

NESTLE SA SETS OUT ACTIONS TO ADDRESS CHILD LABOUR IN RESPONSE TO FAIR LABOR ASSOCIATION REPORT ON THE COMPANY'S COCOA SUPPLY CHAIN

Conference Date: 29 June, 2012

CORPORATE PARTICIPANTS:

Chris Hogg

Deputy Head - Media Relations
Nestlé

Jose Lopez

EVP - Operations
Nestlé

Auret van Heerden

Fair Labor Association
President, CEO

CONFERENCE CALL PARTICIPANTS:

Antonie Fountain Stop the Traffik - Director

Leoni Blaquis Stop Child Labor

Emma Thomasson Reuters - Journalist

Disclaimer

This speech might not reflect absolutely all exact words of the audio version.

This speech contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

PRESENTATION

Chris Hogg - Nestle - Deputy Head - Media Relations

Hello. Welcome to this Nestle conference call broadcast live on Nestle.com. I'm Chris Hogg from Nestle corporate communications.

We've organized this call to discuss the report by the Fair Labor Association into our cocoa supply chain in Cote d'Ivoire. I'm joined by our Head of Operations, Jose Lopez, the man responsible for the Company's supply chains, and the Fair Labor Association President and Chief Executive Aurret van Heerden. In a moment he'll be giving us a summary of what the FLA experts found when they visited Cote d'Ivoire to map our supply chains. But first we're going to hear from Jose Lopez.

Jose Lopez - Nestle - EVP - Operations

Well let me take you through a short presentation and try to go through the process that has taken us to where we are today. First of all we started our Nestle Cocoa Plan three years ago. And the aim there really was to focus on the farmers and the origin of our raw materials. We stated clearly that there were three key areas that we wanted to address.

One is to help farmers, enable them to run their farms in a way that will make that activity sustainable. So they have to be making a living with that activity. Very quickly after that we decided to focus on the use of child labor, notorious in this practice of cocoa farming of course. And also we have also with the experience of prior activities seen the opportunity for getting access to a better quality cocoa, in the end achieving goals in all areas of our activities.

It's very much aligned with our creating share value idea. We believe that on the long term we have to create value for everyone in the supply chain if we are to create value for shareholders eventually. And that value will come in many ways, of course trust and reputation from consumers, but also a better quality for our products and eventually a sustainable farming chain which will allow us to be in business and to do so competitively over time.

So in that regard we looked for help because having been into this environment for a long time we could see that by ourselves we will not particularly deal with the child labor issue. And we went and discussed with the Fair Labor Association about the opportunity. And I think Aurret will speak about that.

Very quickly we identified that supply chain, and cocoa farming and those activities are fairly complex. And but we decided to get together into an attempt to understand better what is happening in terms of traceability and in terms of transparency. What is really this issue and how is that actually coming across our day-to-day activities?

Very quickly, as soon as we started to map this out we realized that there are many intermediaries in the supply chain. There are a number of participants, local people trying to regroup the supply from the farmers to cooperatives, but also intermediaries that actually go into -- very deep into the country to look for small farms, sometimes extremely small, below even one hectare.

And they regroup the supply and they kind of amalgamate all that into one supply chain. And with the help of the Fair Labor Association we could see that a number of areas need to be improved. Actually we identified 11 key recommendations -- key areas of recommendation. And we have as a result decided to immediately take action and get moving in the right direction there.

The other thing that I need to say here is that as you go through this process you understand that none of these areas in isolation will make a real impact. It is more the alignment of all of them and the simultaneity of all these activities that will deliver a result.

I think the four basic areas that come first to mind is of course that we have a supplier code. And it's typical of what happens in a company like ours where you collect the data. You understand. You put a code down and you say these are my requirements. And that's what we want you to respond to, but that supplier code is not implementable as such in every environment where you operate.

So with FLA recommendation we're going to have to look into improving the code, simplifying it, making it easier to understand by the participants. And that is probably the number one priority of which we have started immediately.

And then the monitoring of the activities, how do we then as we have started a measure that the progress is being done, and again there we have looked into what would be the key activities. We might come back later on with Auret on this as well.

