

Nestlé in society

Creating Shared Value
and meeting
our commitments
2012

Full report



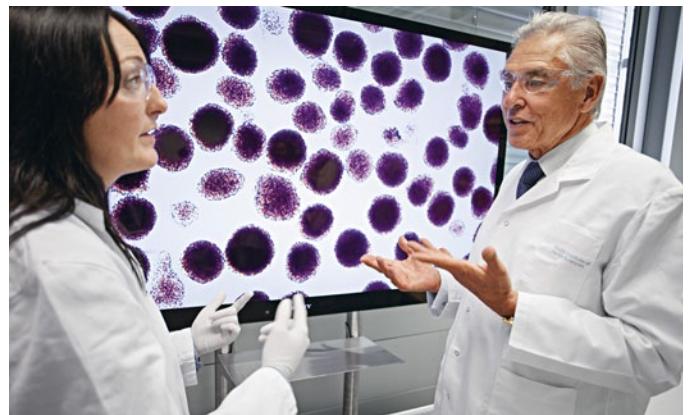
Good Food, Good Life



Nestlé in Society: Creating Shared Value

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A message from our Chairman and our CEO



We have always believed that in order to prosper we need the communities we serve and in which we operate to prosper as well: and that over the long term, healthy populations, healthy economies and healthy business performance are mutually reinforcing.

We recognise that our position in society brings both opportunities and responsibilities: to do business in compliance with national laws, international standards and our own Corporate Business Principles; and in ways that help protect the environment for future generations.

Thus, our commitments to sustainability and compliance are based on common-sense values; and form the foundations upon which we build our actions in Creating Shared Value. We also restate our support for the UN Global Compact as a founding member of UN Global Compact LEAD – a new platform for corporate sustainability leadership.

Creating Shared Value

We believe that we can create value for our shareholders and society by doing business in ways that specifically help address global and local issues in the areas of nutrition, water and rural development. This is what we mean when we speak about Creating Shared Value (CSV). We proactively identify opportunities to link our core business activities to action on related social issues.

That is why we have called this report Nestlé in Society: Creating Shared Value and Meeting our Commitments. This year, our print report is focused on nutrition, but it also covers our commitments to compliance, including human rights, progress in our other CSV priority areas of water and rural development, as well as in environmental sustainability. The scope of this online report is ambitious, reflecting our determination to meet our responsibilities and play our part in addressing global challenges.

Left: Nestlé CEO Paul Bulcke visits the Nestlé-sponsored Nutrimovil programme in Guatemala City, offering free nutritional advice to lower income consumers.

Right: Nestlé Chairman Peter Brabeck-Letmathe visits Nestlé Institute of Health Sciences (NIHS) laboratories in November 2012 as part of NIHS' inauguration.

Focusing on Nutrition

For us, there is no higher priority than enhancing the quality of life of our consumers by providing tastier and healthier food and beverage choices. Consequently, we are acutely aware of the escalating food and nutrition crisis, which is closely linked to the global water crisis, amongst other things.

In both water and nutrition, as in many pressing global issues, it is important to take collective action. If we do not, everyone in the world, whether in developed or developing countries, will soon become aware of the consequences as both food and fresh, clean water grow increasingly scarce and expensive.

As the world's leading Nutrition, Health and Wellness Company, we have a unique opportunity to help address the food and water crises; in particular the specific nutrition challenges facing consumers at a local level: from over-nutrition to under-nutrition including micronutrient deficiencies. This 'double burden' of malnutrition and the stress it places on already overstretched healthcare systems is a pressing challenge for us all. This is why we have made nutrition the main theme of our 2012 Nestlé in Society: Creating Shared Value and Meeting our Commitments Summary report.

We have set our actions during 2012 in the context of five key nutrition challenges: advancing science to address global nutrition issues; helping mothers give children the best start in life; helping families to meet their nutritional needs; helping to meet the nutritional needs of people in emerging markets; and helping to meet the needs of older people and those with other specific nutritional requirements.

The Focus on Nutrition section of the Summary report explains what we are doing to help address each one of these areas: for example through micronutrient fortification and systematic reductions in public health-sensitive ingredients (e.g. salt, sugar, saturated fats and trans-fatty acids); and by providing better advice to consumers about ingredients, portion size and their nutritional needs. It also summarises our involvement in nutrition education campaigns worldwide, including our Healthy Kids programmes, and the fundamental role that R&D plays in everything we do – from the genomic studies underway at the Nestlé Institute of Health Sciences to bio-fortification and the behavioural work we are doing across our global R&D network.

We must emphasise that the nutrition challenges the world faces require concerted collective action rather than sporadic, isolated projects. We can play a valuable leadership role in support of this concerted action. We have the capacity and, even more importantly, the determination to do so.

Water, Rural Development and more

This website, which is also our complete report, provides more detail on our

ambitions, achievements and commitments in all areas including nutrition, water, rural development, environmental sustainability, compliance and human rights. These confirm that we have made progress in meeting our CSV, sustainability and compliance commitments during 2012.

Meeting our Commitments

We have set out our ambitions to make a difference through key forward commitments on nutrition, water, rural development, environmental sustainability, compliance and human rights.

Sharing your views

We hope you find our Nestlé in Society communications informative and engaging. We welcome your input and views, which you can share with us by using the "[Contact Us](#)" area of our [corporate website](#).

How urgent is the food and water crisis?

The facts speak for themselves:

- There are 870 million undernourished people in the world today. ([World Food Programme](#))
- Two billion people – nearly one-third of the world population – suffer from deficiencies in Iron, Iodine, Vitamin A, Zinc, or a combination of these. Over 740 million people suffer from iodine deficiency disorders; while the [World Health Organization](#) estimates that 250 million preschool children are vitamin A deficient
- Globally, an estimated 43 million preschool children were overweight or obese in 2010, a 60 percent increase since 1990, of which over 80% live in developing countries. ([American Journal of Clinical Nutrition, November 2010](#))
- Today, 31 countries face chronic freshwater stress and shortages. By 2025 this is estimated to rise to 48 countries as water withdrawal outpaces renewal. ([United Nations Environment Programme](#))

These challenges will only get more pressing as the global population rises towards a predicted 10 billion by 2100.



Peter Brabeck-Letmathe
Chairman of the Board



Paul Bulcke
Chief Executive Officer

About this report

Through our *Nestlé in Society* 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 reports covering our Creating Shared Value, environmental sustainability and compliance performance every two years since 2007, and have now migrated to comprehensive online reporting on Nestlé in Society on an annual basis.

Our 2012 focus: nutrition

We supplement our online reporting with topic-specific printed summary reports concentrating, each year, on one of our three Creating Shared Value focus areas: rural development, water and, in the case of 2012, nutrition.

Our wider communications

Our comprehensive online *Nestlé in Society* report, the summary print report, case studies, audio content, and videos (all available in the *Nestlé in Society* section of our website) are companions to our 2012 Annual Report, which outlines our business and financial performance.

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

Our audience

We have identified a wide range of stakeholders who we expect to use this report and engage with them regularly on the report and other matters, for example, through the twice-annual Nestlé CSV stakeholder convenings.

These stakeholders are drawn from NGOs, academic centres, governmental and intergovernmental organisations, think tanks, consultancies and social enterprises working on Nestlé's CSV focus areas of nutrition, water and rural development, as well as on human rights and compliance.

Future reporting

This report is aligned with Global Reporting Initiative's (GRI) G3.1 guidelines and Food Processing Sector Supplement, which we helped develop. In our next report, we plan to start communicating in line with the G4 guidelines, to be published in 2013.

Report boundary, scope and assurance

The information contained in this full online report and our Nestlé in Society: Creating Shared Value and Meeting our Commitments report covers our global operations for the year ending 31 December 2012, unless otherwise stated.

Data is provided for our wholly-owned companies and subsidiaries, excluding joint ventures and suppliers, unless specifically stated. The environmental data refers to factories and warehouses (excluding some recent acquisitions), and safety and health figures cover approximately 339 397 employees (permanent and temporary), as well as approximately 112 775 contractors working on our sites.

Our reporting on Nestlé in Society is subject to independent third-party assurance by Bureau Veritas – please see our [2012 assurance statement](#).

Data measurement

We have developed key performance indicators to provide a focus for measuring and reporting our actions and progress in creating shared value, sustainability and compliance.

Contact us

We hope you find this report engaging and informative, and we welcome your input and views.

Nestlé in Society: Creating Shared Value

"We believe we can make an important contribution to society, by going a step beyond corporate social responsibility to create value through our core business both for our shareholders and society. We prioritize the areas of nutrition, water and rural development to create shared value; this requires long term thinking..."

Peter Brabeck-Letmathe, Chairman, Nestlé

To continue to prosper over the long-term, we need to ensure that the communities we serve and in which we operate prosper too. We are determined to ensure that our global presence and operations bring benefits to our shareholders, as well as our people, the environment and society at large. Therefore, beyond complying with national laws, international standards and our own Nestlé Corporate Business Principles; we are operating in ways that help protect the environment for future generations. Thus, our commitments to sustainability and compliance form the foundations upon which we build our actions to Create Shared Value in our focus areas of nutrition, water and rural development.

"Creating Shared Value is built upon fundamental commitments to society, both to achieve the highest standards of compliance with laws, codes of conduct and our own Nestlé Corporate Business Principles as well as to protect the environment for future generations."

Paul Bulcke, CEO Nestlé

To better reflect this reality, we have titled our 2012 report "Nestlé in Society: Creating Shared Value and Meeting our Commitments". Our reporting comprises a comprehensive online report, which can also be downloaded as a PDF, and a printed summary report, which this year focuses on the Creating Shared Value focus area of nutrition. This summary report is issued to shareholders along with the Nestlé Management Report.

Our aim is to report transparently and openly on issues of concern and interest to our stakeholders against each of the three segments of the CSV Pyramid. Our reporting is guided by the Global Reporting Initiative (GRI) 3.1 guidelines and our detailed Materiality assessment. We also have a number of Nestlé-specific indicators that we have reported on for a number of years. New for this year, we have also included a detailed table of commitments to make it easier to track our progress in future years.

Creating Shared Value explained

We believe we can do business in ways that both deliver long-term shareholder value and benefit society. We call this approach Creating Shared Value (CSV).

Creating Shared Value begins with the understanding that for our business to prosper over the long term, the communities we serve must also prosper. It explains how businesses can create competitive advantage, which in turn will deliver better returns for shareholders, through actions that substantially address a social or environmental challenge. Specifically, business will thrive and society will benefit if business can:

- Develop products and services that meet societal needs in developed and developing countries.
- Use resources more efficiently across the entire value chain.
- Improve the conditions for local economic and social development.

As a company, we are best positioned to create shared value in three areas:

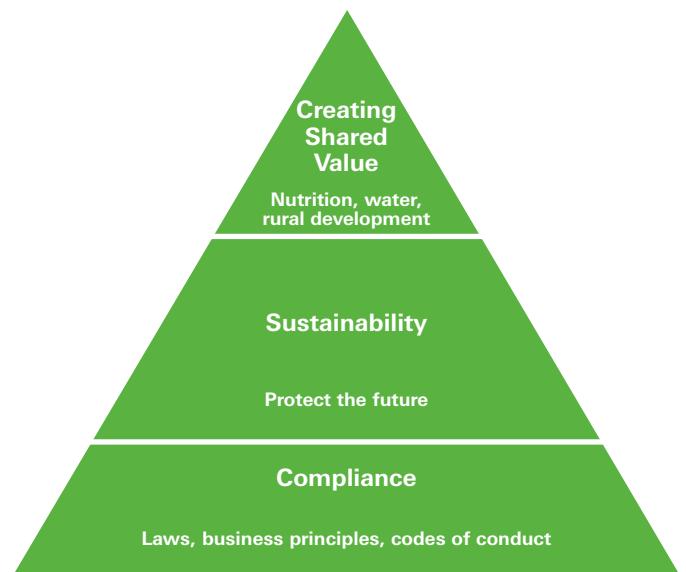
- **Nutrition:** by providing nutritious products that deliver real health benefits to our consumers and by making our products more affordable and accessible through innovation and partnerships.
- **Water:** by advocating for the protection of scarce water resources and by using water more efficiently in our manufacturing and distribution processes in ways that also benefit others in our supply chain.
- **Rural development:** by supporting farmer development in rural areas where the raw materials we need are grown, securing our continued access to quality inputs and strengthening our customer base.

In the past, corporate investment in community and environmental initiatives were often seen as 'obligations' or simply philanthropy: added costs that had to be borne to minimise operational risks and protect reputation. Creating Shared Value redefines many of these obligations as opportunities to strengthen the business long-term – adding value for shareholders and our stakeholders.

Creating Shared Value builds on our commitment to compliance and sustainability, both of which are important ways of mitigating risks to our business, protecting our reputation and in the case of sustainability, reducing costs. Creating Shared Value is ultimately about ensuring our competitiveness and commercial success in the long term.

Our commitment to Creating Shared Value marks us out as a company that systematically takes action to produce value for the business, consumers, employees and suppliers, as well as their families and communities.

[Nestlé in Society pyramid](#)



Our Corporate Business Principles

The ten Nestlé Corporate Business Principles are at the heart of everything we do. They form the basis of Nestlé's culture, which has developed over more than 140 years. They uphold our enduring belief that to achieve long-term success for our shareholders we must comply with all applicable legal requirements and international norms, ensure that our activities are environmentally sustainable and create significant value for society – or as we call it, Creating Shared Value.

The ten principles are implemented through the relevant codes, policies, and other processes and tools we have developed to ensure that they are practiced across our company every single day.

Compliance with our Corporate Business Principles is non-negotiable for all employees. We monitor their application, audit their effectiveness and act swiftly if they are contravened. We are also committed to continuous improvement and are open to external engagement regarding any area of our Principles.

The ten principles of business operation – outlined below – provide the foundations for our Creating Shared Value strategy and are addressed throughout this report.

The ten principles of business operation

Consumers		Human Rights and labour practices		Our People	
1 Nutrition, Health and Wellness	2 Quality assurance and product safety	3 Consumer communication	4 Human rights in our business activities	5 Leadership and personal responsibility	6 Safety and health at work
Nestlè Principles on Nutrition Health and Wellness	Nestlè Quality Policy Nestlè Nutrition Quality Policy	Nestlè Consumer Communication Principles Nestlè Policy on Nutrition and Health Claims Nestlè Nutritional Profiling System Nestlè Nutritional Compass WHO International Code of Marketing of Breast-milk Substitutes* Nestlè Privacy Policy	UN Global Compact* ILO Conventions 87, 138, 182* UN Convention of the Rights of the Child: Article 32* OECD Guidelines for Multinational Enterprises 2000* ILO Declaration on Multinational Enterprises 2006*	Nestlè Management and Leadership Principles Nestlè Code of Business Conduct Nestlè Human Resources Policy	Nestlè Policy on Safety and Health at Work
Suppliers and customers	The environment				
7 Supplier and customer relations	8 Agriculture and rural development	9 Environmental sustainability	10 Water		
Nestlè Supplier Code	Nestlè Policy on Environmental Sustainability	Nestlè Policy on Environmental Sustainability	Nestlè Policy on Environmental Sustainability Nestlè Commitments on Water		

* External references

Our Commitments

The previous two sections have shown how, as the world's leading Nutrition, Health and Wellness Company, we are creating shared value in nutrition, water and rural development while protecting the environment in which we operate. To support our aims, we are making forward-looking commitments. We believe sharing our commitments is important.

Communicating our policies and commitments year-on-year over the medium to longer term, provides a focus for all involved. Commitments help us assess our progress and, most importantly, share this with stakeholders.

Our commitments demonstrate our intent and allow stakeholders to hold us accountable for our achievements and shortcomings. We welcome this level of transparency, which incentivises us to achieve continuous improvement in our CSV, environmental sustainability and compliance performance. This is what matters most.

We have a number of short-term and longer term commitments in place at Group level, many in the form of corporate policies and we have developed key performance indicators for many of them.

All our commitments are built around our Corporate Business Principles. Those related to CSV are continuously refined through engagement with our stakeholders and our CSV Advisory Board.

Watch our progress

Specifically in nutrition, we take very seriously our commitment to enhance the quality of consumers' lives. We are proud of what we've achieved so far but have even bigger ambitions for the future, with work underway on many fronts to accelerate our contribution. Watch this space as we share more details with you over the next 18 months. Here, as in all our Nestlé in Society dimensions, we are committed to continuous improvement, and will report on our performance every year. We will also provide updates about our CSV, environmental sustainability and compliance performance and publish relevant case studies throughout the year.

Topic	How	Progress	Future
Nutrition, Health & Wellness			
Improving the nutrition profile of our products			
Provide nutritionally sound products designed for children	Nestlé Nutritional Profiling System/ Nutritional Foundation (NF) criteria, and Nestlé Children's Healthy Growth Strategy	2012 89% children's products (sales value) meet all Nestlé Nutritional Nestlé Nutritional criteria for children	2014 100% children's products (sales value) meeting all Nestlé Nutritional Foundation criteria for children
Help reduce risk of under-nutrition through micronutrient fortification	Nestlé Micronutrient Fortification Policy (2000, updated 2011)	2012 Over 150 billion micronutrient- fortified servings worldwide per annum	2015 200 billion servings worldwide, with a special focus on children and women of child-bearing age
	Nestlé Biofortification Programme: sourcing conventionally-bred staple food crops which are biofortified with essential vitamins and minerals in order to promote their planting and consumption by rural populations in developing countries	2012 8 conventionally-bred staple crops biofortified with zinc/Iron/pro-vitA in development by R&D Abidjan and Singapore	2015 Launch biofortified products in key markets as a complement to direct fortification
Reduce salt in our products	Nestlé Policy on Salt (2005, updated 2012)	2012 90% of children's products (sales value) meet the Nestlé Nutritional Foundation sodium criterion	2014 100% of children's products (sales value) meeting the Nestlé Nutritional Foundation sodium criterion
		2011 Our culinary and breakfast cereal recipes contained 12 500 tonnes less salt than in 2005	2015 further 10% reduction in other relevant products
Reduce sugars in our products	Nestlé Policy on Sugars (2007)	2012 90% of children's products (sales value) meeting the Nestlé Nutritional Foundation sodium criterion	2014 100% of children's products (sales value) meeting the Nestlé Nutritional Foundation sodium criterion
		2011 9000 tonnes less sugars in breakfast cereals overall vs. 2003	2015 less than 9g of total sugars in any serving of children's or teen's breakfast cereals
Reduce saturated fats in our products	Nestlé Policy on Saturated Fats (2009)	2012 90% of children's products (sales value) meeting the Nestlé Nutritional Foundation saturated fats criterion	2014 100% of children's products (sales value) meeting the Nestlé Nutritional Foundation saturated fats criterion
Reduce trans fats in our products	Nestlé Policy on TFAs (2003)	Up to 2012 99% of all existing products comply with Nestlé Policy on TFAs	2013+ Apply Nestlé Policy on TFAs to all products, including newly acquired businesses
Help increase consumption of whole grains and vegetables, including via healthier home cooking	Nestlé adding whole grains to breakfast cereals	2012 Breakfast cereals with Green Banner on pack contain at least 8 g whole grains per serving	2015 More whole grain than any other ingredient in any serving of children's or teen's breakfast cereals
	Nestlé promoting vegetable consumption via teaching home cooking and healthy meal structure	2012 <i>Maggi</i> Cooking Lesson Programme on-going in 8 countries 2012 65% of <i>Maggi</i> product portfolio worldwide promoting home cooking and meals with vegetables	2015 <i>Maggi</i> Cooking Lesson Programme on-going in 30 countries 2015 90% of <i>Maggi</i> product portfolio worldwide promoting home cooking and meals with vegetables

Nestlé Nutritional Foundation (NF): Every product which achieves the criteria of the Nestlé Nutritional Profiling System is said to attain the Nestlé Nutritional Foundation (NF). A product will only attain NF when all its nutritional factors meet the criteria for its category. The criteria are based on international public health recommendations such as the World Health Organisation (WHO).

Children's Product: Products where 50 per cent or more of consumers are aged 4 to 12 years old.

Topic	How	Progress	Future
Information			
Deliver nutrition information and advice on all our labels	Nestlé Standard on Nutritional Compass Labeling (2005, updated 2010)	2012 96.8% (sales value) of all relevant products worldwide featuring the Nutritional Compass	2016 Provide further product information and nutrition advice, via QR codes on-pack
	Nestlé Standard on Nutrition/ GDA Labeling (2006, updated 2012)	2012 46.3% (sales value) of all relevant products worldwide with GDA labeling on front of pack	2016 100% (sales value) of all relevant products worldwide with GDA labeling on front of pack
			2016 Introduce GDAs based on children's reference values on all products designed for children where regulations allow
Services			
Provide Portion Guidance	Nestlé Portion Guidance initiative: making the right size and frequency of consumption as intuitive as possible (launched 2011)	2012 CHF 26.2 billion sales of products with specific guidance	2015 Portion Guidance on 100% of children and family products, i.e. more than double sales coverage
Promote healthy diets and lifestyles/ physical activity	Nestlé Healthy Kids Programme: teaching schoolchildren about healthy diets and active lifestyles, in partnership with appropriate stakeholders (launched 2009)	2012 Programme on-going in 64 countries, with 5.4 million children reached	2015 Programme on-going in 80 countries, with activation of IAAF Kids Athletics
Promote healthy hydration	Nestlé Healthy Hydration Programme: promoting adequate water consumption as part of a healthy balanced diet, with a special focus on children (launched 2010)	2012 Research on children's hydration status in five countries with different drinking habits/climates and scientific publications in preparation	2014 Fact-based healthy hydration awareness programme targeted at healthcare professionals, caregivers and parents worldwide
Rural development and responsible sourcing			
Roll out Rural Development Framework	Development of framework covering farmers, farm workers and communities	Framework in place and Commitment document published (December 2012)	By 2015 baseline assessments in place in 21 emerging economies of key importance to our business that show pronounced social need
Roll-out Nestlé Cocoa Plan	By enabling farmers to run profitable farms, eliminating child labour while developing a sustainable supply chain for Nestlé cocoa	2012 27 000 farmers trained; 1.1 million plants propagated; Fair Labor Association Report; 13 schools built or refurbished; More than 46 000 tonnes of Cocoa Plan cocoa	2013 60 000 tonnes cocoa; 8 coops certified; Roll-out of child labour monitoring and remediation to a further 6 coops; 10 schools built or refurbished; At least 20 000 farmers trained 2015 100 000 tonnes cocoa; Completion of WCF programme "40 schools in 4 years"
Roll-out Nescafé Plan	Focus on sustainable consumption, production and manufacturing Membership of Common Code for Coffee Community (4C) Partnership with Rainforest Alliance	2012 More than 133 000 tonnes sourced from Farmer Connect More than 48 000 farmers trained 22.5 million coffee plantlets distributed since 2010	2015 Source 180 000 tonnes from Farmer Connect, 100% in line with 4C baseline sustainability standard 2020 Source 90 000 tonnes SAN compliant coffee and distribute 220 million coffee plantlets
Implement responsible sourcing and traceability	Nestlé Supplier Code Nestlé Responsible Sourcing and Traceability Programme Partnerships with third parties	2261 audits of First Tier suppliers Responsible Sourcing Guidelines for palm oil, paper, sugar, soya, vanilla, seafood Partnerships with TFT, Conservation International, Proforest	2015 Complete 10 000 responsible sourcing audits 2013 Achieve 100% RSPO certified sustainable palm oil, two years ahead of our public commitment

Topic	How	Progress	Future
Water			
Improve water efficiency	The Nestlé Policy on Environmental Sustainability	Water withdrawals down 29% 2002 to 2012	Revised Commitment document to be published 2013
Improve water stewardship outside factories	Nestlé Commitments on Water (2006) Nestlé Environmental Management System	Water discharges down by 45% 2002 to 2012	By 2015, reduce water withdrawal per tonne of product by 40% vs. 2005
Environmental sustainability			
Improve resource efficiency	The Nestlé Policy on Environmental Sustainability Nestlé Environmental Management System Life Cycle Assessment	2012 39 factories generating zero waste for disposal Ecodesign tool roll-out initiated	By 2015, 10% of Nestlé factories with zero waste By 2015, reduce energy consumption per tonne of product by 25% vs. 2005
Improve environmental impact of our packaging	The Nestlé Policy on Environmental Sustainability Packaging Impact Evaluation Tool (PIQET)	47.1 kilotonnes of packaging material saved by weight 2012 4000 projects and more than 13 000 scenarios evaluated	Transition to a broader holistic Value Chain approach using EcodEX
Assess and optimise the environmental impact of products	The Nestlé Policy on Environmental Sustainability New Ecodesign tool EcodEX covering the entire value chain	LCA completed in all main product categories Systematic sustainability assessment in new product development Initial Nestlé Sustainability Category Profiles (SCP) established and communicated Initial roll-out of EcodEX Food database under development	By 2013, roll-out of EcodEX to all Product Technology Centres
Provide climate change leadership	The Nestlé Policy on Environmental Sustainability Commitment on Climate Change Commitment on Forest Stewardship (2011)	Direct GHG emissions declined 24% between 2002 and 2012 while production increased 53% At end of 2012 9.3% of direct energy from renewable sources Better dairy farm practices Top company – all sectors combined – in Carbon Disclosure Project 2012	By 2015, reduce GHG emissions per tonne of product by 35% vs. 2005 resulting in an absolute reduction of GHG emissions
Preserve natural capital	Responsible Sourcing Guidelines palm oil (2010) Assessment of factory locations and biodiversity (2011) Commitment on Deforestation and Forest Stewardship (2011)	Commitment on Natural Capital (2012) Assessment of biodiversity key issue areas and Nestlé responses (2012) Responsible Sourcing Guidelines on sugar, soya, paper, vanilla and seafood (2012) Dairy business RISE tool roll-out	RSGs for milk, coffee and cocoa Annual reporting on progress
No deforestation		Responsible Sourcing Guidelines for Forest Based Materials (2012) Top food company in Forest Footprint Disclosure Project 2012	Roll-out of further RSGs (milk, coffee, cocoa) Annual reporting on progress
Human rights and compliance			
Assess and address human rights impact	Nestlé Corporate Business Principles UN Global Compact Principles Partnership with the Danish Institute of Human Rights	2012 Human Rights Impact Assessments completed 2012 Employees trained on human rights	2015 All significant FTSE4Good countries of concern covered and employees trained Roll-out to further commodities and countries
Eliminate child labour	Membership of Fair Labor Association	Action plans developed and being implemented in cocoa, hazelnuts and vanilla	

Materiality

What are material issues?

According to the Global Reporting Initiative, material issues include: “those topics that have a direct or indirect impact on an organisation’s ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large”.

In simple terms, materiality is about identifying the societal issues that pose risks or present opportunities to Nestlé, balanced against the issues that are of most concern to our external stakeholders. It’s how we choose what to focus and report on.

Applying a rigorous materiality process can not only help us report on the issues our stakeholders want to hear about, but also help us decide where to focus our internal resources.

How does Nestlé determine its material issues?

For several years, we have worked with SustainAbility, an independent think tank and strategic advisory firm, to identify and prioritise the issues deemed most important to our company and its stakeholders.

In this year’s materiality analysis we developed our methodology to determine our material issues by involving SustainAbility and GlobeScan, a global research firm specialising in sustainability.

To understand the positioning and movement of issues, we used opinion-leader reputation research; surveys involving sustainability experts and consumers; feedback from stakeholder convenings; our engagement events; an extensive media scan; an internal business impact survey; and our corporate risk map.

Using a set of 13 mega trends as a starting point for discussion, we then prioritised issues on a materiality matrix based on the level of stakeholder concern and level of potential impact on the Company. The 13 mega trends were – economic volatility, political upheaval, technological innovation, resource constraints, increasing/decreasing purchasing power, urbanisation, ageing population, rural poverty, over/under nutrition, population growth, rise of the developing world, climate change, and water constraints.

What are Nestlé’s material issues?

Nestlé’s materiality matrix

The highest priority issues identified by our materiality analysis are below.

- **Innovation and renovation of products** to address obesity, malnutrition and micronutrient deficiencies. A fundamental priority for us as a Nutrition, Health and Wellness Company.
- **Product safety and quality** are integral to the trust we have with our customers and consumers.

- **Food security**, which includes food accessibility and affordability, will remain of high concern to stakeholders, particularly with rising input prices.
- **Water usage and conservation**, and its complex links to agriculture, energy and a range of other social, environmental and economic issues, continues to rise up the agenda.
- **Packaging**, which moved to an area of higher significance this year, is an issue of high visibility to consumers, but also has a strong role to play in food safety, reducing food waste and ensuing environmental impacts, and providing nutrition and portion guidance.
- **Responsible sourcing** is becoming a more prominent issue, due to the large volumes of commodities purchased by us.
- Respect for **human rights**, in particular freedom from child labour, is also a fundamental issue that affects not only livelihoods in rural communities, but the long-term sustainability of one of our key raw materials, cocoa.
- **Labour relations** is critical to business continuity and continues to rise in significance for a wide range of stakeholders beyond the factory gate.

New additions to the materiality matrix

Several new issues have been added to the materiality analysis this year, based on feedback from key stakeholders. They include:

- Biotechnology and nanotechnology
- Soil fertility
- Land rights and acquisition
- Executive compensation
- Fair taxes
- Security

In this year's report we have included some information on these topics. We will be providing a more detailed account of our activities in each of these areas in future reports.

2012 materiality analysis



- Compliance
 - Environmental sustainability
 - Nutrition
 - Water
 - Rural development
 - Responsible sourcing
 - Our people
- * Indicates new issue for 2012

Increasing or current impact on Nestlé

Key Performance Indicators Summary

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 2012.

Indicator	Units	GRI reference	2011	2012
Economic				
Total Group sales	CHF million	EC1	83 642	92 186
Net profit	CHF million	EC1	9 487	10 611
Nutrition				
Nestlé Nutrition sales	CHF million	FP4	7 233	7 858
Products meeting or exceeding Nutritional Foundation profiling criteria (a)	% of total sales	FP4	74.1	75.7
Renovated products for nutrition or health considerations (b)		FP7	5 066	6 692
Products with increase in nutritious ingredients or essential nutrients (b)		FP7	3 851	4 691
Products with reduction of sodium, sugars, trans-fatty acids, total fat or artificial colourings (b)		FP6	1 215	3 317
Products analysed and improved or confirmed via 60/40+ programme (c)	sales, CHF million	PR1	28 715	31 720
Products containing Branded Active Benefits	sales, CHF million	FP7	5 563	6 455
Products featuring Nestlé Nutritional Compass labelling (d)	% of sales worldwide	PR3	98.0	96.8
Products in EU with Guideline Daily Amounts (GDA) labelling on front of pack (e)	% of sales	PR3	98.9	99.3
Products with specific portion guidance (f)	sales, CHF million	PR3	21 894	26 190
Popularly Positioned Product (PPP) SKUs		FP4	5 556	6 367
Popularly Positioned Products	sales, CHF million	FP4	10 610	11 960
Water				
Total water withdrawal	million m ³	EN8	143.5	137.8
Total water withdrawal	m ³ per tonne of product	EN8	3.2	2.9
Rural development and responsible sourcing				
Farmers trained through capacity building programmes			200 751	273 808
Markets covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes			46	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		FP1	96	89.5
Percentage of purchased volume compliant with the Nestlé Supplier Code		FP1	75.2	80
Environmental sustainability				
Total production volume	million tonnes		45.2	47.7
Materials				
Raw materials used	million tonnes	EN1	22.9	22.5
Materials for packaging purposes	million tonnes	EN1	4.6	4.8
Packaging source optimisation	kilotonnes saved		39.3	47.1
Energy				
Total on-site energy consumption	petajoules		90.1	90.7
Total on-site energy consumption	gigajoules per tonne product		1.99	1.90
Total on-site energy consumption from renewable sources (g)	% total	EN3	11.6	12.2
Total direct energy consumption	petajoules	EN3	64.3	63.7
Total direct energy consumption from renewable sources (h)	% total direct	EN3	N/A	9.3
Total indirect energy consumption	petajoules	EN4	70.1	73.5

What is CSV	How we implement CSV	Nutrition	Water	Rural development	Responsible sourcing	Environmental sustainability	Human rights and compliance	Our people
Indicator					Units	GRI reference	2011	2012
Biodiversity								
Total size of manufacturing sites located in protected areas (i)					hectares	EN 11	44.2	42.1
Emissions, effluents and waste								
Direct greenhouse gas emissions (j)					million tonnes CO ₂ eq	EN16	3.81	3.71
Direct greenhouse gas emissions (j)					kg CO ₂ eq per tonne of product	EN16	84.2	77.7
Indirect greenhouse gas emissions (j)					million tonnes CO ₂	EN16	3.2	3.4
Indirect greenhouse gas emissions (j)					kg CO ₂ per tonne product	EN16	71.5	71.1
Total water discharge					million m ³	EN21	93.9	84.2
Total water discharge					million m ³ per tonne of product	EN21	2.1	1.8
Quality of water discharged					average mg COD/litre	EN21	68.6	93.7
By-products					kg per tonne product	EN22	31.3	29.9
Waste for disposal					kg per tonne product	EN22	7.6	6.6
Environmental sustainability governance								
Manufacturing sites certified against ISO 14001					% of total manufacturing sites		90	89
Human rights and compliance								
Nestlé television advertising to children under 12 in compliance with policies on responsible marketing (k)					%	PR7	99.1	98.0
Nestlé contraventions of infant food marketing policy requiring remediation (l)					% of staff	PR7	19	22.0
Infant formula marketing staff in higher-risk countries trained in the WHO Code (m)						PR6	100	100.0
Total number of significant product recalls or incidents of non-compliance						PR2	10.0	11.0
Our people								
Total workforce (n)					number of employees	LA1	327 537	339 397
Total rate of new employee hires (o)					%	LA2	12.01	11.8
Total rate of employee turnover (o)					%		10.8	10.3
CARE gaps identified related to Business Integrity and HR							57	45
Of which: Minor							49	40
Major							8	5
Critical							0	0
Lost-time injuries among employees and on-site contractors					per million hours worked	LA7	1.8	1.9
Total recordable injuries and illnesses among employees and on-site contractors					per million hours worked	LA7	3.8	3.6
Fatalities of employees and on-site contractors						LA7	18	5
Average hours of training per year per employee per category (p)						LA10	2.02	10
Leadership positions held by women (o)					%	LA13	28.0	29.2
Local management committee members native to country in developing countries (n)					%	EC7	53	49.5

(a) 2012 assessment scope: 73.5% total Nestlé sales volume.

(b) Based on reports of approximately 75% of worldwide product development teams.

Products can have "less of" one ingredient and "more of" another at the same time.

(c) 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.

(d) Excludes total petcare and, for USA only, Dreyer's and licensed brands Häagen-Dazs and California Pizza Kitchen.

(e) Across EU 27 plus Norway, Switzerland, the 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.

(f) 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 evolving nutritional needs. This currently represents only a subset of the portfolio with portion guidance.

(g) Formerly called "On-site energy generated from renewable sources", this indicator has been renamed for more clarity.

(h) New KPI. % based on renewable component of direct energy use only (e.g. spent coffee grounds burnt from factory operations).

(i) Correction of factory coordinates resulted

in one factory being deleted from the list of factories present within protected areas. The area therefore reduced from 2011.

(j) The implementation of a new reporting system with updated emissions factors had minimal impact on direct emissions reporting, but absolute and relative indirect emissions increased by +1.2% and +1.4% (respectively) from 2011. The additional changes in performance are due to Nestlé's activities.

(k) The percentage reflects Nestlé's full-year compliance to the stricter 35% children audience threshold as redefined in September 2011.

(l) 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 Instructions for Implementation of the WHO Code apply as a minimum requirement.

(m) "Higher-risk" countries are those with mortality rates for under-fives of more than ten per 1000 under-five, or more than 2% acute malnutrition (moderate and severe wasting) among under-fives. All other countries are "lower-risk".

(n) Covers all Nestlé employees including Joint Ventures.

(o) Covers Nestlé employees registered in the HR system (approximately 80% of all employees).

(p) Covers approximately 80% of all employees through a combination of manual submission from the markets and the training system.

