestlé's responsible sourcing activities](#) at [Nestle.com](#).