Training has always been a very key part in this whole area. Good agricultural practices apply everywhere, but in the area of cocoa where the activity to cultivate cocoa is very often done through -- so kind of the father teaches the son, and then the family takes over and then some other members come together. And we kind of lose track of what are the key activities that will deliver safety, reliability, quality and also productivity so that again the family can prosper with that activity, that economic activity. So training will be a very important part of our activities there.

And finally I think importantly we have said that many times along with really will get very little done and so how we strengthen the relationship with a different part of this partnership work that needs to take place from the farmer to the traders, to actually the companies that are involved in certification that help us with also traceability through their certification programs, large non-governmental organizations, institutions. ILO is going to help us through some of their prescriptions and their initiatives as well.

The World Cocoa Foundation, the International Cocoa Initiative, we work with them, fair trade, oats, but also with people like our suppliers. You know a trader like Olam is also I think seeking to work with FLA because we see that we can then establish a one line of communication with a common goal that could take us where we want to be.

So what we are doing here today is a commitment to a more transparent system. We will continue to work with FLA and other partners. And also we, I guess today through this event want to send a sign that we want to continue to communicate on this. We believe also that not only the public, the media or our shareholders will have an interest in what we do, but obviously our employees have a very high interest to know how does Nestle go about things like child labor in their supply chain.

So regular reporting and information will be sent to the outside and we will go step by step in strengthening everything that we have been doing. Clearly I think as kind of a first realization after getting the report and discussing with the Fair Labor Association people there are a number of areas where we can make improvements, very numerous. And we will take those undertake.

We will invest more money into those activities. We have already committed -- we have already spent about \$60 million in activities related to the Cocoa Plan, the Nestle Cocoa Plan. And we see that we're going to have to spend about \$110 million from now to 2010 -- sorry 2020, so for the 10 years in order to achieve at least the plans that we see today.

Those things might change with time, we will again keep everybody aware of our thinking. And hopefully we are today starting something that will maybe inspire others in also go around and seek help and try to get results in that process.

Chris Hogg - Nestle - Deputy Head - Media Relations

Jose Lopez, thank you very much. Aurret van Heerden from the FLA this is a new partnership and this is a very big piece of research, a big report that your organization has come up with. What is new about this? What is different to what's been done before?

Aurret van Heerden - Fair Labor Association - President, CEO

I think this is a very important piece of work, as you mentioned, for a number of reasons. Nestle has been the first company to really step up to the plate and say in addition to all of the other industry-wide or sector-wide initiatives that we're involved in let's look at our supply chain in a lot of detail. Let's bring an external set of eyes, an independent set of eyes and get them to really trace that supply chain from headquarters down to farm level.

Along the way what we did was understand and assess the way Nestle maintains its duty of care. You have a supply code and you need every actor in that procurement process to be aware of that code and equipped to live up to its expectations, and really to know what the deliverable is and what the metric is going to be for the performance. So we were assessing as we go down the chain how well that duty of care is maintained and identifying areas where it could be harmed or strengthened.

Secondly, when we get in country what we did was we did a stakeholder map because there are a lot of people who have been working on this issue for 10 years now. So we wanted to understand who they were and what they were doing so that we could get an idea of the lay of the land.

And then thirdly we look at the actual farming activities and we do a task and a risk map. So we take -- we break down every task from clearing the ground to weeding, and planting, and tending the trees, and then harvesting and finally drying and delivering the beans. And we attach a risk to each one of those activities. If using a machete is there a health and safety risk? If it's a child using a machete what is the risk?

So we get that task and risk map in place. And with those three documents if you like, those three maps, we're able to build up a very comprehensive idea of how well these risks are being managed. And on that basis we could make recommendations to Nestle for enhancing the management of their procurement process from a social responsibility perspective.

Chris Hogg - Nestle - Deputy Head - Media Relations

And to be clear you made 11 recommendations, all of which are being acted upon by Nestle.

Auret van Heerden - Fair Labor Association - President, CEO

Right. And in terms of recommendations I think the most important realization for us was that this is a development problem. Child labor is not something you can order it away or inspect away. And it's not something which happens in one event. It's a process and we really have to understand the realities on the ground, the socioeconomic and cultural realities of those farmers in areas where there is very little administration, very little paperwork, very little infrastructure.