Consolidated environmental performance indicators

Indicator	Units	2002	2008	2011	2012	% Change 2011-2012	% Change 2008-2012	% Change 2002-2012	GRI reference
Total production volume	10 ⁶ tonnes	31.2	41.1	45.2	47.7	5.5%	16.2%	52.8%	*
Materials									
Material used by weight	10 ⁶ tonnes	N/A	N/A	27.4	27.2	- 0.7%			EN1
• Raw materials used	10 ⁶ tonnes	N/A	21.4	22.9	22.5	- 1.7%	4.8%		EN1
• Materials for packaging purposes	10 ⁶ tonnes	N/A	N/A	4.6	4.8	4.2%			EN1
Packaging source optimization	10 ³ tonnes saved	20.3	58.6	39.3	47.1	20.0%	-19.6%	132.1%	*
Renewable packaging materials	% of materials for packaging purposes	N/A	N/A	38.9	38.9	0.0%			EN1
Total % of recycled material in our packaging	% of materials for packaging purposes	N/A	N/A	27.1	27.1	0.0%			EN2
Energy									
Total on-site energy consumption	10 ¹⁵ Joules (PJ)	96.3	86.9	90.1	90.7	0.6%	4.3%	- 5.8%	*
Total on-site energy consumption	10 ⁹ Joules (GJ) per tonne product	3.08	2.12	1.99	1.90	- 4.7%	- 10.2%	- 38.4%	*
Total on-site energy consumption from renewable sources	% of total on-site energy consumption	N/A	N/A	11.6	12.2	5.3%			*
Total direct energy consumption	10 ¹⁵ Joules (PJ)	N/A	N/A	64.3	63.7	- 0.8%			EN3
• Direct non-renewable energy consumption	10 ¹⁵ Joules (PJ)	N/A	N/A	58.5	57.8	- 1.3%			EN3
• Direct energy consumption from coal	10 ¹⁵ Joules (PJ)	N/A	N/A	3.9	3.7	- 6.8%			EN3
• Direct energy consumption from natural gas	10 ¹⁵ Joules (PJ)	N/A	N/A	41.3	41.1	- 0.4%			EN3
• Direct energy consumption from oil	10 ¹⁵ Joules (PJ)	N/A	N/A	13.4	12.7	- 5.3%			EN3
• Direct renewable energy consumption	10 ¹⁵ Joules (PJ)	N/A	N/A	5.7	5.9	3.6%			EN3
• Direct energy consumption from Spent Coffee Ground	10 ¹⁵ Joules (PJ)	N/A	N/A	3.2	3.1	- 3.3%			EN3
• Direct energy consumption from wood	10 ¹⁵ Joules (PJ)	N/A	N/A	2.5	2.8	11.5%			EN3
Total direct energy consumption from renewable sources	% of total direct energy consumption	N/A	N/A	N/A	9.3				EN3
Total intermediate energy consumption	10 ¹⁵ Joules (PJ)	N/A	N/A	25.8	26.9	4.3%			EN4
• Electricity purchased from renewable sources	10 ¹⁵ Joules (PJ)	N/A	N/A	4.8	5.2	8.8%			EN4
• Electricity purchased from non-renewable sources	10 ¹⁵ Joules (PJ)	N/A	N/A	19.5	20.1	2.9%			EN4
• Steam purchased	10 ¹⁵ Joules (PJ)	N/A	N/A	1.4	1.6	9.4%			EN4
• Heating purchased	10 ¹⁵ Joules (PJ)	N/A	N/A	0.13	0.11	- 14.0%			EN4
Total indirect energy consumption	10 ¹⁵ Joules (PJ)	N/A	65.3	70.1	73.5	4.9%	12.6%		EN4
Water									
Total water withdrawal	10 ⁶ m ³	193.0	147.4	143.5	137.8	- 3.9%	- 6.5%	- 28.6%	EN8
• Surface water	10 ⁶ m ³	N/A	N/A	20.5	14.8	- 27.9%			EN8
• Ground Water	10 ⁶ m ³	N/A	N/A	75.0	76.4	1.8%			EN8
• Municipal Water	10 ⁶ m ³	N/A	N/A	47.9	46.6	- 2.7%			EN8
• Rain Water	10 ⁶ m ³	N/A	N/A	0.049	0.055	11.6%			EN8
Total water withdrawal	m ³ per tonne product	6.18	3.59	3.17	2.89	- 9.0%	-19.6%	- 53.3%	*
Once through cooling water from surface sources	10 ⁶ m ³	N/A	N/A	15.2	9.8	- 35.4%			*
Water recycled and reused	10 ⁶ m ³	N/A	N/A	7.8	6.9	- 10.9%			*
Water recycled and reused	% of total water withdrawal	N/A	N/A	5.4	5.0	- 7.2%			*

What is CSV	How we implement CSV	Nutrition	Water	Rural development	Responsible sourcing	Environmental sustainability	Human rights and compliance	Our people
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Indicator	Units	2002	2008	2011	2012	% Change 2011-2012	% Change 2008-2012	% Change 2002-2012	GRI reference
Total production volume	10 ⁶ tonnes	31.2	41.1	45.2	47.7	5.5%	16.2%	52.8%	*
Biodiversity									
Total size of manufacturing sites located in protected areas	Hectares	N/A	N/A	44.2	42.1	- 4.8%			EN11
Emissions, Effluents and Waste									
Direct GHG emissions	10 ⁶ tonnes CO ₂ eq.	4.9	4.1	3.8	3.7	- 2.6%	- 9.7%	- 23.6%	EN16
Direct GHG emissions	kg CO ₂ eq. per tonne product	155	100	84	78	- 7.7%	- 22.3%	- 50.0%	*
Indirect GHG emissions	10 ⁶ tonnes CO ₂ eq.	N/A	3.0	3.2	3.4	4.9%	13.0%		EN16
Indirect GHG emissions	kg CO ₂ eq. per tonne product	N/A	73	72	71	- 0.6%	- 2.8%		*
Emissions of ozone-depleting substances	tonnes R-11 eq.	10.3	5.0	1.9	1.7	- 6.6	- 65.2%	- 83.0%	EN19
Emissions of ozone-depleting substances	g R-11 eq. per tonne product	0.329	0.122	0.041	0.037	- 11.5%	70.1%	- 88.9%	*
Air acidification potential	10 ³ tonnes SO _x eq.	26.1	18.1	16.6	15.8	- 4.9%	- 12.8%	- 39.5%	*
• NO _x	10 ³ tonnes SO _x eq.	N/A	N/A	6.3	6.2	- 0.9%			EN20
• SO _x	10 ³ tonnes	N/A	N/A	10.3	9.6	- 7.3%			EN20
Air acidification potential	kg SO _x eq. per tonne product	0.84	0.4	0.37	0.33	- 9.9%	- 24.9%	- 60.4%	*
Total water discharge	10 ⁶ m ³	153.0	96.1	93.9	84.2	- 10.3%	- 12.4%	- 44.9%	EN21
Total water discharge	m ³ per tonne product	4.90	2.34	2.08	1.77	- 15.0 %	- 24.6%	- 64.0%	*
Total water discharge quality (total COD)	10 ³ tonnes COD	N/A	9.2	6.4	7.9	22.6%	- 13.9%		EN21
Quality of water discharged	Average mg COD / l	N/A	95.0	68.6	93.7	36.6%	- 1.4%		EN21
Total water discharge quality (efficiency)	% of COD removed	N/A	96.0	97.4	96.5	- 0.9%	0.6%		EN21
By-products	10 ⁶ tonnes	1.42	1.11	1.42	1.43	0.8%	29.0%	0.5%	EN22
By-products	kg per tonne product	45.5	27.0	31.3	29.9	- 4.5%	11.0%	- 34.2%	*
Waste for disposal	10 ³ tonnes	400	410	343	315	- 8.2%	- 23.2%	- 21.3%	EN22
• Hazardous waste	10 ³ tonnes	N/A	N/A	5.5	4.1	- 25.7%			EN22
Waste for disposal	kg per tonne product	12.8	10.0	7.6	6.6	- 13.0%	- 33.9%	- 48.5%	*
Total number of significant spills	number	N/A	N/A	0	0				EN23
Total number of significant spills	m ³	N/A	N/A	0	0				EN23
Environmental Sustainability Governance									
Total monetary value of fines	kCHF	N/A	N/A	29.5	6.7	- 77.1%			EN28
Compliance									
Sites ISO 14001 certified	Total number of sites	N/A	N/A	511	572	11.9%			*
Manufacturing sites ISO 14001 certified	Total number of manufacturing sites	N/A	N/A	413	418	1.2%			*

Environmental Performance Indicators exclude non consumer Nestlé Waters Business.

Non consumer Nestlé Waters Business resulted in an additional 6.9 million tonnes of production volume and 8.7 million m³ of water withdrawal.

* Nestlé specific indicators that are not required by GRI.

[Link: Definitions and comments on Environmental Performance Indicators 2012](#)

How we implement Creating Shared Value

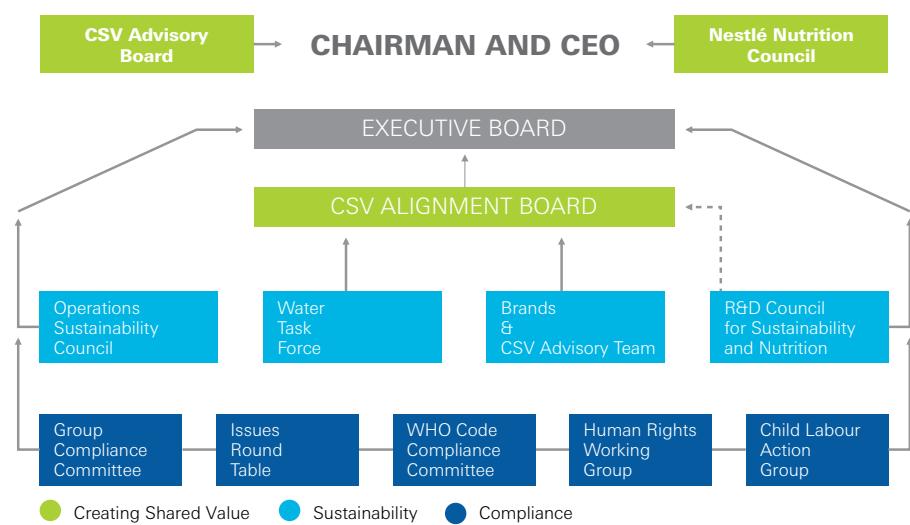
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Governance

Governance of Nestlé in society and CSV

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 our role in society and CSV, supported by a number of other governance bodies, including our Operations Sustainability Council, Issues Round Table, Water Task Force, Audit Committee, Risk Management Committee, R&D Council for Sustainability and Nutrition, and the Group Compliance Committee.

Governance of CSV, sustainability and compliance 2012



CSV Alignment Board

We have also established a quarterly CSV Alignment Board, chaired by our Chief Executive Officer, Paul Bulcke. This board is an umbrella organisation that includes 5 Executive Board members, and oversees the strategic implementation of Creating Shared Value across all our businesses. It leads the development and evolution of our CSV and sustainability objectives and strategies at Group level, while reverting to the Executive Board for input and confirmation. Our CEO's presence on the CSV Alignment Board and the CSV Advisory Board ensures alignment between both Boards.

CSV Advisory Board

The Nestlé Creating Shared Value Advisory Board, created in 2009, brings together external experts in corporate strategy, nutrition, water and rural development to assess our progress and discuss CSV opportunities and challenges.

The CSV Advisory Board currently has 12 members. They are appointed for three years, and meet annually. In addition to advising the Chairman and CEO on our CSV agenda, the Board members also participate in our annual CSV Global Forum and select the winner of the Nestlé Prize in Creating Shared Value.

CSV Advisory Board biographies



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.



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 formerly Professor of Food Science and Nutrition at Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya and adjunct Professor of Nutrition at Tufts University in the USA. 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 published and communicated widely on household food and nutritional security, women's nutrition and children's health, works in rural development focused on women smallholder farmers and is a former member of parliament in Kenya.



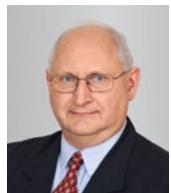
Prabhu Pingali, Deputy Director of the Agriculture Development Program at the Bill and Melinda Gates Foundation, has over twenty five years of experience in assessing the extent and impact of technical change in developing agriculture in Asia, Africa and Latin America. He was formerly the Director of the Agricultural and Development Economics Division of the Food and Agriculture Organization (FAO), and earned a Ph.D. in Economics from North Carolina State University in 1982.



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.



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'Egypte, 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, she 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, she was named in the Forbes 100 Most Powerful Women list, ranking 46th. Ann M. 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.

Measuring progress

We believe that measurement helps to build implementation momentum, external accountability, and transparency around all aspects of our engagement in society and CSV approach and performance. We've been monitoring our performance across a wide range of issues for many years, as demonstrated by our comprehensive KPIs and the measures we've attached to initiatives such as the [Nestlé Cocoa Plan](#) and the [Nescafé Plan](#).

Where available, we use internationally recognised systems and standards, such as the Global Reporting Initiative's G3.1 Framework. The GRI helps us measure our social and CSV impacts in areas where measurement is under-developed, mainly because it's difficult to prove causality: that is, exactly how corporate actions affect environmental, social and business performance.

We are also developing our approach to CSV measurement, which has been explored in a recent white paper, '[Measuring Shared Value: How to Unlock Value by Linking Social and Business Results](#)' by the social impact consultancy [FSG](#).

We are working further to develop our own approaches to measuring CSV, particularly in the focus areas of nutrition, water and rural development. We know that to truly create shared value, we must develop additional quantifiable evidence linking business performance and social impact.

Meanwhile, we'll continue to measure and report using accepted methods and benchmarks so that we can improve our own performance.

Stakeholder engagement

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

Nestlé's approach to stakeholder engagement

Our global stakeholder network is vast. It ranges from people we regularly engage with as part of our operations, to those whose public positions influence our activities. We identify the following groups as fundamental to our continuing business success (in alphabetical order) and aspire to deeper stakeholder engagement with them.

- Academia
- Communities
- Consumers and general public
- Customers
- Employees
- Governments
- Industry and trade associations
- Inter-governmental organisations
- Non-governmental organisations
- Reporting agencies
- Shareholders and the financial community
- Suppliers (including farmers and smallholders)

What issues concern our stakeholders?

We encourage our businesses to identify the stakeholders that are most important to their business at a national level. Our engagement at the global level is coordinated centrally, through the CSV Forum and stakeholder convenings. These stakeholder events inform our materiality process.

CSV Forum

On November 5, we held our [2012 Global CSV Forum](#) in New Delhi, India. The Forum, co-hosted with the Federation of Indian Chambers of Commerce and Industry (FICCI), aimed to highlight the value of CSV particularly in South Asia. Opinion leaders from South Asia and beyond discussed how governments worldwide could work with civil society and business to boost long-term sustainable economic development. Over 450 government, civil society and business representatives took part.

All the sessions were webcast and are available to watch on demand.

Stakeholder convenings

Regular stakeholder convenings covering CSV and critical environmental and social issues form an important part of our engagement processes in combination with our Creating Shared Value (CSV) Forum series (see above). While the CSV Forum focuses on the role of business in development – particularly as it relates

to nutrition, water and rural development, stakeholder convenings are more focused on issues specific to our company, including accountability and delivering our commitments.

In the past, we have held stakeholder convenings in:

- 2007 – Geneva
- 2008 – Washington DC
- 2009 – Geneva, Kuala Lumpur
- 2011 – New Delhi, London

From 2011, we decided to hold two convenings annually – one in London, and the other in a city in an alternating emerging market - this year in Nairobi. In 2013, we plan on holding the stakeholder convenings in London.

Our objectives in 2012 were to understand stakeholder expectations and concerns; report back on previous convenings; and stimulate fresh thinking and prioritise key actions on Creating Shared Value, sustainability and compliance issues.

The convenings, which were facilitated by SustainAbility, were attended by more than 60 external expert stakeholders from multi-lateral agencies, non-governmental organisations (NGOs), industry associations, government representatives, farmer associations, academics, investors and social entrepreneurs. The convenings were also attended by Nestlé staff from its headquarters and the host country.

The stakeholders were drawn from a wide range of NGOs, academic centres, governmental and intergovernmental organisations, think tanks, consultancies and social enterprises working in the Nestlé CSV focus areas of nutrition, water and rural development as well as human rights and compliance. They represented a range of stimulating and challenging views and perspectives. Many, but not all, had prior relationships with Nestlé.

Overall, stakeholders recommended the following:

- **Leadership:** stakeholders want us to act as a good example and stimulate action among our peers, particularly in areas such as natural capital, child labour, human rights, and responsible sourcing.
- **Competition versus collaboration:** stakeholders want us to examine where we should compete to drive innovation and change, but collaborate to drive scale.
- **Ambitions:** stakeholders want us to set more ambitious goals (such as those we already have for no deforestation and no child labour) for many other CSV focus areas.
- **Vision and context:** stakeholders want to get a better sense of how our vision, context, goals and programmes came about and fit together.
- **Transparency:** stakeholders acknowledge our work in transparency – particularly on FTSE4Good, GRI A+ reporting and our partnership with the Fair Labor Association. However, they want us to be more open about the problems we're facing and the journey we're taking.

- **Government engagement:** stakeholders want us to align and work more closely with governments, particularly on nutrition issues.
- **Make use of our scale and marketing power:** stakeholders want us to use our knowledge, scale and marketing power to make a positive impact on consumers and to scale up solutions.

The outputs of the convenings are fed back to senior management and will be taken into account in our strategies and actions for 2013. They have already been incorporated into the new Rural Development Framework. Feedback from the convenings in earlier years has also led to our partnership with the Fair Labor Association.

Public policy and engagement

We engage with governments, authorities and other relevant bodies towards the development of public policies in line with our CSV, sustainability and compliance commitments. We have policies and systems in place to ensure this engagement is fully transparent.

Our approach

The [Nestlé Policy on Transparent Interaction with Authorities and Organisations](#) ensures that all our employees involved in engagement activities understand the high standards of transparency and professionalism we demand. It also requires them to follow our approved processes and procedures.

We are listed in the EU interest representation register and follow its code of conduct governing transparency and legitimacy in our dealings with EU institutions. As required by United States law, we file quarterly publicly available reports with the US Congress, in which we outline our engagement activities.

To ensure alignment across our global operations, all our key positions and policies are published on our internal intranet that can be accessed by employees worldwide. A new training course for Public Affairs staff in our country operations has also been launched at our International Training Centre Rive Reine. This emphasises the need for a consistent and transparent approach in our interactions with stakeholders and the authorities.

Our policies are also available to the public. In 2012 we introduced an "[Ask Nestlé](#)" section of the website outlining our key positions on products, packaging and labelling, quality and safety, human rights and labour relations, health and nutrition, raw materials, sourcing and the environment.

As members of industry associations and multi-stakeholder initiatives we continue to advocate for publication of our policy positions. On water, we have been reporting for several years now on our public policy engagement and collective action. We also publish on our website our positions on the World Health Organization and World Health Assembly's agenda points related to maternal, infant and young child nutrition, as well as our membership to industry associations in the field of infant nutrition.

Furthermore during 2013, we will launch a grievance mechanism online (with worldwide freephone hotlines) which will enable stakeholders to raise any concerns directly.

Rio+20

During the [Rio+20 Corporate Sustainability Forum](#) in Brazil, José Lopez, Executive Vice President for Operations, outlined the link between food security and sustainable agriculture and provided a number of recommendations for governments to consider, including:

- Investment in agricultural productivity with a focus on smallholders
- New accounting rules for natural capital and improved monitoring of ecosystems
- Improving the quality and access to nutritional foods
- Increased attention on bio-fortification through plant selection and breeding
- Enhanced transparency and traceability

The overarching message was that global partnership between all players is needed, with the support of governments and regulators whose role it is to create a level playing field.

International Food and Beverage Alliance (IFBA)

As a founding member of the [International Food and Beverage Alliance \(IFBA\)](#), we, along with other 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:

- reformulating and developing new products that support the goals of improving diets
- providing easily understood nutrition information to all consumers
- extending responsible advertising and marketing to children initiatives globally
- raising awareness on balanced diets and increased levels of physical activity
- seeking or promoting public-private partnerships that support the WHO's Global Strategy

For more information on our work with IFBA, please [visit Responsible Advertising and Marketing](#).

PAHO Initiative on salt reduction

In 2011, we became a signatory to the [Pan American Health Organisation \(PAHO\)](#) and World Economic Forum (WEF) statement on 'Dietary Salt Reduction in the Americas', which is part of our commitment to support The Pan American Forum for Action on Non-Communicable Diseases.

EU Platform for Action on Diet, Physical Activity and Health

Through the [EU Platform for Action on Diet, Physical Activity and Health](#), and, together with other food manufacturers, organisations from the agricultural sector, retailers, caterers, advertisers, non-governmental organisations (NGOs), healthcare professionals and public authorities, we support the platform's aims through our commitments on advertising and marketing, reformulating products, modifying portion sizes and promoting healthy lifestyles. We have been actively involved in the platform since 2005 through our membership with [FoodDrinkEurope](#) and the [World Federation of Advertisers \(WFA\)](#). Our commitment on advertising to children, as a member of the EU Pledge, was made within the framework of WFA.

2030 Water Resources Group

The [World Economic Forum \(WEF\) Water Resources Group](#) is an influential public-private water network that seeks new insights into water scarcity, explores the

opportunities and costs of possible solutions, and fosters results-based stakeholder dialogue. Since 2008, the WEF Water Resources Group has been under the leadership of our Chairman Mr Brabeck-Letmathe. We have also played a leading role in the 2030 Water Resources Group.

The 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.

World Economic Forum

Through our engagement with the [World Economic Forum \(WEF\)](#), an independent, international organisation, we play an active part in working with business, political, and academic thought leaders to help shape global, regional and industry agendas. At the World Economic Forum annual meeting in Davos, Switzerland in January 2012, Nestlé Chairman Peter Brabeck-Letmathe highlighted the global water shortage in relation to agriculture sourcing and production. Mr Brabeck-Letmathe warned that over the next two decades, the water shortfall would reduce global cereal production by a third and could trigger social unrest. He proposed collaboration and sustainable intensification of agriculture as a way to solve the world's water crisis and feed its growing population. Our CEO Paul Bulcke has taken on the role of Co-chair of the WEF's Healthy Living Initiative, which aims to bring together governments, the private sector and civil society to have an impact on healthy living and non-communicable diseases.

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 and publish a public Communication on Progress every year.

World Water Week

For several years we've played an active role at the [World Water Week](#) in Stockholm, Sweden during which experts, practitioners, decision-makers and leaders from around the globe exchange ideas, foster new thinking and develop innovative solutions. At the 2012 World Water Week in Stockholm, Sweden, our CEO Paul Bulcke called for greater value to be placed on water to avert a global food crisis. Mr. Bulcke cited water scarcity as one of the main reasons for increased tension between food supply and demand. He urged governments to take the lead in devising credible, cost-effective strategies to address water shortages, while stressing that business, civil society and other stakeholders must be prepared to take greater responsibility for the problem.

For more information about our involvement at the World Water Week, please [visit Water: Collective action](#).

Partnerships and industry alliances

The current economic, social and environmental challenges that we face today are too complex to be tackled by one organisation alone. Programmes that involve multiple stakeholders, including government, NGOs, and private partners, are more sustainable and impactful. Such collaborative initiatives can help to connect our business with the activities of other partners on a global scale. We devote the best human resources knowledge, technical expertise, as well as financial support to help such projects reach their objectives, and, more importantly, amplify their impact.

Our partnerships are also crucial to achieving our objective of inspiring, building, and protecting trust. We have identified and selected strategic partnerships aligned with our Creating Shared Value focus areas that have the greatest potential to enhance our reputation while helping address current economic, social and environmental challenges. These partnerships at both global and local levels help us share experiences and best-practice and enhance our Creating Shared Value implementation.

Partnerships must be mutually beneficial and accomplish shared goals. The main challenge is to clearly define roles and responsibilities in the partnership to make it as effective as possible. We believe that creating and maintaining long-term, trusting relationships with partners is the key to creating shared value for our shareholders as well as for society.

"Today's problems of society cannot be solved by anybody alone. It cannot be solved by business alone, it cannot be solved by government alone, it cannot be solved by NGOs alone."

Peter Brabeck-Letmathe, Chairman, Nestlé S.A.
(at the 2011 CSV Global Forum, Washington D.C.)

Partnerships

The International Federation of Red Cross and Red Crescent Societies (IFRC)

Since 2002, we have been collaborating with the [International Federation of Red Cross and Red Crescent Societies \(IFRC\)](#). We were the founding corporate sponsor of the Africa Health Initiative with its main focus on HIV/AIDS prevention programmes. From 2006 onwards we supported projects related to the International Federation's Global Water and Sanitation Initiative (GWSI). The partnership was renewed for the third time in 2010 for three years. Under this agreement, we are contributing to projects on water and sanitation in the cocoa-growing villages of Côte d'Ivoire, food security and is supporting the IFRC's World Disasters Report.

In Côte d'Ivoire, we have partnered with the IFRC and the Croix-Rouge de la Côte d'Ivoire on Participatory Hygiene and Sanitation Transformation (PHAST) to raise awareness of the importance of latrines and hand washing. The partnership is also creating water management projects such as drilling boreholes and establishing pumps in villages where water is scarce. The outcomes are dramatically lower infant mortality rates and stomach infections from water-borne diseases, but also higher female literacy, a key factor in reducing poverty.

The third phase of the Côte d'Ivoire water and sanitation project is now underway and is focusing on improving health and hygiene among schoolchildren, teachers, and communities in Côte d'Ivoire, by providing access to clean drinking water and sanitation, as well as training and community outreach. This will cover 55 schools, 66 water points and sanitation facilities and at least 75 000 beneficiaries in the cocoa-growing areas of Côte d'Ivoire.

Collaboration with National Red Cross/Red Crescent Societies:

Brazil: product donations during the flood seasons

Caribbean region: product donations and employee volunteering specifically regarding relief efforts.

China: cash and product donations during the earthquake in Sichuan province in 2008 (RMB9 million), the Yushu earthquake in 2010 (RMB 500 000), and the Yingjiang earthquake and tsunami in Japan in 2011 (RMB 280 000).

Chile: product donations toward a collection fund

Czech Republic/Slovakia: food donations to both the Czech and Slovak Red Cross

Greece: regular product donations to low-income families

India: Nestlé India collaborated with the Indian Red Cross Society to develop a brochure for basic nutrition knowledge for people living with HIV/AIDS, which has now been translated into six regional languages, Hindi, Kannada, Marathi, Tamil, Telugu, Punjabi and distributed free of cost by the Indian Red Cross to people living with HIV/AIDS. We have also partnered with the Red Cross Society previously to set up clean drinking water projects.

Indonesia: in collaboration with the Indonesian Red Cross, we are providing access to clean water to communities in Telagaluhur village, Serang regency. Started in 2008, this programme has provided the community with one deep well, five

public toilets and eight public hydrants. Several training programmes on water management, hygiene and environmental sanitation were conducted for volunteers and community members. A similar project is being implemented in Pasuran, near our factory in Kejayan. We also co-sponsor the Indonesian Red Cross blood donation drive.

Italy: we donated bottled water following the earthquake in Abruzzo in 2009, and made cash donations to support relief efforts following the earthquake/tsunami in Japan and the Horn of Africa drought in 2011.

Korea: we have made donations of about CHF10 550 every year since 2004, used mainly to support children from low-income families

Mexico: we participate with the local Red Cross through natural disasters protocols and their winter plan donations. We are also part of their annual collection campaign providing them with economic support each year.

Nigeria: product donations for the victims of the flood disaster in Nigeria in 2012

Russia: cash donations toward emergency relief in Haiti, Japan, and floods in Krymsk, Russia

Rwanda: The Nyanza water project (10 km of pipeline, 7 water points, 2 tanks and pumping station) funded by the Norwegian Red Cross has been operating since March 2012. The first phase of project has been completed and is providing 7000 people with safe drinking water. The second phase will support 5000 inhabitants of Kabeza, Nyundo and Mututu villages. Our operations in the Equatorial African region contributed towards the completion of phase two of the project.

Panama: we participated in a donation made to the Red Cross of Panama to help the flood victims in 2012.

Philippines: member of the local Red Cross and support many local programmes of the Red Cross such as the Million Volunteer Run, blood donation programme, and its first aid and disaster rescue operation seminar and workshop. During natural calamities, all donations of Nestlé Philippines are directed to the central office of the National Red Cross.

Singapore: we made cash donations to relief efforts after the Asian tsunami, floods in Myanmar and the Japanese nuclear disaster/tsunami

Spain: we have been collaborating with the local Red Cross since 1963. We organized employee donations following the disasters in Haiti and Pakistan (in 2010), the Japan earthquake (in March 2011) and the Horn of Africa drought (in 2011). We matched employee donations, and a final amount of EUR 36 000 was donated to our local Red Cross in 2011. To recognise our 50-year collaboration, we were awarded a certificate in recognition of our support to all the solidarity campaigns since 1963.

Switzerland: we have implemented a project called Entourage with the Red Cross Vaudoise, in collaboration with Caritas and Pro Senectute project offering various services for the elderly.

Thailand: we support the Thai Red Cross in several special events such as World AIDS Day.

USA: at the national level, our focus is on disaster response and support is provided through product donations. Our most recent effort was following Hurricane

Sandy, raising a total of USD 72 204. In 2011, we made matching contributions to support relief efforts following the earthquake in Japan, and the Pacific tsunami in 2011, and the tornadoes in south-eastern United States in 2011. We also support the American Red Cross through our annual Community Care Campaign. We donated 45 truckloads of water, or approximately 1.7M bottles in 2012. At the local level, we support the chapter local to our headquarters. We sit on the board of the local Red Cross and provide financial support via an annual donation, as well as water when requested.

Ukraine: we make product donations to homeless children, invalids, and pensioners with low income.

Nestlé Waters Canada: regular donations of bottled water during emergencies. In 2012, we donated almost USD 100 000 worth of bottled water as part of relief efforts after natural disasters. Over the last ten years, we have donated millions of bottles of water during floods in Manitoba, New Brunswick, Nova Scotia and Saskatchewan, forest fires in British Columbia and northern Ontario, heat waves in southern Ontario and boil-water advisories and other potable water challenges across Canada.

United Nations Foundation – Every Woman Every Child Initiative (EWEC)

Every Woman Every Child is a multi-stakeholder initiative that aims to encourage governments, civil society and private sector companies to improve the lives of vulnerable women and children. The initiative was launched in September 2010 by the United Nations Secretary-General Ban Ki-moon and is currently supported by 200 partners. In 2011, we became the first food and beverage company to pledge its commitment to EWEC. Our commitment is based on increasing support for five of our current Creating Shared Value programmes.

- expanding the global Healthy Kids Programme;
- creating more income generating opportunities for women in Brazil through product distribution;
- empowering female dairy farmers in Pakistan;
- providing access to education for children and women in Morocco;
- creating awareness about hygiene and sanitation in schools in India, Sri Lanka and Bangladesh.

International Diabetes Federation (IDF)

We signed a 3-year partnership with the International Diabetes Federation (IDF) in March 2012. We will be a World Diabetes Day partner for three years from 2012 to 2014, providing input into the implementation of this key global campaign and using the global network of both organizations, working with local IDF chapters and our offices, to broaden the awareness of diabetes around the world. In addition, we will together identify suitable projects to promote diabetes education and prevention.

International Association of Athletics Federations (IAAF)

In January 2012, we signed a 5-year global partnership with the IAAF that focuses on promoting and encouraging physical activity and good nutrition amongst

children in select countries where we have operations. We will provide financial support for the further worldwide development of IAAF Kids' Athletics, which is one of the biggest grassroots development programmes in the world of sports. Our support for Kids' Athletics complements our Healthy Kids Global Programme.

In 2012, together with the IAAF, we held Kids Athletics events in 21 countries: Australia, Argentina, Brazil, Chile, China, Egypt, France, Indonesia, Kenya, Korea, Lebanon, Mauritius, Mexico, Morocco, Pakistan, Russia, Senegal, Tunisia, Turkey, Uganda, and Ukraine.

EPODE International Network (EIN)

In 2012, we became one of two private partners of the EPODE International Network, the world's largest obesity prevention network. EPODE stands for 'Ensemble, Prévenons l'Obésité Des Enfants' (Together, Let's Prevent Childhood Obesity). The original EPODE pilot programme began in France in 1992 with the aim of preventing children from becoming overweight by changing their eating habits and lifestyle patterns at an early age. It emphasises the introduction of varied foods into children's diets, greater physical activity, and the involvement of families and wider society in obesity prevention efforts from the outset. The network's goal is to support 40 large-scale community-based programmes on five continents by 2015.

Pan American Forum for Action on NCDs (PAFNCD)

Under the auspices of PAHO (Pan American Health Organisation), PAFNCD offers a platform for stakeholders to confront the non-communicable diseases epidemic in the Americas. PAHO serves as the Regional Office for the Americas of the World Health Organization. In May 2012, we made a financial contribution to a Trust Fund for Action on Chronic and Non-Communicable Diseases. We are currently engaged with PAHO on matters related to workplace wellness and sodium reduction as and supported PAHO's Wellness Week in 2012.

Inter-American Development Bank (IDB)

The Inter-American Development Bank (IDB) supports efforts by Latin American and the Caribbean countries to reduce poverty and inequality in a sustainable, climate-friendly manner. The IDB approached us to start a partnership in Latin America and we developed a partnership with them in Haiti where we will provide coffee growing farmers with technical support.

A cooperation agreement between Nestlé Dominicana and the IDB on upgrading the coffee value chain in Haiti was signed in 2012.

Danish Institute for Human Rights (DIHR)

We have been working with the Danish Institute for Human Rights (DIHR) since October 2008, when the DIHR was consulted on the human rights aspects during the preparation of the new edition of the Corporate Business Principles. In

2009, and in the light of the “Protect, Respect, Remedy” framework of John Ruggie, Special Representative of the UN Secretary General on Business and Human Rights, we examined our human rights responsibilities, risks and opportunities. A comprehensive human rights analysis of our corporate policies and systems across eight functional areas concluded in November 2009.

In 2012, working with the Danish Institute for Human Rights, we carried out three Human Rights Impact Assessments (HRIAs) in Russia, Uzbekistan and Kazakhstan. These add to the four assessments we've carried out in Colombia (2010), and Nigeria, Angola and Sri Lanka (2011).

In 2013, our partnership with the DIHR will be extended for another two years to strengthen our 8-pillar Human Rights Due Diligence Programme.

For more information on our work with the Danish Institute for Human Rights, please [visit Human Rights](#).

Fair Labor Association (FLA)

The [Fair Labor Association \(FLA\)](#) is a collaborative effort of universities, civil society organizations and socially responsible companies dedicated to protecting workers' rights around the world. In 2011, we 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.

For more information on our work with the Fair Labor Association, please [visit Other Commodities and Farm and Factory Workers](#).

The Forest Trust (TFT)

In 2010, we 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. We are the first global consumer goods company to become a TFT member. We work together to ensure the responsible sourcing of palm oil and pulp and paper.

For more information on our work with The Forest Trust, please [visit Managing Responsible Sourcing and Deforestation](#).

Proforest

[Proforest](#) helps companies, government departments, non-governmental and civil society organisations to achieve the sustainable use of the world's natural resources. We're working together to develop and implement Responsible Sourcing Guidelines (RSGs) on sugar.

Industry Alliances and Stakeholder Bodies

International Food & Beverage Alliance (IFBA)

The International Food and Beverage Alliance (IFBA) is a group of food and non-alcoholic beverage companies with a global presence and the common goal to help consumers in all nations achieve balanced diets and healthy lifestyles. Through our membership in IFBA, we voluntarily commit to support WHO's Global Strategy on Diet, Physical Activity and Health. IFBA reports annually on its progress on the five commitments to the World Health Organisation.

For more information on our work with IFBA, please visit Responsible Advertising and Marketing.

FoodDrinkEurope

We chair the Environmental Sustainability Committee of FoodDrinkEurope, which represents the European food and drink industry. It recently launched an "Environmental Sustainability Vision Towards 2030" report that featured our efforts to achieve zero net deforestation by 2020, source 100% certified sustainable palm oil by 2015.

International Water Management Institute (IWMI)

We are working with the International Water Management Institute (IWMI) to identify key areas where local initiatives for better water management in agriculture could be developed. These include a six-month pilot project (now completed) to study the water footprint of milk and other local crops in Punjab, India and another project currently ongoing in Vietnam.

Alliance for Water Stewardship

The Alliance for Water Stewardship (AWS) is a collaboration of some of the world's leading players in sustainable water resource management, all committed to driving collective responses to shared water risk through a stakeholder-endorsed International Water Stewardship Standard. As a participant in the AWS, we are working with others towards establishing a voluntary certification programme.

For more information on our work with AWS, please visit Water: Collective Action.

Water Footprint Network

The Water Footprint Network is an international learning community that connects diverse parties interested in sustainability, equitability and efficiency of water use. 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.

For more information on our work with the Water Footprint Network, please visit Water: Collective Action.

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. We joined the Roundtable in 2009.

Common Code for the Coffee Community

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

International Cocoa Initiative

The International Cocoa Initiative (ICI), of which we are a founding member, works with the cocoa industry, civil society, and labour unions and governments. ICI's programmes have shown a way forward in combating issues of child labour and forced labour in cocoa-growing areas. Through the Nestlé Cocoa Plan, we have committed to help ICI ensure that children in cocoa-growing communities are not exploited and have access to education. ICI is also our main partner for the implementation of our Action Plan on Responsible Sourcing of Cocoa from Côte D'Ivoire.

World Business Council for Sustainable Development

We recently rejoined the World Business Council for Sustainable Development (WBCSD) whose wide ranging work touches on areas of key importance for us, from issues of environmental sustainability to social and economic development.

José Lopez, the Executive Vice President of Operations, now represents us on the WBCSD Council. As a first major action following renewed membership, we became the first signatory to the WBCSD's Manifesto for Access to Safe Water, Sanitation and Hygiene at the Workplace.

Rainforest Alliance

Nestlé and Nespresso work closely with the Rainforest Alliance, which works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour.

Conservation International

In 2012 we worked with Conservation International on the production of our Responsible Sourcing Guidelines for soya, as well as a unique and detailed analysis examining trends within the principle regions where deforestation is occurring. The latter project provides us with crucial information that will allow us to better evaluate where we need to prioritise our efforts to meet our commitment to ensure that no deforestation occurs in our supply chain.

Cambridge Programme for Sustainability Leadership

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. 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.

Consumer Goods Forum

The Consumer Goods Forum (CGF) is a global industry network that brings together the CEOs and senior management of more than 650 retailers, manufacturers, service providers and other stakeholders across 70 countries. It is focused on advancing the industry through strategic priorities including health and wellness and sustainability. In November 2012, we joined the Global Food Safety Initiative (GFSI) of the CGF. Anthony Huggett, our Head for Global Quality Management, will be our representative on GFSI's Board.

