



Creating Competitive Gaps in upstream supply chains

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This presentation 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.

Agenda

- Threats and opportunities to feed 9-10bi people
- Sourcing objectives
- How do we create competitive gaps – different cases
- Sustainable Agricultural Initiative at Nestlé
- “Farmer Connect” presence and impact
- Conclusion

Threats and opportunities to feed 9-10bi people

Soil fertility



Breeding



Energy pricing



Water Management



Technical Assistance



Policy interventions



Sourcing objectives

Ensure long-term supply of safe, quality assured, regulatory compliant and price competitive agricultural materials to serve our brands to delight consumers

How do we operate?

With lean upstream supply chains from farm gate to factory gate, called *“Farmer Connect”*

What is “Farmer Connect”?

Traceability up to farmers’ level by buying either directly from farmers, cooperatives or selective traders, applying Nestlé good agricultural standards, principles and practices with engagement in capacity building and training.

Why and where?

46% of Nestlé factories are located in emerging countries – the fast developing world and

74% of those Nestlé factories are located in rural areas

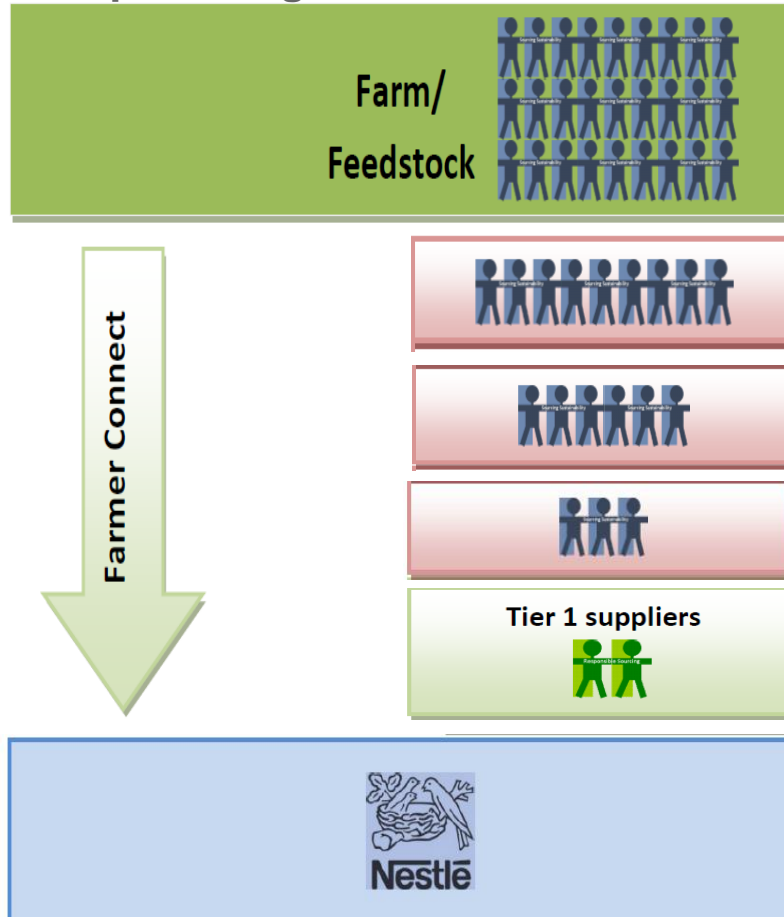
Sourcing at Nestlé

Corporate Agriculture / Procurement

Nestlé's Sustainable Agriculture Initiatives
November 2010

Direct engagement with 556,000 farmers

E.g. coffee, cocoa, milk, vegetables, fruits,...



Traceability Programme

For high risk spend categories



Audit Programme vs. NSC

2010/2011:
1735 3rd party audits of key suppliers



Nestlé Responsible Sourcing

How do we create competitive gaps in the upstream supply chain?