So we really think that you need to be able to change the socioeconomic conditions of the farmers, help them get better plants, better yields, better income so that they can afford to do with things without child labor. We then need to create access to schools so that once they can afford to send their kids to school there is actually a school that they can go to.

And thirdly we need to change a lot of attitudes. There are a lot of ingrained cultural perceptions which don't see this as a problem in the same way that we do. And we really need to work on those perceptions. So there are three prongs to this strategy and I think we need to work on all of them at the same time.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. Auret and Jose, for the moment thank you very much. Now we're going to open this up to questions.

QUESTION AND ANSWER

Chris Hogg - Nestle - Deputy Head - Media Relations

(Operator Instructions).

We want to hear from as many people as possible so please keep your contribution brief if you can. If you're following the webcast on Nestle.com you can also ask a question via e-mail. Send your question to questions@nestle.com. That's questions@nestle.com and we'll do our best to get as many of those in as possible. We've already had a number of questions sent to this account from fans of our corporate Facebook page and from the Twitter account.

So the first question while we wait for a question from the call let's go to one of the questions that came in to -- from -- to that e-mail site. This came from the Inter-Parliamentary Union from [Aquio Afuda]. And he asks is there any -- going to be any arrangement for us to work with the politicians in Cote d'Ivoire? Will this involve Ivoirian government, Ivoirian lawmakers?

Jose Lopez - Nestle - EVP - Operations

I would like to answer generally about the way Nestle operates in the countries where we have our activities. We always have relationships with the governments where we operate. We also clearly request from our representatives, the head of the Nestle organization there that they make every attempt to work with the local institutions and with the authorities to see how together we can help the whole economy, the socioeconomic situation of the country prosper.

So typically and that bean market had in places like Malaysia you work with the World Business Council for Sustainable Development chapter, with the Chamber of Commerce. You work also directly with the authorities, international trade and so on. And you all the time assess that capability that Nestle could have in bringing further development to their own activities.

And we receive a very good collaboration from those governments where we operate. As a matter of fact I want to mention that just recently I saw from the Ivory Coast Republic that they have started or at least expressed the intention to put in place an action, a national action plan from '12 to '14 in order to fight against child labor and also the worst form of child labor and slavery and so on.

So the fact that this plan is coming together, that we are working as well that we have a whole range of partners into this process indicates that we will be able to work closely. And it is for the local organization to make those steps to approach a government and put our organization to their service in getting this progress done.

Chris Hogg - Nestle - Deputy Head - Media Relations

And, Auret, when your experts went to the Cote d'Ivoire and carried out this mapping exercise, they also conducted interviews with members of the government and people at that level too.

Auret van Heerden - Fair Labor Association - President, CEO

Indeed. That was one of the stakeholders which we met. And we met a number of different ministries and all the way up to the first lady's office because she has been very involved in this herself and is one of the prime movers I think in the government's new focus on this problem.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. Let me just repeat in case you missed it. (Operator Instructions). But I believe now we can give you -- I believe now we can talk to Antonie Fountain from the organization, Stop the Traffik. Good afternoon, Antoine. Would you like to list your question?

Antonie Fountain - Stop the Traffik - Director

Good afternoon. There are two questions. And first of all I think it's really good that Nestle has joined with the FLA in this, I think it's a good step forward in transparency. So first of all thank you to Nestle for doing this. And actually the report itself obviously confirms quite a few of the issues that we have been stating over the last few years.

Now the question I have is not necessarily about what is in the plan but what really isn't in the plan because that I think requires quite a lot of work. 10 of the 11 suggested actions deal with the cocoa that's actually coming from the Nestle Cocoa Plan itself, but that only covers about 15% of Nestle's cocoa -- entire cocoa usage. So the question I really have is what is the plan to actually hit the other 85%, which is actually where most of the problems are?

So where is Nestle going in the future, not just in the next one or two years, but what is the comprehensive solution for the next let's say 10 years or so and the whole supply chain? The FLA report clearly states that Nestle as the world's largest food company has a tremendous possibility and impact. And I feel that Nestle could take their role as an ambitious leader within this sector more strongly by looking towards the future beyond the next few years or so.

Jose Lopez - Nestle - EVP - Operations

I gladly take that question because I also want to say that the Nestle Cocoa Plan has been announced only three years ago, but our activities in engaging with farmers in developing direct procurement, in creating partnerships with many stakeholders have been going on for many, many years.