Global Reporting Initiative

The Global Reporting Initiative (GRI) guidelines inform our approach as a best practice reporter in sustainability topics. We contributed to the Food Sector Supplement and also became a member of the GRI Stakeholder Council in January 2012.

United Nations Global Compact (UNGC)

The United Nations Global Compact (UNGC) is a strategic policy initiative for businesses committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. We are one of 56 companies invited to join the UN Global Compact LEAD (see below). We are also a founding signatory of the CEO Water Mandate and a member of the Human Rights and Labour Working Groups and the Supply Chain Advisory Group.

Our 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.

UNGC LEAD

This is a leadership platform comprising a select group of about 56 UN Global Compact "champion" companies. LEAD is deeply integrated into other UN Global Compact engagement opportunities – including, notably, the approximately 90 Global Compact Local Networks; the six global working groups as well as the Caring for Climate and CEO Water Mandate initiatives. Companies that participate in the LEAD are committed to implementing the Blueprint for Corporate Sustainability Leadership developed in 2010. We are a founding participant and member of the LEAD Steering Committee and participate in several LEAD Task Forces, such as:

UNGC LEAD Task Force on Strategic Social Investment and Philanthropy

We are an active member of this Task Force and were instrumental in the development of a good practice guide that looks at various approaches to social investment practices in the context of corporate responsibility. Titled New Paths to Performance, the report examines how organizations are enhancing the impact of their social investment activities, aligning these activities with their core businesses with case studies from companies including ours. This also led to the creation of The Principles on Social Investment Secretariat to support the implementation of effective and principled social investment practices by its members.

UNGC LEAD Task Force on UN-Business Partnerships

UNGC convened this Task Force last year to strengthen the UN system in its efforts to engage business - including by convening annual UN System Private Sector meetings. The objective of UN-Business Partnership Task Force is to strengthen the UN system in its efforts to engage business and enhance existing partnership capacities and build new capacities between the UN and the private sector to address global developmental challenges. We are a member of the Steering Committee along with other UN and private sector members. Nestlé Colombia participated in the UN Private Sector Focal Points Meeting held in Bogota in December 2012.

UNGC CEO Water Mandate

The CEO Water Mandate is a unique public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices. We are a founding signatory of the CEO Water Mandate.

For more information on our work on the CEO Water Mandate, please visit Water: Collective Action.

UNGC Sustainable Agriculture Business Principles

UNGC and the Food and Agriculture Organization (FAO) have initiated a process aimed at the development of global voluntary business principles on sustainable agriculture for companies as well as governments and other stakeholders. The objective of this process will be to develop a common understanding and agreement on what resources and impacts are needed from the global community to transform markets and agricultural supply systems and advance sustainable agriculture globally. We were one of the 20 companies that participated in the first meeting of the voluntary business principles organized by the UNGC and FAO in September 2012.

UNGC Human Rights Working Group

The UN Global Compact Human Rights Working Group is a multi-stakeholder group that aims to: advance the business and human rights agenda within the framework of the Global Compact; identify obstacles to business implementing the Global Compact human rights principles/key dilemmas faced and advise

on practical ways of overcoming them; provide advice to the Global Compact Office on business and human rights; and enhance synergies and cooperation, and avoid duplication, with other initiatives on business and human rights. This year, we continued to play an active role in this Working Group by contributing to the elaboration of relevant tools and guidance documents and also attended its annual meeting that was held in December 2012 in Geneva.

UNGC Labour Working Group

The UNGC Labour Working Group was established in 2008 to raise the profile, relevance of and respect for the four labour principles among UNGC member companies and networks by developing tools, information exchange and convening fora. It draws on information and experience from the International Labour Organisation (ILO), the International Trade Union Confederation (ITUC) and the International Organisation of Employers (IOE). We are a member of this Working Group.

UNGC Advisory Group on Supply Chain Sustainability

This Advisory Group on Supply Chain Sustainability aims to inform and advise its members on common issues and solutions for supply chain sustainability across UN Global Compact issue areas and issues of importance. This will include the availability of practical tools and resources including guides, training, and reference documents. We are a member of this Advisory Group and participated throughout the year in its work streams on traceability and human rights.

UNGC Education First Initiative

We have committed to support a new UN initiative to boost child and youth education worldwide. This initiative was launched by the UN Secretary General Ban-ki Moon at the United Nations General Assembly in 2012. We committed to strengthen and expand the following Creating Shared Value programmes that are specifically related to access and improvement of education:

- Healthy Kids global programme
- Nestlé WCF Global Schools Project, Côte d'Ivoire
- Water and sanitation programmes in schools, Côte d'Ivoire

Demonstrating leadership locally

Subsequent to the clarification of the UNGC subsidiary engagement policy in 2011, we have encouraged country-level engagement with local UNGC networks.

Australia: we are a board member of the local UNGC network.

Brazil: we are a member of the local UNGC network and shared efforts during the Rio+20 summit in 2012.

China: we are a member of the Presidium of the Chinese UNGC network. At its annual meeting in November 2012, the Nescafe Plan in Yunnan was selected a best practice.

Greece: we regularly participate in meetings held by the UNGC local network.

Guatemala: we are affiliated to CENTRARSE, an organization associated with the UNGC local chapter. In its last forum on Corporate Social Responsibility, the President of the Central America Region presented Nestlé as best practice examples of good managerial practice.

Honduras: we are affiliated to FUNDAHRSE, an organization associated with the UNGC local chapter.

Indonesia: we are a member of the local UNGC network (IGCN) and the Indonesian CEO Water Mandate. We were involved in the IGCN Volunteer day at Klaten, Central Java where we provided inputs regarding water and marketing management to the local community. A case study on our water management initiative was presented during the Rio+20 summit as part of Indonesia CEO Water Mandate. As member of CEO Water Mandate, we will actively take part in the World Water Day events in March and the National Water Day 2013. We will be launching the UNGC Save Water campaign at the head office and factories in Indonesia.

Italy: we have initiated the process to join the Italian UNGC network in 2012 and should become a formal member of the network in 2013. We will be part of the supply chain group that has the objective of defining clear KPIs for selecting suppliers with defined and strict requirements.

Kenya: we hosted the Business and Human Rights forum for the local UNGC chapter in our offices in Nairobi. Fifteen participants from member organisations attended the forum, where we presented on our human rights ethics in the workplace. We also participated in a one-day business roundtable event on human rights in a business context organized by the Kenya Private Sector Alliance, the UNGC network Kenya, the Kenya National Commission on Human Rights, and the Global Business Initiative on Human Rights.

Nordic region: we participated in the UNGC local network meeting at the Foreign Ministry in Sweden

Panama: we are affiliated to SUMARSE, an organization associated with the UNGC local chapter.

Philippines: we are an active participant of the local network, through our membership with the Employers' Confederation of the Philippines and the Philippine Chamber of Commerce and Industry.

Switzerland: we are a board member of the local UNGC network.

UK: we joined the local network in 2012.

Communicating progress

We provide our Communication on Progress (COP) towards UNGC goals and principles in the form of our Nestlé in Society print report, as well as the full online report, which cover the Company's efforts in implementing the advanced criteria and the Blueprint for Corporate Sustainability Leadership.

This report covers the activities and aggregated key performance indicators (KPIs) 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 print report forms an integral part of our annual reporting to shareholders. The report itself highlights specific examples of our 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 our "Nestlé in Society" initiatives on our website.

The Nestlé in Society report contains a comprehensive GRI index and has been externally verified by Bureau Veritas.

To simplify content research and demonstrate how we meet the UN Global Compact Advanced and LEAD Communication on Progress criteria, we provide a COP index document, which can be found [here](#).

Supporting the 10 UNGC Principles		
UNGC Principles	Examples of recent and ongoing initiatives in this report	Link to relevant section
Human Rights	8 pillar human rights due diligence programme including policy development, targeted training and human rights risk assessments in our operations	Human Rights
	Assessing and addressing human rights impacts in partnership with the Danish Institute for Human Rights	Human Rights
	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	Child labour
Labour	Community engagement	Community engagement
	Promoting human rights among our suppliers	Human rights
	New Nestlé Policy on Conditions of Work and Employment	Labour relations Nestlé Corporate Business Principles
	Revised Nestlé Management and Leadership Principles	Employee and career development Nestlé Corporate Business Principles
	Ongoing CARE Audit Programme (Compliance Assessment of Human Resources, Occupational Health & Safety, Environment and Business Integrity)	Nestlé Corporate Business Principles
Environment	Life Cycle Approach	Environmental life cycle of products
	Eco-design	Environmental life cycle of products Packaging
	ISO 14001 certification	Managing environmental sustainability
	CEO Water Mandate's work streams on Policy Engagement, Water Disclosure and Human Right to Water	Water: collective action
	Water Resources Review roll-out	Water in our operations
Anti-corruption	Carbon Disclosure Leadership Index 2011	Climate change
	Transport and distribution	Transport and distribution
	Energy Target Setting Initiative	Manufacturing
	Responsible Sourcing Audit Programme	Managing responsible sourcing
	Combating deforestation	Deforestation
	Code of Business Conduct	Anti-corruption
	Anti-corruption training tool	Anti-corruption

The Nestlé Prize in Creating Shared Value

We launched the Nestlé Prize in Creating Shared Value to help innovative, commercially viable and high impact initiatives linked to water, nutrition or rural development achieve social scale and financial sustainability.

The Nestlé CSV Prize is awarded every two years and is open to individuals, government bodies, non-governmental organisations, academia and private and social enterprises.

The Nestlé CSV Advisory Board selects the Prize Laureate and the winning entry receives an investment of up to CHF 500 000 (approx USD 540 000) to develop and scale up its initiative. The nomination period for the 2014 Nestlé CSV Prize is now closed. The Laureate will be announced at the 2014 CSV Forum. More information is available in the [Official Rules](#) and in the [Frequently Asked Questions](#).

You can also contact us at CSVPrize@nestle.com.

Past prize winners

2012 Winners

The 2012 Nestlé CSV Prize was awarded to [Fundación Paraguaya de Cooperación y Desarrollo](#) for its 'self-sufficient agricultural school' model.

These schools, set up by Fundación Paraguaya in poor rural areas of Paraguay, give students a platform to develop the entrepreneurial and practical skills they need to lift themselves out of poverty. The 'self-sufficient school' initiative implements on-campus micro-businesses that teach teenagers the skills they need to find a job or set up their own businesses. Each school, together with Fundación Paraguaya, creates a 'teaching and production' business plan to define which small enterprises it will set up. These micro-businesses range from agricultural technical assistance, milk production, farming, organic gardening, hotel services, bee keeping and chicken egg production.

Money generated from the enterprises enables the schools to be self-sufficient and cover their operating costs – such as salaries, administration and school maintenance – without the need for government funding.

The project has already reached more than 500 students in Paraguay. It was first established in 2003 at the Escuela Agrícola San Francisco. The school has been financially self-sufficient for more than five years. The Nestlé CSV Prize will help to scale up the project with the funds being used to recreate the winning model in the Paraguayan city of San Pedro.

In addition to the overall winner, the CSV Advisory Board selected two runners up:

[Arcenciel](#), a Lebanese non-profit organisation, which helps farmers and small food-processing business owners improve the sustainability and competitiveness of Lebanese agriculture throughout the value chain.

[Excellent Development](#), a non-profit organisation, which helps rural communities in Kenya, Zimbabwe, Mozambique and Uganda to gain access to clean water through the construction of sand dams. This is carried out through a community self-help approach alongside soil and water conservation activities and training in climate-smart agricultural techniques.

2010 Winner

[iDE Cambodia](#) was awarded the inaugural Nestlé Prize in Creating Shared Value in May 2010 for their programme aimed at increasing agricultural productivity and income for Cambodian smallholder farmers.

Starting in 2005, iDE Cambodia developed a network of independent small rural entrepreneurs that it calls Farm Business Advisors. These advisors give technical advice to the small scale farmers to help them boost their productivity while selling them products such as high-quality seeds, fertilizer, plastic fencing and irrigation equipment and services. More than one hundred FBAs are now working with 15 000 farmers. During the period of Nestlé involvement, total FBA sales to farmers doubled annually - from USD 65 000 in 2010 to a 2012 forecast revenue of USD 440 000.

The demonstrated effectiveness of the model has attracted further investment from other development partners, and the programme will grow from its current size to 330 agents in eight Cambodian provinces by mid-2013.

Nutrition

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apple Highlights and challenges

Actions we've taken

- We've opened a new Clinical Development Unit to support our research and streamline the way we evaluate the impact of our foods and ingredients on human biology, health, taste and pleasure
- The Nestlé Research Center (NRC) has published new research, exploring ways in which human behaviour towards food influences dietary choices
- We launched new health economics studies in order to better understand how to maximise the health 'return on costs' for nutritionally-vulnerable consumers buying fortified products
- Nestlé Health Science has developed an eating assessment tool that can help health-care professionals and carers identify dysphagia problems early in at-risk patients
- We have launched new biofortification research in Côte d'Ivoire
- Guideline Daily Amounts (GDA) now appear on 99% of products in the EU region
- We studied the latest food guides and dietary recommendations from authorities around the world and, for each of our product categories, identified appropriate portion size ranges tailored to different ages and life stages

Challenges we've faced

- Promoting optimal nutrition throughout the life course
- Advancing the science to help address the double burden of malnutrition
- Helping mothers give their children the best start in life
- Helping families meet their nutritional needs
- Helping meet the needs of people in emerging markets
- Meeting the needs of older people and those with specific nutritional requirements

Our performance

- We've renovated 6692 products for nutrition or health considerations
- We've provided Nutrition Quotient (NQ) training for 226,000 employees since 2007
- Our Healthy Kids Global Programme reached 5.4 million children in 2012
- We sold 100 billion servings of iodine-enriched *Maggi* products worldwide in 2012
- We have also initiated an iron fortification programme in India, Pakistan, Sri Lanka, the Caribbean, Central America, Central and West African countries and the Pacific Islands. In 2012, around 32 billion individual servings of Nestlé products included iron fortification
- In just one year, the Nestlé Institute of Health Sciences (NIHS) has established several science and technology platforms and has set research projects underway, all broadly focused on how nutrition and genetics influence health and disease



Iron- and iodine-fortified *Maggi* cubes on sale in an open market in Nigeria, helping address micronutrient deficiency.

External recognition

- In 2011, we became the first infant formula manufacturer to be included in the FTSE4Good responsible investment index

Inside the issue: Nutrition

Nutrition is fundamental to human life. All human achievement – social, economic and cultural – is directly influenced by our access to food and water. Today, billions of people face serious malnutrition issues. Many do not have enough to eat or drink; others eat too much and move too little. In many countries and communities, both issues are prevalent: some people are under-nourished while others are over-nourished and poor nutrition can coexist with excess caloric intake in the same individuals. This “double burden” of malnutrition is a very complex global issue.

Food manufacturers can play an important role in offering the right kind of products and helping consumers make the right nutritional choices.



Healthy eating for two: twins Keyla and Kysha Zaleth Congo Delgado at the Escuela Ana Luisa Leoro school in Ibarra, Ecuador, taking part in Nestlé's "Nutrir" Healthy Kids Programme.

Managing Nutrition

Why it's important

A number of global trends – including growing world population, urbanisation, rising incomes, and an increase in the number of people living beyond 60 years – have an impact on nutritional habits and health.

These trends can improve dietary choice for some people, but are also marked by increases in the number of people adopting less nutritionally-balanced diets and more sedentary lifestyles. These choices lead to over-nutrition and related non-communicable diseases at one extreme. At the other, under-nutrition, including micronutrient deficiencies and associated disorders, persist.

Under-nutrition and over-nutrition currently affect the health, wellness and livelihoods of nearly half the world's population - irreversibly impairing the physical and mental development of infants and children, increasing illness and premature death among all age groups and decreasing personal and national productivity.

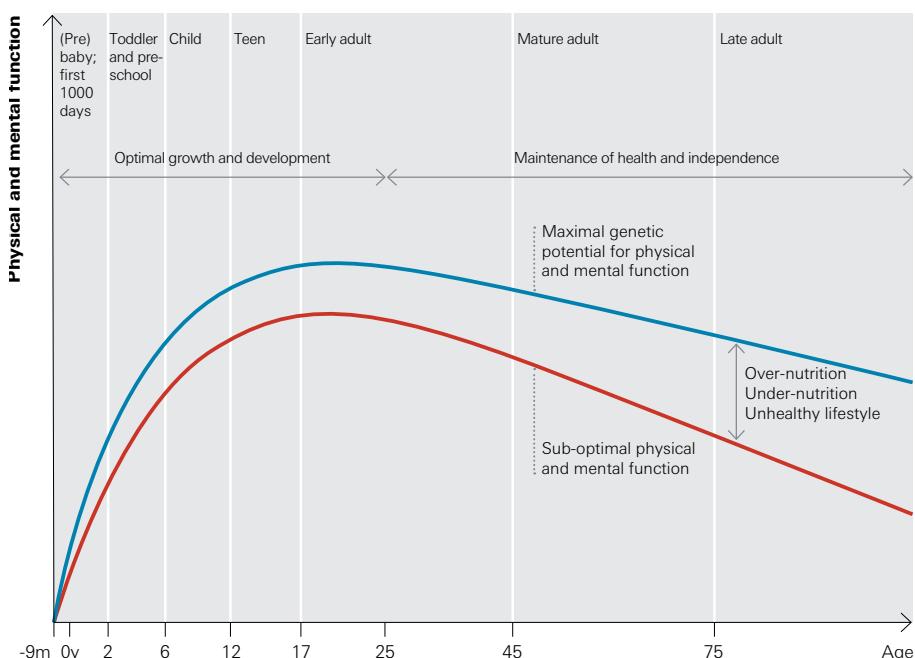
Many forms of malnutrition

In many developing countries, people effectively bear a 'double burden' of malnutrition, with undernutrition (comprising protein-energy malnutrition and micronutrient malnutrition) and overnutrition (overweight and obesity) occurring simultaneously. In general, people in lower income groups around the world are at higher risk of suffering malnutrition in any form.

In line with our Good Food, Good Life promise, Nestlé aims to lead industry efforts to help ensure consumers everywhere have the right choice and availability to be optimally nourished and consequently enjoy good health and personal wellness.

Every individual has what nutrition scientists call a 'maximal physical and mental functioning potential trajectory' for life, which is genetically predetermined (this is shown as a blue line in the graphic below); however 'sub-optimal nutrition and lifestyle' during our time in the womb or during infancy, childhood, adolescence and adulthood gradually erodes our physical and mental function (shown as a red line in the graphic) resulting in impaired health, independence, quality of life and ultimately premature death.

Promoting optimal Nutrition, Health and Wellness throughout the life course



Our 'optimal Nutrition, Health and Wellness' goal

Nestlé's goal is to help consumers attain and maintain optimal nutrition, health and wellness, which is why we're working continuously to improve our understanding of nutritional and health needs during the most critical early life stages – the first 1000 days, growth and development stages during infancy, childhood and adolescence – and to use this understanding to develop appropriate products and services, beginning by supporting the WHO recommendation of six months exclusive breastfeeding as the best nutritional start in life.

Helping consumers avoid under-nutrition

Our efforts to help consumers avoid under-nutrition focus mainly on preventing micronutrient malnutrition through vitamin and mineral fortification of Nestlé foods, especially our Popularly Positioned Products (PPPs) – high-quality food products that provide nutritional value at an affordable cost and appropriate format. We prioritise the needs of young children and women of child-bearing age in countries where micronutrient deficiencies are most prevalent, and fortify the products preferred by these vulnerable groups to address specific local needs.

Helping consumers avoid over-nutrition

We work at helping consumers to avoid becoming overweight or obese and thus develop related non-communicable diseases (such as cardiovascular disease, diabetes and some cancers). We aim to help educate them about their nutritional needs by improving the information about ingredients and portion size we provide on our products. We also support other initiatives and promote better hydration along with the benefits of physical activity.

Using rigorous nutritional criteria as part of our 60/40+ approach – ensuring our products are preferred against competitor products in blind taste tests and bringing relevant nutrition advantage – we are working continuously to improve the levels of essential nutrients in our products, while also lowering their saturated fat, sugar and salt content, to offer our consumers the tastiest and healthiest choices.

What we stand for

Our Nutrition, Health and Wellness principles

Our Corporate Business Principles define the way we operate. We have ten principles, covering all aspects of our business, including: Nutrition, Health and Wellness (NHW); quality assurance and product safety; and consumer communication.

The number one aim of our Corporate Business Principles 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'.

What we're doing

Our Nutrition, Health and Wellness strategy

Our NHW strategy is based on the belief that consumer choice will increasingly be driven by nutritional awareness and the desire for improved health and wellness, and that being responsible and innovative will drive sustainable growth.

Governance and oversight

A well established governance structure ensures that all our NHW policies, objectives and activities are implemented in line with our Corporate Business Principles.

Our Executive Board sets direction and monitors our NHW performance indicators. Ultimate organisational responsibility rests with our CEO, Paul Bulcke.

The Nestlé Nutrition Council – an independent council of internationally recognised experts, chaired by Executive Vice President Werner Bauer – meets regularly to discuss and advise our senior management on how we can best address key NHW issues including childhood obesity, diabetes and micronutrient malnutrition.

Stakeholder engagement

We are concerned, as are others, by the increasing burden that non-communicable diseases place on healthcare systems around the world. A concerted effort, involving scientists, academics, consumers, health leaders, the food and beverage industry and both national and international authorities is most certainly required to resolve this issue. We are contributing to the debate and the search for solutions through collaborations with universities, start-ups, key suppliers and other partners, at every stage of the product development process.

Employee training and engagement

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.

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

The programme already includes 18 different modules, each representing between four to 15 hours of learning. We make sure the trainee experience is engaging and interactive to optimize learnings. This also allows us to know how many people were actually trained. More than 226 000 employees around the world have undergone NQ training since the programme was launched in mid-2007.

Over the past five years, we have ourselves developed a deeper understanding of the need for various self-paced or combined learning options. To supplement workshop sessions and e-learning modules, we 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 meaningful and applicable in daily life. An additional 19 000 employees in 18 different countries went through the complete cycle during 2012.

Since nutrition training must be a continuous effort to bear fruit, follow-up campaigns and tools are deployed regularly, with 57 149 past trainees having received such boosters in 2012.

Research and development

Why it's important

Research and development (R&D) provides the understanding we need to address malnutrition, micronutrient deficiencies, obesity, and other global nutrition issues. It also continuously improves our product portfolio and delivers far reaching solutions that will have an impact in the longer-term – for example, personalised nutrition solutions for patients during treatment for acute diseases and for consumers with a predisposition to chronic conditions.

What we stand for

We are committing resources to help address global nutrition issues. But our actions to do so must be based on real evidence and understanding. Malnutrition, for example, has multiple causes: the foods we eat and in what quantities; the conditions we live in; our genes; our lifestyle today and during the early years of our lives.

If we understand these causes and how they influence each other, we can develop solutions that make a positive difference.

What we're doing

We have the world's largest food and nutrition research organization, with about 5000 people involved in R&D, as well as corporate venture funds and research partnerships with business partners and universities.

Investing in R&D

R&D is undertaken 'inside' Nestlé and in partnership with academia, governments, research institutes, corporate ventures, start-ups, suppliers, and NGOs. The knowledge it provides can be shared with public health authorities, medical bodies and industry partners. We focus on two key objectives: keeping people healthy through the food they eat is the focus of the [Nestlé Research Center \(NRC\)](#), while finding solutions to help them manage chronic diseases is the focus of the [Nestlé Institute of Health Sciences \(NIHS\)](#).

We work across the value chain from raw materials to product development and consumer benefits. Our innovation model is consumer-centric, focuses on what is technically possible, is based on business and consumer insight and creates shared value.

Our total investment in R&D worldwide during 2012 was CHF 1.54 billion.

Learning more about nutrition

At the heart of R&D in Nestlé is the Nestle Research Center



Reformulating Cereal Partners Worldwide recipes in Orbe, Switzerland, as part of a global commitment to improve nutritional profiles by 2015.

– with its HQ in Lausanne, Switzerland – which is the centre of our scientific knowledge and research linking into our global network of 32 R&D and Product Technology Centres worldwide.

NRC supports Nestlé product development and innovation by focusing on four key aspects: nutrition and health; food science and technology; food quality and safety; and a new field, sensory and consumer science, that explores how human behaviour towards food influences dietary choices.

Part of this research, focused on the role that parents play in promoting healthy eating habits in children, has produced several useful insights:

- If mothers and caregivers persist in offering healthy foods that infants initially reject, the infants will eventually learn to eat the food and ultimately prefer it to less healthy choices;
- Infant food choices are influenced by the mother or caregiver's facial expressions during feeding;
- Mothers and caregivers can be taught to detect satiety signals and avoid over-feeding.

NRC has published a joint study with the University of Wageningen that suggests the time people spend chewing their food may be an important factor in determining energy intake.

NRC's work has real impact across all our product categories and feeds straight into locally relevant product innovations through our network of 300 Application Groups.

Putting innovation into action

The Nestlé Nutritional Profiling System (NNPS) is a rigorous system used to benchmark our products against set criteria – based on recommended values from the World Health Organization and other independent authorities. It assesses a product's nutritional contribution, considering its role in a balanced diet, its ingredients (including fat, added sugar, calcium and whole grain) and the serving size usually consumed, either by adults or children.

In the eight years since we adopted the NNPS, we have benchmarked to 75.7% of the entire Nestlé portfolio achieving the Nutritional Foundation (NF) in 2012. The NNPS framework helps us assess whether a Nestlé product achieves the Nestlé Nutritional Foundation criteria. This means it fulfils the nutritional criteria to be appropriate as a frequent choice in a balanced diet.

Addressing chronic diseases

The creation of Nestlé Health Science and the Nestlé Institute of Health Sciences is a major strategic move for us to pioneer a new industry between traditional nutrition and pharma. Both entities began operations in 2011 and made

a strong start in their quest to develop science-based personalised nutrition to help address increasingly prevalent chronic medical conditions that are placing an unsustainable burden on the world's healthcare systems.

The Nestlé Institute of Health Sciences

The [Nestlé Institute of Health Sciences](#) had its official opening in Switzerland in November 2012. The Institute performs biomedical research and uses advanced technologies to develop a better understanding of human health. The Institute supports Nestlé Health Science by providing a scientific foundation for innovative products that combine medical nutrition and diagnostics with an aim to delay the onset of chronic diseases such as diabetes, obesity, and Alzheimer's disease. The Institute is based on the university campus of the world-renowned [Ecole Polytechnique Fédérale de Lausanne \(EPFL\)](#) and is part of our global R&D network.

Nestlé Health Science

[Nestlé Health Science](#), a wholly-owned subsidiary of Nestlé S.A., has its worldwide headquarters in Lutry, Switzerland. Established in January 2011, Nestlé Health Science has accelerated momentum in its quest to shape a new industry between traditional nutrition and pharma based upon science-based personalised nutritional solutions to address chronic disease. Examples include:

- new clinical trials in brain health with new partner Accera to explore the role of nutrition to better manage mild-to-moderate Alzheimer's disease;
- a joint venture with Chi-Med focusing on gastrointestinal health, giving access to the world's largest traditional Chinese medicine libraries and discovery platforms. Clinical trials behind an innovative botanically-based treatment for inflammatory bowel disease (IBD) are already planned as part of this relationship that also paves the way for a wider potential to support the metabolic and brain health platforms.

New diagnostics tests have been launched by Prometheus, a San Diego-based company specialising in diagnostics and in-licensed specialty pharmaceuticals in gastroenterology and oncology, which enabled us to explore opportunities to combine diagnosis with nutrition. Meanwhile, innovations, renovations and geographic expansion continued to invigorate the established core healthcare nutrition business, around the ageing medical care, critical care/surgery and paediatric medical care platforms, as Nestlé Health Science strives to elevate and expand the role of nutrition as an integral part of personalised healthcare.

Nestlé Clinical Development Unit

Nestlé has run clinical trials and shared findings for many years, with more than



Sensory Expert Regina Arslanian performs a tasting session as part of Cereal Partners Worldwide's recipe reformulation in Orbe, Switzerland.

100 trials underway in 2011 and more in the pipeline. To simplify our processes, improve efficiency and expand capacity, we brought all our clinical trials together under one roof at a new Clinical Development Unit, opened in 2012. This new facility, which includes a specialist Metabolic Unit, provides medical expertise and manages clinical trials for the Company. It will support all aspects of Nestlé research and help us streamline the way we evaluate the impact of our foods and ingredients on human biology, health, taste and pleasure.

Nestlé Research Center

At the heart of R&D in Nestlé is the [Nestlé Research Center \(NRC\)](#). Its headquarters are in Lausanne, Switzerland, but it is actually a global network of 32 R&D or Product Technology Centers worldwide.

NRC provides the scientific knowledge and research base for product renovation and innovation. It supports this through outstanding scientific and technological research. It focuses on four key aspects: nutrition & health – specifically how the human body uses nutrients at different life stages; food science & technology; food quality & safety; and sensory & consumer science that explores how our behaviour towards food influences our dietary choices. Part of this research focuses on the role of parents in promoting healthy eating habits in their children. It has already highlighted a number of insights:

- If mothers and caregivers persist in offering healthy foods that infants initially reject, the infants will eventually eat the food and ultimately prefer it to less healthy choices.
- Infant food choices are influenced by the mother or caregiver's facial expressions during feeding.
- Mothers and caregivers can be taught to detect satiety signals and avoid overfeeding.

Nestlé Nutrition Institute

To combat the causes of malnutrition, healthcare professionals around the world need relevant and up to date information. To provide this information, in 2005 we created the [Nestlé Nutrition Institute](#). In just seven years, this independent, not-for-profit organisation has become the largest private publisher of nutritional information in the world. Its website currently attracts more than 170 000 registered users in almost every country in the world.

The Nestlé Nutrition Institute also carries out nutrition research into public health and health economics.

Emerging technologies

Technologies are a vital part of our R&D. We have engineers working in R&D in a variety of fields – from packaging and equipment to food processing.

Alongside engineers, our food scientists develop processes and technologies that enable the development of safe, nutritious foods and beverages while keeping us on the cusp of new developments in food science and technology.

Gene technology

We recognize the potential that gene technology has in the longer term to improve the quality, availability and nutritional value of food. We use ingredients derived from genetically modified crops in some regions of the world, where and when it is appropriate to do so.

As a global food manufacturer, Nestlé takes into consideration local consumer preferences and attitudes concerning the use of ingredients derived from genetically modified (GM) crops. This means that we do not use GM ingredients in any region of the world.

All the raw materials that we use, including genetically modified crops, comply with strict regulatory and safety evaluations.

Nanotechnology

We monitor all developments that may have applications in the food and beverage industry, and this includes nanotechnology. We are able to deliver all our innovations in our foods and beverage portfolio without using nanotechnology or nanomaterials.

We make limited use of nanostructured materials in packaging applications where they contribute to environmental sustainability and meet our strict requirements for quality and safety.

Case study:

Collaboration with Diogenes

The Nestlé Institute for Health Sciences has partnered with the [Diogenes](#) consortium, Europe's largest multi-center dietary intervention study on weight management. The NIHS team is now analysing clinical samples and will integrate the genomic data. The idea is to better understand the mechanisms behind weight loss and weight maintenance to give nutritional advice back to the communities. DioGenes is funded by the EU and regularly shares information with all participating members.

Case study:

Nestlé Nutrition Institute and ESPGHAN - improving healthcare for children in Africa

The Nestlé Nutrition Institute has worked with [ESPGHAN](#) (the European Society of Paediatric Gastroenterology, Hepatology and Nutrition) to address a specific issue in Sub-Saharan Africa - the lack of gastroenterologists with an understanding of paediatric nutrition. Previously only eight gastroenterologists in the region had a nutrition qualification, compared with 200 in the UK. Nestlé Nutrition Institute and ESPGHAN have created a training programme and relevant diploma and provided grants and resources to help more than 30 doctors develop a better understanding of the nutritional needs of children with gastrointestinal diseases. The course, run by ESPGHAN, is currently being offered in nine African countries.

Maternal and infant nutrition

Why it's important

Children who start life with an unbalanced diet face an increased risk of chronic diseases and stunted growth and development. We believe good nutrition for children starts before and during pregnancy, then continues after birth with a well-nourished mother, breastfeeding exclusively for six months and beyond, in line with [World Health Organization](#) recommendations, before making feeding choices appropriate to her weaned child's developmental stage.

What we stand for

In maternal and infant nutrition we strive to enhance maternal and child health by focusing our research, product development and education services on exactly this window of opportunity in the first 1000 days.

What we're doing

We are developing science-based product solutions and education programmes, supporting breastfeeding, addressing malnutrition and leveraging our direct access to science and research.

Understanding the science

Our starting point is to understand the science that underpins healthy maternal and infant nutrition in the first 1000 days – including the genetic, biochemical and the behavioural aspects of healthy eating. We use this understanding to educate mothers and carers through our [Start Healthy Stay Healthy](#) programme.



The Nestlé Research Center Metabolic Unit runs clinical studies in areas including metabolism and energy regulation, to support Nestlé's Nutrition, Health and Wellness initiatives.

Sharing our knowledge

Good nutrition starts before conception and pregnancy, continues after delivery through breast milk, and is followed by developmental, stage-appropriate feeding choices, helping infants and young children to grow and develop into healthy adults. Parents need consistent messages on how to feed young children in a healthy way. Our approach is to help educate parents on the impact that relatively simple dietary changes can have in early life.

Through the work of the [Nestlé Nutrition Institute \(NNI\)](#) we also provide more than 170 000 registered healthcare professionals with the information they need to help their patients, including mothers and infant caregivers, make healthy nutritional choices. The NNI also works in partnership with academia and key opinion leaders to initiate research into maternal and infant nutrition.

Offering healthy choices

Building on our own research and working with external research institutes, we bring science-based solutions to mothers and babies through our innovative product portfolio – for instance MOM & me supplements for pregnant and lactating women, HA (hypo-allergenic) formulas clinically proven to reduce the risk of allergies in the first years of life and infant cereals specially fortified to help tackle micronutrient deficiencies.

Ensuring the right approach to promoting infant nutrition

In line with [World Health Organization \(WHO\)](#) recommendations, we support exclusive breastfeeding during the first six months of a child's life and continued breastfeeding for as long as possible thereafter, with the introduction of nourishing complementary foods. When breastfeeding isn't possible, infant formula is a healthy alternative – particularly since all too often, less nutritious choices such as cow's milk or rice water are used.

We're strongly committed to marketing our infant food products in line with the 1981 [WHO Code of Marketing of Breast Milk Substitutes](#), which aims to protect and promote breastfeeding and ensuring the proper use of breast milk substitutes when these are necessary. In 152 countries with conditions of higher risk for infants, we apply the [Nestlé Policy and Instructions on Implementing the WHO Code](#) or the government regulations, whichever is stricter.

We make sure all our employees involved in infant nutrition understand the WHO Code and use our detailed procedure manuals to guide their actions. We run extensive training and testing programmes for employees on the WHO Code. We carry out internal audits to ensure correct implementation and also commission an external company to do thorough audits as well. We back these up with a 'whistleblowing' ombudsman system, a compliance insurance mechanism – our Integrity Reporting System' and have several conduits into the company for use by stakeholders with any concern.

We have a policy of researching and responding to all serious questions about our breast milk marketing practices. All inputs about our practices are carefully gathered and annually reported to the Board of Directors. This report is used as means for us to evaluate ourselves and to improve our practices.

In 2011, we became the first infant formula manufacturer to be included in the [Financial Times Stock Exchange responsible investment index \(FTSE4Good\)](#), the only index in the world that includes strict criteria on the marketing of breast-milk substitutes.

Start Healthy Stay Healthy - Offering the best advice for mothers and caregivers Our [Start Healthy Stay Healthy programme](#) provides the information and support that mothers and caregivers need to get nutrition right in the first 1 000 days. The programme works through print, television, the web and by providing doctors with practical tools to educate women about the importance of breastfeeding and the best nutrition during pregnancy and the first two years of life.

To back up the programme, we're involved in proprietary public health research, which helps us identify nutritional gaps and inappropriate eating behaviours. We use the lessons we learn to map out nutritional challenges and opportunities together with local health authorities, governments and NGOs.

The programme was developed following the 2002 and 2008 Feeding Infants and Toddlers Study (FITS). The studies examined the eating habits and nutrient intake of infants and young children and provided important information on what foods are eaten as children transition from an all-milk diet to the food of the family.

In 2011, we initiated a very similar nutrition survey with pregnant women, mothers and babies in China. The study was conducted in collaboration with Peking University to complement the existing national nutrition data. The MING study characterises the nutrient composition of Chinese mothers' milk at various stages of lactation and evaluates the nutrition adequacy and behavioural patterns of Chinese mums and babies. First results indicated, for example, that there is a relationship between a mother's weight gain during pregnancy and the propensity of the child to become obese or develop diabetes later in life. The Chinese Nutrition Society will use the study results to shape new dietary guidelines.

By expanding Start Healthy Stay Healthy into a holistic programme going far beyond products, we can help support obesity prevention, reduce future health risks for both parent and child, and ensure the healthiest possible start to their journey together.

Maternal nutrition

We developed our nutritional milk drink, 'MOM & me', with the needs of pregnant and lactating women in mind. It provides a combination of beneficial miner-

als, vitamins, DHA and Bifidus BL active cultures. 'MOM & me' is already available in several Asian markets at an affordable price.