With “*Farmer Connect*”, where we have direct contacts with producers to:

- Ensure **traceability** up to farmers’ level
- Assure **quality, safety** and **volume growth** of raw materials
- Mitigate **price volatility** exposure
- Reduce transaction costs
- and **servicing our brands** guaranteeing access to specific raw materials



Creating competitive gaps in the upstream supply chain (1/3)

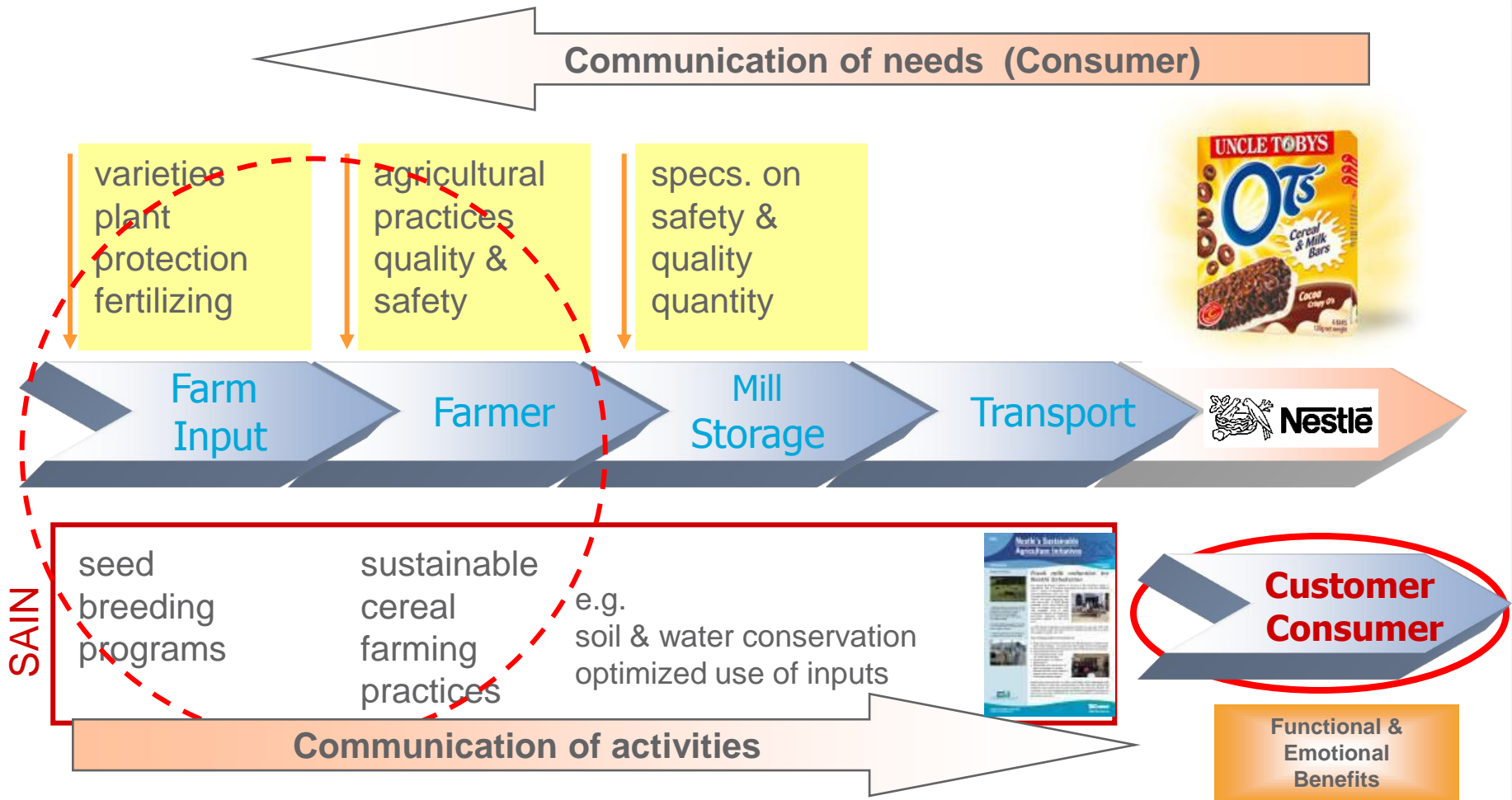
Quality Assurance and volume growth by managing milk districts (China)



Creating competitive gaps in the upstream supply chain (1/3)

Video show

Case “end-to-end”: Sourcing grains in Australia



Creating competitive gaps in the upstream supply chain (2/3)

Ensure supply, farmers' loyalty and consumer benefits in the case of oat sourcing for breakfast cereals (Australia)



Creating competitive gaps in the upstream supply chain (2/3)

Video show

Creating competitive gaps in the upstream supply chain (3/3): Local sourcing of grains in West Africa*