Actually I was reading somewhere that more than 20 years ago we were in Venezuela doing similar activities with farmers there. I have been myself to Ecuador and seen our activities there with a demonstration farm where we can also help farmers through the necessary training on how to improve again quality yield and also how to enhance their living standards by helping them with alternative crops and so on.

We have been devoting quite an important amount of money also to micro financing, helping people with many activities that require cash. And that becomes a problem to them like new equipment in the area of dairy farming with biodigesters, protecting the environment.

And so -- and we source 10% of our cocoa from Ivory Coast, the rest coming from all sorts of countries around the world, particularly Latin America, but also in other parts of Africa. So why we have focused on Ivory Coast is because it has also felt to us it was probably the most pressing area and the one that could give us the biggest impact from the point of view of creating a lighthouse.

In other words the view is like this, and sure it would satisfy people, but if you create a lighthouse in a place where things are quite difficult and where there are as Auret was saying cultural and developmental as well as economic circumstances, a lack of infrastructure and so on, then that lighthouse can be seen as something that you can scale up and you can replicate. So our intention is to continue what we already started many years ago, but to add to it I would say the alignment of all possible stakeholders.

The one thing that is different maybe today in the way Nestle is trying to address or to contribute to this issue of child labor is that we are seeing the possibility to get many more people aligned in that process from obviously the farmers themselves. And we were working with the World Cocoa Foundation to build schools. We have a plan to build 40 schools or to rebuild some of them and so on because you can be here talking about child labor, but if there is no school where the kids can go that thing is not going to work.

So you have to put that into place. We have said we are very, very pleased to hear that the prime -- the first lady in Ivory Coast is behind an action plan, which means that the politicians are going to take interest into this. We have heard from some of the trading houses that they want to go and see Auret and join the FLA because they see a benefit and a merit to that. We also through this communication hopefully time in our consumers and our stakeholders so that everybody understands that this is a long-term effort. And the idea today is to scale up.

So yes, eventually the story is very simple. We do not want to have child labor in our supply chain. Today we are just scratching the surface, and therefore we cannot be here saying, you know what, I'm going to certify all my cocoa so I'll be okay. Of course we will need certification also to ensure that the activities are done in a durable way, in sustainable way, but it will be a trip.

And I just want to conclude to say well I welcome Stop the Traffik to also join in and see how together we can enhance this chain of events and help with the scaling up of those activities. Beyond Nestle we hopefully also are going to see that some of our competitors -- in the area of sustainability in an area like child labor there is no competitor. It doesn't -- there is the work to do and we all have to jump in and do it.

So that would be my answer. Now we will give numbers. We are today already putting some deadlines because we want to be able -- we agree that if you cannot measure it you cannot improve it. So we will put deadlines and we will communicate them as we progress. And hopefully we'll be in touch with our colleagues from Stop the Traffik in doing so.

Chris Hogg - Nestle - Deputy Head - Media Relations

All right. Antonie Fountain from Stop the Traffik also raised another issue, which is that there are two supply chains. There is the Nestle Cocoa Plan supply chain and then the other supply chain. What are the particular difficulties with trying to make an impact in that other supply chain?

Auret van Heerden - Fair Labor Association - President, CEO

So obviously with the Cocoa Plant supply chain you know who all of your partners are. And you have contracts in place with a lot of them and you can actually hold them to those contracts. And you can specify exactly what the deliverables should be.

With the standard supply chain as it's known you don't know who those actors are. It's much more random and so it's obviously much more difficult to put a floor of standards and a floor of expectations and deliverables under that supply chain.

I always ask when we discuss these issues internally I always ask the colleagues who write the reports, so what? You did a great report, so what? Convince me that this matters a damn.

And I think it's a valid question. And I think in a way that's the question Antonie is asking us. What is actually going to change as a result of this report?

And my answer to that is that this was the central starting point. We needed to map these things out, get an idea of what's going on out there, who's doing what. And most

importantly internally we need to get installed very firmly, soundly installed in Nestle this responsibility at every level of the chain, so that every officer involved in procurement shares that responsibility.