Engaging with key stakeholders

Over the past few years and during 2012, we have had constructive dialogue on breastfeeding and other infant nutrition issues with up to 35 different NGOs and interest groups through annual stakeholder convenings.

The [Nestlé Nutrition Institute](#) has a vital role to play in promoting breastfeeding because its independence from Nestlé is assured. Healthcare professionals and key opinion formers generally recognise that its primary interest is in acquiring and sharing knowledge to achieve positive change on nutrition issues.

Sourcing the best raw materials

The best raw materials generally produce the best products. We work closely with our farmers to ensure we can trace our products' origins and assure their quality. We also help them introduce more efficient cultivation methods; in the Talamanca District in Costa Rica we assist indigenous farmers to improve quality and quantity of organic bananas, which form the base raw material for many baby foods in jars.

Case study:

[Collaboration between the Nestlé Research Center and EpiGen](#)

This partnership brings together scientists from both the public and private sectors to improve human health through the application of epigenetic tools and technologies.

[Nestlé Research Center](#) and Nestlé Nutrition will collaborate with [EpiGen](#) to undertake a research programme to understand and substantiate optimal nutrition for mothers during pregnancy and for infants to promote metabolic health throughout life. The ultimate goal of the programme is to make recommendations, supported by robust science, for the best maternal and infant nutrition strategies.

These studies will rely on epigenetics, the biology of understanding how gene function is regulated by environmental factors, such as maternal nutrition, during the very early stages of development. EpiGen will contribute its expertise in this emerging scientific field, while our scientists will contribute outstanding knowledge of maternal and infant nutrition.

Case study:

[Nestlé Nutrition Institute's initiatives in Bangladesh](#)

The [Nestlé Nutrition Institute](#) work in Bangladesh delivering breastfeeding and nutrition information through local scientific symposia led to the institute being invited by the President of Bangladesh to present during national breastfeeding week.

Family nutrition

Why it's important

The majority of Nestlé products are focused on families and their changing nutritional needs over time. Our product range includes many foods and beverages that cut across generations as well those developed for children, healthy adults and elderly people.

As we learn even more about nutrition issues, understanding the needs of different family members becomes increasingly important. We already know that eating habits acquired during infancy are likely to last a lifetime. We also understand that childhood and adult obesity is now an issue worldwide and that elderly people are prone to malnutrition.

We already have products and services that address these issues and we are working hard to improve them, while developing new solutions. We also offer nutrition advice and work in partnership on education initiatives worldwide, focusing on family members from early childhood through to their older years.

What we stand for

Despite social and demographic changes, the 'family' in its many different forms, remains a focal point for the cooking, preparation and consumption of food in countries around the world. We believe that children should be involved in the preparation of balanced and enjoyable family meals.

We do not compromise between taste and health when it comes to food: they must come together since food that is not eaten cannot provide nutritional value to the body. Yet achieving this balance and pleasure requires some understanding of what different choices offer, which is why we put some much effort into our Nutritional Compass labelling and educational programmes.

What we're doing

The Nestlé Nutritional Profiling System

Nestlé strongly believes that healthy diets must be enjoyable to be sustained. Our unique 60/40+ programme constantly re-challenges our products to ensure that they are preferred by at least 60% of consumers of a large panel. Nutritional assessments are conducted locally which guarantees that wherever Nestlé operates, it is the nutritional needs of the local consumer that dictate the formulation of our products.

Thanks to the 60/40+ programme we've assessed and renovated 31 720 products in 19 different categories to meet the needs of people in some 89 countries to date. Examples include our ice cream brands such as Skinny Cow, Edy's Slow Churned and peelable banana ice creams which are lower in fat and calories than competing products. Elsewhere, we have reduced sodium in our *Herta* cooked meats in France.

Cereal Partners Worldwide (CPW), Nestlé's joint venture with General Mills, has committed to reduce the sugar content in 20 breakfast cereal brands to 9g or less per serving by 2015. CPW currently sells around 3.5 billion portions of cereals each year.

The business case for healthier products

We believe there's a powerful business case for focusing on tastier and healthier products. Since 2009, our 60/40+ winning products have outperformed the rest of the portfolio, achieving better organic growth, real internal growth and margin returns every year. This is proof that relentless work on our recipes is helping meet consumers' expectations.

In 2012, we renovated for health or nutrition reasons 6 692 products (2011: 5 066; 2010: 6502).

Of the products we renovated, 3 317 (2011: 1 215) now contain less sodium, sugars, trans-fatty acids, total fat, calories or artificial colours; and 4 691 (2011: 3 851) now provide more essential nutrients or nutritious ingredients – including vitamins, probiotics, prebiotics and vegetables.

Guideline Daily Amount on packaging

To help consumers make more informed food choices, in 2006, we added, Guideline Daily Amounts (GDA) for adults on our packs in the EU region as part of an industry pledge. GDAs provide a factual and objective guide to the daily intake for energy and key nutrients and empower consumers to evaluate a product's role in the daily diet. In the EU region, GDAs for adults now appear on 99.3% of our products. Beyond the EU region, our voluntary implementation of GDA has been progressing rapidly and now, in line with our global commitments we will add GDAs to the front of Nestlé packs worldwide.

The Nestlé Nutritional Compass®

Around 96.8% of our products (sales worldwide) display the Nestlé Nutritional Compass® - an on-pack labelling framework launched in 2005 to help consumers make more informed decisions about our foods and beverages. The Compass provides relevant information to guide consumers in an innovative way through understanding the nutrition table, the ingredients used in the product, tips for responsible enjoyment and the healthy use of our products. It also provides contact details so consumers can get more useful information.

Our research tells us that around 60% of consumers find the Compass useful and we are using their feedback to continuously improve it, for example, by evolving the contents and ensuring they remain pertinent.



In India, a young mother-to-be and her mother-in-law receive information from a doctor as part of the Start Healthy Stay Healthy programme

Talking to consumers about nutrition

The [Nestlé Nutritional Compass®](#) is a great way to talk to consumers about nutrition, but not the only way. More and more of our products invite consumers to 'find out more' on our websites, and around the world we're involved in local and national nutrition education programmes.

Our efforts to promote better daily hydration are a good example of this. We know that drinking enough water every day is a healthy habit, best acquired during early childhood. We have made observational studies to know if children are properly hydrated when they arrive at schools in four markets (Italy, USA, UK, and France): two-thirds of children are under-hydrated. We're running information campaigns in those markets. We've also produced 'hydration toolkits' for use in schools through our [Project WET](#) (Water Education for Teachers) initiative and this material will also increasingly be included in our Nestlé Healthy Kids programme.

Nutritional Landscaping

To help us develop products that meet consumers' nutrition, health and wellness needs, we developed a 'Nutritional Landscaping' approach that we piloted in 2010. This allows us to analyse the public health priorities in terms of nutrition in a given country. It includes data on micronutrient deficiencies, excess weight and obesity, allergies, diabetes, and other nutrition-related health conditions, obtained through collaboration with local nutrition and health experts, authorities, and detailed consumer research. Nutritional Landscaping helps us target even more finely our products and communications to meet the nutritional needs of different consumer segments.

Helping parents and kids get portion sizes right

Research shows that what consumers see as a 'normal' portion size has increased over time in many countries – and that an increasing number of consumers are leading more sedentary lives and consequently consuming excess calories, which can lead to their becoming overweight or obese. In contrast, consumers who eat inadequate portions of nutrient-rich foods food because they live on low incomes often develop nutritional deficiencies.

Governments, regulators and health authorities have been calling for clear portion information for consumers to be included on food products. To help consumers make the right choices we introduced a Portion Guidance Framework in 2010, based on consultation with experts and consumers around the world. Our priority now is to find effective ways of making healthier portion choices for consumers as intuitive as possible when they are buying, preparing or consuming our products. In 2012, we used the 'food guides' and dietary recommendations issued by health authorities in every country we operate to compile a detailed Reference Portion Book, which will help us provide appropriate portion guidance for consumers.

Then, for each of our product categories, we identified appropriate portion sizes tailored to different ages and life stages, with a little variability to better reflect the fact that exact sizes may not meet individual requirements at each moment of consumption.

Our product teams and consumer information specialists are now systematically reviewing - and where necessary challenging - our different ranges with the aim of making Portion Guidance as easy to understand as possible. Our consolidated estimates at end 2012 indicated that products amounting to sales of CHF 26.2 billion already offered specific Portion Guidance.

The Nestlé Healthy Kids Global Programme

Getting active and acquiring healthy eating habits can help children achieve and maintain a healthy body weight. We're working hard to do all we can to promote healthier lifestyles and diets for kids.

We launched our Healthy Kids Global Programme in 2009, working with more than 250 partners worldwide, including national and local governments, NGOs, nutrition health institutes and sport federations. By the end of 2012, there were 68 programmes running in 64 countries, including pilots in Bulgaria, Democratic Republic of Congo, Kenya, Turkey, Vietnam and Zimbabwe. Together, these programmes have reached an estimated 5.4 million kids in 2012.

The key to the programme's success is the quality of the expert teams, who develop the educational materials and curricula to meet the specific needs of local communities. It's also important that the Healthy Kids Programme is not associated with our brands. Over the past 18 months, we developed stricter participation criteria for the programmes because we know they work best when children take part regularly. We've also improved the way we evaluate their impact on health.

The 2nd Nestlé Healthy Kids Global Workshop, India

About 70 delegates from more than 30 countries gathered in New Delhi, India, to share experiences and develop best-practice models for the Nestlé Healthy Kids Global Programme. Delegates included representatives from our global partners, the International Diabetes Federation (IDF) and the EPODE International Network. Representatives from national health authorities, child nutrition experts, NGOs and education experts working in partnership with us to deliver this programme also attended. The programme aims to raise Nutrition, Health and Wellness awareness and promoting physical activity among school-age children around the world.

A key takeaway of the workshop was the need for the programmes to measure health outcomes and to accelerate the transformation of our Healthy Kids programmes into effective and impactful community based initiatives that are science-based and contribute to the health of the community.



How we've performed

<p>Products analysed and improved or confirmed via 60/40+ programme (sales volume, CHF million)</p> <p>2012: CHF 31 720 million 2011: CHF 28 715 million 2010: CHF 36 420 million</p>	<p>Renovated products for nutrition or health considerations</p> <p>2012: 6 692 2011: 5 066 2010: 6 502</p>
<p>Products with reduction of sodium, sugars, trans-fatty acids, total fat, calories, or artificial colourings</p> <p>2012: 3 317 2011: 1 215 2010: 2 665</p>	
<p>Products containing Branded Active Benefits (sales volume, CHF million)</p> <p>2012: 6 455 2011: 5 563 2010: 5 335</p>	<p>Products with increase in nutritious ingredients or essential nutrients</p> <p>2012: 4 691 2011: 3 851 2010: 3 847</p>
<p>Products offering specific Portion Guidance (sales, CHF million)</p> <p>2012: 26 200 2011: 21 894 2010: 21 305</p>	<p>Products meeting the Nutritional Foundation profiling criteria (as % of total sales)</p> <p>2012: 75.7% 2011: 74.1% 2010: 73.2%</p>
<p>Products displaying the Nestlé Nutritional Compass® labelling (% of sales worldwide)</p> <p>2012: 96.8 2011: 98 2010: 97.1</p>	<p>Products in EU with Guideline Daily Amounts (GDA) for adults labelling on front of pack (% of sales)</p> <p>2012: 99.3 2011: 98.9 2010: 98.7</p>

What we plan to do

We have made commitments to improve the nutritional profile of our products.

Our commitments are to:

- Provide nutritionally sound products designed for children
- Reduce salt, sugars, saturated fats and transfats
- Help increase consumption of whole grains and vegetables, including via healthier home cooking
- Deliver nutrition information and advice on all our labels
- Provide portion guidance, and promote healthy hydration as well as healthy diets and lifestyles/physical activity.

Case study:

Educating families to cook balanced meals with *Maggi*

In addition to improving the nutritional value of its products by reducing salt content and adding relevant micronutrients, our *Maggi* brand has developed an ambitious cooking education programme in markets such as Germany. Through messages on-pack, online and in specially commissioned cook books, *Maggi* is helping families to improve their cooking skills and encouraging them to cook more balanced meals using fresh ingredients and less fat or salt. *Maggi* has removed the equivalent of around 11 700 tons of salt from its portfolio of products over the last eight years and is committed to bringing salt levels down even further.

Case study:

Helping consumers to manage their weight with *Jenny Craig*

Since it was founded in Australia back in 1983, the *Jenny Craig* programme has helped millions of consumers around the world to manage their weight through a balanced approach to nutrition and physical activity. The three cornerstones of the programme are Food, Body and Mind - with a range of *Jenny Cuisine* entrees and snacks available to complement advice on physical activities and a more 'mindful' and balanced approach to living. *Jenny Craig* stresses the importance of one-on-one support, with consultants available to help consumers at *Jenny Craig* centres or by phone or online through *Jenny Direct*.

Consumers in emerging markets

Why it's important

In many parts of the world, and particularly in emerging markets, people are moving away from cooking. Increasing numbers are switching from diets containing fresh ingredients to those including more processed, snack and out-of-home choices. Consequently, knowledge of what constitutes good food and good cooking is being eroded. We believe this may be a driver for increasing levels of obesity and that people need to eat more mindfully.

The [Food and Agriculture Organization](#) of the United Nations has stated that: "a growing number of developing countries must shoulder a 'double burden' of malnutrition: the persistence of under-nutrition, especially among children, along with a rise in overweight, obesity and diet related chronic diseases".

Nestlé is determined to play a part in addressing this 'double burden' and the problems related to it - from endemic anaemia amongst under-nourished pre-school children and pregnant women at one extreme, to chronic disease related to obesity, including heart disease and diabetes at the other.

We can help address the double burden of malnutrition through the products we provide, the advice we offer and our involvement in nutrition-related initiatives with other organisations. We can help encourage people to eat more mindfully and promote the preparation and consumption of fresh, healthy foods.

What we're doing

Micronutrient fortification

Micronutrient deficiencies: addressing the global burden

We have more than 140 years' experience in enhancing the nutritional profile of food products, and today many of our products are fortified with micronutrients – especially in the most commonly occurring deficiencies such as iron and vitamin A.

We use information from local governments and international health authorities to identify the different nutritional gaps in diets. We then 'renovate' our portfolio by adding the relevant nutrients, focusing on popular foods.

We aim to continue our micronutrient fortification activities in 2013 and beyond.

Micronutrient fortification of Popularly Positioned Products

It's important that our fortified products reach the people who need them most – so they must be enjoyable, nutritious and affordable.

We market a growing number of Popularly Positioned Products (PPPs), high quality food products that provide nutritional value at a price people can afford. They include everything from culinary products to beverages and dairy. There are 6 367 PPPs are currently available around the world. Fortifying our Popularly Positioned Products (PPPs) with micronutrients can help address deficiencies where they are most prevalent.

To help address the most widespread micronutrient deficiency – a lack of iodine – which affects 2 billion people worldwide, we've developed iodine-enriched *Maggi* brand products using iodized salt, including bouillons, seasonings and noodles.

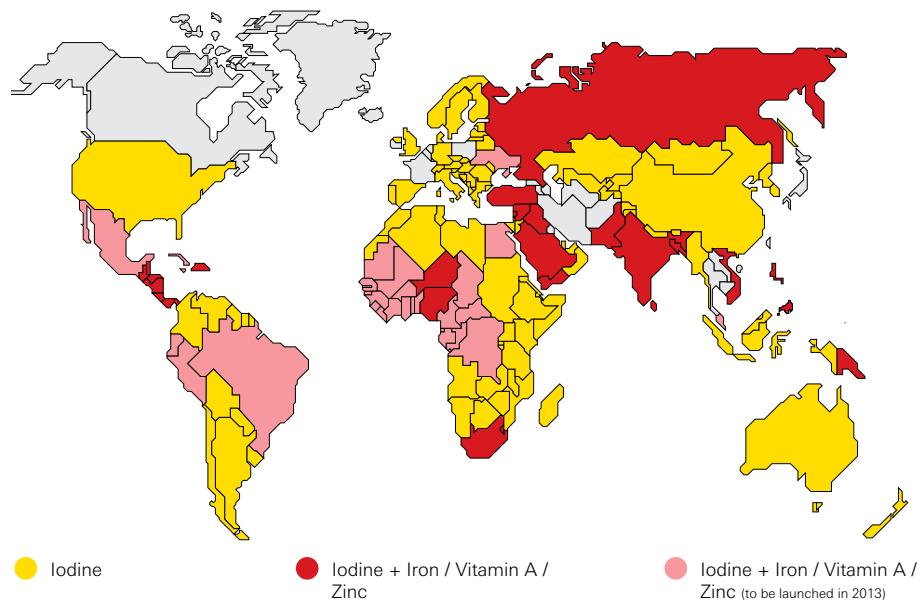
Iodine fortification is included in more than 680 000 tonnes of *Maggi* products - including bouillons, seasonings, noodles, soups and recipe mixes - in many countries around the world. Amongst these 680 000 tons, 110 000 tons are also iron fortified (mainly in Central America, Central and West Africa, Middle East, Pacific Islands, and South Asia including Pakistan). Based on respective serving size, we estimate the total number of individual servings fortified with iodine to be approximately 100 billion in 2012. In addition to iodine, we have initiated an iron fortification programme in India, Pakistan, Sri Lanka, the Caribbean, Central America, Central West African countries and Pacific Islands. We estimate that approximately 100 000 tonnes of micronutrient fortified bouillons, seasonings and noodles were sold in those countries in 2012. Our entire range of fortified products provided around 84 billion individual with iron fortification globally, up from 51 billion in 2011.

Our efforts to target micronutrient fortification where it's most needed have been underscored by the Nestlé Nutrition Institute's work on public health and the issues it has highlighted: for example, while milk is a good carrier for micronutrients in many countries, given that 80% of people in China are lactose intolerant to various degrees, alternative carriers such as culinary sauces and cereals are more appropriate in that country. The Institute has also worked hard to highlight the problems of malnutrition affecting mothers and their unborn children in developing countries and acted as a catalyst for action on other nutritional issues.



A Nigerian family enjoys **Golden Morn** affordable breakfast cereal, fortified with vitamin A and iron.

Reach of fortified *Maggi* products at the end of 2012



We've supported the launch of all our fortified *Maggi* products with advertising and information campaigns that promote their health benefits, their affordability, and the benefits of combining them with fresh, locally sourced products. These fortifications, which we highlight on packaging and through marketing campaigns, along with the benefits of eating fresh, local ingredients and home cooking, have helped us to achieve 16% growth in 2012 in the Central and West African region, our biggest fortified bouillon market. In a number of developing countries, including India, we've also successfully reduced salt in *Maggi* products, while also ensuring consumer taste preference.

Focusing on health economics

Responding to feedback on our 2008 Nutrition report, we created an independent research grant to support our understanding of both the personal and macroeconomic impact of our fortified foods.

A joint project with the University of Zurich's Department of Applied Sciences has already established that fortified milks and infant cereals can reduce anaemia by as much as 50% and produced 'anaemia maps' to highlight where it is most prevalent. The project is now focused on assessing the macroeconomic impacts of under-nutrition. A separate study by the World Bank Group suggests that action to reduce under-nutrition can add 2-3% to national GDP. If this project reaches similar conclusions it may encourage local governments to partially fund the provision of fortified foods.

Bio-fortification: Developing crops that help bridge the nutrient gap

With the growing realisation that micronutrient fortification is a critical component of bridging the micronutrient gap for both adults and children, especially in developing countries, we launched a new research programme that seeks to use conventionally bred crops that are naturally rich in micronutrients. This is done by cross-breeding varieties that are rich in micronutrients with high-yield varieties to produce high-yielding, nutritious crops.

For instance, cassava that is rich in vitamin A is being bred in Nigeria and Côte d'Ivoire, while rice rich in iron and zinc is being developed for Madagascar. These will be integrated within future product lines as an alternative to fortification. By sourcing conventionally bred staple food crops which are bio-fortified, we hope to increase the quality of raw materials used in production while promoting the planting and consumption of plant foods rich in vitamins and minerals by rural populations in developing countries.

Nutrient Balance: supporting nutritional improvement of foods

We created the Nutrient Balance Concept as a tool to determine the contributions of nutrients in foods, meals and diets relative to populations' daily nutritional requirements. The tool allows a quantitative presentation of the nutrient densities and the contribution of nutrients of foods in relation to their energy content. Most importantly, the characterization of foods by the Nutrient Balance Concept reveals the contributions of daily food consumption to overall nutrient security. As a consequence, it creates a sound basis for the development of specific solutions for nutritional improvement of foods, for example, through micronutrient fortification and the reduction of added sugars, salt and saturated fat.



How we've performed

Number of products renovated for nutrition or health reasons in 2012

2012: **6 692**

2011: 5 066

Popularly Positioned Products (sales, CHF million)

2012: **11 960**

2011: 10 610

2010: 9 848

Popularly Positioned Product SKUs

2012: **6 367**

2011: 5 556

2010: 4 860

What we plan to do

We have made commitments to improve the nutritional profile of our products to help reduce the risk of under-nutrition through micronutrient fortification.

For more information on this commitment, please [visit Our Commitments section](#).

Bear Brand milk – fortified with vitamin A, iron, zinc and vitamin C – on sale in a supermarket in the Philippines.



Case study:

How Maggi creates shared value through the value chain in Nigeria

Maggi cubes are sold in fortified versions in different parts of the world based on local nutritional needs together with a campaign to promote home cooking using fresh local ingredients. This is a complete creating shared value story as it combines taste and nutrition through the use of fortified Maggi cubes while also helping consumers cook meals at home through recipes. As home-cooked meals are often healthier than processed food or street food, there is an additional nutritional benefit to home cooking. Furthermore, there is an environmental benefit as Maggi's campaign promotes the use of local ingredients, which have a lower environmental impact and support the local economy.

Case study:

Addressing micronutrient deficiencies in Nigeria through Golden Morn

In Nigeria, around one-third of pre-school children are deficient in vitamin A, while more than three-quarters of young children and many pregnant women suffer from anaemia, mostly due to iron deficiency. To address this issue, we have fortified its popularly priced *Golden Morn* family cereals with both iron and Vitamin A. More than 210 million servings of *Golden Morn* are consumed in Nigeria every year, so fortification gives families across the country the opportunity to increase their nutritional intake everyday at breakfast. We're also helping farmers in Ghana and Nigeria, who grow the maize used to make *Golden Morn*, through our Grains Quality Improvement Project. Working with the International Institute of Tropical Agriculture, we're training farmers to follow simple practices that reduce the risk of damage from naturally occurring mycotoxins and increase yields, quality and consequently price. About 30,000 farmers have benefited from the project since its launch in 2009.

Case study:

Maggi takes fortified 'magic' to malnourished consumers in India

Two billion people worldwide currently suffer from micronutrient deficiencies. A third of them live in India, which, despite rapid economic progress, has high rates of malnutrition linked to poverty. More than 70% of the population consumes less than 50% of the RDA for several important micronutrients, with women and children particularly affected.

To make key nutrients affordable and attractive to consumers, in 2010 we launched *Maggi Masala ae Magic* spice sachets, which provide at least 15% of the RDA for iron, vitamin A, zinc and iodine per person, in a single low priced serving.

To reach consumers in the poorest areas, we ran street dramas, TV ads, educational campaigns targeted at families, and even sent nutritionists into Dharavi, the world's largest slum. To date, we've sold 380 million sachets of *Masala ae magic*, which has won several innovation awards, and rolled the concept out in Bangladesh and Sri Lanka.

Nutrition for older people and those with other specific nutritional requirements

Increases in the number of people suffering from non-communicable diseases and chronic health conditions – many of which are linked to malnutrition – are placing a huge resource strain on health systems worldwide.

While our focus is largely on developing nutritional solutions for people preparing and eating food at home, we're also addressing the needs of hospitals and patients with specific chronic or acute diseases.

We believe we can use the R&D expertise we've developed over 140 years, our resources, and our influence, to pioneer science-based personalised nutrition solutions for patients already being treated for acute or chronic diseases and for consumers with a genetic predisposition to certain conditions.

In simple but bold terms, we aim to create a new industry; a unique nutrition offer 'between food and pharma'.

Why it's important

Malnutrition affects people of all ages, but is significantly more common in older people. In an ageing population, this problem can only get worse.

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. This can have a significantly adverse effect, impairing function, mobility and independence.

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.

The costs of malnutrition are staggering. In Europe, the problem drains health-care systems of EUR 170 billion per year. In the UK alone, public expenditure on malnutrition in 2007 was EUR15 billion. Most of this cost is due to the treatment of malnourished patients in hospitals and long-term care facilities.

What we're doing

Mini-Nutritional Assessment tool

Our Mini-Nutritional Assessment Tool is a validated nutrition screening and assessment tool that can help healthcare professionals to identify people aged 65 or above who are malnourished or at risk of becoming so. The tool was developed jointly by the Nestlé Research Center (NRC) and Toulouse University in 1991, but has been updated recently to improve its effectiveness. It comprises a questionnaire and a tape device to measure calf circumference if weight-based BMI calculations are not possible. The Mini-Nutritional Tool and

tape received a Good Design Award in 2011 from the Japan Institute of Design Promotion after its widespread use in the aftermath of the Japan earthquake that year. Currently translated into several different languages, it is also available as interactive and digital versions suitable for iPhones and other mobile digital devices.

Eating Assessment Tool

Nestlé Health Science has developed an eating assessment tool, EAT-10, that can help healthcare professionals and carers identify dysphagia problems early in vulnerable patients. Dysphagia, a condition that makes it difficult for sufferers to swallow food, is prevalent in frail, elderly people and those with recurrent pneumonia or certain neurological conditions. The condition can have a profound impact on patients' nutritional health, but 75% of those affected are never diagnosed.

Focusing on biomedical research

At the heart of our quest for truly personalised nutrition solutions is the Nestlé Institute of Health Sciences (NIHS), launched in 2011 and based within the campus of the Ecole Polytechnique Fédérale de Lausanne (EPFL) in Switzerland.

Building on our tradition in nutrition, NIHS will use state-of-the-art biomedical knowledge and technologies – genomics, proteomics, metabolomics, systems biology and others – to understand the interaction between the food and beverages we eat, lifestyle, inherited factors and individual metabolism.

It will focus on in three categories of chronic conditions: gastrointestinal health (including irritable bowel syndrome, inflammatory bowel disease and Crohn's disease), metabolic health (notably diabetes and obesity) and brain health (particularly cognitive decline and Alzheimer's disease).

NIHS has set research projects underway, all broadly focused on how nutrition and genetics influence health and disease. These include: a Genome Interaction Study to examine how genetic factors affect people when they make the transition from a poor to a healthy diet; a major study of weight management in Europe through the DioGenes Consortium; and workshops on Essential Nutrients with the Bill and Melinda Gates Foundation.

Transforming knowledge into new products

Nestlé Health Science, a new commercial venture, aims to develop science-based personalised nutrition solutions, with a strong focus on nutrition for patients already under treatment. A number of acquisitions completed since Nestlé Health Science started trading in 2011 have equipped the Company to focus on three acute areas: ageing medical care, critical care and surgery and paediatric medical care. These acquisitions

Case study:

Créa Menu – meeting nutritional needs in the catering industry

Nestlé subsidiary Davigel, which specialises in providing nutritional solutions to the catering industry, has launched a dedicated online tool that enables customers to pick menus from an online database of more than 3 000 products and recipes. These menus are tailored to ensure they meet the nutritional needs of the caterer's customers, whether hospital patients, school children or guests in a restaurant. As a result, more than 1 900 of Davigel's customers in France can now easily meet the GEMRCN requirements, a new French law aimed at tackling the rise in obesity.

include Vitaflo, a UK company that has already developed nutrition products for people with genetic conditions that produce intolerances to specific amino acids. The Company will also address chronic gastrointestinal, metabolic and brain health conditions.

In the longer term, it aspires to produce personalised nutrition products that target more complex conditions such as diabetes and heart disease. The acquisition of CM&D Pharma, which produces products for irritable bowel disease, colon cancer and other gastro-intestinal conditions, as well as Prometheus Laboratories, which develops diagnostic and therapeutic gastro-intestinal and oncology products reflects its long-term focus. NHS also holds a stake in Vital Foods, a New Zealand-based business that produces foods for people with a range of gastro-intestinal conditions.

Water

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Highlights and challenges

Actions we've taken

- We've continued our work to address water challenges with partners that include the [2030 Water Resources Group](#), the [UN Global Compact CEO Water Mandate](#), the [Water Footprint Network](#) and the [Alliance for Water Stewardship](#)
- We've worked with suppliers to promote good water management through the Sustainable Agriculture Initiative at Nestlé (SAIN)
- We've also incorporated guidelines on water into our Responsible Sourcing Guidelines
- We've conducted 16 additional Water Resource Reviews at our factories
- We've contributed to helping communities around the world address water issues following natural disasters

Challenges we've faced

- Managing sustainable growth while water is increasingly scarce
- Improving the way we involve stakeholders in Water Resource Reviews
- Improving consistency in the way water impacts are measured by helping to develop a new standard, ISO 14046: Water Footprint Principles, Requirements and Guidelines, which should be completed by 2014

Our performance

- We've reduced water withdrawals by 53% per tonne of product since 2002
- We've reduced water discharges by 64% per tonne of product since 2002
- We've recycled 6.9 million cubic metres of water this year
- We have run over 489 water-saving projects in our factories saving 6.5 million m³
- We've also launched 217 clean drinking water projects in the South Asian region, helping to improve access and sanitation for more than 100 000 students in village schools across several countries.

External recognition

- We achieved the highest score of any food producer in the water-related risk section of the [2012 SAM-DJSI Indexes](#) among food producers
- We received an award from the ESSEC business school in France recognising our initiative to assist local farmers in greening their agricultural practices in the Vosges water basin

💧 Inside the issue: Water

The world is facing a water crisis – linked to a growing global population, increasing prosperity, demographic shifts from rural areas to ‘megacities’ and the impacts of climate change. If we do not solve this water crisis, food security is at stake. With two-thirds of all fresh water used in agriculture and demand for water set to rise by 50% by 2030 – water scarcity is a likely scenario for a third of the world’s population.

Water quality is also a significant issue around the world. According to the latest figures by [UNICEF](#) and the [World Health Organization](#), 8% of the world’s population still rely on unimproved water sources for drinking water, and 3% drink surface water – for example, from rivers, ponds, or lakes. In rural areas of least developed countries, 97 out of every 100 people do not have piped water. Our Chairman Peter Brabeck-Letmathe has stated: “At the current rate of overuse, we will run out of water long before we run out of oil.” – acknowledging that our long-term success depends on the water resources that supply our business operations and support the livelihoods of suppliers and consumers.



Agrivair employee Olivier Petitjean and Nestlé Waters specialist Christophe Boursier taking a water sample near Vittel, France.

Managing Water

What we stand for

Water is one of our Corporate Business Principles that form the foundation of all we do. The Principles state: "We are committed to the sustainable use of water and continuous improvement in water management. We recognise that the world faces a growing water challenge and that responsible management of the world's resources by all water users is an absolute necessity".

The water resources that supply our business operations, and support the livelihoods of suppliers and consumers, are integral to our long-term business success.

Water is also a focus area in the [Nestlé Policy on Environmental Sustainability](#).

Our W.A.T.E.R commitments are as follows:

- **Work to achieve water efficiency across our operations.**

Leading in water resource management and excelling in the reduction of the direct water use in all our facilities.

- **Advocate for effective water policies and stewardship.**

Promoting public policies that place value on water at every level.

- **Treat effectively the water we discharge.**

Setting strict targets for returning clean water to the environment.

- **Engage with suppliers, especially those in agriculture.**

Helping to improve their water management with focus on impacts at watershed level.

- **Raise awareness of water access and conservation.**

Engaging employees, communities and consumers in the water imperative.

UN Global Compact CEO Water Mandate

We are a founding signatory of the [UN Global Compact CEO Water Mandate](#), a unique private-public initiative in which approximately 87 companies, including us, are working with environmental organisations and other stakeholders to support water disclosure, public policy engagement and the human right to water. This report together with our [2012 Water CDP](#) forms our 2012 Communication on Progress (COP) for the CEO Water Mandate.

Delivering our commitments

Governance and oversight

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, Executive Vice President of Operations, sets high-level strategy; while our Operations Water Task Force translates this into operational targets, objectives and KPIs – enabling us to face current and future challenges, and deliver competitive advantage through responsible water management.

The Nestlé Water Task Force also coordinates our involvement in various collective initiatives, thereby putting into action our ambition to contribute to solutions

to the global water crisis.

Monitoring and audit

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. For example, in relation to engagement with suppliers, we are exploring KPIs to measure the number of responsible sourcing audits, farmer training and the number of R&D initiatives.

We will communicate these KPIs more widely in 2013 and we plan to hold an annual internal review to discuss progress on KPIs and to shape our operational water strategy for the next five to ten years.

We also recognise the need and the challenge, to track performance in terms of resulting impacts at the watershed level, because this is the ultimate measure of progress towards meeting today's global water challenges.



Agrivair employee Olivier Petitjean visiting farmers near Vittel, France, to discuss farming methods that avoid polluting ground water.

Public policy engagement

Why it's important

We believe that committed engagement with relevant stakeholders at watershed, government and international levels is the right way to develop effective strategies. Better public policy and governance are critical steps towards universal access to clean water for every person and in stimulating debate and action.

What we're doing

Our Chairman and CEO regularly contribute to the water policy debate, discussing water challenges and proposing solutions via high profile and influential public forums.

World Economic Forum

In a speech at the [World Economic Forum](#) in Davos, Switzerland in January 2012, our Chairman Peter Brabeck-Letmathe highlighted the global water shortage in relation to agriculture sourcing and production. Mr Brabeck-Letmathe warned that over the next two decades, the water shortfall would reduce global cereal production by a third and could trigger social unrest. He proposed collaboration and sustainable intensification of agriculture as a way to solve the world's water crisis and feed its growing population.

Launch of Water Challenge blog

We launched a [Water Challenge blog](#) in August 2012 as the personal blog of our Chairman Peter Brabeck-Letmathe. Regular posts by him and other guest bloggers aim to stimulate discussion on important water challenges around the world. Topics covered in the blog this year included biofuels, urban water issues and the US drought.

2030 Water Resources Group

Since 2008, we have 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, the WRG has now been formally established under the roof of the International Finance Corporation (IFC). It works with national and regional governments, local stakeholder groups and expert institutions to address four key challenges:

- Lack of data and analytical tools
- Need for improved change management in government
- Difficulty in accessing practical expertise and good practice
- Low priority of water on national political agendas.

By focusing on these four challenges, the WRG seeks new insights into water scarcity, explores the opportunities and costs of possible solutions, and fosters results-based stakeholder dialogue.

In 2012, under the leadership of our Chairman Peter Brabeck-Letmathe, the WRG secured funding from the International Finance Corporation, the Inter-American

Development Bank, the Swiss Agency for Development and Cooperation and other bilateral development agencies as well as other global companies.

Water Resources Group's work in countries and watersheds

The water cost curve is the main tool devised and used by the [Water Resources Group \(WRG\)](#) to show a cost-effective approach in individual watersheds/countries to bring water withdrawals back into line with sustainable supply. Leadership by national/regional governments in setting and implementing water strategies is key in the approach of WRG. So far, governments have used water cost curves to set priorities in their water strategy in India (in the state of Karnataka), South Africa, Jordan, Mexico and Mongolia.

Preparatory analysis has been undertaken in Peru and Tanzania with the idea to continue with more in-depth work. We are active in several multi-stakeholder pilot projects to implement measures identified by governments as priorities within this cost-curve approach.

Collective action

Why it's important

Effective water management and stewardship at a watershed level cannot be achieved when done in isolation. Therefore, we are committed to working with a range of partners to address a range of immediate and longer term water challenges – as a founding signatory of the UN Global Compact CEO Water Mandate, and as an active member of national and international water networks.

What we're doing

UN Global Compact CEO Water Mandate

We are a founding signatory of the [UN Global Compact CEO Water Mandate](#), a unique private-public initiative in which approximately 87 companies are working with environmental organisations and other stakeholders to support water disclosure, public policy engagement and the human right to water.

We 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 2012 Communication on Progress.

In 2012, we participated in and presented at CEO Water Mandate events held at World Water Forum in Marseille (11-13 March), the Corporate Sustainability Forum in Rio de Janeiro (16-18 June) and at [World Water Week](#) in Stockholm (27-28 August). The Mandate launched a Collective Action Hub and published several documents related to its different work streams. We also contributed to the Water Disclosure Guidelines, whose public exposure draft was published in August.

Stockholm International Water Institute

We have a multi-year partnership with the [Stockholm International Water Institute \(SIWI\)](#) and continue to play an active role at the World Water Week in Stockholm. This annual event hosted by SIWI encourages the exchange of ideas and innovations among experts, practitioners and decision-makers. The 2012 World Water Week focused on water and food security, an area of high interest for us.

Our CEO Paul Bulcke delivered a [keynote speech during the Prize Laureate's Seminar](#) in the presence of the King of Sweden and SIWI. He called for greater value to be placed on water to avert a global food crisis. Mr Bulcke cited water scarcity as one of the main reasons for increased tension between food supply and demand. He urged governments to take the lead in devising credible, cost-effective strategies to address water shortages, while stressing that business, civil society and other stakeholders must be prepared to take greater responsibility for the problem.

At the 2012 World Water Week, Nestlé China also presented its research work on post-harvest losses and water in milk farming. Our representatives participated and spoke in several other workshops and side events during the week.

Supporting the development of ISO 14046: Water Footprint Standard

A lack of global standards means that 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 are helping to develop a new ISO 14046: Water Footprint Standard.