- More than 10'000 farmers trained in Western Africa on “Good Agricultural Practices & Good Storage Practices”
- Farmers produce now grains with mycotoxins levels within Nestlé norms (4ppb)
- Farmers achieve a price premium
- Market access created for locally produced grains in West Africa with a farm base value of > USD 20 mio



* In Partnership with the International Institute for Tropical Agriculture

IITA
Research to Nourish Africa

Creating competitive gaps in the upstream supply chain (3/3): Local sourcing of grains in West Africa

Video show

Serving our brands: Nescafé Plan

NESCAFÉ

THE NESCAFÉ PLAN: USD 380 Mio Making the difference from farmer to consumer



A 3 pillar plan:

Responsible farming

•Farmers:

- ✓ Farmer Connect:
 - ✓ 180 000T
 - ✓ 170 000 farmers
 - ✓ 100% 4C compliant
- ✓ 90 000 T of SAN
- ✓ Training

•Plantlets :220 mio plantlets distributed by 2020

- ✓ Better yield
- ✓ Better Quality
- ✓ Disease resistant
- ✓ Promote bio-diversity

and

Responsible production and supply

•Soluble:

- ✓ -20% energy / ton
- ✓ -30% water / ton

•Systems

- (Nescafé Dolce Gusto)
- Nestlé Professional
- Develop socio economic impact

and

Responsible consumption

- Promote consumption
- Educate consumer on issue coffee is facing
- Help consumer to reduce its footprint

To fuel the growth and give a competitive advantage

Making the difference from farmer to you

The Nescafe Plan in action: Mexico



Plant science



Varieties selected according to agronomic performance AND consumer taste profiles



Communication strategy for local and international market to be developed

Supporting farmers



Successful verification and granting of the first 4C License to Nestle Mexico

Partnerships



Working relationship with local partners and communities formalised

Plantlet distribution



Started coffee plantlet distribution to farmers

Farmer training



Training according to 4C requirements



Nespresso AAA: Differentiated supply of speciality beans



NESPRESSO.

Sustain with the AAA program a unique and distinctive global Solution for Nespresso suppliers to create incremental highest quality coffee and increase Real Farmer Income™ for a sustainable sourcing...



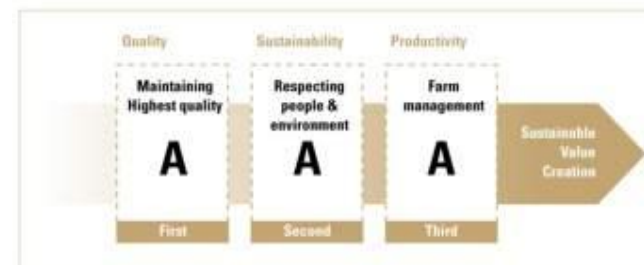
This program is distinctive in that it adds a quality dimension to the sustainability principles (economic, social and environmental).

From 2003 to 2009



Towards an integrated Coffee Sourcing Strategy Sustainable Quality™

From 2009 to 2015



A+A+A = Highest quality + sustainability + productivity



Nespresso AAA: Differentiated supply of speciality beans



Quality

- Best practices and trainings
- Traceability
- Sensory profile & physical acceptance
- Post harvest infrastructures (Sun dryers, fermentation tanks, depulpers)



Sustainability

- Sustainable Agriculture Network (SAN) standards compliance
 - Water use and disposal
 - Pesticides and protection
 - Internal Control System
 - Minimum age on wages



Productivity

- Renovation / Pruning
- Land use optimization
- Nurseries
- Fertilization
- Varieties

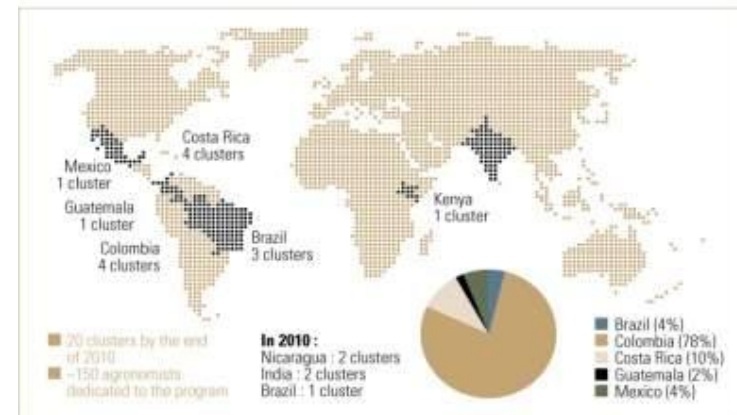
What is a AAA cluster ?