I would like to see a situation where the evaluations, the performance evaluations, and the compensation and their bonuses depend on meeting these standards so that it becomes something that every single person feels part of and partly responsible for. That sets Nestle up to approach every subsequent harvest more prepared, more able to deal with this problem.

So I think what we've done now is we've laid the foundations. From this year's harvest, the end of this year 2012 we will see a different approach, a qualitatively different approach to the harvest. And, Antonie, what I would hope to see then is a set of targets set each year for the number of co-ops that we know we actually have under the spotlight, they have been communicated with, they know what the expectations are, they trained to live up to those expectations.

And the intermediaries all laid down to the farm there, and that I know when I get to a farmer and ask him about the premiums, ask him about the requirements, ask him about child labor he knows exactly what he's meant to do and he's able to do it. That's how I would measure success. So I am hoping that we can set a series of increasingly ambitious targets for the coverage of the plan.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. I want to bring in another question from the phone line or comment. This is [Leoni Blaquis] from the NGO Stop Child Labor. Good afternoon.

Leoni Blaquis - Stop Child Labor

Hello. Thank you for this attention. I want to congratulate both Nestle and FLA with this excellent resource. I think this is very well done and I think it's good that now for the first time we really get a better view of what is happening, although there are several organizations already mentioning it for years, but now also having it clear for the government or for the Company.

I think it's good, but what is -- as Antonie already mentioned, what lacks is more concrete and specific responsibility and role of Nestle. As you already mentioned the key performance indicators needed to -- will be made up. And yes it will be more specific, but what I do miss is that Nestle sets itself to go to eradicate child labor from the cocoa supply, which is very good, but when do you want to have this achieved?

And I do agree that it's something that a company individually cannot achieve. And it's in cooperation with other companies and other stakeholders is necessary, but we do expect Nestle now to be more proactive and take more initiative to really to get this going and to really make a change in the coming years. So I would like to hear some more about that. What will Nestle concretely do in the coming years and what do they feel their responsibility and role to really get this going?

Jose Lopez - Nestle - EVP - Operations

Yes. Let me mention two or three things that go in this direction, but first of all we have decided not to maybe take something -- I was in Rio last week in the Plus 20 Sustainability Forum. And I heard a lot of people saying by 2020 we would be doing this and we would be doing that, and kind of hopefully they go home happy about all these things they promised there.

And I like to think that for us this is not the right way. We can sit here and say those things, but what we like to think is that we have a base. We have our Cocoa Plan. We decided three years ago to actually open an R&D center. And that cost money to the Company. In this R&D center we decided to bring technology which is not available in that country on how to replicate trees, the cocoa trees that are resistant to diseases and to drought and so on by using embryogenesis and that allows for speedy replication of those trees.

And we are today already covering a large number of farms bringing those plants that are actually given free of charge to the people. And we have -- the farmers are very conservative. They will go step by step. They will try these new trees. They will see how it goes. And it takes about three years to get the first pods out of the cocoa tree. And so it will be a relatively lengthy process, but we've already distributed something like 1 million of those trees in the area there.

And then we kind of map an area that we can make significant improvement and then we start to set the targets. In 2012 we have two co-ops that have engaged already in this direction. And that's about 600 farmers that are coming together. Next year we want to go from two to eight. And then we want to continue to bring more co-ops until the next step which we have set in our targets in response to Auret's work is by 2016, all the other co-ops that supply Nestle will be under the Nestle Cocoa Plan.

One part that is very important on the Nestle Cocoa Plan is that we buy direct. In other words we gain traceability, but also we ensure a stable income to the farmers. And we monitor the progress being done in the different work. So you see the way we look at it is that we will be scaling up year by year. We see 2016 an important step for us so that because we see that we will be able to have all our co-ops engaged in that program.

Now if you say to me, so does that it mean that in 2016 there will be no child labor? I think what we don't want to do is to exclude people. In other words if I take a view that for me the only thing that matters for Nestle is to decide that I go through a process where I map the place, I take my co-ops. I bring an institution to do certification and then I can say that's it. I've done it. I have my certified cocoa so I'm -- that is not the way we see this process.

We see this process as a process of scaling up and hopefully bring other people, other NGOs, other institutions, the government, and as I say, other people that are in the cocoa trading to join in and see that we can move forward. We'll do our homework, but that is not enough. The child that cannot work in the farm that supplies Nestle will go and work in the next farm. So that's not the answer. And I think people should also go to Ivory Coast and see how it works over there. And not only Auret and I have been, but many of our people.