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 explain how to take into account variations in water sources and outlets, and local environmental and socio-economic conditions. The standard is expected to be complete by 2014.

Alliance for Water Stewardship

As a participant in the International Standard Developing Committee (ISDC), we are helping to establish the voluntary certification programme of the [Alliance for Water Stewardship \(AWS\)](#). In future, this will allow water managers and users to demonstrate compliance with, or support for, the forthcoming International Water Stewardship Standard.

The first draft of the AWS International Water Stewardship Standard was released for public consultation in March 2012 during the World Water Forum in Marseille. The new beta version of the AWS Standard will be available for field piloting in early 2013.

It is too early to comment on our own plans for implementing the standard, but initially we will use it as a self-assessment guide to help production sites improve our water stewardship practices. In the long run, we believe the standard will help to stimulate collective action around watershed management.

CDP Water Disclosure and Dow Jones Sustainability Index

Since we believe that transparent disclosure is vital to aid financial and policy decision-making, we participate in the [Carbon Disclosure Project's \(CDP\) Water Disclosure Programme](#). We helped CDP extend their questionnaire to include water and were among the first companies to contribute to the CDP's Water Disclosure report in 2010, 2011 and again in 2012. [Our CDP response](#) details how we assess, manage and respond to water-related risks in our operations and supply chain. We are currently working with CDP to provide input to their 2013 questionnaire.

In 2012, we also received the highest score among food producers in the [Dow Jones Sustainability Index](#) water-related risk section.

Case study:

Improving the Mill River in Connecticut, United States

Nestlé Waters North America has committed USD 250 000 to fund the development of a floodplain meadow in Connecticut (United States) which has been constructed to filter surface water, cleansing it before it enters the river. This project is part of an ambitious plan developed by the Mill River Collaborative to create a natural park environment in the middle of the urban landscape for public enjoyment but also to demonstrate the use of native plants to improve water quality, support local ecology and minimize damage from floods. It is hoped this project will help local home owners and other businesses in the watershed understand the connection between natural areas and water quality and join the effort to restore the Mill River.

Water Footprint Network

We are also member of the Water Footprint Network, a non-profit organization concerned with increasing public awareness on how consumption of goods and services and production chains can relate to water use and have an impact on fresh-water systems. We are especially interested in their development of tools aimed at helping users better understand the impacts and risks related to water consumption and identify areas where to formulate responses towards a more sustainable water use.

The SAI Platform

Nestlé is a founding member of the Sustainable Agriculture Initiative (SAI) Platform, a non-profit organization to facilitate the sharing of knowledge, at precompetitive level, of knowledge and initiatives to support the development and implementation of sustainable agriculture practices involving the different stakeholders of the food chain.

Water is indeed one of the most critical cross cutting issues for all crops; the SAI Platform's Working Group on Water and Agriculture, chaired by Nestlé, was launched in 2007. Since then, the group developed Principles and Practices for the Sustainable Management of Water at Farm Level - and a wide range of Technical Briefs and other material to better understand some of the related challenges and tools available to tackle them.

In May 2012, the SAI Platform celebrated its 10th anniversary at the General Assembly held in Evian. Nestlé's Chairman Peter Brabeck-Letmathe, invited as a keynote speaker, stated clearly that water use in agriculture is the number one issue for food security and sustainable business growth.

Working with partners to protect water quality

Nestlé Waters continue to work with a range of partners to protect watersheds and water quality. For example, Nestlé Waters is celebrating 20 years of collective action and a successful environmental initiative to protect the natural sources of three of its most popular mineral water brands in France. Please see the 'Agrivair' case study for more details on this partnership (and the Biodiversity section for details on biodiversity initiatives related to Agrivair). Another example is the Mill River project in Connecticut, USA.

Working to protect important water areas

Following an analysis carried out during 2011, with UNEP-WCMC to identify the factories that are within or adjacent to protected areas in 2012, Nestlé decided to take this a step further and identify those factories that are dependent on or could potentially impact protected areas and important water bodies.

We identified protected areas within 25 kilometres upstream of our factories that we are dependent upon for clean water provision, and protected areas that are

within 25 kilometres downstream where any emissions from the factory could have a negative impact. We have also identified all wetlands of international importance designated under the RAMSAR convention that are downstream of our factories irrespective of the distance.

We identified 21 factories is being associated with 'important water areas' and are now investigating these further to determine what interventions and activities we can and should take. For example, whilst we may be upstream of a protected area or RAMSAR site, the wastewater from our factories may be discharged to municipal treatment facilities. We intend to report further on this work in future years.

Case study:

[Agrivair's watershed conservation and biodiversity protection](#)

In 1992, Nestlé Waters established the agricultural advisory firm Agrivair, based in *Vittel*, France to assist local farmers in "greening" their agricultural practices to preserve the quality of the *Vittel*, *Contrex* and *Hépar Springs* in the Vosges water basin in France.

It's vital that we protect these water sources, as our mineral water is natural – it is untreated and untouched until it reaches the palate.

The quality, integrity and sustainability of these sources are directly connected to the land above them. To protect the land and its resources, in the 1980s, Nestlé Waters began working with historians, sociologists, economists, agronomists, animal technicians and hydro-geologists, as well as the French National Institute for Agricultural Research (INRA), to create the Agrivair project.

Through partnerships with local stakeholders, over 20 years the project has helped to initiate positive action to preserve the quality of water resources in the region. Agrivair now protects 10 000 hectares of land, making it one of the world's largest private protected areas.

By providing financial, research and technological assistance to local farmers to promote guidelines on environmental farming techniques, such as crop rotation, elimination of pesticides, and composting of all animal waste, the project has encouraged farmers to:

- stop using artificial fertilisation and pesticides
- implement crop rotation to improve soil conditions
- abandon farming of crops such as corn, which create nitrogen pollution

Similar assistance to other landowners, such as golf course, park and race track establishments, has also eliminated the use of pesticides, herbicides and nitrates. Agrivair has also developed a thermal weed control process for paths, parking lots and railroad tracks.

Today, the Agrivair guidelines have been implemented on 92% of the *Vittel* and 70% of the *Contrex* water resources land areas.

Future Agrivair projects will focus on improving the already rich biodiversity of the basin. This will include tree planting – in collaboration with farmers and other land owners – to recharge the aquifer, protect soil from erosion and to provide recreational and educational areas for the local community. There are also plans to reshape the river so that it flows more slowly, to encourage greater biodiversity on and near to the river banks (also known as renaturation).

Watershed conservation projects will also be delivered through the Terre-Eau (Earth-Water) association. Agrivair is a founding member of Terre-Eau, a regional stakeholder partnership that focuses on protecting water resources. Terre-Eau support actions initiated by Agrivair.

Agrivair has proven a valuable model for watershed conservation. Many of its initiatives have been adopted at our other sites, and it has won external recognition too including from the French Ministry for Ecology, Energy, Sustainable Development and the Sea and the French Environment and Energy Control Agency and the ESSEC business school in France.

Water in our operations

Why it's important

Securing a sustainable supply of water for our factories while respecting local water availability is an important priority for us.

What we're doing

We're reducing our water withdrawal as part of our commitment to continually improving operational efficiency. We're also using alternative water sources such as rainwater harvesting, and working to further improve the water efficiency of our products. [See Environmental lifecycle](#) of our products.

Assessing water stress

We're assessing water supply related risks in our factories so that we know where to prioritise our water management efforts. We assess water stress in two ways:

- Nestlé Combined Water Stress Index
- Water Resource Reviews

Nestlé Combined Water Stress Index

Our Combined Water Stress Index results from a desk-based analysis and takes an average of two leading water-stress indicators (water withdrawals to availability ratio; estimated annual renewable water supply per person for 2025) to determine water stress at any given location.

In 2012, we added an additional water stress indicator. We now screen our factories by also using the [Water Risk Filter tool](#) prepared by WWF and the German Development Finance Institution (DEG) to help companies and investors ask the right questions about water. The tool provides us with a score called 'physical risk', which takes competition from other local users into account where possible, to determine our risk of reduced water quantity or quality.

Using our Combined Water Stress Index, we update our water risk database every year. Overall, our index values have not changed much from last year. They show that 40% of our factories are still located in water-stressed regions, and that 10% are situated in areas of severe water scarcity.

Water Resource Reviews

Water Resource Reviews (WRR) are field assessments that evaluate not only our potential impact on a community's right to water, but also the long-term availability of water resources around our factories at a watershed level, especially in water stressed/water scarce regions. In 2012, we carried out 16 reviews (2011: 12) bringing the total number of factories reviewed worldwide to 116 (2011: 100).

The reviews consider five pillars related to the impact of our direct operations on local water resources:

- **Quantity:** aligning the long-term water needs of our factories with water availability
- **Quality:** ensuring local water quality is not detrimentally affected
- **Regulatory compliance:** ensuring appropriate extraction licenses are attained and that local and national water policies are adhered to
- **Site protection:** ensuring measures to protect water supply are understood and implemented
- **Stakeholder relations:** mapping key stakeholders and trying to engage with them so that their and our water concerns are addressed jointly.

Stakeholder engagement is an important part of the review, ensuring that our operations consider collective, long-term local water needs. We're aware that more needs to be done to involve stakeholders in these reviews and we plan to introduce more systematic stakeholder engagement in the future.

Notional cost

We give a value to water when assessing investments in water-saving industrial equipment. We assess projects based on a theoretical price ranging from CHF 1 to 5 per m³ depending on the water stress index of the factory's location. This informs our investment decisions on water saving technologies, especially in water-stressed areas.

Regarding investments in water-saving projects and technologies, we have extended the acceptable return on investment periods beyond our normal criteria'.

Water withdrawal and efficiency

We aim to be the most efficient water user among food manufacturers. We undertake this by reducing the amount of water withdrawal by being more efficient in how we use this water, and recycling it where possible.

We withdrew 138 million m³ of water in 2012 (2011: 143 million m³) or 2.89 m³ per tonne of product (2011: 3.17). This is a 9% reduction in withdrawal per tonne of product from 2011.

Water-saving projects

It is in our commercial interest to conserve resources and we continue to implement water-saving programmes throughout our operations. We have made good progress over the years towards greater water efficiency, but there is much more to do.



Lemuel Lisondra, waste water treatment plant operator, takes samples in the waste water treatment plant at Nestlé's Lipa factory in the Philippines.

Continuous improvement driven by Nestlé Continuous Excellence (NCE) guides water-saving initiatives at many of our factories. We have run 489 water-saving projects in our factories saving 6.5 million m³. Significant water saving initiatives in 2012 include:

Location	Initiative	Annual water saving
Nestlé Vietnam, Tri An	Our investment of CHF 1.8 million in a new water treatment plant, about 20% more than in a typical plant, is expected to generate savings of around CHF 120 000 per year. The initiative will reuse water, reducing daily water consumption by over 30%.	36 000 m ³
Nestlé Philippines, Tanauan factory	We have invested CHF 0.5 million in an initiative to collect clean water for use in secondary applications such as the cooling tower and garden irrigation. Water withdrawal savings are estimated at 26% of the total factory requirements.	26 000 m ³
Nestlé Mexico, Project Zer'Eau	Responding to the water scarcity in México and the need for enhanced water conservation, we accelerated water use reduction projects and initiatives at our Lagos de Moreno factory. The latest initiative, called Zer'Eau (zero water) is implemented as follows: Phase I (2011–2013): recovery and use of condensate from the milk evaporation process. This recovered water can be used for the boiler, and other utilities and process applications. This phase, along with various saving initiatives to be implemented in the factory during 2012 and 2013, will give an expected annual water savings of 546 000m ³ . Phase II (2013–2014): plans for recycling water by filtration of wastewater saving an estimated 40 000 m ³ of water per year. The water-saving project at this factory will help improve water availability in the community in water-scarce areas.	546 000 m ³ (estimated)
Nestlé Pakistan, Sheikhupura	We have invested in the latest membrane technology to recover water removed from the fresh milk evaporation process. The new technology will help us to conserve water and save energy.	40 000 m ³ (by 2013)
Nestlé North America, Ontario	By optimising reverse osmosis recovery, our Ontario factory in California provides recovered water for reuse by other members of the community, such as landscape irrigation and industrial manufacturing.	136 000 m ³
Nestlé Uzbekistan, Tashkent	Water withdrawal has been significantly reduced through a range of measures including mapping water use to identify losses throughout the bottling process and implementing programmable logic control (PLC) to automatically balance withdrawal with production needs.	147 000 m ³

Investing in water-efficient buildings

Nestlé Waters UK opened its state-of-the-art production facility at Watersfalls in Buxton in 2012. The £35 million water bottling plant has been designed with cutting-edge features to help reduce water use. The plant's drainage system uses sophisticated technology to mimic nature, echoing as closely as possible the natural drainage of the site to minimise the impact of urban development. It promotes natural recharging of groundwater, in addition to enabling the wastewater from production and cleaning processes to be recovered and recycled.

Improving best practices at Nestlé Waters factories

Nestlé Waters recently launched a survey to collect and update best practices of water

management implemented in our bottled water factories. The survey helps to understand the areas of opportunity by identifying which best practices may be applied.

Reducing water discharge

We are committed to return clean water to the environment from our factories. We use municipal wastewater treatment facilities wherever possible, but where these are not efficient enough, we invest in our own facilities and return treated water to the environment according to local legislation and internal standards, whichever is more stringent.

In 2012, we approved CHF 9 million (2011: CHF 6 million) for investment in new and improved facilities. For example, we are upgrading the wastewater treatment plant at our Ocotlán facility in Mexico to increase production in 2013. Furthermore, at our Tri An coffee factory in Vietnam, a new waste water plant (see also table above) will reduce daily water discharge by more than 50%.

Between 2002 and 2012, we reduced wastewater from our factories by 45%, through recovering water from production processes and reusing it in other applications, such as cooling and landscape irrigation. We discharged 84.2 million m³ of water (2011: 93.9 million m³) in 2012, with an average of 93.68 mg chemical oxygen demand per litre (2011: 68.6 mg). Our goal is to reduce water discharge by a further 10% by 2015.

Recycling water also helps reduce our water discharge levels, and in 2012 we recycled 6.9 million m³ of water (2011: 7.8 million m³)

How we've performed	
Total water withdrawal (million m ³) 2012: 138 2011: 143 2010: 144	Total water withdrawal (m ³ per tonne of product) 2012: 2.89 2011: 3.17 2010: 3.29
Water recycled and reused (million m ³) 2012: 6.9 2011: 7.8 2010: 7.7	Water recycled and reused (% of total water withdrawal) 2012: 5.0 2011: 5.4 2010: 5.3
Total water discharge (million m ³) 2012: 84 2011: 94 2010: 94	Total water discharge (m ³ per tonne of product) 2012: 1.77 2011: 2.08 2010: 2.15

Water in our supply chain

Why it's important

Our biggest water impacts and risks lie beyond our immediate operations, in our agricultural supply chain. Our suppliers therefore play a key role in resolving many of our water challenges.

What we're doing

Through our direct contact with over 690 000 farmers and several million others in surrounding communities we're committed to joining our efforts, to develop good water management practices and find effective solutions at watershed level.

SAIN water projects

The Sustainable Agriculture Initiative at Nestlé (SAIN) is our initiative to support farmers and promote sustainable development worldwide. 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 – such as farmer and crop resilience to drought and flooding; waste water and organic waste treatment; and farm intensification techniques.

For example:

- After the drought/flood events of 2008-10, **Nestlé Australia**, in partnership with the Australian Chapter of the Sustainable Agriculture Platform and the Birchip Cropping Group set up a four-year Social Resilience Project to understand how wheat and sheep farm businesses in north-west Victoria respond to acute and long-term climate challenges.
- Using a 'chemical oxygen demand' reduction model, **Nestlé Qingdao (China)** treats about 700 litres of water daily at each fresh milk collection centre. The model will be gradually implemented at all milk collection centres in the region over the next few years, and a cold-climate model will also be developed.
- **Nestlé Venezuela** has launched an agro-forestry initiative within farms providing fresh milk for the El Piñal factory, which has positive impact on water, soil and ecosystem conservation. At farm level, initiatives are also deployed to minimise pollutant load from wastewater and valorise organic waste into a valuable resource (e.g.: vermi-composting, biogas production). For 2012-2013, 30 such systems will be installed in different farms across the region.
- **Nestlé Vietnam** continues to jointly finance a three-year project with the Swiss Agency for Development and Cooperation (SDC) and EDE Consulting, in the Dak Lak Province. By calculating the water footprint for robusta coffee and integrating it into our monitoring software, we aim to improve our understanding of how we currently use water and thus become more efficient in the future.
- **Nestlé India's** chicory supplier, Vimsions Chicory Corporation, has installed a rainwater collection tank. The water collected is used for irrigation and has improved water availability.
- **Nestlé Nicaragua** has been working with farmers to protect local water resources. 128 milk producers have received training on the importance of protecting water springs.

- **Nestlé India**, in collaboration with the Department of Agriculture of Gurdaspur and our rice flour supplier (Dada Cereals), evaluated the advantages of Systems of Rice Intensification (SRI) techniques, including their impact on irrigation water usage, over non-SRI techniques. The trials were carried out on 10 farms in Punjab, and results so far show that SRI techniques have reduced irrigation water usage by 20%, as compared to non-SRI methods.

Understanding water-stress in the sugar supply chain

We are gaining a better understanding of which of our supply chain partners are in water-stressed areas. Initially, we've focused on sugar suppliers in Brazil, India and Mexico. Implementation plans for the period 2012–2015 are being rolled out with the support of Proforest, our partner for the overall delivery of the plans. In 2013, we plan to roll out the guidelines out to Australia, China, Thailand, and the UK.

Through our Responsible Sourcing Guidelines for Sugar, and 'Specific Requirements for Water Use in Agriculture' (see also Other commodities), mills and growers in water-stressed areas are expected to implement water management plans covering cultivation and processing that take into account the human right to water as well as environmental flows and water quality.

Helping the hospitality industry save water

Nestlé Professional launched a free, online water management course in 2012. Developed in association with the Food and Drink Federation, the course is designed to raise operators' awareness of the value, use and management of water.

Water savings efforts beyond our direct operations

The consumptive water use related to the production at farm level of agricultural products purchased by Nestlé on an annual basis can be roughly estimated at 45 billion m³ including 42 billion m³ rainwater and 3 billion m³ irrigation water. Our water savings efforts therefore reach out beyond our direct operations to our supply chain.

We continue to deploy a set of actions and initiatives to contribute towards improving water management within our supply chain (see Responsible sourcing guidelines) and the "farmer connect" network (see Rural development).

We're working with farmers and other suppliers to prioritise water efficiency through the Sustainable Agriculture Initiative at Nestlé (SAIN) and ran projects focused on water in several countries, including in Australia, China, India, Nicaragua, Venezuela and Vietnam. We're identifying which of our supply chain partners operate in water-stressed areas so we can better focus our efforts. We've also incorporated water guidelines into our Responsible Sourcing Guidelines work, notably on sugar, but also on pulp and paper.

Community engagement

Why it's important

Nestlé helps to translate the human right to water and sanitation into reality in communities where we operate, because improved water access and sanitation are essential for rural development and quality of life in the communities we depend on for raw material supply.

In line with Nestlé's belief in the importance of raising awareness about water, this work often includes an education component or comes in addition to other education or awareness-raising initiatives.

What we're doing

We work with local partners and NGOs by contributing funding, operational support and training for sustainable, technologically adapted community water management schemes. We also support projects to deliver water, sanitation and hygiene projects in schools and villages near our operations around the world.

Improving water, hygiene and sanitation in Côte d'Ivoire

Since 2007, we've 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. Over 100 000 people have benefited from improved access to water and sanitation through this work. ([See Partnerships and Industry Alliances](#) for more details.)

The programme was further extended in 2010-11 with a focus on improving health and hygiene among schoolchildren, teachers, and communities. By 2014, the programme will cover 55 schools, 66 water points and sanitation facilities and at least 75 000 beneficiaries in the cocoa-growing areas of Côte d'Ivoire.

The IFRC's methodology of Participatory Hygiene and Sanitation Transformation (PHAST) to raise awareness of the importance of latrines and hand washing, is at the core of the programme. This is accompanied by water management projects such as drilling boreholes and establishing pumps in villages where water is scarce. The outcomes are dramatically lower infant mortality rates and stomach infections from water-borne diseases, but also higher female literacy, a key driver for poverty reduction.

Nestlé Waters contribution to disaster 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. Many countries that we operate in, particularly in North America, are engaged in disaster relief, providing communities with a supply of bottled water, financial donations and logistical support, often in partnership with NGOs or local authorities.

In 2012, Nestlé Waters North America donated 750 000 bottles of water to com-

munities whose public supplies were been disrupted by Hurricane Sandy. As in 2011, we supported the IFRC's annual [World Disasters Report 2012](#), now in its 20th year. This year's theme was Forced Migration and Displacement. We also contributed CHF 225 000 to the IFRC's Community Preparedness and Risk Reduction Department over three years. The Department's programme aims to improve food and nutrition security and promote sustainable livelihoods among the world's most vulnerable people.

Humanitarian relief – Swiss Solidarity Foundation

In December, we participated in a campaign by [Swiss Solidarity](#) (Chaîne du Bonheur), a foundation that raises funds for humanitarian relief projects. The campaign called "every cent counts, every drop helps" aimed to raise funds to provide improved access to clean water for people in developing countries. Nestlé employees in Switzerland contributed to the initiative, and more than CHF 125 000 was handed over to Swiss Solidarity in December 2012. The funds raised will be invested through reliable NGOs committed to bringing access to water to those who need it most.

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 schoolchildren around the world. Nestlé Waters has been its main sponsor since 1992, helping Project WET establish programmes in more than a dozen countries including China, Lebanon, the United Arab Emirates, Vietnam, and, most recently, Egypt and Nigeria.

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 fresh water for nature, healthy hydration, good hygiene and disease prevention. In 2012, more than 15 000 children and 500 Nestlé Waters employees participated in Water Care festivals across 29 countries.

Provision of clean drinking water near factories

About 32% of our rural factories in developing countries provide clean drinking water to local communities. Many dairy communities are located in rural areas with limited access to clean drinking water, and low levels of awareness about water scarcity, conservation and pollution. Improving rural community access to clean drinking water and hygiene is an important impact of our factories.

Water and education programmes in South Asia

In 2011, we launched 217 clean drinking water projects in the South Asian region, benefiting more than 100 000 school children in village schools across several countries. 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 in India, 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.

In Sri Lanka, we installed clean drinking water facilities in high-footfall locations such as schools, hospitals and places of worship across the island. Through the Nestlé Water Programme, a further 14 water fountains have been built in public places, benefiting more than 17 000 people; and 23 toilet facilities have been built in schools as part of our School Sanitation Project, benefiting 4 700 schoolgirls.

Let's Plant Water programme in Ecuador

In 2012, Nestlé Ecuador held a reforestation day in Cotopaxi National Park, one of the country's main water basins. Recognising that trees support the water cycle, 250 Nestlé volunteers planted 5 000 native trees – the largest reforestation activity Nestlé Ecuador has ever undertaken. In 2012 they aim to plant 20 000 native trees.

Nestlé Waters community relations guide book

At Nestlé Waters, the local communities around our plants have always been important partners and our relationship with them is key. Based on previous experience in countries like France and the United States, Nestlé Waters launched a community engagement guidebook in 2012 for our water plants. Pilot projects have since been launched in Algeria, Argentina, Brazil, Egypt and Turkey, with plans for a global rollout in 2013-2014.



Rural development

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Highlights and challenges

Actions we've taken

- We've developed a new Rural Development Framework which we will start to rollout in 2013. It is our goal to roll out the Rural Development Framework to 21 countries by 2015
- We've launched Responsible Sourcing Guidelines for sugar
- We are the first food company to partner with the Fair Labor Association
- We've updated our Commitment on Child Labour in Agricultural Supply Chains in three key commodity areas: cocoa, hazelnuts and vanilla

Challenges we've faced

- Ensuring that small-scale farming is an attractive occupation
- Meeting the scale of the challenge to reverse years of declining investment by governments into farmer extension services and under-investment in better planting material
- Defining the role of companies in resolving complex problems involving a multitude of actors from governments to companies to civil society groups

Our performance

- We've provided services worth USD 37.8 million to assist more than 44 000 farmers
- We've provided direct financial assistance totalling USD 23 million to farmers
- We now employ more than 1 180 agronomists and 12 000 support staff to provide advice, training and technical assistance for farmers
- We've trained 273 808 farmers through our capacity building programmes



Nestlé's Cocoa Plan launches in Cárdenas, Tabasco State, Mexico, with cocoa farmer Eugenio Bautista Velázquez (left) consulting Nestlé advisor Rubén Jiménez.

Inside the issue: rural development

Half the world's population now live in urban locations and this proportion is set to reach two-thirds by 2050. So it's vitally important that we have enough arable land in rural areas to feed this growing urban population who are reliant on food being grown by others.

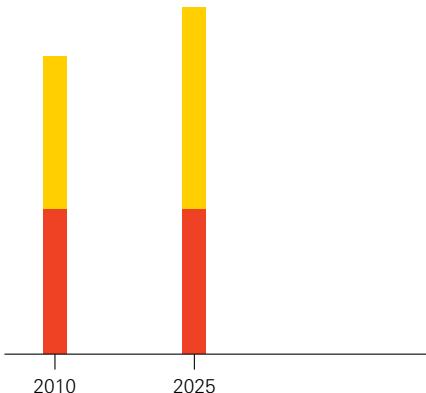
This issue is important to us as we rely on more than 5 million farmers to produce agricultural raw materials for our high quality foods and beverages. This is why we're working so hard to ensure we source raw materials in a responsible and sustainable way. We are also actively engaged in initiatives to address rural poverty and develop farming skills, which are needed to make farming an attractive occupation.

Furthermore, for the poorest people, GDP growth originating in agriculture is about four times more effective in reducing poverty than GDP growth originating outside the sector (World Bank World Development Report 2008).

Migration to the Cities will not reduce the pressure on the land

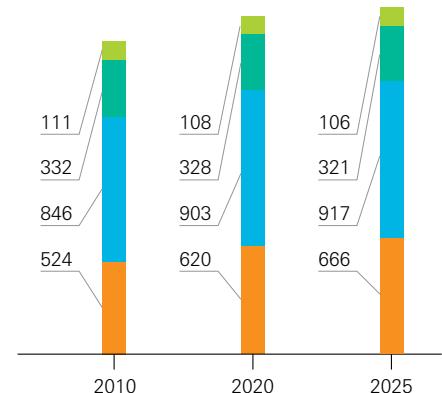
From 7-8 billion people

● Urban ● Rural



Least Developed Countries & India Rural Population Growth

● Sub Saharan Africa ● India
● SE Asia ● C&S America



Source: UN Population Statistics

Managing rural development

Managing rural development

We depend on more than 5 million farmers who grow the raw materials that go into our products and 73% of our factories are located in rural areas (based on a survey conducted in 2010) – so their wellbeing, closely linked to rural development is at the very heart of our Company and one of our three CSV focus areas. Furthermore, as the world becomes increasingly urbanised, the need for a strong rural agricultural resource base to grow and move food into cities is growing.

Our factories are major engines for rural development. They create employment, provide apprenticeships and training. They also contribute to local infrastructure, and the provision of clean drinking water and the treatment of wastewater.



**Bio-fortification of cassava at Nestlé's Experimental Farm in Yamoussoukro, Côte d'Ivoire.
Agronomist Frédéric Oura examines plantlets with farmer Kan Firmin Kouakou.**

What we stand for

Agriculture and rural development is one of our Corporate Business Principles that form the foundation of all we do. The Principles state: "We contribute to improvements in agricultural production, the social and economic status of farmers, rural communities and in production systems to make them more environmentally sustainable".

We want to reduce rural poverty and ensure greater food security, and strive to do so through our established, robust policies and commitments. These include:

- [The Nestlé Supplier Code](#)
- [The Nescafé Plan](#)
- [The Nestlé Cocoa Plan](#)

Delivering our commitments

The Rural Development Framework

The Rural Development Framework, to be rolled out in 2013, was created to bring all our rural development activities under one roof. It builds on our commitment to Creating Shared Value through the development of rural communities. It is supported by the [Rural Development Commitment](#) and composed of four pillars that address the needs of three key stakeholder groups:

- Successful farmers
- Productive and respected workers
- Prospering communities
- Alignment, collaboration and advocacy

Successful farmers

Much of the rural development debate has focused on raising environmental and social standards in farms, with little attention paid to farmers' economic sustainability and social wellbeing. We believe that a sustainable model for securing a reliable supply of raw materials should ensure that what's profitable for us is profitable for farmers.

To achieve this, we have to be confident that our farmer suppliers are 'farmers by choice', because it offers them a life worth living.

We need a profitable business model for crops and farming systems in different commodities and countries – which requires us to work with farmers and governments to improve net farm income, primarily through improving productivity, crop quality, input costs and paying fair prices.

Finally, we need to support local supplier development so that, over time, they can provide us with the raw materials that we use. As well as directly benefitting farmers, this will help build more prosperous local societies by providing employment, increasing skill levels and enabling technology transfer.

Productive and respected workers

Farm workers, as distinct from farmers, are particularly vulnerable to poor labour circumstances. As has already been observed in our work on responsible sourcing, the risks around human rights compliance often lie with farm workers rather than the farmers themselves.

Moreover, these workers are vital to agricultural sustainability. As countries develop economically, those in low-paid farm jobs often migrate to the cities, leading to labour shortages. It is essential that low labour productivity is addressed, as well as conditions of employment, including better health and safety and the use of technology to make work less onerous.

Prospering communities

Successful farmers also need stable and reliable communities in which to operate. The community is a loose concept that could be a village, or set of villages; a valley, commune or farmer group; or, in the case of rural factories, nearby apartments and houses.

The interventions we make at the community level will be identified through a process in which the community assesses its needs, in line with its own government's objectives. We know that there is much improvement needed in the areas of nutrition, education, access to clean water and improved sanitation and our priorities will be determined by the level of influence and impact our interventions will have, and their relevance to our operations and/or the business.

Alignment, awareness and advocacy

We'll need to ensure that our trade partners and suppliers are aligned with this agenda, as in many cases they'll be the ones delivering it. The same applies to our own business units and globally managed businesses.

In addition we'll need technical partners and advocates to ensure that there is a supportive policy environment at a country level. Also, while remaining focused on delivering our rural development agenda on the ground, we need to engage the support of governments, consumers, customers, the media, investors, and civil society groups; and to help our staff to become its ambassadors. Strong technical partnerships between governments and business are particularly key to developing the necessary knowledge and technologies.

Scope of the Rural Development Framework

We have identified 21 countries that are both important for the business and have high social needs. These will be the focus of our work to implement the Rural Development Framework.

Our rural development work covers our activities in areas where we have direct interactions with farmers through "Farmer Connect" and other long-term

sustainability initiatives with our suppliers. As such, the Rural Development Framework plays an integral part in responsible sourcing, including the Cocoa Plan as well as the *Nescafé* Plan.

Governance and oversight

Our rural development activities come within the remit of Jose Lopez, our Executive Vice-President of 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 development of the business operations strategy, especially in the context of agriculture, rural development and water. With a network of more than 1 100 sourcing staff and more than 12 000 extension workers, CO-AGR supports the countries we operate in implementing their direct sourcing programmes from farm to factory through Sustainable Initiative at Nestlé (SAIN) and other programmes.

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

Our work on rural development combines a human rights approach together with a human development approach. The intention is to deliver both business and societal value, by focussing on key gaps and the alignment of objectives along the supply chain and with stakeholders. It is consistent with the UN Millennium Development Goals on poverty, nutrition, education, gender equality and environmental sustainability.

Monitoring and audit

We are developing a monitoring process to measure our impact in rural development. We have worked out a data series from which we can establish a baseline – enabling us to develop a needs-based work plan, and monitor our progress. We will start establishing baselines in 2013 and will report on progress on a regular basis.

Farmers

Why it's important

Our wellbeing and that of farmers is closely tied together, but in many rural communities, a lack of investment in social and agricultural infrastructure diminishes the quality and quantity of the raw materials we rely on. So we work on capacity building and training farmers in sustainable production methods – both to protect our raw materials supply, and to have a positive, long-term impact on local economies and standards of living.

What we believe in

Since we started almost 150 years ago, our business has grown, in large part through a symbiotic relationship with farmers. Their success and wellbeing is in our interest. This approach has served us well so far, and we are committed to strengthening it further.

Delivering our commitments

We have farmer programmes in place where we interact with more than 690 000 farmers with whom we directly engage through our Farmer Connect programme (mainly milk and coffee) as well as other sustainable sourcing programmes such as the Cocoa Plan (Dairy: 456 000 farmers; Coffee: 190 000 farmers; Cocoa: 43 000 farmers).

The Farmer Connect programme is committed to the local sourcing of raw materials, offering technical assistance and ensuring cooperation to meet the highest sourcing standards. We also have close relationships with farmers through our long-term suppliers.

What we're doing

Building capacity through assistance

Through our activities in 2012, we enabled more than 44 000 farmers (2011: 45 000) to access services amounting to USD 37.8 million (2011: USD 59.4 million) worth of assistance, of which we provided USD 23 million (2011: USD 24.9 million) of direct financial assistance.

A network of more than 1 100 sourcing staff and more than 12 000 extension workers provide training and technical support for our farmer connect operations, and maintain ongoing dialogue with them, as well as with government agencies and NGO partners.

In 2012, 273 808 farmers (2011: 200 751) around the world were trained through our capacity-building programmes. There are no conditions attached to the technical assistance, advice and support we give to our suppliers, and the farmers who currently supply us directly are not obliged to take this up.

We have technical assistance schemes in place across 27 of 31 countries where we have milk operations: We have additional water programmes with farmers in 22 countries and provide farmers with access to finance in 23 countries.



A farmer delivers milk to a Nestlé collection centre close to the Shuangcheng factory in China.

Investing in plant science to help farmers

We are investing in plant science R&D to help farmers produce their crops in a way that ensures their long-term economic future and preserves the environment.

Working through a network of R&D centers our activities are centred around:

- Plant selection and breeding to offer a better choice of plant varieties to farmers
- In-vitro research to preserve genetic diversity and deliver better plants to farmers
- Ways to improve the traceability of raw materials from farm to fork Developing a consumer-centric understanding of the quality of raw materials and how they impact our products
- Helping farmer through practices that improve productivity, crop quality and environmental protection

Farmer training

Our farmer training and support focuses 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. This leads to greater yields of higher quality, more varied crops for us, 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](#).

How we've performed	
Farmers trained through capacity-building programmes	Number of farmers benefitting from financial assistance
2012: 273 808 2011: 200 751 2010: 144 900	2012: 44 000 2011: 45 000 2012: 44 000
Budget for financial assistance to farmers – direct and indirect (USD million)	2012: 37.8 million 2011: 59 million

What we plan to do

Nestlé will ensure that its Farmer Connect and Responsible Sourcing Programmes, while delivering enhanced social and environmental performance, do not disadvantage small holders or family farmers. This will involve a focus both on removing worst practice, but also on developing net farmer income and the broader rural development objectives, as a precondition for meeting the environmental and social standards that are to be expected from larger industrial scale operations. For family farmers Nestlé will, where appropriate, favour certification and verification schemes such as UTZ and 4C that have been designed for small-holder farmers.

Farm and factory workers

Why it's important

Around the world, many thousands of farm and factory workers are employed across our value chains. It is difficult to know precisely how many of these workers there are, but we know that many of them, particularly farm workers employed in rural areas, are likely to experience poor working conditions. We also know that landless and migrant labourers are particularly vulnerable.

Large plantations and farms often employ workers on a permanent basis and some also provide accommodation. However, those who work on small family farms often experience working conditions that fall short of [International Labour Organization \(ILO\) standards](#).

What we stand for

We believe we have a responsibility to ensure that farm workers and others employed in our supply chains work in fair labour conditions. This is why we are committed to the United Nations Global Compact and the ILO Core Conventions, in addition to our enduring commitment to tackling child labour.

At all times, working conditions also need to meet our [Supplier Code](#).

Our general principle is to manufacture, in the countries from which we source our commodities. Local sourcing and manufacturing provides both direct and indirect income and employment opportunities to local people. It also helps to reduce transport-related environmental impacts for local consumption.

What we're doing

Labour conditions in the supply chain

We've taken positive action to address labour conditions for farm workers and others employed in our supply chains this year.

In February 2012, we issued the [Commitment on Child Labour in Agricultural Supply Chains](#). We have prioritised three key commodity areas: cocoa, hazelnuts and vanilla.

In the same month, we also launched our Responsible Sourcing Guidelines (RSG) for Sugar. The guidelines state that we will ensure that sugar is sourced from mills where the mill operations and the supply base of farms and plantations comply with general requirements, including the following relating to labour practices:



Milo malted chocolate drink – containing *Actigen E* – being packed in Lipa, Philippines.

- No use of forced or child labour.
- Workers' pay and conditions meet at least legal or mandatory industry standards.
- Provision of safe and healthy workplaces.

Since the launch, we've undertaken RSG audits in partnership with Proforest, and mapped our sugar supply chains in three countries we operate in – Brazil, Mexico and India.

Partnership with the Fair Labor Association

In February 2012, we became the first company in the food industry to affiliate with the [Fair Labor Association \(FLA\)](#) is a non-profit multi-stakeholder initiative that works with major companies to improve working conditions in their supply chains. Our work with the FLA is specifically focused on farmers and farm workers involved in growing hazelnuts in Turkey, [and cocoa in Côte d'Ivoire. The FLA has investigated these supply chains on our behalf and highlighted issues concerning workers' rights, child labour and other topics. We are working with them to address these as appropriate. See the FLA reports on [hazelnuts](#) and [cocoa](#) and our Action Plans of response for [hazelnuts](#) and [cocoa](#).