Is a geographical region where :

- The coffee is suitable to be filled into a *Nespresso* capsule and has a defined profile.
- Has the same global characteristics (altitude, soil, varieties, etc.).
- The coffee production and quality is stable.
- Coffee can be fully traced.
- Farms relate to each other somehow (cooperatives, supplier, associations), etc.

Clusters and farms

- 33,000 farms in 2009
- 40,000 farms by end of 2010



Serving our brands: The Cocoa Plan Ecuador in action



Winning consumer preferences on 60/40+

Managing the supply chain / monitoring critical control points



Purchasing beans with *Arriba* taste



Supporting farmers
“Farmer Connect”



Linking back to producer through claims towards health, origin, and purity



The Sustainable Agricultural Initiative at Nestlé “SAIN” is the enabler to “*Farmer Connect*”

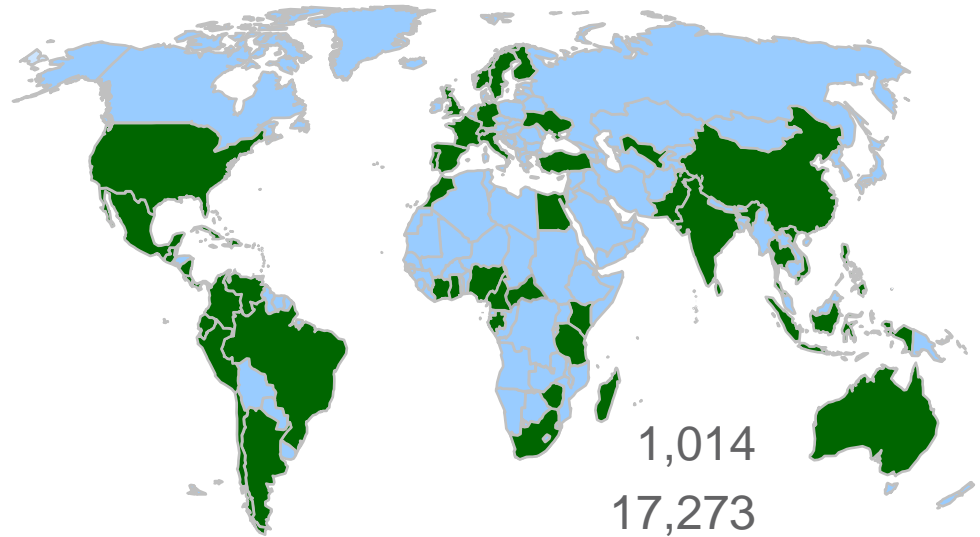
- Food safety
- Quality assurance
- Regulatory compliance
- Farm income generation
- Crop and yield improvements
- Animal health issues
- Logistic support / Transport
- Water management & irrigation
- Farm management guidance
- Technical training
- Etc.



➔ Rural Development & Water and Agriculture

“Farmer Connect” presence and impact

● Markets with “Farmer Connect” activities



# direct sourcing staff:	1,014
# supply chain support staff:	17,273
# farmers supplying directly to Nestlé:	556,600
# farmers received training:	144,900
# collection centers:	10,847
# experimental farm sites:	128
# crop demonstration plots:	165
# farmers benefitting from financial assistance:	32,036
Budget for financial assistance:	CHF 45,4 Mio