And we have operations there and we have an R&D in Abidjan where people are physically there doing their work and going into the fields every day. And that's how we

see things. Now of course we can improve and we will be listening to Auret's team to see how we will do that improvement.

Chris Hogg - Nestle - Deputy Head - Media Relations

Auret, people in Jose Lopez's position are often asked to give a guarantee, to give a guarantee that a product is child labor free. Can any company give that guarantee today?

Auret van Heerden - Fair Labor Association - President, CEO

Today no. No company can. I agree with what Jose Lopez was saying that it's probably right now superficial to give a date. To say 2020 or something like that would be frankly a bit of a guess, and so I think the important thing is to commit to the eradication of child labor with annual targets, measurable annual targets.

We can then have a discussion about whether those targets are sufficiently ambitious and whether they're realistic. And then let's measure them, and report out and have full transparency. That would be a big step forward for this industry to have annual targets and transparent reporting.

And let the public, and the consumers and the investors all judge whether that is sufficient progress. That's what I would like to see right now, commitment to total eradication, commitment to annual targets and transparent reporting.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. Let's go to one of the questions that has come into questions@nestle.com. This comes from the Finnish Media Group. The question is I know this sounds tiring, [Casey Heetanon] says, as you're just trying to tackle the problems of Cote d'Ivoire, but do you intend to take similar steps with other countries?

Jose Lopez - Nestle - EVP - Operations

Yes definitely. As I said we have in numerous countries the concept that -- we have about 1,000 agronomists around the world. These are people that work for Nestle, or they're paid by Nestle, but actually work with the farmers that supply the Nestle supply chains.

That also translates into something like 17,000 extensionists. These are really generally young people, young agronomists and then they start like this. And they visit the farmers. And they discuss with them. They see also the reality of the fields and so on. And this is an activity that we do around the world, and not only for cocoa as I say that is an area where we engage a lot with the community. It's a very important activity also to ensure the proper quality and reliability of supply to our operations.

In coffee we are doing a lot of work. And I was in Columbia just recently visiting the activities that we have in our Nestle Presto business under e-collaboration. We have a triple A program where we also similarly go in this direction. In those areas the issue of child labor are less I would say violent as they are in Ivory Coast. Infrastructure is a bit better. You can actually access in an easier manner. And there is also more schooling infrastructure and so on and so forth.

So obviously we are not going to stop in Ivory Coast. And I'd like to repeat that. I am not sure that I'm making my point clear, but the idea is to create lighthouses, places where -- and if you go to Colombia, the trip that I mentioned just earlier, and you are there. And I was with the head of Federation of Coffee Growers of Colombia. They do an incredible work also in creating prosperity and so on.

When you go there and you start to see that those lighthouses are the source of inspiration for things that we know today, and also a source of creativity for how else, what else can we do because we don't have all the solutions. And we have more a specification of what the problem is more than any solution.

This action plan by the government, how can we engage in that? This is very new. It just happened to me just a few weeks ago. So now we are looking into how our operations locally can get involved there and can see some progress in the area of infrastructure or also of course teaching material, and the development of teachers and so and so forth.

So we are going to have to work in many, many areas. This is not a one isolated issue inside of otherwise perfectly working society. It's one of the symbols of the needs for prosperity in those parts of the world. And I don't have any other way to describe that.

Chris Hogg - Nestle - Deputy Head - Media Relations

Auret, pick up on something that Jose Lopez just said there. This is not a perfect society. And in your report you talk about the particular difficulties in a country like the Cote d'Ivoire eventually contacting the people, finding the people that need help. There are particular difficulties in a country like that.

Auret van Heerden - Fair Labor Association - President, CEO

There are. The infrastructure is not great. Of course it's been badly affected by the civil war. And a lot of these areas are very inaccessible. So you're talking about jurisdictions which are very, very weakly regulated or not regulated at all.

And there are still quite a lot of security issues and our teams had to travel around with additional security. So it's not easy to put the infrastructure in place. And we really do rely on the private sector here frankly to come to the table and assume even some state functions really in terms of creating infrastructure, and access to schooling, and improving health care and some of the basics, even some certification, some birth certificates for the kids. We are going to have a lot of that in place ourselves because we simply can't wait for government to be able to mount those efforts.