The rural development impacts of a factory

Our contribution to the rural economy extends from the presence of our factories, to the agricultural support and capacity-building farmer programmes we provide. Our facilities bring direct employment opportunities; greater access to our 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, and an employer, trainer and neighbour – for many decades. This is because many aspects of our impact, 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 within which we operate.

Community engagement

Why it's important

It is important that the communities within our sourcing districts and around our factories are progressing economically and socially. In this way, farmers and farm workers have a stable and reliable environment in which to develop their farming business and for their families to grow up. This is most marked in the area of rural development, where the overall wellbeing of farmers, farm workers, rural communities, small entrepreneurs and suppliers are intrinsic to our long-term success.

What we stand for

We are committed to addressing community impacts that arise as a direct result of our operations – especially at those factories identified as 'high risk' from a water scarcity and human rights perspective.

We do not believe that loyalty between farmers and those involved in supply chains is built through contractual mechanisms, but instead by investing to help create the circumstances that allow our partners and the communities in which they live to pursue their livelihoods by choice.

What we're doing

We have a team of more than 1 100 sourcing staff and more than 12 000 support staff worldwide who work to develop the supply of raw materials and support the farmers who supply us directly, through our Farmer Connect programme, or indirectly through trade associations.

Rural Development Framework

We recently launched the Rural Development Framework to set out boundaries that we expect the countries we operate in to work within.

During 2012, we decided to focus our community work on the 21 countries identified in the Rural Development Framework where we have the potential to make the biggest positive impact. We anticipate that we will use the framework in some additional countries, but our focus in the meantime will involve supporting the 21 countries, which we identified through consideration of social need and business need:

- **Under business need**, we listed the most significant countries for us from a sourcing perspective for the period through to 2020. We looked at coffee, cocoa, dairy and the development of local sourcing strategies (such as rice, chillies and cassava). We also considered the presence/absence of factories in these rural communities.
- **Under social need**, we considered the [UN Human Development Index](#), adjusted by inequality in society (where data was available). We also looked at the [International Food Policy Research Institute \(IFPRI\) Global Hunger Index](#). These allowed us to plot countries in a matrix of increasing business importance and increasing social need. The 21 countries came out in the high categories.

Engaging rural communities using the Framework

We discussed the Framework with our supply chain partners and at our stakeholder convening in London and received comments to help improve it. We have a roadmap for implementation that starts with three countries in early 2013, after which we will refine the framework and baseline data.

We will commence implementation in early 2013 by carrying out baseline assessments to assess the status and needs. We will then assess the design programmes to be implemented through the Nescafé Plan, the Cocoa Plan and the Responsible Sourcing Guidelines.

Reducing impact on communities near our factories

Our focus for community engagement is primarily in our supply chain through the Rural Development Framework (which provides a structured approach engagement) as this is more material than the communities near our factories. However, we continue to address impacts in communities from our factory activities.

We have 468 factories worldwide located in a variety of different locations – industrial estates, built up areas and country locations. In all cases, there are local communities surrounding them that are likely to be impacted positively or negatively one way or the other.

We have identified the following significant potential or actual negative factory impacts that affect communities. Our prioritisation of potential impacts to date has been on high-risk countries, and particularly new factory investments in these countries. Potential impacts are:

- Factory construction
- Land acquisition process (for factories)
- Closure of factories
- Safety incidents/industrial accidents
- Major employer within a region/community
- Contracted service providers (security, clinical trials)
- Social unrest
- Water use
- Pollution, smells and noise from factories
- Health and wellness of community

To address these impacts, we generally go beyond legal compliance. For example:

- We implement prevention and mitigation measures to minimise negative impacts of operations on communities. These measures are ongoing in many instances. For instance, our community impact assessments in Nigeria, Colombia, Angola and Sri Lanka have informed operational action plans, some of which have already been implemented.
- In water stewardship, we go beyond our formal responsibilities by taking a collaborative approach with other water users in the watershed.

- We support 'free, prior and informed consent' – the principle that a community has the right to give or withhold its consent to proposed projects that may affect its lands.
- We have a comprehensive database of pollution from factories including major fines for permit infractions or breaches of legislation.

Nestlé Waters community programme

Good relations with the local communities around our factories are key. In 2012, Nestlé Waters developed a guidebook for factory managers that provides a framework and tools to help understand and address the concerns and expectations of local populations. Roll-out of the guidelines began in mid-2012 and will continue into 2013.

CARE audits

In 2012, the CARE audit programme commenced assessment of factory performance on community engagement and social impacts. Guidance on how to engage with communities has also been provided. [See also Managing compliance](#) for details on CARE audit results and findings in 2012.

Complaints-handling and resolution

We are responsive to reports relating to local community concerns about factory impacts, received from the countries in which we operate. We aim to enhance our reporting on complaints handling and resolution and will communicate progress on this in future Nestlé in Society reports. Please also refer to the Human rights section for details on our plans regarding external and grievance mechanism.

Respecting the rights of indigenous peoples

We respect the rights and title of indigenous peoples and local communities, and enact them through our community impact assessments and Responsible Sourcing Guidelines.

Our community impact assessment aims to identify and quantify the intangible/human rights risks associated with our operations in a transparent manner. In this way we hope to anticipate, understand and manage our impacts on the social and physical environment. For indigenous communities impact assessments encompass:

- **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 un-patented invention.

Our Responsible Sourcing Guidelines include a commitment to the principle of "free prior and informed consent" for local communities and indigenous peoples. [See also Human rights](#).



How we've performed

Total number of incidents of violations involving rights of indigenous people and actions taken

2012: **4**

This is the first time we have reported this figure. Of the 24 audits carried out against the Responsible Sourcing Guidelines on Palm Oil, 4 cases related to Free, Prior and Informed consent of indigenous peoples. All these cases have now been incorporated into suppliers' action plans that are now being implemented. As part of the Human Rights Impact Assessments carried out so far, no negative impact on indigenous peoples resulting from our own operations (factories, distributions centres etc) have been identified.

What we plan to do

With regard to communities, our focus in the future is to:

- Support programmes that are led and managed by the communities themselves.
- Make interventions that improve health, access to water, education, the status of women, food security, nutrition, and tackling indebtedness.
- Landscape level natural resource stewardship to ensure that local people have access to basic ecosystem services, that climate adaptation measures are being implemented and that land tenure is improved on communal land and for women.
- Support farmer groups, and the allocation of premiums to provide community benefits that are in line with the community identified priorities.



Responsible sourcing

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Highlights and challenges

Actions we've taken

- We've increased our supplier audit targets from 2 000 in 2010/2011 to 4 000 in 2012/2014 and plan to reach a total of 10 000 by 2015
- We've launched Responsible Sourcing Guidelines covering fish and seafood, dairy, meat, poultry and eggs
- We've consolidated our general Responsible Sourcing Guidelines covering all materials sourced through agriculture, forestry, fishery and aquaculture
- We've become an affiliate member of the Fair Labor Association and implemented a number of their recommendations
- We've developed an illustrated Supplier Code, which is distributed to more than 25 000 cocoa farmers in Côte d'Ivoire

Challenges we've faced

- We had to further strengthen monitoring and supplier accountability across our supply chain
- We had to develop a consistent approach to child labour in our supply chain

Our performance

- 89.5% of our suppliers complied with the Nestlé Supplier Code
- We've sourced 11% of our cocoa through the Nestlé Cocoa Plan , trained more than 270 000 farmers and distributed more than 1 100 000 high-yield, disease-resistant cocoa plantlets
- We've helped 14 cocoa cooperatives achieve UTZ or Fair Trade certification
- We've purchased 133 000 tonnes of green coffee through Farmer Connect, trained more than 48 000 farmers and distributed 12 million coffee plantlets in 2012
- 80% of the palm oil we purchased this year was RSPO compliant, out of which about 13% was traceable RSPO certified oil and 67% had GreenPalm certificates
- More than 8 000 farmers joined the *Nespresso* AAA Sustainable Quality™ Program in 2012 and we've sourced 68% of *Nespresso* coffee through the AAA Sustainable Quality™ Program

Inside the issue: Responsible sourcing

Population growth, together with improving living conditions in the developing world, is pushing up demand for nutritious food and fresh water. At the same time, many of the raw materials essential to the production of our foods are increasingly constrained. Consequently, ensuring sustainability of supply is vital.

In addition, the production of the raw and processed materials we use to manufacture our products has important impacts on people and the environment well before they reach our factories. The choices we make about which suppliers we use and how we work with them to continuously improve their performance can positively influence the social and environmental impacts of our value chain.

Responsible sourcing is about ensuring that when we purchase raw or processed materials, we make decisions that are aligned with our own commitments and policies, but it is also about ensuring that our suppliers understand and are aligned with these requirements and act accordingly. And last but not least, ensuring that our suppliers, including individual farmers and other primary producers, can maintain a viable, thriving, business, while guaranteeing us security of supply.

Managing responsible sourcing

What we stand for

Our Corporate Business Principles form the foundation of all we do. They contain, amongst others, the following key principles of relevance for the way we source:

- Supporting the United Nations Global Compact's guiding principles on human rights and labour
- Ensuring safety and health at work along the value chain
- Committing to honesty, integrity and fairness in supplies and customer relations
- Contributing to improvements in agricultural production and rural development
- Promoting environmentally sustainable business practices, including responsible water use and management

Our aim for responsible sourcing is to ensure that vendors work according to the same principles and values that we do ourselves. This means that our consumers can trust the way our ingredients and materials are produced before becoming part of our products.

Delivering our commitments

The Nestlé Supplier Code

- The Nestlé Supplier Code is the basis for our work on responsible sourcing. It distils relevant parts of our Corporate Business Principles, outlining for suppliers the non-negotiable minimum standards that we expect from them regarding business integrity, sustainability, labour standards, safety and health, and the environment. We ask our suppliers, their employees, agents and subcontractors to adhere to these standards at all times, and we monitor implementation through our responsible sourcing audit programme.

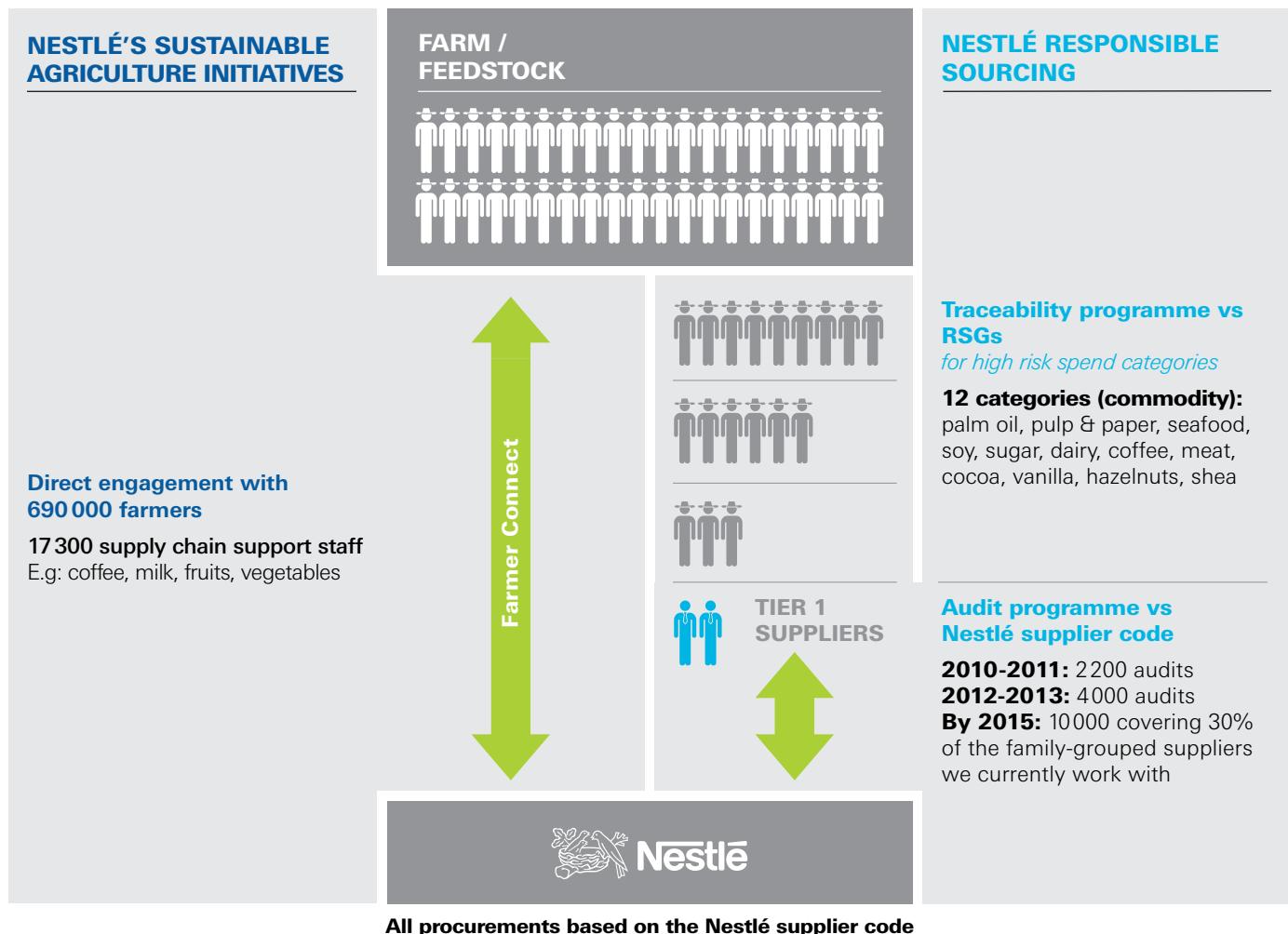
The Supplier Code is embedded into our accountability systems. Our auditors verify our internal procedures for applying the Code and report any irregularities.

Our Responsible Sourcing Guidelines

The Supplier Code is complemented by Responsible Sourcing Guidelines for specific raw and packaging materials. These guidelines are aligned with or go beyond internationally-recognised responsible production standards.

We also work with partners and certification schemes such as the Rainforest Alliance, 4C Association, UTZ-certified, the RSPO and FairTrade that carry out independent verification to ensure compliance with their respective standards.

What we're doing - The Nestlé three-tier approach to responsible sourcing



Three-tiered approach to responsible sourcing

The diagram above shows how we manage responsible sourcing at three levels:

- **Tier 1 major suppliers – Audit programme:** We audit our tier 1 suppliers against our Supplier Code requirements, using the Sedex Members for Ethical Trade Audit 4 Pillars protocol.
- **Extended value chains – Traceability programme:** Where we don't purchase direct from the farm or feedstock, we have a programme to establish transparent supply chains back to the origin and develop suppliers that meet our commitments and policies.
- **Direct from farmer – Farmer Connect programme:** All our purchases direct from the farmer or farmer organisation are monitored via the Farmer Connect programme.

Below we explain our approach at each level in more detail.

Addressing Tier 1 supplier issues

Tier 1 suppliers are those from whom we purchase directly, with the exception of those involved with the Farmer Connect programme.

We acknowledged that communicating our Supplier Code to suppliers would not necessarily ensure that good ethical practices were in place in their operations. So in 2010 we launched the Responsible Sourcing Audit Programme, both to verify supplier compliance and help them improve their practices if necessary. This programme forms an integral part of the Vendor Approval Process used to assess financial stability, quality capabilities, ensuring supply practices and responsible sourcing.

Through this programme, our Tier 1 suppliers are audited using the Sedex Members Ethical Trade Audit (SMETA) 4 Pillars protocol, which covers best practice in labour standards; health and safety; the environment; and business ethics. When required, these reports are then shared by suppliers in Sedex with 32 members of the Fast-Moving Consumer Goods (FMCG) industry members (AIM-PROGRESS platform). This encourages sharing, and means that suppliers don't have to undergo a separate audit for each of their FMCG customers.

Following the audit, Sedex gives the supplier a report of its findings highlighting any breaches of our Supplier Code. If the supplier doesn't change poor practices within an agreed timeframe, we remove the supplier from its list.

We have 6 211 single company or family group suppliers, excluding Farmer Connect. In 2010-2011, the candidates for audit were direct material suppliers in emerging economies, who represented a spend of more than CHF 50 000. In 2012, we expanded these parameters to include all suppliers in all markets. This means that the spend and ambition of the programme has doubled in

the last year: our audit target has doubled from 2 000 audits in 2010-2011 to 4 000 in 2012-2013; and we plan another 4 000 audits in 2014-2015 . So by 2015 we will have audited 10 000 suppliers with audit, most of them being single company or parent vendors.

Responsibility in extended value chains

The Responsible Sourcing Traceability Programme promotes compliance with our Responsible Sourcing Guidelines in our extended value chains, back to the level of primary production. The Guidelines cover materials relating to agriculture, forestry, fishery or aquaculture origin. They provide a framework for continuous improvement with the ambition that all our purchases will come from responsible sources that are committed to a process of continuous improvement towards environmental, social and economic sustainability, supported by supply chain transparency and credible verification.

The Guidelines are a key instrument for us to create shared value for society and for our business and implement our corporate commitments. They focus on the following areas:

- Human rights
- Forest stewardship
- Water stewardship
- Elimination of child labour in agriculture
- Rural development
- Sustainable fisheries
- Animal welfare

Our responsible sourcing traceability journey

We officially launched the [The Nestlé Cocoa Plan](#) in 2009 and [The Nescafé Plan](#) in 2010. Also in 2010, we launched Responsible Sourcing Action Plans on palm oil and paper and board to implement our commitment to combat deforestation in our supply chains.

In 2011, we launched Action Plans on sugar cane, hazelnuts and natural vanilla.

In 2012, we put in place an Action Plan for soya and we developed Responsible Sourcing Guidelines for fish and seafood, dairy, meat and poultry and eggs, which will be implemented from 2013 onwards.

For each category, [Responsible Sourcing Guidelines](#) define the priorities for continuous improvement of our suppliers' environmental, social and economic performance, back to the farm or feedstock level.

In 2012, we consolidated these requirements into general Responsible Sourcing Guidelines for all materials of agriculture, forestry, fishery or aquaculture origin.

The general guidelines cover the following priorities:

AMBITION OF THE NESTLÉ RESPONSIBLE SOURCING GUIDELINES						
GENERAL PRINCIPLES						
Continuous improvement	Transparency	Supplier accountability & support	Verification	Shared Value	Stakeholder engagement	Reporting & communication
GENERAL GUIDELINES						
Compliance	Long-term economic viability	Labour practices	Environmental sustainability	Communities and rural development	Animal welfare	
<ul style="list-style-type: none"> Applicable laws and regulations Applicable human rights Nestlé Corporate Business Principles and Nestlé Supplier Code 	<ul style="list-style-type: none"> Product quality and safety Long term financial stability Supply chain transparency Market access information 	<ul style="list-style-type: none"> No forced or compulsory labour No child labour Freedom of association Wages and benefits Working Hours Health and safety at the work place No discrimination 	<ul style="list-style-type: none"> No deforestation High Conservation Values Water Waste management Soil Biodiversity Climate change Air emissions Energy 	<ul style="list-style-type: none"> Land rights Free Prior Informed Consent Sustainable local development 	<ul style="list-style-type: none"> Five freedoms of animal welfare OIE Guideline 	
MATERIAL - SPECIFIC GUIDELINES (as applicable)						

The Traceability Programme is based on:

- **Defining our requirements:** by applying Responsible Sourcing Guidelines (RSGs) to key raw and packaging materials.
- **Transparency:** by mapping supply chains back to their origins.
- **Transformation:** by assessing and developing suppliers against the RSGs in a process of continuous improvement. Where appropriate, we support suppliers that are not yet able to meet all our RSGs, but that are committed to becoming compliant over time.
- **Monitoring of progress and transparent reporting** on a regular basis.

Farmer programmes and Farmer Connect

Our farmer programmes and Farmer Connect sourcing operations mainly applies to farmers supplying our main raw materials: milk, cocoa (The Nestlé Cocoa Plan), coffee (*Nescafé* Plan), as well as fruit and vegetables.

Maintaining a constant and consistent supply of raw materials begins with our core suppliers, and most of these are farmers. We work with more than 690 000 farmers

around the world, from small farmers with a single cow to large-scale farmers with more than 10 000 cows. Having good, productive relationships with our farmers is critical both to meeting our growth targets and to truly creating shared value.

This is what lies behind Farmer Connect, our programme for buying directly from farmers or cooperatives that we partner with to achieve higher agricultural standards.

We help farmers get consistent and fair prices for their products, and improve their methods and yields in ways that minimise harmful impacts on the environment. For our part, Farmer Connect offers security of high-quality supply coupled with traceability back to farmer level. As well as providing technical help and training in best agricultural practices, we promote compliance with our Supplier Code. These activities together form our Sustainable Agriculture Initiative Nestlé (SAIN). The Farmer Connect programme only operates in countries where we have factories. Based on a survey conducted in 2010, about 46% of our factories were located in emerging countries and 73% of those were in rural areas.

Technical assistance

We assess the farm's sustainability and address any gaps with an approach that's appropriate to the raw material involved:

- For instance, we support our milk farmers by offering veterinary services, support on silage and fodder programmes and financing where gaps have been identified. We are also supporting research in silvopastoral agriculture (the practice of combining forestry and grazing of domesticated animals). This is aligned with the RISE programme (see below).
- For coffee and cocoa we support improving quality, yield improvement, tools to help with adjustment to changing climate conditions, soil and leaf analysis, wastewater management, gender and youth empowerment, improvements on traceability as well as preparation for the Common Code for the Coffee Community (4C) and Sustainable Agriculture Network (SAIN) compliance. This is aligned with our commitments to only source 4C-compliant coffee within Farmer Connect and to increase our UTZ-certified sourcing within the Cocoa Plan.
- In addition to these commodity-specific programmes, we also offer water management programmes and water source protection support as well as support in the identification and production of alternative crops.

Promoting cooperation

We are active members of 4C, SAI and the IDH sustainable coffee programme.

RISE assessment

We assess our farmers through Response-Inducing Sustainability Evaluation (RISE), a computer-based tool for assessing the sustainability of agricultural production and trends at farm level, and providing an early warning system for potential problem areas.

The tool identifies strengths and weaknesses across environmental, economic and social dimensions, as well as 'intervention points' where improvements can most effectively be made.

Employee training and engagement

In each of the three pillars of our Responsible Sourcing Programme, our effort is complex and ever-changing, and we recognise the need to help our employees at all levels keep up-to-date with its principles and practices.

- 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 Audit programme. In total, some 1 250 employees in the Procurement function, including the 700 strategic buyers, have completed this course.
- Also in 2011, we developed an internal training programme on the implementation of the Nestlé Responsible Sourcing Guidelines. In 2012, the training has been rolled out to procurement professionals in all three Nestlé Zones globally.
- Our Agricultural Service Teams, which include 1 180 agricultural specialists working directly with farmers and 12 000 support staff, are trained in our Supplier Code.

Stakeholder engagement

We seek to maximise our impact by working with other major food industry players, public authorities, international organisations, NGOs, and other relevant stakeholders. Our work with food industry partners includes the Sustainable Agriculture Initiative (SAI) platform, which we founded with Danone and Unilever in 2002. As one of 40 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, involved a public-private partnership to deliver training and make financial assistance available to dairy farmers near our Kabirwala and Sheikupura factories.

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

Since 2010, we have been partnering with The Forest Trust (TFT) to implement our commitment on no-deforestation in our palm oil and paper supply chains. Since 2010, we have been working with Proforest on responsible sugar sourcing. Since 2012, we are working with Conservation International and with Proforest on the responsible sourcing of soya.

We are also working with Conservation International to improve our understanding of the regions we source from and where deforestation occurs. We are cur-

rently using these maps to overlay our commodity sourcing in order to focus our responsible sourcing programmes and reduce negative impacts.

In February 2012, we became an affiliated member of the [Fair Labor Association \(FLA\)](#) that supports us in eliminating child labour from our agricultural supply chains, including cocoa in Côte d'Ivoire and hazelnuts in Turkey.

Land acquisition

Land acquisition has become a high profile political topic in recent years due to concerns about the impact of such activity on human rights and local food security. The worst cases of abuse are referred to as "land grab". We do not directly acquire or lease agricultural land, though we do acquire land for factory sites and some small demonstration farms. We also buy commodities such as palm oil, soya and sugar which are some of the common commodities driving land acquisition and "land grab".

Land acquisition is included within our global corporate risk assessment, and is also incorporated into risk assessments at the national level. We have included safeguards such as "free, prior and informed consent" as a requirement in our responsible sourcing guidelines for major commodities such as palm oil, soya, paper and sugar, and it is one of the criteria that our partners assess in carrying out our responsible sourcing assessments on the ground. We have also been carrying out Human Rights Impacts Assessments in high-risk countries. These look at the process by which we have acquired land for factory construction. ([See also Human Rights](#))

To advance our understanding of the issue, in 2012 we carried out a review of countries and commodities where land acquisition is happening and is a potential risk in our commodity sourcing. This analysis is helping us further refine our approach to assessing risk in our supply chains and in deciding which countries to focus our Responsible Sourcing activities. We also recognise that this issue is a rapidly advancing one and we welcome information and guidance from stakeholders to help us improve our understanding of the situation.

→ How we've performed	
Direct sourcing staff 2012: 1 180 2011: 1 140	Supply chain support staff: 2012: 12 000 2011: 10 625
Number of farmers supplying directly to Nestlé 2012: 690 000 2011: 680 000	Farmers trained through capacity-building programmes 2012: 273 808 2011: 200 751 2010: 144 900
Number of collection centres 2012: 10 000 2011: 10 600	Number of crop demonstration plots 2012: 187 2011: 202
Number of farmers benefitting from financial assistance 2012: 44 000 2011: 45 000	Budget for financial assistance to farmers – direct and indirect (USD million) 2012: 37.8 2011: 59
Direct procurement markets covered by SAIN programmes (%) 2012: 100 2011: 100 2010: 100	Countries covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes 2012: 46 2011: 46 2010: 45
Percentage of purchased volume compliant with the Nestlé Supplier Code (%) 2012: 80 2011: 75.2	Percentage of suppliers, key vendors and quality key suppliers compliant with company's sourcing policy (%) 2012: 89.5 2011: 96 The percentage of suppliers compliant with the Nestlé Supplier Code has fallen slightly in 2012 due to an expansion in the scope of our compliance assessments, from large volume suppliers in 2010/11 to smaller suppliers in 2012. These suppliers typically have fewer resources to invest in closing non compliance.

What we plan to do

We believe our approach to sustainability and the environmental context for sourcing raw materials is the right way forward. Our key commitments and contributions to the initiatives described in this section are:

Addressing tier 1 supplier issues: achieving 10 000 responsible sourcing audits by 2015

Traceability: continue implementing our Responsible Sourcing Action Plans for coffee, cocoa, palm oil, paper and board, sugar, soya, natural vanilla and hazelnuts and roll-out our Action Plans on fish and seafood, dairy, meat, poultry and eggs in 2013, including our corporate commitment on animal welfare.

Farmer Connect: SAIN, SAI, 4C, RISE have proven successful over many years. We will therefore continue with this approach, and introduce new initiatives where necessary, in line with our existing commitments such as the *Nescafé* Plan and the Nestlé Cocoa Plan.

Please also [see Our Commitments](#) for more information.

Deforestation

Why it's important

It is estimated that rainforest destruction contributes to around 20% of global greenhouse gas emissions. Furthermore, the loss of rainforest causes the destruction of natural habitats for many of the planet's most threatened species.

What we stand for

We believe that the destruction of tropical rainforests and peat lands to cultivate crops is one of the most serious environmental issues facing us today. However, as we do use some raw materials, which have been linked with deforestation and loss of biodiversity, such as palm oil, and we are committed to ensuring that the raw and packaging materials we source are not associated with any damage to existing rainforests.

We have identified palm oil, paper and board, and soya as the three priority raw materials in our combat against deforestation, so in this section we report on our actions on these three materials.

Delivering our commitments

Our no deforestation commitment

In 2010, we made our, [Commitment on No Deforestation](#) which states that our products would not be associated with deforestation. This commitment covers all the raw materials we use to make our products and packaging. We have also developed [Responsible Sourcing Guidelines for Forest-based Materials](#). As a member of the Consumer Goods Forum, we also support its commitment to help achieve zero-net deforestation by 2020. We are mapping our supply chain of key raw materials back to their origin and we assess and develop our suppliers against our Responsible Sourcing Guidelines.

Nestlé Responsible Sourcing Guidelines for palm oil

We recognise that to achieve 'no deforestation' we must work with all agents in the supply chain, from plantation owners, processors and suppliers all the way to the consumer. In 2009, we joined the Roundtable on Sustainable Palm Oil (RSPO). In 2010, we partnered with The Forest Trust (TFT) and established [Responsible Sourcing Guidelines for Palm Oil](#).

Nestlé commitment on biofuels

We believe that agricultural products are not an adequate solution to reducing greenhouse gas emissions, as they risk diverting critical water and food resources away from the need to grow food for a growing population. [Our commitment on biofuels](#) states that we will refrain from using first-generation agricultural products within our operations and raise awareness of the dangers of using agricultural commodities.

What we're doing

Palm Oil

We recognise that to achieve 'no deforestation' we must work with all agents in the supply chain, from plantation owners, processors and suppliers all the way to the consumer. Our Guidelines ask our suppliers to source oil from plantations that:

- Are legally compliant.
- Respect the "free, prior and informed consent" of local and indigenous communities.
- Respect high conservation values (HCVs).
- Protect peat lands.
- Protect high carbon stock forests.
- Respect all other RSPO principles and criteria.

By making explicit provisions for the protection of peat lands and high carbon stock forests that provide valuable carbon storage, we go beyond the Roundtable on Sustainable Palm Oil (RSPO) requirements to give more emphasis to the issue of deforestation, which is a leading cause of the loss of biodiversity and increased CO₂ emissions. So far we are the only major food company to have taken such a step.

We support the RSPO as the industry-wide instrument to promote sustainable palm oil production. We use the RSPO as a means to verify compliance of our palm oil purchases against most of our RSGs (all except our additional requirements on peatlands and high carbon stock forests that we verify separately).

We have committed to purchasing palm oil solely from certified sustainable sources by 2015. We have made strong progress towards that goal: In 2011, 54% of our palm oil volumes were certified sustainable palm oil. By the end of 2012, we purchased certified palm oil, out of which 13% are traceable RSPO certified palm oil and 67% from GreenPalm certificates. Our 2012 palm oil update report will be published in the first quarter of 2013.

By 2013, we will be sourcing 100% RSPO-certified palm oil two years ahead of our public commitment.

Implementing the Palm Oil Responsible Sourcing Guidelines

To ensure the palm oil we source is not associated with deforestation, we must know where it comes from. So we work with our suppliers to build traceability and carry out field assessments against our RSGs.

We accept RSPO certification as verification of compliance, except for peatland and high carbon forest, which must be independently verified. In addition, we accept traceable oil from smallholders and growers that are not yet compliant but have an action plan and timeline in place for meeting our RSGs.

We recognise that during an interim period, until traceability becomes feasible for all supply chains, including for complex blends of palm-based derivatives, GreenPalm certificates have a role to play in supporting producers of certified sustainable palm oil.

Since we began working on palm oil traceability in 2010, we have directly engaged with suppliers responsible for 90% of our palm oil volume.

By September 2012, 40% of our volume could be traced back at least to the mill in the country of origin.

By September 2012, about 13% of our volume was traceable RSPO certified oil.

By end 2012, we achieved a total of 80% RSPO certified sustainable palm oil (including an estimated 67% in the form of GreenPalm certificates).

By 2013, we have committed to achieve 100% RSPO certified sustainable palm oil, two years ahead of our public commitment.

Soya

The traditional soya supply chain has a high degree of complexity. Traceability to the region of origin, and ultimately to the grower, is often not readily available. Yet soya is a key commodity in our journey of eliminating deforestation from our supply chains and we apply the same process as for palm oil and paper and board. We map our supply chains back to the origin and we assess and develop our suppliers against our RSGs.

In 2011, we partnered with Conservation International, a global environmental non-profit organisation, to develop Responsible Sourcing Guidelines (RSGs) for soya. The RSGs were finalised in 2012 and are now being used to implement our commitment to no-deforestation and forest stewardship in the field of soya sourcing.

As the first stage of implementing the RSGs, in 2012, we embarked on a project with the support of Proforest to map our current soy supply chains in Brazil and Argentina. The information we gathered highlights critical control points along the soya supply chain that we need to manage together with our suppliers in order to establish transparency back to the origin of cultivation. This will allow for the assessment of our soya producers supply chains against our RSGs, in 2013, with a view to eliminating any occurrence of deforestation or loss of high conservation values. This assessment forms the basis for developing and launching RSG action plans with all our key soya suppliers in Brazil and Argentina in 2013.

Paper and paper board

In 2010, as part of our commitment to no-deforestation and forest stewardship, we launched a partnership with The Forest Trust for the responsible sourcing of paper & board.

Our Responsible Sourcing Guidelines (RSGs) for paper and board are designed to ensure that the products we buy come from fibre sources that have not led to deforestation or loss of high conservation values. They also address the environmental performance of paper mills.

In 2011, we started mapping and assessing the supply chains of more than 260 suppliers in the priority countries and regions of Brazil, China, Europe, India, Indonesia, Malaysia and USA. These maps enable us to assess potential sustainability risks and prioritise individual fibre sources or mills for improvement.

We are pleased to report that, in 2012, the countries we operate within Europe engaged 100% of its paper and board suppliers and assessed their performance at both forest and mill level. This is a significant step towards eliminating unwanted fibre sources from our supply chains. We developed a Supplier RSG scorecard, consisting of both a fibre traceability database and a paper mill environmental performance database that is being used for more than 180 of our paper supply chains to define RSG action plans.



How we've performed

Palm oil purchases from sustainable sources (including GreenPalm certificates)

2012: **80%** of which 13% segregated RSPO oil
2011: 54%
2010: 20%

What we plan to do

Palm oil

- We aim to increase the volume that we can trace back to plantations that are independently assessed and verified against our RSGs.
- We have committed to reporting publicly every year our progress in sourcing traceable, sustainable palm oil that doesn't contribute to deforestation.
- We have committed to purchase 100% of our palm oil from sustainable sources (including GreenPalm certificates) by the end of 2013.

Soya

- Our priority in 2013 will be to put in place RSG Action Plans with all our major soya suppliers in Brazil and Argentina.
- We will use independent certification schemes, like the Round Table for Responsible Soy (RTRS), as appropriate and available, to verify compliance with our RSGs over time.

Pulp and board

- In 2013, we will extend the successful European RSG scorecard model to our other priority countries.
- We will use independent certification schemes such as FSC to verify compliance with our RSGs over time.

Please also see [Our Commitments](#) for more information.



Why it's important

The dairy industry is one of the most powerful engines for rural development and most of our rural factories are within our milk districts. These are areas in which farmers supply our milk factories directly, and we in turn provide facilities and support to develop the local supply chain. As the world's largest milk company in terms of value of products sold, and an established presence in many rural districts, we can have a positive impact on that development.

What we stand for

Milk purchasing, especially directly from farmers, is a shared value activity that we have been undertaking for more than 140 years. We have always understood that if we want a constant supply of high-quality, fresh milk, we need to work in partnership with our farmers. In exchange for this, we offer our farmers' access to market and regular demand for their product, as well the support for them to grow together with our business.

In 2011, we sourced more than 7.2 million tonnes of fresh milk from milk districts in 31 countries. This is equivalent to more than 50% of our total required milk volume.

Delivering our commitments

Through our successful milk district model, which we first used in the 1870s, we work directly with small-scale dairy producers and cooperatives to build a supply chain. The model has been adopted in more than 30 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 we provide facilities and support to develop the local supply chain. We also work at farm level. Our technical staff, including our agronomists and veterinarians, provide technical advice and training to farmers, and we provide access to financial assistance for them to expand their operations.

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

For farmers, the milk district model means a regular source of income, 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.

What we're doing

We constantly require milk in our factories - the right quality at the right quantity at the right time. Farmers supply the milk daily and ,as milk is highly perishable, it is important to have the right infrastructure and logistics to ensure a constant supply to the factory.

The milk is either delivered to our collection centres, directly to the factory, or to contracted third parties. In many cases, we even collect in milk trucks directly from the farmer. The price paid will vary according to the quality of the milk.

Our milk district model

Our milk district model is based on quality, safety, volume growth and cost. To achieve these objectives , we provide technical assistance and in some cases even financial assistance.

There is no common approach as the farming systems and environments are very diverse. However, our approach is always solutions oriented. For example, if there is a quality issue we address it at the farm level. As a consequence ,we work with farmers to improve the situation, for instance, by providing veterinary services.

Improving long-term milk sustainability through RISE

RISE (Response Inducing Sustainability Evaluation) is an indicator and interview-based method for assessing the sustainability of farm operations across economic, social and environmental dimensions developed by the School of Agriculture at Bern University in Switzerland. We use RISE in dairy farming to assess long-term sustainability issues at farm level. This helps us to assess security of supply, both in terms of quality and quantity. It also helps the farmers to understand where there are potential issues to be addressed by the farmer and by us.

We have carried out RISE assessments for 10 years in different farming systems in 18 countries, including four new countries in 2012.