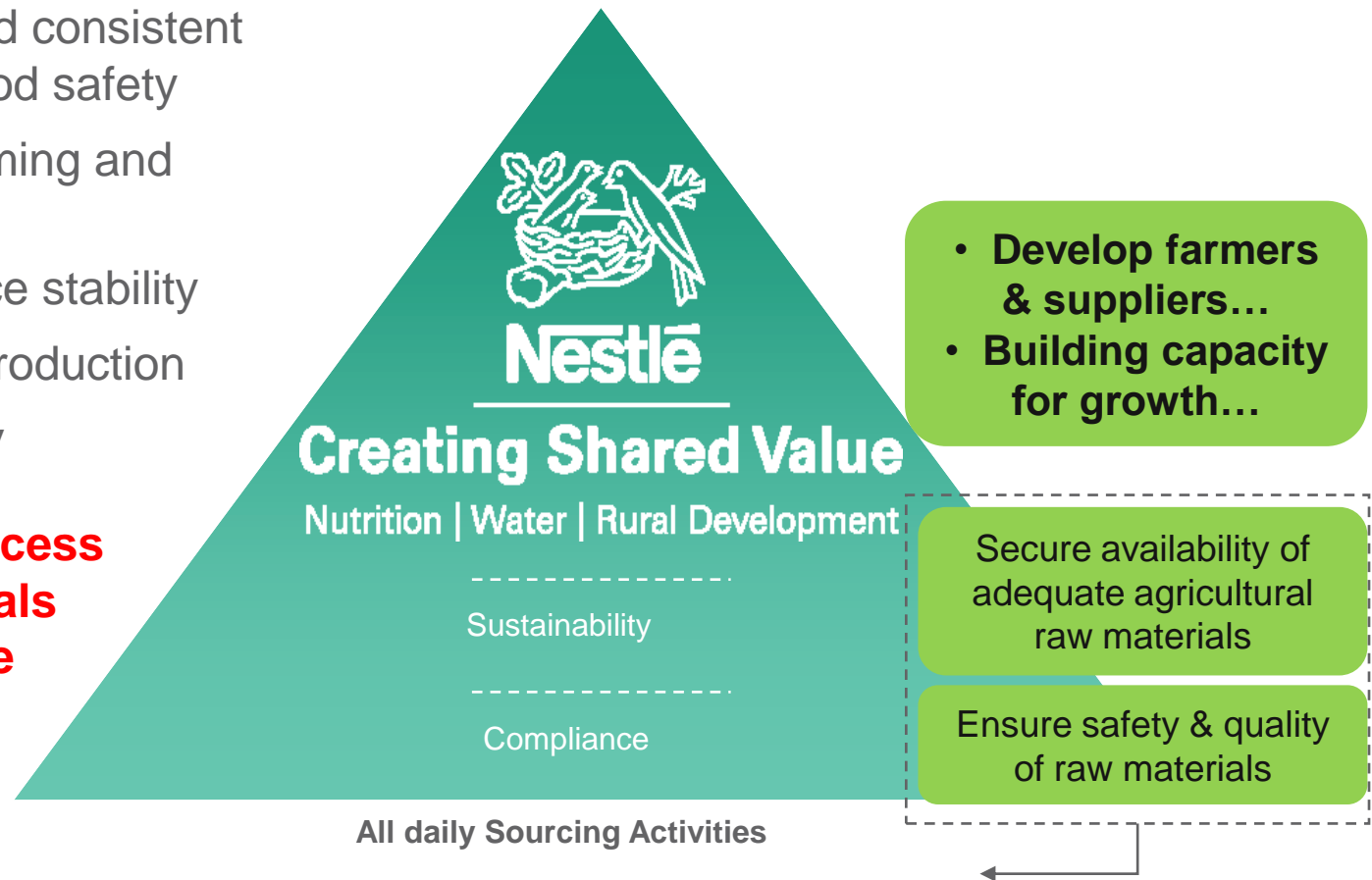
Source: CSV Report 2010

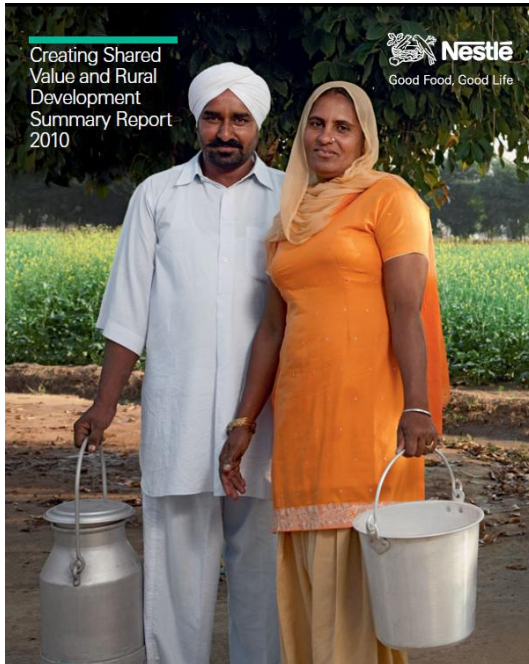
To conclude:

“Farmers Connect” sourcing model contribute to...

- Replicable and consistent quality and food safety
- Predictable timing and volume
- Increased price stability
- Sustainable production
- Farmer loyalty

=> Long-term access to raw materials at competitive prices and specific quality





Thank you!
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Corporate Agriculture