Chris Hogg - Nestle - Deputy Head - Media Relations

And when you talk about involving the private sector does that mean a top-down approach?

Auret van Heerden - Fair Labor Association - President, CEO

No. Clearly a top-down approach wouldn't work and we can't interdict child labor. We can't legislate a lot of these things away. So it's going to -- we're going to have to work with local community groups who are in those areas already who have been working

there for a long time and have the trust and confidence of the local communities, and make it a bottom-up effort.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. Let's go to the phone lines again because I know she has been waiting patiently for some time. Emma Thomasson from Reuters, could you give us your question, Emma?

Emma Thomasson - Reuters - Journalist

Hi. Actually I just have a very minor technical question. In the FLA press release you talk about Nestle contribute -- or it's not quite clear. There's a mention of 10% of cocoa that Nestle sources from Ivory Coast. And I just wanted to be clear whether that 10% is 10% of Nestle's total cocoa use or 10% of the Ivorian cocoa crop. And if it's not the latter I'd be interesting in knowing what proportion of the Ivorian cocoa crop does Nestle buy?

Jose Lopez - Nestle - EVP - Operations

Maybe I should answer that they actually -- the total cocoa crop is about 4 million tons around the world. And we buy about 10% of that. And also the cocoa crop coming out of Ivory Coast is about 1.3 million, 1.4 million. And we happen to also buy about 10% of that.

And what I can tell you today is that from the cocoa we buy in Ivory Coast already today we have close to 20% of that is procured directly, and goes through all these best practices, and also receives the necessary certification and so on and so forth. So in terms of scale you have the world crop at 4 million, the Ivory Coast crop at 1.3 million, 1.4 million tons. We buy 10% of the world and also 10% of the Ivorian cocoa, which is for us about 130,000 tons from Ivory Coast.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. There's a question that has come in from e-mail about the total business impact, how this actually impacts our business in terms of extra costs, but also will it just be extra costs, or do we expect to have extra productivity, extra revenue stream coming in as well?

Jose Lopez - Nestle - EVP - Operations

For us it would primarily be a cost. The idea is that this cost will come with more intangible benefits, reliability of supply, quality of the material as well as hopefully an understanding and recognition by consumers of our efforts and the trust taking place in our products because at first when you put an R&D center and you ask them to do a replication of trees and so on, and actually we as I said we donated those trees. We don't sell them or anything.

And then we have our activities directly related to the direct procurement. You just you can buy when you do direct procurement you also have to commit to a slightly higher price than what you could find in the market because you want also the farmers to see the advantage for them in working with us and so on.

So that has a cost impact on our raw materials. As I said we have already about \$60 million behind us. That's about \$15 million per year in the last four years. And the rhythm

at which we will spend in the future will be say between \$10 million and \$15 million every year. And these are costs, costs that we are as I say more for intangible benefits than for immediate impact on our profit and loss.

Chris Hogg - Nestle - Deputy Head - Media Relations

And looking at what we've done here, Auret, in terms of an initial piece of research, what is needed in terms of taking this partnership going forward? How will the FLA be contributing to this process of transparency that Nestle is pursuing going forward from here?

Auret van Heerden - Fair Labor Association - President, CEO

So for us this is a movie. We're not just taking a snapshot here. This is a movie that starts at the beginning of the crop cycle and goes all the way through to the harvest year after year after year and monitors the progress.

So we'll be filing regular reports. We'll be monitoring the implementation of the commitments that you've made. We'll be reporting those out publicly and conducting additional stakeholder engagements in order to ensure that we are having that dialogue with stakeholders about whether these are the right steps, whether they are working, whether there are other things which we should be looking at, and so that we're getting input from the people, all of the stakeholders involved.

Chris Hogg - Nestle - Deputy Head - Media Relations

We've got a question that was placed on our Facebook page, I think a response to some of the comments that you've been making today, a question from Martin Wagner asking how long has Nestle been using child labor?

Jose Lopez - Nestle - EVP - Operations

For as long as we have been using cocoa probably. I don't have a better answer than that. This is ancestral practices, not only in Ivory Coast. It was also the case in Europe and many other crops and so on and so forth. Yes, for as long as we have been using cocoa.