Based on these assessments we have a broad range of activities that differ from country to country. They include, among others:

- veterinary services
- support to feeding / silage production / pasture establishment
- water treatment and management
- improved milk collection (e.g. solar panels at chilling stations)
- animal fertility checks
- support to silvopastural farming
- biogas digesters and systems
- incentive schemes for environmentally friendly farming practices

Financial assistance

As dairy farmers provide milk to us on a daily basis, we can build strong relationships with them. This also enables us to provide financial assistance schemes that support farmers in their daily operations and to make the necessary investments. Out of the 31 fresh milk markets, 23 have financial assistance schemes in place.

How we've performed	
Technical assistance schemes in fresh milk markets worldwide (% of countries covered) 2012: 83% (27 out of 31) 2011: 71% (22 out of 31)	Number of countries for fresh milk Farmer Connect 2012: 31 2011: 31
Number of milk farmers 2012: 456 357 2011: 422 714	Number of milk purchases 2012: Data Available mid 2013 2011: 72 million MT
Total amount of financial assistance to milk farmers in USD 2012: 37 321 199 2011: 57 622 559	Number of milk farmers benefitting from financial assistance 2012: 42 447 2011: 38 677

What we plan to do

- We will continue with our approach, which has been successfully implemented over the years in very diverse environments. Our focus will remain on improving long-term sustainability through RISE (Response Inducing Sustainability Evaluation).
- We will also continue to provide technical assistance and financial assistance where appropriate.

Coffee

Why it's important

The coffee supply chain can be complex and opaque. It affects the livelihoods of millions around the world. Coffee farming is not without its challenges, as farmers face a variety of uncertainties, from changing weather patterns to volatile coffee prices and shifts in demand.

What we stand for

If we are to maintain a strong and healthy future for our *Nescafé* and *Nespresso* businesses we need to ensure the supply of quality coffee now and in the future. We therefore aim to ensure that our work:

- helps farmers to increase yields utilising the same amount of land that is under coffee cultivation and to diversify their activities, giving them higher incomes and improving their living standards;
- provides us 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 sustain the communities in rural areas.



A Colombian farmer with freshly picked coffee cherries, meeting *Nespresso*'s AAA Sustainable Quality coffee programme standards.

Delivering our commitments

• Our Supplier Code

The [Nestlé Supplier Code](#) is an integral part of any green coffee contract – that is, the purchase of green coffee. 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 *Nescafé* Plan

In August 2010, we launched [The Nescafé Plan](#) which brings together our pledges to sustainable coffee farming, production, supply and consumption under one umbrella. The Plan has a set of global objectives that aim to help the Company further optimize 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 green coffee bought from around 170 000 farmers every year through our Farmer Connect network;
- ensured all Farmer Connect coffee meets the 4C code of conduct.

• By 2020, we will have:

- invested CHF 350 million in coffee projects in support of the *Nescafé* Plan
- procured 90 000 tonnes of green coffee grown according to Rainforest Alliance and Sustainable Agriculture Network (SAN) principles;
- distributed 220 million high-yield, disease-resistant coffee plantlets to farmers.

Farmer Connect and the *Nescafé* Plan

In 2012, we purchased approximately 134 000 tonnes (2011: 89 392 tonnes) of green coffee through our Farmer Connect programmes in Brazil, China, Côte d'Ivoire, Indonesia, Mexico, the Philippines, Thailand and Vietnam, maintaining our industry leadership in terms of direct purchase of green coffee. We also provided technical assistance and training to almost 50 000 coffee farmers involved in these programmes in 2012.

Through [The Nescafé Plan](#) we will increase this volume to approximately 180 000 tonnes by 2015. This coffee will be compliant in accordance with the Common Code for the Coffee Community (4C) Code of Conduct. ([4C Association](#)). This is a multi-stakeholder association of which we are a founding member. 4C has members across trade and industry, producers, civil society and companies active in the coffee supply chain.

As part of Farmer Connect, we have committed to source all of our directly pro-

cured coffee as 4C compliant. The 28 principles of the 4C Code of Conduct cover environmental, social and economic aspects, as well as the ten unacceptable practices. This enables evaluation of our business partners within the supply chain using a traffic light system. If partners score a 'red' in any of the applicable criteria, an improvement plan is developed; we then work with these partners to enable them to eradicate these practices within the continuous improvement concept of 4C. These actions are carried out within the time frames defined by the 4C Association and its members.

What we're doing

Sustainable coffee initiatives

We take part in a number of sustainable coffee initiatives. These include:

- The Coffee Working Group of the Sustainable Agriculture Initiative of the Food Industry ([SAI platform](#)).
- The [4C Association](#) of which we are a founding member. We follow 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 2010, together with local and international companies, we helped to form the Coffee Task Force in Vietnam. This is part of a major public-private partnership under the World Economic Forum, 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 Vietnamese coffee farmers, the majority of whom are smallholders.
- We are engaging in the [IDH Sustainable Coffee programme](#) which is a public-private partnership from The Netherlands. This programme aims to address global and national common issues in a pre-competitive manner enabling an increase in sustainable coffee production thereby making coffee farmers more resilient in an ever-changing market.
- We have an innovative partnership with Federación Nacional de Cafeteros in Colombia. The benefits generated by being 4C compliant directly flow through to the farmers, and help provide services such as a programme to rejuvenate farms through the provision of coffee plantlets. These types of initiatives are being replicated with trade partners in a wider range of areas that now include Papua New Guinea, Brazil, and Vietnam.
- In Brazil we offer training through SENAR, the National Service for Rural Apprenticeship, which covers areas such as pest management, pesticide use, water/waste treatment, farm management, supply of septic tanks and leaf and soil analysis.
- In Papua New Guinea, we offer two university scholarships. This is generated by the added value received from 4C compliance and the supply of green coffee to Nestlé Australia.
- In Vietnam, we supplied personal protective equipment to 250 farmers involved in supplying 4C-compliant green coffee through a trade partners.
- In Kenya, we are focusing on maintaining and improving quality, improving yields, developing tools for the changing climate conditions, soil and leaf anal-

ysis, waste water management, women and youth empowerment, improvements in traceability and preparation for 4C and SAN compliance.

- In Ethiopia, we are addressing issues at the mill level, such as use of waste water, more efficient management and training on good agricultural practices, and improving yield and quality. This is via training programmes by our implementing partner. We're participating with other industry and trade associations through the IDH sustainable coffee programme to address the traceability of the coffee, as well as engaging with key national and local Government entities.

Nespresso AAA Sustainable Quality™ Program

The *Nespresso AAA Sustainable Quality™ Program* was launched in 2003, in collaboration with Rainforest Alliance, is founded on the conviction that the best way to protect in the long-term the highest quality coffees that meet the specific *Nespresso* aroma profile required for its Grands Crus is to encourage sustainable farming practices and secure farmers' livelihoods.

Through the AAA programme, *Nespresso* has invested in initiatives that help:

- Process consistently highest quality coffees
- Produce coffee sustainably
- Improve farmers' livelihoods and optimising farm productivity.

Nespresso's objective is to source 80% of its coffee from its AAA Programme by the end of 2013. By the end of 2012, *Nespresso* was on track with 68% (2011: 60%) of its coffee coming from the AAA Programme.

In 2012, *Nespresso* extended the reach of its AAA Sustainable Quality™ Program in the coffee countries of origin to support an increasing number of coffee growers in adopting sustainable quality farming practices and improving productivity and net income. The company invested more than USD 23 million during the year to finance field infrastructure, projects and technical assistance, as well as to provide incentive premiums for farmers to adopt the AAA Programme sustainable practices.

Nespresso sourced more than two-thirds of its green coffee through the AAA Programme, establishing long-term relationships with more than 52 000 farmers in eight countries of origin. A network of more than 200 dedicated agronomists worked closely with farmers on the ground. As a result, more than 240 000 hectares of farmland were part of an active sustainable management programme at the end of 2012.

Colombia

Nespresso committed to driving sustainability and value creation through a contribution of USD 10 million per year over five years to further strengthen the AAA Programme in Colombia, one of the most important coffee sourcing countries for *Nespresso*. This commitment will provide direct incentive premiums for farmers to adopt the AAA Programme's sustainable practices. It will also finance technical assistance and training to improve quality, sustainability and productivity.

Nespresso currently works with approximately 44 000 AAA coffee farmers in Colombia, representing 80% of all farmers taking part in the AAA Programme worldwide. In six years, *Nespresso* has tripled the amount of coffee sourced through the AAA Programme in this country.

The two main priorities of the AAA Programme in Colombia are to combine the efforts of the government and local partners to regain the decline in productivity of recent years and to address residual water management, one of the main issues of the coffee industry in the region.

Nespresso has been working closely with the Federación Nacional de Cafeteros de Colombia (Colombian Coffee Federation) 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 12 000 water treatment units (since 2008). The second initiative has been the co-financing and implementation of a central mill in Jardín Antioquia. The centralization of coffee and residual water processing in this new mill has enabled a reduction in water consumption by 63% and treatment of 100% of the waste water.

This centralized infrastructure has also enabled farmers to double the volume of coffee matching the *Nespresso* quality and sustainable criteria, helping them secure higher prices and increase their net income by 17%. The central mill has also had a positive social impact. Farmers now save approximately four hours or more per day during the harvest and avoid labour-intensive tasks. This extra time is being used to make improvements within their farms or to spend time with their families.

The central mill was inaugurated in 2010. In 2012, it was expanded to triple its processing capacity of parchment coffee per year and accommodate over 200 beneficiaries.

Nespresso has also been closely working with local partners to address the productivity challenge. The company started an integrated crop management pilot to increase the productivity levels of the farms taking part in its AAA Sustainable Quality™ Program in the Caldas region in 2010. Over a two-year period, the AAA farmers have increased their productivity between 6% and 30% compared to previous years, thus also increasing their income.

Partnering with supplier Expocafe and the Colombian Coffee Federation, *Nespresso* drove the “Arbol de Vida” project to support farmers taking part in the *Nespresso* AAA Sustainable Quality™ Program in growing 200 hectares of additional coffee trees on non-used farm land in the Caldas and Antioquia regions in Colombia. The aim was to increase the productivity of farms and farmers' net income. Farmers received support from *Nespresso* and its partners to ensure the project's success. The project, which started in 2011, resulted in the plantation of more than one million trees, and is still ongoing.

Guatemala

In 2012, the Huehuetenango cluster completed the third year of a partnership with Root Capital to provide financial and business literacy training to farmers' associations in Guatemala. More than 250 farmers received support, advice and training to improve the management of their finances. Root Capital is a non-profit social investment fund that is pioneering finance for grass-roots businesses in rural areas of developing countries. There is evidence that this approach is also leading to stronger relations with the producers. Additionally, since 2011, the Fraijanes cluster (composed of five cooperatives and around 200 farmers), has been fully compliant with Rainforest Alliance standards.

Monitoring progress of the *Nespresso AAA Sustainable Quality™ Program through a Sustainability Index*

Nespresso works with the independent monitoring organisation CRECE, the non-profit organisation Technoserve, INCAE Business School, the Colombian Coffee Federation and its own AAA Programme database to measure and track the shared value creation of its AAA Programme. CRECE surveyed more than 1 000 AAA farmers to measure the impacts of the *Nespresso AAA Sustainable Quality™ Program*. Principal Component Analysis was used to build indexes for social, environmental and economic performance.

The social index includes indicators that reflect good working practices, quality of life and occupational safety and health. The environmental index includes good agricultural practices, soil and water conservation measures and adequate agrochemical handling. The economic index includes variables that are associated with market knowledge, land productivity, production costs and income and coffee farmer's economic perceptions.

In Colombia, CRECE applied its sustainability index monitoring to measure the performance of farms participating in the AAA Programme versus a control sample of non-AAA farms. The study demonstrated that the AAA farms (including those that are already Rainforest Alliance certified) had 22.6% better social conditions, 52% better environmental conditions and 41% better economic conditions than non-AAA farms. It also revealed that AAA farmers had high levels of loyalty to *Nespresso* and considered the AAA Programme as highly beneficial for them and the region. Additionally, thanks to the AAA Programme's sustainable practices implemented on their farms, participating farmers reported an increased volume of coffee sold to *Nespresso* since they joined the programme.



How we've performed

Technical assistance and training provided to coffee farmers 2012: 101 622 2011: 56 994 2010: 9 274	Coffee sourced by <i>Nespresso</i> from AAA Sustainable Quality™ Program (%) 2012: 68 2011: 61 2010: 60 <i>Nespresso</i> is on track to meet its 2013 commitment of sourcing 80% of its coffee through its unique AAA Programme.																																																									
Number of farmers who have joined the AAA Programme	Volume of green coffee sourced through our Farmer Connect (tonnes)																																																									
<table border="1"> <thead> <tr> <th>Year</th><th>Total AAA farmers</th><th>New farmers</th></tr> </thead> <tbody> <tr><td>2007</td><td>6 225</td><td>3 800</td></tr> <tr><td>2008</td><td>23 096</td><td>16 871</td></tr> <tr><td>2009</td><td>26 467</td><td>3 371</td></tr> <tr><td>2010</td><td>40 688</td><td>14 221</td></tr> <tr><td>2011</td><td>44 605</td><td>3 917</td></tr> <tr><td>2012</td><td>52 854</td><td>8 249</td></tr> </tbody> </table> <p>Since 2007, the AAA Programme has seen an average of more than 8 000 new farmers joining annually.</p> <p>Country breakdown:</p> <table border="1"> <thead> <tr> <th>Country</th><th>2010</th><th>2011</th><th>2012</th></tr> </thead> <tbody> <tr><td>Brazil</td><td>-</td><td>-</td><td>258</td></tr> <tr><td>Colombia</td><td>13454</td><td>2518</td><td>6564</td></tr> <tr><td>Costa Rica</td><td>294</td><td>912</td><td>493</td></tr> <tr><td>Guatemala</td><td>3</td><td>151</td><td>365</td></tr> <tr><td>India</td><td>-</td><td>84</td><td>569</td></tr> <tr><td>Mexico</td><td>138</td><td>57</td><td>-</td></tr> <tr><td>Nicaragua</td><td>79</td><td>15</td><td>-</td></tr> <tr><td>Total</td><td>14221</td><td>3917</td><td>8249</td></tr> </tbody> </table>	Year	Total AAA farmers	New farmers	2007	6 225	3 800	2008	23 096	16 871	2009	26 467	3 371	2010	40 688	14 221	2011	44 605	3 917	2012	52 854	8 249	Country	2010	2011	2012	Brazil	-	-	258	Colombia	13454	2518	6564	Costa Rica	294	912	493	Guatemala	3	151	365	India	-	84	569	Mexico	138	57	-	Nicaragua	79	15	-	Total	14221	3917	8249	2012: 133 000 2011: 89 392
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What we plan to do

We will continue to help farmers find more sustainable and profitable ways of growing coffee.

For example through the roll out of the Nescafé Plan by 2015 we will have:

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

By 2020, we will have:

- invested CHF 350 million in coffee projects in support of the Nescafé Plan

Please [see Our Commitments](#) for more information.

Case study:

[Nespresso Ecolaboration™ program: a holistic approach to sustainability](#)

Nespresso's commitment to ensuring sustainability throughout its operations and seeking to create shared value for the business and for society began when it embarked on the journey to make sustainability part of its value chain in 1991, with a capsule recycling programme in Switzerland. Nespresso's sustainable approach to coffee sourcing was defined in 2003 with the launch of the Nespresso AAA programme.

Since 2009, sustainability has been integrated within the *Nespresso Ecolaboration™* platform, a company-wide programme that focuses on sustainability commitments in coffee sourcing, capsule recycling, and carbon footprint reduction. The *Ecolaboration™* programme unites *Nespresso* and its partners in a shared commitment to continuous quality improvement, long-term sustainability and increased environmental performance.

The year 2012 brought significant sustainability achievements for *Nespresso*, including extending its commitment to coffee growers through its unique AAA Sustainable Quality™ Program and meeting its objective of 75% capsule recycling capacity one year ahead of schedule.

Cocoa

Why it's important

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 secure our supply of this raw material, make better quality chocolate and satisfy consumer preference, we must ensure the wellbeing of the cocoa farmers who supply us, their workers, and the communities in which they live.

What we stand for

Due to our presence, influence and the volume of cocoa we procure, we are well positioned to make a large and positive impact on the livelihoods of farmers and their communities in our cocoa supply chain. Even so, one company alone cannot solve all the problems of the cocoa sector. We work with partners we identify as best equipped to help us create a more sustainable future.

Delivering our commitments

Several years ago, we launched a range of initiatives to improve farm profitability, cocoa quality and traceability in the cocoa supply chain and in 2009 we brought them together in one programme – the Nestlé Cocoa Plan.

Our commitments are to invest CHF 110 million in plant science and sustainability, and propagate 12 million plants over the period 2010–2019.

In 2012 we continued our progress from previous years, increasing cocoa sourced via the Nestlé Cocoa Plan to 11% of our global purchase, propagating more than 1.1 million plantlets and training more than 27 000 farmers.

What we're doing

The Nestlé Cocoa Plan

The Nestlé Cocoa Plan is active in Cote d'Ivoire, Ecuador, Ghana, Indonesia, Mexico and Venezuela.

The Nestlé Cocoa Plan aims to improve the lives of cocoa farmers and the quality of their products.

The three main pillars of the Nestlé Cocoa Plan are:

1 Enabling farmers to run more profitable farms. This includes:

- Farmer training in better agricultural practices to increase yields and incomes.
- New plantlets to help rejuvenate cocoa fields.
- Rewarding farmers for high-quality cocoa.

2 Improving social conditions. This include:

- Eliminating child labour from our cocoa supply chain.
- Promoting and facilitate school attendance.

3 Sourcing sustainable, good quality cocoa. This includes:

- Developing a sustainable supply chain.
- Ensuring long-term supply of good quality cocoa for our business.
- Traceability down to farmer group.
- Respecting the environment and avoiding deforestation.

To achieve these objectives, we work with partners such as UTZ Certified, Fairtrade, the Fair Labor Association, our suppliers, national plant research institutes and local training agencies and NGOs. We commit to openness and transparency of progress and reporting.

Tackling child labour in the supply chain – our partnership with the FLA

Tackling the issue of child labour in the agricultural supply chain is a specific requirement of our Supplier Code – and we want to make sure we do it properly. So in February 2012, we became the first company in the food industry to become an affiliate partner of the Fair Labor Association (FLA), a non-profit, multi-stakeholder organisation. We invited the FLA to help us examine our cocoa supply from Côte d'Ivoire. They sent a team of experts to undertake an assessment in January 2012. FLA's report is published on the Fair Labor Association website. Its key conclusions were that:

- The Nestlé Cocoa Plan and our participation in other initiatives provide the building blocks for a deeper, more robust programme
- Enhanced monitoring and increased accountability from the various tiers of suppliers is a must to make the supply chain more sustainable
- Child labour is still a reality on cocoa farms in Côte d'Ivoire and has its roots in a combination of factors. A realistic strategy to eliminate child labour in Côte d'Ivoire needs to start with the attitudes and perceptions of the various actors in the supply chain and communities at large. Large parts of the supply chain are shared with other industry actors. All parties should therefore combine forces in enhancing supply chain mapping and transparency, monitoring, and capacity building programmes.

The report included a number of recommendations to us, and we published an action plan in response.

The key recommendation was to set up a monitoring and remediation plan which we are undertaking with the help of the International Cocoa Initiative. Using the traceability of the Nestlé Cocoa Plan, we will appoint a monitoring and remediation agent in each cooperative, and community liaison people from each community the cooperative buys from. The community liaisons will raise community awareness and report on progress, and the child labour agents will report back to us as well as our suppliers and be responsible for remediation. This will require careful selection and training of the key personnel at each stage of the supply chain.

To the best of our knowledge, we will be the first cocoa purchaser to set up such a system. It will give us unprecedented information about the conditions for our farmers and their children and an opportunity to help individuals directly and make real progress.

We began the project in two pilot cooperatives and will roll it out to a further six in 2013. We have trained 90 supplier and Nestlé personnel in child labour awareness. We have also completed an illustrated Supplier Code, which is being distributed to more than 25 000 farmers.

We are working with our certification partners to incorporate this process into certification itself.

Building schools

In 2012, we kicked off a four-year partnership with the World Cocoa Foundation (WCF) to build or refurbish 40 schools in four years in Côte d'Ivoire. WCF completed the first ten in 2012. Outside this programme, we built two additional schools in Côte d'Ivoire and one in Ghana.

Training farmers

Globally, we trained more than 27 000 cocoa farmers in 2012, an increase of 8 000 compared to the previous year. We have used a variety of methods including farmer field schools and farmer business training.

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 Côte d'Ivoire, our programme is the only one to propagate through seed, cuttings and accelerated propagation. We have built a 30 hectare experimental and demonstration farm near Yamoussoukro to serve as a farmer training academy and plant research and propagation centre.

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 our business and the farmer co-operatives supplying us. In 2012, we purchased 46 000 tonnes of cocoa, through the Nestlé Cocoa Plan, an increase of 19 000 tonnes from 2011. We also helped 14 cocoa cooperatives achieve UTZ or Fairtrade certification.



How we've performed

	2010	2011	2012
Cocoa farmers trained	2 500	19 000	27 000
Number of higher-yielding, disease resistant-plantlets distributed	200 000	824 000	1 107 000
Percentage of global cocoa supply sourced via The Nestlé Cocoa Plan	2% of Nestlé cocoa	6% Nestlé cocoa	11% Nestlé cocoa
Nestlé Cocoa Plan volume (tonnes)	8 000	27 000	46 000

What we plan to do

Enabling farmers run more profitable farms. In 2013 we will:

- Distribute over 1 million plantlets
- Continue training more than 20 000 farmers

Improving social conditions

- Roll out the Fair Labor Association action plan to include a further six co-operatives in the monitoring and remediation programme
- Build or refurbish 40 schools by 2015 within our WCF schools programme

Sourcing sustainable, good quality cocoa

- Increase the cocoa purchased through the Nestlé Cocoa Plan to 15% of total purchases
- Increase the percentage of Nestlé Cocoa Plan which is certified to over 75%

For more information, please see [Our Commitments](#).

Other commodities

Why they're important

Beyond our key commodities, our products also rely on large quantities of other commodities such as sugar, hazelnuts, vanilla and fish and seafood. Each commodity presents its own unique set of social, environmental and economic challenges and opportunities and we're working hard to tackle these issues.

What we're doing

In 2010, we identified the first 12 priority categories to be covered by our Responsible Sourcing Traceability Programme, which seeks to ensure we can identify risk and assure responsible sourcing across key product areas back to the farm or feedstock. In 2010, we officially launched the *Nescafé* Plan and the Nestlé Cocoa Plan and we put in place Action Plans for palm oil and paper and board. In 2011, we launched Action Plans for soya, hazelnuts and natural vanilla. In 2012, we launched an Action Plan on soya and developed Responsible Sourcing Guidelines for fish and seafood, dairy, meat, poultry and eggs.

See the section on Deforestation for our strategies on managing palm oil, soya and pulp and paper.

Responsible sourcing of sugar

In 2011, with the help of Proforest, a not-for-profit organisation specialising in natural resources sustainability, we developed Responsible Sourcing Guidelines (RSGs) for cane sugar. These define the environmental and social performance we require of our sugar suppliers and give guidance on how to achieve it. A key focus of our work in cane sugar is to help increase farm yields while reducing water consumption and inputs, and improving soil fertility.

In 2012, we mapped our sugar supply chains in Brazil, Mexico and India. We also made strong progress in assessing our priority suppliers in these countries against our RSGs. The assessments cover both sugar mills and sugar cane farmers and identify priority areas for continuous improvement towards compliance with our RSGs.

In 2013, we will start implementing the RSG Action Plans with our suppliers in Brazil, Mexico and India and extend the RSG process to three additional countries/regions: Australia, Thailand and Europe.

Responsible sourcing of hazelnuts

Turkey is the world's leading producer of hazelnuts. In 2011, we were the first company to partner with the Fair Labor Association (FLA), to assess labour conditions in hazelnut harvesting on Turkey's Black Sea coast.

In February 2012, on the basis of the FLA [assessment report](#) we announced an [Action Plan](#) to promote fair labour conditions for all workers involved in our hazelnut supply chain in Turkey. We have committed to sourcing 100% of the

Turkish hazelnuts harvested from transparent supply chains that are subject to an effective labour assessment monitoring and remediation systems by 2014. Labour practices will be independently verified against our Supplier Code and the FLA Code of Conduct, and corrective actions taken with suppliers if unwanted practices are identified. By the time of the hazelnut harvest in August 2012, we had delivered strong progress against our commitment:

- In 2012, more than 50% of the hazelnuts harvested for supply to Nestlé came from supply chains that were transparent all the way back to the hazelnut gardens.
- 320 independent third party audits of labour practices have been conducted in these supply chains, indicating an average compliance rate of more than 95%. These results are very encouraging and reflect the increased awareness of the entire upstream value chain of the importance of sound labour conditions at the harvest stage.
- Our objective for 2013: 70% of the hazelnuts harvested in 2013 for supply to Nestlé will come from transparent supply chains that are independently audited against core labour standards. Our ambition is that this will reach 100% of the hazelnut harvest by 2014.
- An update on the Action Plan was issued in November 2012.

Responsible sourcing of natural vanilla

Madagascar is the world's leading producer of natural vanilla. The vanilla orchid is grown mainly in remote rural areas of the island. It is a smallholder cash crop in an agriculturally subsistent economy.

To create shared value along the supply chain, including at farmer level, in 2012 we and our suppliers established an action plan to continuously increase the volumes of vanilla we buy that can be traced back to the farm level. Our ambition for 2013 is to source 35% of our natural vanilla from traceable, certified sources. By 2014, our ambition is to source 100% from traceable, certified sources.

Based on the establishment of traceability, in 2013 we will also start engaging with our suppliers of certified vanilla in farmer support projects with the aim to promote best agricultural practices and sound environmental practices as well as education, health and nutrition initiatives, that help improve the conditions of small-scale vanilla farmers and rural communities.

Responsible fish and seafood sourcing

In 2012, we developed Responsible Sourcing Guidelines (RSGs) for fish and seafood. The guidelines are applicable to all our businesses and country-level operations. They establish a consistent framework for our engagement with suppliers with the ambition that all wild and farmed seafood supplied to us will come from responsible sources that are committed to a process of continuous improvement towards environmental, economic and social sustainability.

Our RSGs stipulate the correct identification of species and the integrity of seafood supply chains as an indispensable basis to assess and manage long-term resource sustainability. We also recognise the maintenance of biodiversity and natural populations of species will help ensure a long term, economically viable seafood industry. This is critical as the fishery and aquaculture sectors are significant socio-economic contributors to local livelihoods, especially in developing countries. Therefore, we strive to source its seafood raw materials from suppliers, fisheries and farms that respect the vulnerability of species and that do not over-exploit natural populations.

In 2013, our businesses that use seafood will assess their supply chains against the Group RSGs to identify priority areas for continuous improvement and supplier engagement. We are committed to transparently communicating their progress in implementing our RSGs to business partners, customers and other relevant stakeholders.

What we plan to do

Sugar

- We will put in place RSG Action Plans with our sugar suppliers in Brazil, Mexico and India.
- In 2013, we will extend our sugar RSG Programme to three additional countries/regions: Australia, Thailand and Europe.

Hazelnuts

- In 2013, we will extend our monitoring and remediation system for labour practices to 70% of the Turkish hazelnut volumes harvested for supply to Nestlé with the ambition to achieve 100% by 2014.

Natural vanilla

- In 2013 we plan to source about 35% of our natural vanilla from traceable and independently verified sources.
- By 2014, we aim to source 100% of our natural vanilla from traceable independently verified sources.

Fish and seafood

- In 2013, our businesses that use seafood will assess their supply chains against the Group RSGs and will develop Action Plans for continuous improvement and supplier engagement.

For more information, please also [see Our Commitments](#)

Case study:

[**Exploring rice-intensification techniques**](#)

Nestlé India, in collaboration with the Department of Agriculture of Gurdaspur and a rice flour supplier, Dada Cereals, took part in a project to evaluate the advantages of Systems of Rice Intensification (SRI) techniques over non-SRI techniques, by studying the impact on irrigation water usage, yield, farmers' income and arsenic residue in rice grains. SRI trials were carried out on ten farms in Punjab to assess conventional rice cultivation practices with SRI practices. We:

- Sponsored one agronomist graduate to monitor crop growth and record data.
- Provided two water meters for measuring water usages in the SRI and NON SRI fields.
- Supported a campaign to promote SRI.

Though SRI techniques are still in their initial stages, farmers have responded very positively so far. Results show that in comparison with non-SRI, SRI techniques have:

- Improved farmer income by 25%
- Improved yields by 19%
- Reduced irrigation water usage by 20%
- Reduced arsenic residue in rice grains by 35%

SRI techniques can be promoted in selected geographical areas to bring arsenic levels within norms in selected rice varieties, as well as reducing the water footprint.

Animal welfare

Why it's important

We recognise and share consumer, government, investor, and civil society organisation's concerns about animal welfare and we appreciate that robust welfare standards can have both a direct and an indirect impact on food safety and quality. We are therefore committed to cooperating with our supply chain partners and other stakeholders to support the long-term economic, environmental and social viability of animal farming systems, while ensuring farm animal health and welfare.

What we stand for

We use meat, poultry, seafood, milk and eggs in a range of recipes across our product portfolio, including ready-made and frozen meals, bouillons, soups, sauces and confectionery, and in pet food.

We buy processed, meat in the form of cooked and dehydrated products, oils and powders and cooked, frozen and fresh meat.

We have two demonstration farms in Pakistan, where we train farmers on good dairy management practices, including animal health and welfare.

Our animal welfare effort focuses on our work with our suppliers, and we deliver it mainly through our audit and traceability programmes, and more recently through the development of our [Nestlé Commitment on Farm Animal Welfare](#). This commitment forms the basis of our Responsible Sourcing Guidelines for animal-derived products, which will be launched in 2013 and gradually implemented across our extended global supply chains. Our work in these areas is set out below.

Strategically, our approach centres on:

- Compliance with all local laws and regulation in countries where we source, process, or sell animal products.
- Supporting the development and implementation of the World Organisation for Animal Health (OIE) guidelines, and working with SSAFE (Integrating Food Safety with Animal and Plant Health) and its partners to develop an auditable ISO technical specification based on the OIE standards.
- Our commitment to actively support local suppliers to meet the OIE standards/guidelines in countries that do not have animal welfare legislation.
- Monitoring of and continuous improvement in our global supply chains.

Delivering our commitments

We monitor and map the global regulatory environment to not only ensure compliance with all applicable farm animal welfare regulations and legislation, but to also help us meet our broader commitments on farm animal welfare. Additionally, in 2012, we provided training on farm animal welfare regulations to our colleagues in several key countries.

In 2012, we began developing Responsible Sourcing Guidelines based on our Commitment on Farm Animal Welfare. We will begin gradually implementing these guidelines in 2013 across our extended global supply chains.

Our Commitment on Farm Animal Welfare covers issues such as handling of animals and transportation. Our milk sourcing programmes include technical assistance and recommendations on animal housing, and the use of veterinary drugs such as antibiotics.

Animal welfare within the raw material supply chain falls under the leadership of Jose Lopez, the executive board member responsible for Operations.

What we're doing

Responsible Sourcing Audit Programme

As part of our Responsible Sourcing Audit Programme, key vendors that supply us with animal-derived ingredients are audited against the Sedex Members Ethical Trade Audit (SMETA), a set of leading ethical practice guidelines developed by the Sedex Associate Audit Group.

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

Training farmers on animal health and welfare in Farmer Connect milk districts
Animal health and welfare is also part of the RISE sustainability assessment that we have been carrying out in our milk districts in 18 different countries for more than 10 years. This assessment incorporates animal health and welfare into the overall sustainability perspective of farming systems.

Animal health and welfare is also included in the training package that we provide to dairy farmers worldwide. In 2012, more than 24 000 farmers were trained on animal health and welfare topics in at least 19 countries where we have fresh milk sourcing operations.

Responsible Sourcing Guidelines – now addressing animal welfare

Our 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. Going beyond legal obligations, in 2012, we established the Nestlé Commitment on Farm Animal Welfare. This Commitment serves as the basis of our Responsible Sourcing Guidelines for animal-derived products, which will be launched in 2013 and gradually implemented across our extended global supply chains.

Purina – Commitment to pet welfare

Passion for Pets

At Nestlé Purina PetCare, we are committed to helping pets live longer, happier

and healthier lives through proper nutrition and care. We have a fundamental responsibility to provide safe, palatable and nutritious products made to the highest standards of quality and safety. We understand and share the strong feelings of love and respect pet owners develop for their pets, because most of us are pet owners too. Therefore, at *Purina PetCare*, the welfare of dogs and cats is our top priority and a responsibility we will not compromise.

What we plan to do

- We acknowledge the importance of and need for monitoring progress and continuous improvement in relation to farm animal welfare practices in our global supply chain.
- We have begun the process of assigning roles and responsibilities to implement our Commitment on Farm Animal Welfare on a global basis across our animal-derived raw material supply chain.

Environmental sustainability

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Highlights and challenges

Actions we've taken

- We've completed Life Cycle Assessments for all our product categories
- We've started the roll-out of an eco-design tool called EcodEX, which we will use to assess and optimise environmental sustainability holistically across the entire value chain
- We've promoted best practice through the Sustainable Agriculture Initiative at Nestlé (SAIN) and continued implementation of our Responsible Sourcing Audit and Responsible Sourcing Traceability programmes
- We've completed 36 projects through our Energy Target Setting Initiative this year (investing a total of CHF 82 million) saving circa 173 000 tonnes CO₂eq.
- We've approved investment of more than CHF 120 million in environmental improvements in our factories worldwide
- We've launched our Beyond the Label initiative to give consumers more product information

Challenges we've faced

- 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
- Developing the scientific knowledge needed to accurately understand environmental evolution and phenomena to inform decision making. We are building greater knowledge internally and externally
- Ensuring the provision of raw materials satisfies our demanding environmental requirements. We give preference to suppliers who continuously strive to improve the efficiency and sustainability of their operations
- Achieving zero waste to landfill. In many countries appropriate recycling facilities infrastructure is missing, especially for hazardous waste
- Managing sustainable growth while water is increasingly scarce

Our performance

- We've run Sustainable Agriculture Initiative Projects (SAIN) in 46 countries including Brazil, Ecuador and Kenya
- We've audited 2 261 of first-tier suppliers
- In 2012, we purchased 80% certified sustainable palm oil (13% traceable RSPO certified oil and 67 % Green Palm certificates)
- We've launched Responsible Sourcing Guidelines for fish and seafood, dairy, meat and poultry
- We've halved our direct GHG emissions and water withdrawal per tonne of product since 2002
- We've reduced our energy consumption by 38% per tonne of product since 2002
- We now have 39 factories contributing zero waste to landfill
- In 2012, 418 factories, 130 distribution facilities and 24 R&D centres were certified ISO 14001:2004
- We've phased-out more than 92% of refrigerants with high global warming and ozone depleting potential in our industrial operations

- We've shifted from road to rail and sea shipping in Europe which helped us save around 5 300 tonnes of CO₂ equivalent in 2011
- We've used 27% recycled material in our packaging

External recognition

- We've been ranked number 1 in the 2012 Carbon Disclosure Leadership Index and Carbon Performance Leadership Index
- We were awarded the RobecoSAM Silver Class, receiving the highest score in the climate change strategy, environmental policy/management system, packaging and water-related risk sections of the 2012 SAM–DJSI Indexes among food producers
- We've been recognized on the "Global 100 Most Sustainable Corporations in the World", announced by Corporate Knights
- We received the 2012 Philippine Environmental Partnership Program (PEPP) Track 1 Award for demonstrating Superior Environmental Performance in our Pulilan Factory and Cagayan Distribution Center

Inside the issue: environmental sustainability

We depend on increasingly constrained natural resources, so we're helping protect the environment now and for future generations - improving environmental efficiency in our own operations and involving our partners to continuously optimise the environmental performance of our products along the value chain.

Environmental sustainability means protecting the future by making the right choices in an environment where water is increasingly scarce, natural resources are constrained and biodiversity is declining. All of these elements are vital for feeding a growing world population, and for the development of our company. Moreover, climate change may exacerbate our planet's environmental challenges.

Managing environmental sustainability

What we stand for

Environmental sustainability is one of our Corporate Business Principles which form the foundation of all we do. The Principles state:

"We commit ourselves to environmentally sustainable business practices. At all stages of the product life cycle we strive to use natural resources efficiently, favour the use of sustainably-managed renewable resources, and target zero waste."

We believe that all parts of society share responsibility for the environment. However, we're determined to provide leadership within our own sphere of influence; and for the resulting environmental benefits to become an extra reason for people to prefer our products.

The Nestlé Policy on Environmental Sustainability, introduced in 1991, covers our entire value chain, from farm to consumer. We have identified our four priority areas: water; agricultural raw materials; manufacturing and distribution; and packaging that are specific to our food and beverage business.

The Policy incorporates the United Nations Global Compact's three guiding principles on environment – namely, that business should:

- Support a precautionary approach to environmental challenges.
- Undertake initiatives to promote greater environmental responsibility.
- Encourage the development and diffusion of environmentally friendly technologies.

Operating within environmental boundaries

Food production and consumption take a large share of the world's limited resources. Clean air and water, high quality land and soil, and the biodiversity and climate that support the food system need to be properly valued and used in a way that keeps the planet in balance.

We recognised that to measure progress meaningfully on environmental sustainability, it is essential to provide context and benchmarks for comparison.