Chris Hogg - Nestle - Deputy Head - Media Relations

And, Auret, how important is it that the chocolate industry as a whole starts to acknowledge this problem because obviously it is difficult for a company like Nestle to come out and to speak publicly like this. There is a risk involved always.

Auret van Heerden - Fair Labor Association - President, CEO

There is. I think we need to recognize that Nestle has taken a bold step here, a brave step in agreeing to take this on as a company and to step -- to go over and above the industry initiatives which already exist. And as you were talking about lighthouses earlier, I hope that Nestle's action does have a demonstration effect, that it does serve as some sort of a beacon for other companies as well and that for the consumer and for the stakeholder this poses the question, what is everyone else doing?

And that they communicate their concern and convey very clearly to other companies that they expect them to also take their individual responsibility while continuing to contribute to the other broader initiatives.

Chris Hogg - Nestle - Deputy Head - Media Relations

We're running out of time now so I want to give you both an opportunity to just sum up and give us a last word. Auret, perhaps you'd like to go first.

Auret van Heerden - Fair Labor Association - President, CEO

I would emphasize the developmental aspect of this, that this is a long-term effort. We need to boil it down to -- break it down into some baby steps, some daily, and weekly and monthly KPIs that we will track and report on, but it's something which everybody needs to recognize is a long-term development goal.

I would also pick up the point that Mr. Lopez made earlier that we don't want to just displace the child labor. We have seen this in other child labor efforts where some kind of inspection authority has gone in or some focus has been placed on the child labor. And so farmers or sweatshops have simply shoved the child labor out and they've ended up in worse situations.

What we want to do here is engage with these farmers and work with them to develop them out of the situation that they're in right now and not just displace the problem and push them to another industry.

Third and last point is that I think this really does depend on partnerships. You mentioned earlier that this is a very big problem. It's too big a problem for one -- any single actor to take on, government, companies, NGOs, local communities all need to work together in order to be able to take this on.

Chris Hogg - Nestle - Deputy Head - Media Relations

Jose Lopez, a last word from you.

Jose Lopez - Nestle - EVP - Operations

Yes. I want to -- going back to the earlier comments, to express that this is not just one initiative inside Nestle. We have committed to a way of going about our operations and encapsulated that under our creating shared value approach, which starts with a very high focus of compliance, an understanding that to be in business in the long run society has to thrive.

We cannot just do that on ourselves, and also by focusing. It's very important that we focus. Then we get some results and that we can use that as lighthouses for other activities and other areas of concern.

Today our decision has been to focus on nutrition, on water. And again in Rio we heard a lot about all of sudden the world is becoming conscious of this huge problem of water and agriculture, food security and sustainability in agriculture and so on. And we have also committed to a thing that we call rural development.

It is very important that we all realize that if we are to continue to feed the world as we see economic and social development, particularly in the Eastern part of the world, we need something like 500 million new farmers, small holders willing, able to participate in that development. Now how is that going to happen if companies take a detached view on that activity or if authorities and NGOs look at it from either interested or critical point of view? We all have to work together.

And this is just an effort of creating partnerships, creating a flawless activity. And I like this notion of being in a movie that Auret describes because it's a process. And we are starting and we were reporting. And it is very good that people have interest in those things.

So what we feel we have to do is to work more on breaking the silos because there are lot of people out there trying to do the right thing, the authorities, the NGOs, ourselves, partners, traders. There are people with good intentions out there often working in their own silo trying to make things better. And so we need to break those silos. We need to focus on action and hopefully then find a way to scale up. So hopefully we will be sitting here in the future talking about the impact of this scaling up process.

Chris Hogg - Nestle - Deputy Head - Media Relations

Okay. Jose Lopez, Nestle Head of Operations, and Auret van Heerden from the Fair Labor Association, thank you both of you very much. That's all we have time for. Thank you all of you for your questions and comments. If we haven't managed to answer a question e-mailed during this call we will attempt to get a response to you in the next few hours.

And don't forget you can get more detail about the Nestle Cocoa plan at the Cocoaplan.com. Thank you for joining us on the call and online on Nestle.com. Good-bye.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2012 Thomson Reuters. All Rights Reserved.