We are increasingly focused on understanding our planet's total availability of natural capital. Our thinking in this regard has been guided by a seminal paper published by Rockström et al in 2009 (Nature 461, 472-475, 24 September 2009) which outlined planetary boundaries in areas such as biodiversity, nitrogen and climate change.



Separating waste material for recycling at Nestlé's York factory, on target for zero waste for disposal.

Only with this context will it be possible to determine whether our impacts on vital resources and ecosystem services are above, below or at the levels required to ensure their sufficiency or continued existence.

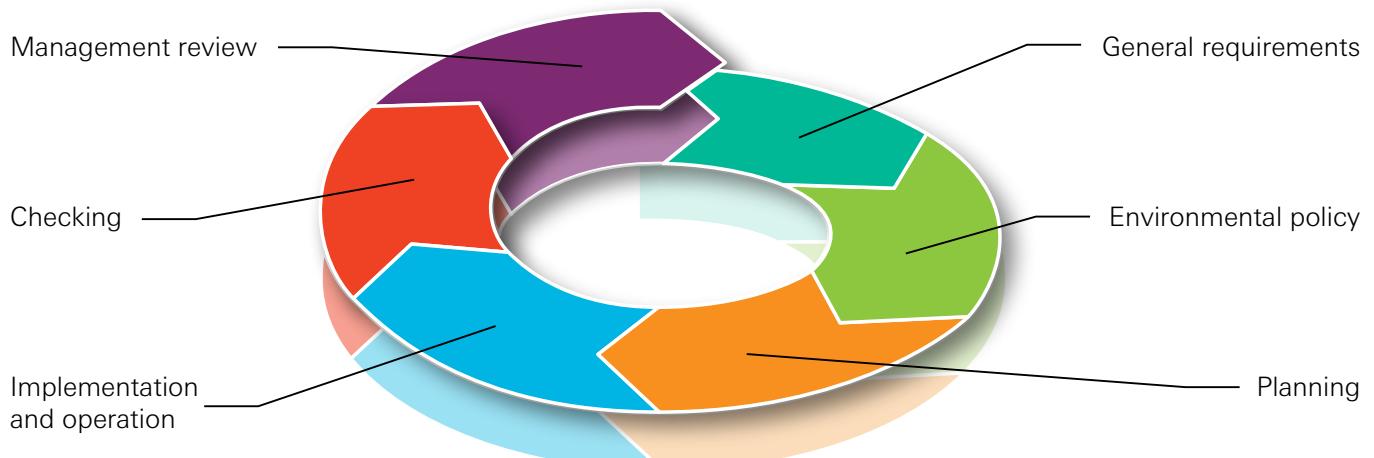
Even dramatically improved levels of eco-efficiency may still be insufficient. Balancing this serious challenge with our aim of ensuring we continue to delight consumers in the future is arguably the most significant environmental challenge we face.

Delivering our commitments

Nestlé Environmental Management System

The Nestlé Environmental Management System (NEMS) is fully aligned with the international standard ISO 14001:2004 and has been implemented throughout the company since 1995. It sets out how all our sites comply with environmental legislation and the Nestlé Policy on Environmental Sustainability, to improve our environmental performance.

The Nestlé Environmental Management System



4.1 General requirements

- 4.4.1 Resources, roles, responsibility and authority
- 4.4.2 Competence, training and awareness
- 4.4.3 Communication
- 4.4.4 Documentation
- 4.4.5 Control of documents
- 4.4.6 Operational control
- 4.4.7 Emergency preparedness and response

4.2 Environmental policy

- 4.5.1 Monitoring and measurement
- 4.5.2 Evaluation of compliance
- 4.5.3 Non conformity, corrective action and preventive action
- 4.5.4 Control of records
- 4.5.5 Internal audit

4.3 Planning

- 4.3.1 Environmental aspects
- 4.3.2 Legal and other requirements
- 4.3.3 Objectives, targets and programme(s)

4.4 Implementation and operation

4.5 Checking

4.6 Management review

Every Nestlé site uses the Nestlé Environmental Management System to improve environmental performance, ensure compliance with all relevant requirements and enable our factories to achieve ISO14001:2004 certification.

By the end of 2012, 418 factories, 130 distribution centres and 24 R&D Centres were ISO 14001:2004 certified. It is our goal to achieve and maintain ISO 14001:2004 certification in all 468 factories. We are expanding certification to our distribution centres and R&D centres.

Driving operational excellence

Environmental sustainability is integral to Nestlé Continuous Excellence (NCE) – our strategy to drive operational efficiency and eliminate waste from the value chain. NCE's main goal is to engage employees in this effort by:

- Excelling in compliance, both legal and internal.
- Delighting our consumers, through sharing our sustainability aims and achievements in our brand communications.
- Driving competitive advantage, which in environmental terms means progressing towards zero waste, and improving water and energy efficiency.

Governance and oversight

Ultimate organisational responsibility rests with our CEO, Paul Bulcke, who chairs the Creating Shared Value (CSV) Alignment Board.

Operational 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 Paul Bulcke. Responsibility for environmental sustainability in R&D lies with Werner Bauer, Chief Technology Officer.

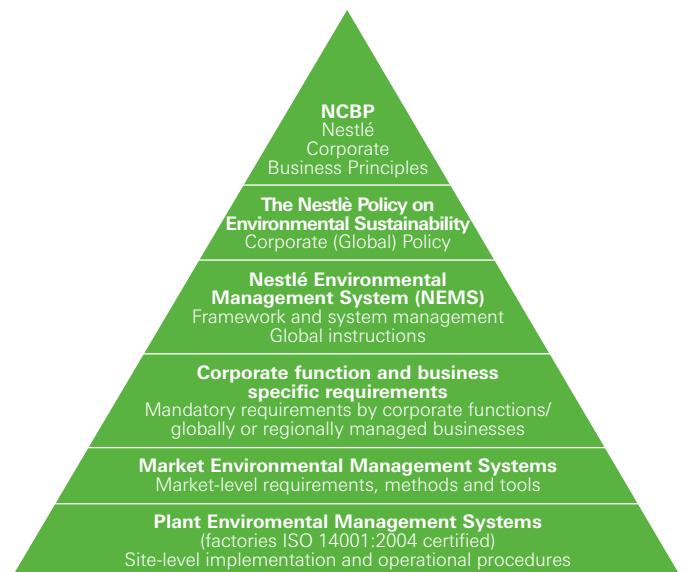
Our heads of countries are accountable for implementing NEMS across the business, and a range of people are responsible for implementation at country and plant level – including management team members, country-level environmental managers reporting to the technical manager, and plant managers supported by plant environmental officers.

We also have environmental sustainability groups at functional level, whose governance bodies feed into the board.

These bodies are:

- **Operations Sustainability Council:** chaired by Executive Vice President of Operations and Globe José Lopez. Ensures the integration of sustainability throughout the Company.
- **Brands and CSV Advisory Team:** chaired by Head of Marketing and Consumer Communication, Tom Buday, guides best practice in communicating our initiatives to consumers.

The Nestlé Environmental Management System



- **Research & Development (R&D) Council for Sustainability and Nutrition** chaired by Chief Technology Officer, Werner Bauer.

Monitoring and audit

At factory level, we monitor our corporate key performance indicators (KPIs) through the Nestlé Environment and Safety Performance Tracking tool (NEST). We completed the implementation of a more advanced system. NEST will be replaced by this system, called SHE-PM in 2013.

We also have a rigorous system for tracking our corporate performance against environmental KPIs. Details of this system can be found in:

- [Nestlé Environmental Performance Indicators](#).
- [Definitions and comments on Environmental Performance Indicators 2012](#).

Monitoring environmental incidents

Our environmental management system also requires us to report environmental incidents and grievances at plants through the NEST. Any major incidents are immediately reported to the Safety, Health & Environmental Sustainability (SH&E) Group and the appropriate senior management, using the process outlined in the NEMS.

Our requirements for compliance with the NEMS, and our management of non-conformities and corrective or preventative action, are aligned with ISO 14001:2004. The NEMS is formally reviewed at all our business premises at least once a year. Major SH&E incidents must be announced to our senior management as soon as possible and no later than 24 hours after identification, and an investigation of the incident must be initiated immediately. In the case of major incidents involving our sites or our employees, a senior country manager must oversee the investigation.

Employee training and engagement

We give employees detailed guidelines and instructions relating to the [Nestlé Policy on Environmental Sustainability](#) via the Company intranet. We also regularly communicate progress, performance and good practice through this and other channels, including face-to-face meetings.

Engagement through e-learning

Employees receive training on the relevant procedures as part of their induction and on-the-job coaching. To make this training engaging for non-specialists, we have developed a special e-learning training tool on environmental sustainability. This has now been deployed to just under 2 000 employees worldwide. In addition, our 'Environmental Sustainability at the Centre' initiative aims to build awareness and promote positive change at our headquarters.

Engagement at *Nespresso*

MyEcolaboration™, is an employee engagement initiative launched by *Nespresso*

to encourage innovation, collaboration and commitment to our sustainability initiative, Ecolaboration™. So far, the programme has reached more than 1 000 employees and generated 407 ideas.

Other examples of employee engagement in 2012

As part of our engagement we:

- Launched the Nestlé Environmental Sustainability Leadership workshop to drive behavioural change in different business units.
- Held a Global Safety, Health and Environmental Sustainability conference attended by Environmental Managers from 70 different countries.
- Launched a video of ideas around mobility, food waste avoidance, recycling, business travel and energy-saving measures at the global headquarters, which has been replicated in other countries.
- Organised a 'Save Paper' campaign and many lunchtime conferences with external guest speakers open to all employees.

Stakeholder engagement

We engage at local and global level across a range of environmental sustainability focused fora and working groups within and outside the food and beverage industry. At a regional and global level, these include:

- **Water Resources Group (WRG):** working with a diverse set of partners from the private, public sector and civil society and under the leadership of our Chairman Peter Brabeck-Letmathe, the WRG seeks new insights into water scarcity, explores the opportunities and costs of possible solutions, and fosters results-based stakeholder dialogue. [See Water – Public Policy Engagement](#) for more details.
- **The European Food Sustainable Consumption and Production Roundtable:** an initiative that is co-chaired by the European Commission and food supply chain partners and supported by the UN Environment Programme (UNEP) and European Environment Agency. [See Promoting Sustainable Consumption](#) for more details.
- **FoodDrinkEurope Environmental Sustainability Committee:** we chair the Environmental Sustainability Committee of FoodDrinkEurope, which represents the European food and drink industry. It recently launched an 'Environmental Sustainability Vision Towards 2030' report which featured our efforts to achieve zero net deforestation by 2020, and source 100% certified sustainable palm oil by 2015.
- **Consumer Goods Forum Sustainability Steering Committee:** we are an active member of the Steering Committee. [See Packaging](#) for more details.
- **The Cambridge Programme for Sustainability Leadership:** we support the Natural Capital Leaders Platform which brings together leading thinkers and practitioners in the search for pragmatic and practical solutions.

[See also Public Policy and Engagement](#) for further details on how we work with external stakeholders to support our Nestlé in Society agenda.

Environmental life cycle of products

Why it's important

Understanding life cycle impacts allows us to optimise the environmental performance of our products by systematically assessing product categories along the whole value chain. This is especially important at product development stage where design interventions can have a big impact later along the value chain.

What we stand for

We aim to continuously improve the environmental performance of our products, and identify ways by which we, our supply chain, and our consumers can contribute to a better environment. We do this through Life Cycle Assessment (LCA).

By identifying the key environmental impacts of individual products, we can improve the performance of our entire product portfolio by:

- Reducing waste, air emissions including greenhouse gas emissions, energy and water usage across the whole value chain ([see Waste and Recovery](#) and [Water](#))
- Promoting sourcing based on the selection of the best suppliers. This will help them to develop the best agricultural practices, making 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 ([see Raw Materials](#))
- Optimising our packaging, by using the Packaging Impact Quick Evaluation Tool (PIQET) and Global Environment Tool (GET) to help select better alternatives ([see Packaging](#))
- Improving the environmental impacts of distribution through Transport optimisation and the promotion of best supply chain networks ([see Transport and distribution](#))
- Enhancing the environmental information we provide to consumers about our products, based on scientific evidence ([see Promoting Sustainable Consumption](#))

What we're doing

We apply a product life cycle approach, involving our partners from farmer to consumer, to improve the environmental impact of our products and activities across six phases of activity, as follows:

Continual improvement of the environmental performance along the value chain



Our aim at all stages of the cycle is to use natural resources efficiently, especially water; to promote the use of sustainably managed renewable resources; and to achieve zero waste.

Applying eco-design throughout the value chain

We conduct Life Cycle Assessments on a continuous basis, to identify the environmental impacts of our products across the whole value chain. To date, we've completed LCAs for all our product categories.

Nescafé Dolce Gusto

A Life Cycle Assessment 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) by reducing:

- **GHG emissions:** CO₂ equivalent emissions reduced by 32%.
- **Non renewable primary energy use:** use of fossil fuels reduced by 41%.
- **Water use:** reduced by 25%.

Improving the environmental performance of *Nespresso*

To identify the biggest areas of impact in its value chain and devise environmental optimisation strategies, *Nespresso* has been working with life cycle assessment studies since 2005. *Nespresso* committed in 2009 to reducing the greenhouse gas emissions of a cup of *Nespresso* coffee by 20% and reducing its impact on water and biodiversity.

To improve its environmental performance, *Nespresso* has, among others things, implemented measures to increase the energy efficiency of its machines. Since 2009, all *Nespresso* machine ranges have been equipped with an energy-saving mode.

Launching a new eco-design tool

To make the life cycle assessment process faster, more efficient and applicable to every product development project, we have started the roll out of an eco-design tool called EcodEX, a multi-criteria eco-design tool that covers both packaging and ingredients and can be applied to all product categories.

Designed in partnership with software developer Selerant, EcodEX assesses different scenarios across a range of environmental indicators such as water, greenhouse gas emissions, non-renewable energy and minerals and ecosystem impact. It will also help us understand the trade-offs associated with our environmentally informed choices.

It will help us make environmentally informed choices on everything from ingredients to packaging to end-of-life options by systematically embedding environmental considerations into the way we make our products. We will continue

roll-out of EcodEX out in 2013.

Continued use of existing tools

To optimise the environmental performance of our packaging, we continue to use the Packaging Impact Quick Evaluation (PIQET) tool for the eco-design of our packaging; and the Global Environmental Footprint (GEF) tool for bottled water, which is ISO 14064-1:2006 and ISO 14040/44:2006 certified.

[See Packaging](#) for more information.

Building scientific knowledge through R&D Centers

We have 32 R&D Centers that oversee science, technology and engineering to provide sustainability, quality and performance by product formulation, material and ingredient specifications and new and improved processes.

Our R&D Centers build capacity in environmental assessment throughout our R&D network and our operations via a group formed in 2010, called the Sustainability by Design Network. The network's aim is to embed sustainability within our product development process through a 'total value chain' approach. To this end, environmental sustainability is now included in every product development brief and each product must have carried out a sustainability assessment before product development work can commence. From next year, EcodEX will continue to be rolled out as our global life cycle assessment tool.

As part of the Sustainability by Design network and within each R&D Center, 32 sustainability champions are tasked with raising environmental awareness and sharing environmental knowledge amongst project managers and product development teams. In June 2012, our sustainability champions attended a three-day conference to discuss our current approach to environmental assessment and to encourage cross fertilisation of ideas.

We have also started to use technology to scan consumer chat fora to understand what consumers are saying about our products post-launch – specifically relating to environ-

Case study:

How "hot spots" help us improve environmental performance

Our sustainability category profiles (SCPs) describe the environmental hotspots along the value chain of product categories and our primary activities and related impacts to address these hotspots and to improve the environmental performance along the value chain.

Our SCPs are so far available for the following product categories: instant coffee, bottled water, wet and dry pet food, milk, ambient food, and dark chocolate.

Our SCPs may also help employees to better understand the environmental attributes of our products, continually improve their environmental performance and increase the visibility of our initiatives. The profiles are also used for internal training and stakeholder engagement.

For example, for instant coffee, we have identified that the main hotspots are in agriculture, manufacturing and the use phase. In agriculture, the main impacts arise in coffee cultivation, harvesting production and treatment, while in the use phase, impacts are related to the energy and water use for the preparation of *Nescafé*.

To address these hotspots, the *Nescafé* Plan, focuses on three areas: responsible farming, responsible production and responsible consumption. We are working with the Rainforest Alliance, the Sustainable Agriculture Network (SAN), and the Common Code for the Coffee Community (4C), to transform coffee farm management to benefit current and future generations of farmers. Specific measures include doubling the amount of coffee bought directly from farmers and distributing 220 million high-yield, disease-resistant coffee plantlets.

We are continuing to expand our technical assistance programme, which incorporates training on aspects contained within the Supplier Code and covers more than 19 000 farmers a year.

We are working in many ways to improve our environmental performance. We are employing natural refrigerants, converting waste into energy, and using cleaner energy sources. In 20 out of 32 of our *Nescafé* factories we use coffee grounds as a renewable fuel saving the emissions of 247 thousand tonnes of CO₂ per year. Our factory in Orbe, Switzerland generated zero waste in 2012, and we are continuing to work towards 'zero waste to landfill' in other *Nescafé* factories.

mental sustainability. This is highly complementary to our more conventional types of consumer testing.

Partnerships with industry and academia

We have an extensive programme of partnerships with major universities, research institutes, start-ups and ingredient, machinery or packaging suppliers to encourage innovation.

Partnering to improve environmental performance of consumer products

We support several initiatives around the world to spread understanding of environmental life cycle impacts. In 2012, we joined a new research partnership between industry and academia that aims to improve the environmental performance of consumer products and services. The group is run by the Inter-university Research Centre for the Life Cycle of Products, Processes and Services (CIRAIQ) in Montreal, Canada. We are supporting its work with an investment of CAD 500 000 (almost CHF 460 000).

Collaborating with the European Commission

In 2012, we also continued our collaboration with the European Commission (EC) to test their product environmental footprint methodology on *Nespresso*, *Nescafé*, *Vittel*, *Kitkat* and *Purina Gourmet*. We presented the results at the 6th Society of Environmental Toxicology and Chemistry (SETAC) World Congress, 'securing a sustainable future: integrating science, policy and people.'

The EC used these results in developing a harmonised methodology for assessing products in the European Union, called Product Environmental Footprint (PEF).

This work reinforces our current efforts in the European Round Table on Sustainable Food Consumption and Production. As well as co-chairing the Round Table with the European Commission, we have issued a testing version of the ENVIFOOD Protocol, the first harmonised assessment methodology for the food and beverages sector.

Improving public LCA databases

The quality of LCAs is constrained by the availability of environmental data on food ingredients. To address this challenge, we collaborate with governments to develop public databases, such as the one provided by the French Agency for Environment and Energy Management, ADEME. We also sponsor the development of the World Food Database.

Case study:

Improving the environmental performance of *Herta*

Herta is a leading brand in the French charcuterie market; 80% of French consumers buy our ham, frankfurters, lardons, dough bases and snacks. Over a million products are sold every day. The *Herta* commitment to quality includes ongoing nutrition and sustainability improvements.

A product level life cycle assessment of ham revealed the highest environmental impact areas to be agriculture and animal breeding, factory production, and packaging. This knowledge has helped the team maintain or set improvement plans. For example:

As part of carefully selecting its suppliers, audits by external, independent professionals are conducted to verify standards. For each charcuterie product, the *Herta* brand ensures its origin and responsible animal welfare practices.

New incentives encourage farmers to improve the high environmental impact of their farming practices.

All *Herta* factories are certified against ISO 14 001:2004.

At Saint-Pol-sur-Ternoise, a wood boiler – supplied with sustainably grown wood – will reduce CO₂ emissions by 80%.

Packaging optimisation has delivered improved environmental impact while maintaining product quality, safety and convenience, and minimising food waste. Specific achievements include a 20% reduction in pie pastry packaging in 2010–2011.

In 2011, *Herta* became the first charcuterie brand in France to launch packaging containing recycled materials (60% of Le Bon Paris Ham and 100% of Tendre Noix Ham packs contained some recycled materials). Le Bon Paris –25% de sel packs contained 20% recycled content equalling more than 25 million packs and 550 tonnes of recycled content. In 2012, efforts extended across 60 million packs.

We have signed a partnership with Eco-Emballages to support more work on recyclable packaging.

The *Herta* s'engage website gives consumers a high level of transparency and engagement through vehicles such as videos and educational material (e.g. sticker book helping kids learn about nutrition and the environment). As a result of *Herta*'s customer engagement and a multi-pronged approach to quality, the *Herta* brand is recognised as an industry leader in France.



How we've performed

Number of product environmental assessments conducted

2012: **2 350**

2011: 1 700

We continue to systematically assess and optimise the environmental impact of new and renovated products.

What we plan to do

- We will continue to assess and improve the environmental performance of products at global level using our eco-designs tools, including the PIQET and GEF tools for packaging, and progressively EcodEX for the entire value chain of our products.
- We will continue to work with our partners from farmer to consumer, to improve the environmental impact of our products and activities.
- We will participate in the testing of the ENVIFOOD protocol in Europe.

Please [see Our Commitments](#) for more information.

Raw materials

Why they're important

We transform agricultural raw materials sourced from our suppliers into safe and value-added food products for consumers. In doing so, we must ensure that suppliers and farmers meet our high environmental standards.

What we stand for

We give preference to suppliers that constantly improve the efficiency and environmental sustainability of their operations, in line with the [Nestlé Supplier Code](#) sustainability principle:

"Nestlé supports and encourages operating practices, farming practices and agricultural production systems that are most sustainable. This is an integral part of Nestlé's supply strategy and supplier development. Nestlé expects the Supplier to Nestlé to continuously strive towards improving the efficiency and sustainability of its operations, which will include water conservation programmes."

We also abide by guidelines in the [Nestlé Policy on Environmental Sustainability](#) when selecting suppliers for our agricultural raw materials.

Delivering our commitments

Our approach to sourcing the most environmentally sustainable raw materials is addressed through the following initiatives and processes (see also [Responsible sourcing](#) for more details):

Responsible Sourcing Audit Programme	This is how we assess key suppliers. The programme uses independent third-party audits against the Nestlé Supplier Code, including environmental requirements. If corrective actions are required we will guide vendors in upgrading their practices, together with auditors.
Responsible Sourcing Traceability Programme	This focuses on promoting transparency in our extended supply chains back to the farm or feedstock, implementing our commitments on no-deforestation, responsible use of water, sustainable fisheries and animal welfare, and addressing other specific environmental aspects.
The Farmer Connect Programme	We support the farming communities from which we source agricultural raw materials and provide technical assistance on sustainable production methods; we also optimise the delivery of raw materials to the factory.
Sustainable Agriculture Initiative at Nestlé (SAIN)	SAIN is a company-wide initiative that focuses on raw material sourcing in situations where we have direct contact with farmers and long-term business relations with traders or primary processors. Through SAIN we share best agricultural and sourcing practices relating to environmental and social sustainability to increase business and environmental performance and produce safe, high quality food products. In 2012, we ran 33 additional SAIN projects.

What we're doing

Promoting environmentally sustainable agriculture

There's no 'one size fits all' solution when it comes to making agriculture environmentally sustainable. We have a separate approach in place for every commodity or raw material that we buy. Examples of how we're working with suppliers to improve the environmental sustainability of some of our raw materials are detailed below.

Improving the environmental sustainability of milk production

We use RISE (Response-Inducing Sustainability Evaluation), an indicator and interview-based method to assess the sustainability of farm operations across economic, social and environmental dimensions. Environmental issues considered as part of the RISE assessments include soil use, nutrient flows, water use, energy use and our impact on climate change and biodiversity and plantlet production. A new version, RISE 2.0, was developed between 2009 and 2011 to further improve the tool and make it available in different languages. RISE now evaluates the sustainability of agricultural production through ten indicators ranging from action needed to good performance.

RISE 2.0 implementation in Nestlé Ecuador

Nestlé Ecuador implemented RISE 2.0 from 2011 in more than 20 representative farms providing milk to the Cayambe factory. The RISE analysis has identified key areas to improve farm sustainability, especially implementing silvopastoral systems – planting trees on pastoral and grazing land.

Farmers have been trained in silvopastoral dairy farming, and have also received technical help in plant nursery, sowing and protection methods. So far, more than 200 hectares (11 farms) have been sown with an average density of 100 plants/ha – thereby improving biodiversity and the landscape. The silvopastoral system will be implemented in other areas in Ecuador.

Improving the environmental sustainability of coffee farming

The Common Code for the Coffee Community (4C) is a voluntary Code of Conduct to improve social, economic and environmental sustainability in the coffee sector. From an environmental perspective, the 4C association is currently promoting soil, water and energy conservation, waste management, soil fertility and nutrient management, biodiversity conservation including protected and endangered flora and fauna, minimisation of pesticide use by closely monitoring existing pests and diseases, and consulting specialised staff to introduced integrated pest and disease management controls.

Nestlé is committed to ensuring that over time we increase the coffee that we source as 4C compliant. To find out more about our work with 4C and efforts to improve the sustainability of coffee farming and production in line with the 4C Voluntary Code of Conduct, see the section on Coffee for more information.

Improving the environmental sustainability of cocoa farming

The UTZ Certified 'Good Inside Cocoa' programme offers independent certification of improved agricultural, social and environmental practices. We have committed to increasing our UTZ-certified sourcing as part of the Nestlé Cocoa Plan. To find out more about our efforts to improve the sustainability of cocoa farming please see the section on Cocoa.

Improving oat resilience to climate extremes

Oats are traditionally considered a difficult crop to grow, being particularly vulnerable to disease and climatic extremes such as droughts and floods. To secure supply of this crop for their breakfast cereal brand Uncle Toby's, Nestlé Australia has committed to helping farmers grow oats via the oat breeding programme.

The programme is designed to make oats more attractive for farmers to plant as well as increasing drought tolerance and disease resistance. By collaborating closely with farmers and key growers, offering more attractive pricing and promoting our preferred varieties, we have seen a significant increase in the area planted for oats for Uncle Toby's. In addition, three new oat breeds have been developed and commercialised, which have better crop yields, improved drought and disease resistance, higher quality oats for milling, better appearance, and improved nutrient properties.

Promoting cooperation

We are an active member of numerous associations and organisations which promote environmentally sustainable agricultural practices, including:

- **Sustainable Agriculture Initiative (SAI)**: an industry organisation supporting the development of sustainable agriculture. We continue to support various working groups including water, coffee, dairy, meat, and fruits and vegetables.
- **The Common Code for the Coffee Association (4C)**: a multi-stakeholder organization focused on addressing sustainability issues in the coffee sector, which we co-chair.
- **The IDH Sustainable Coffee Programme**: a public-private cooperation concerned with expanding sustainable coffee production and ultimately making it mainstream. Its immediate goal is to increase sustainable green coffee sales from the current 8% to 25% in 2015.

Case study:

Promoting sustainable agriculture in France

In recent years, we have been working on several projects to encourage sustainable potato farming practices for our *Maggi Mousline Mash* brand in France. This includes water preservation, biodiversity conservation, emission reductions and soil management.

Following new environmental regulations, we have been helping farmers select the right species for 'cover' crops that protect and enrich the soil before potato planting. This has not only helped farmers to improve soil fertility but has also reduced fertilizer consumption.

We've also been exploring ways to improve environmental performance in other aspects of potato farming. For example, after a life cycle assessment of *Mousline*, we identified emissions from supplier tractor fuel as an opportunity to further improve the environmental performance by doing mechanical checks and teaching environmentally efficient driving technologies. So far we have carried out tests on 20 tractor engines, and will check a further 200 in the next three years.

Nestlé France has also updated 'Préférence' – a tool that encourages suppliers to go beyond compliance with agricultural laws in potato farming – with new sections on agriculture and society and farm management.



How we've performed

Raw materials used (million tonnes)

2012: **22.47**
2011: 22.87
2010: 23.27

Countries covered by the Sustainable Agriculture Initiative at Nestlé (SAIN)

2012: **46**
2011: 46
2010: 45

What we plan to do

- We will continue to promote more environmentally sustainable agriculture and responsible sourcing of raw materials.
- We'll continue to support and work with others and introduce additional activities under existing initiatives such as the *Nescafé* Plan, the Nestlé Cocoa Plan and our activities in our milk districts.

Please [see the section on Our Commitments](#) for more information.

Manufacturing

Why it's important

'Manufacturing' encompasses all the processes that are necessary to transform perishable raw materials into safe, shelf-stable, value-added food products for consumers. We seek to improve environmental impacts by using efficient technologies and applying best practices.

What we stand for

The [Nestlé Policy on Environmental Sustainability](#) sets out our commitments to use efficient technologies and apply best practices, in order to:

- Reduce the amount of energy consumed per kilo of product.
- Use sustainably-managed renewable energy sources where economically viable.
- Control and aim to eliminate emissions, including greenhouse gases.
- Recycle or recover energy from by-products.

What we're doing

Production outputs versus environmental impact

For many decades, we've focused on making our own manufacturing sites more ecoefficient. Since 2002, we've reduced water withdrawal by 29% and direct greenhouse gases emissions by 24%, while increasing volume by 53%.

Setting strict targets and sharing best practices in our factories

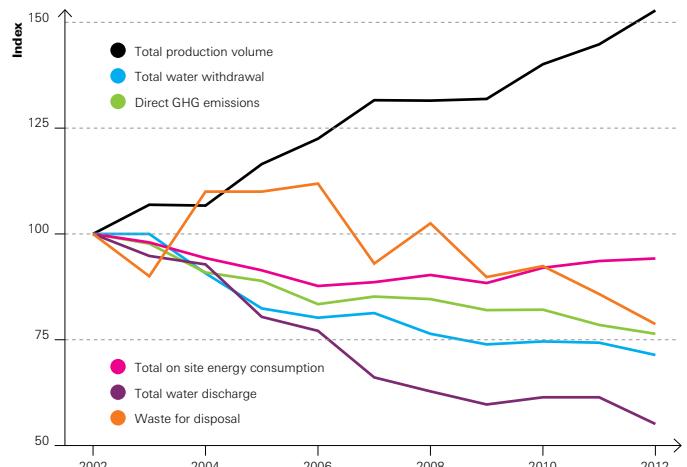
In 2012, we updated our Nestlé Environmental Requirements, which are mandatory across all our operations involved in handling products. Whilst their primary application is in those jurisdictions where environmental legislation is non-existent or under-developed, they must be met where applicable by all such operations regardless of location.

ISO 14001:2004 certification

For us, certification to this internationally recognised standard for environmental management is a dynamic process, not an end in itself. As part of our Environmental Management System, we continue to implement projects to reduce our water use, non-renewable energy and other natural resources; to reduce adverse air emissions; to eliminate waste; and to improve the environmental performance of our products and packaging. All of our factories operate in accordance with our Environmental Management System.

We continue to implement the ISO 14001:2004 standard across our factories. At the end of 2012, 418 factories were ISO 14001:2004 certified, representing 89% of our total factories.

Resource consumption and waste generation versus production volume, 2002–2012



Investing in world-class manufacturing

Nestlé UK has committed £500 million to establish the next generation of world-class manufacturing facilities by 2015. The water bottling production facility at Buxton that we opened in 2012 is an example of how we're investing in environmentally efficient buildings with environmental benefits.

Improving energy efficiency

In pursuit of our goal to become the most efficient energy user among food manufacturers, we continue to drive energy efficiency in our factories.

Based on the life cycle assessments conducted in our different product categories (see [Environmental Life Cycle](#) of our Products), we've found out that our manufacturing operations are actually responsible for a relatively small proportion of the energy used in our value chain. However, it is here that we can directly manage and improve our performance. Here is the key energy consumption data:

- In 2012, our on-site energy consumption was 90.7 PJ (2011: 90 PJ). This equates to 1.9 GJ per tonne of product (2011: 2 GJ) a reduction of 4.7% compared to 2011. Indirect energy consumption, through the purchase of electricity, heat and steam, was 73.5 PJ in 2012 (2011: 70 PJ).
- Since 2002, we have decreased our energy consumption by 6% while increasing our production volume by 53%. This reflects energy reduction initiatives at factory level, resulting from Nestlé Continuous Excellence; changes in our product mix, reflecting an overall strategy towards more value-added products; and changes resulting from acquisitions and divestitures.



Collecting sustainably sourced woodchip samples for testing as fuel sources in Challerange, France.

Energy saving initiatives

As part of our Energy Target Setting Initiative, we completed 36 energy-saving projects in 2012 (2011: 18 projects). We identified more than 850 projects, comprising a total investment of about CHF 82 million (2011: 379 projects and CHF 86 million). These projects will result in annual energy savings of about 2 million GJ (2011: 8 million GJ) and a reduction of approximately 173 000 tonnes of CO₂ equivalent (2011: 189 000 tonnes CO₂eq).

As part of Nestlé Continuous Excellence, we use the i-nexus project management system to report on all improvement projects, including energy savings.

Investment in energy-saving equipment

When we look at investing in energy-saving industrial equipment, we include in our assessment the likelihood that

- energy prices will continue to increase
- industrial equipment will continue to be used as long as the factory is operational.

Investments made in energy-saving projects and renewable energy solutions do generally provide long-term benefits, so we have extended the acceptable return on investment periods beyond our normal criteria.

Reducing air emissions from our factories

We continue to reduce environmentally adverse air emissions, such as sulphur oxides (SOx) and nitrogen oxides (NOx) arising from combustion processes in our factories that use fossil fuels. For performance data on emissions of ozone depleting substances and other air emissions such as SOx and NOx, please [see our Consolidated Environmental Performance Indicators](#).

During the manufacturing and distribution of our products, we use efficient technologies and apply best practices to control and, where possible, eliminate emissions. For more information [see Climate Change](#).

The many measures we've taken include changing to alternative energy fuels, thereby reducing SOx and NOx emissions, and improving energy efficiency.

Since 2002, 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. These reductions have been achieved by replacing fuels such as coal and heavy fuel oil with cleaner-burning fuels such as natural gas.

Moving to natural refrigerants

The widespread use of refrigeration fluids based on fluorinated chemicals is increasingly problematic, due to their contribution to climate change. We use refrigeration in manufacturing (industrial installations) and commercial applications (point-of-sale units). We are committed to phasing out the use of environmentally

adverse substances, such as hydrofluorocarbons (HFCs), and replacing them with safe and more environmentally sustainable alternatives and implement new solutions to improve their performance.

Industrial refrigeration

Industrial refrigeration (mainly in factories) represents 90% of our total mass of refrigerants. 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 240 million to date. We have now phased out more than 92% of refrigerants with high global warming and ozone depleting potential in our industrial operations.

Small-scale refrigeration systems

Small-scale refrigeration systems represent only 10% of our total mass of refrigerants. Currently a universally satisfactory replacement solution for these applications does not exist, but we are exploring a range of possible solutions.

- **Hydrocarbon refrigerants:** The best currently available alternatives to synthetic refrigerants are hydrocarbon (HC) refrigerants such as propane and butane. While these are inherently flammable and explosive, our own investigations indicate that they can be used with special precautions and regular maintenance. We assessed the safety risk of hydrocarbon refrigerants, the results of which were published in the [Scientific International Journal of Refrigeration](#). The analytical risk assessment of ice cream cabinets using hydrocarbon flammable refrigerants concluded that the flammability risk of the cabinets used within this study under the conditions examined was negligible.
- **Improvements in efficiency:** Our new HC freezers are equipped with high-efficiency fans, improving energy efficiency by 80%. We estimate that the reduction in GHG emissions from these freezers will be around 10 000 tonnes of CO₂ equivalent (CO₂eq) over their expected ten-year lifetime.
- **Monitoring:** We work with major equipment suppliers and organisations to test and monitor different refrigerants in various applications – we are currently monitoring over 11 000 hydrocarbon ice cream cabinets in Australia, Chile, Germany, Malaysia, Spain, and Thailand. In 2013, we will further expand the number to 13 500 covering Brazil, Bulgaria, Greece, México, and Romania. In Switzerland, all new ice cream freezers now use hydrocarbon refrigerants under controlled conditions.

Exploring alternative refrigeration options

We are 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 – high-efficiency engines that can use alternative and renewable energy sources. Both options are technically proven, but not yet commercially available at the required performance level. We are collaborating with suppliers with the aim of accelerating their technical development and reduce power consumption.

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.

Industry collaboration to phase out HFCs

We contributed to a resolution of the [Consumer Goods Forum](#) 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 Forum also recognises 'that barriers exist to wide-scale adoption of more climate-friendly refrigeration, namely legislative restrictions in some countries, 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 Forum in encouraging our supply base to develop appropriate natural refrigerant technologies.

→ How we've performed	
Total direct energy consumption (petajoules)	Total indirect energy consumption (petajoules)
2012: 63.7 2011: 64.3 2010: 63	2012: 73.5 2011: 70.1 2010: 67.6
Manufacturing sites certified against ISO 14001:2004 (% of total manufacturing sites) 2012: 89 2011: 90 2010: 91	We continue implementing the ISO 14001:2004 standard across our factories. The absolute number of certified facilities increased from 2011 (413) to 2012 (418) but the percentage decreased due to our acquisitions during 2012.

What we plan to do

- We aim to achieve and maintain certification of all our factories to ISO 14001:2004 standards.
- Building on the ISO 14001:2004 certification of our factories, we will also continue to use the most efficient technologies and apply best practices to optimise energy and water consumption, minimise waste generation, utilise sustainably-managed renewable energy sources, recover value from by-products and control and eliminate emissions including greenhouse gases.
- We are committed to using safe natural refrigerant alternatives for industrial refrigeration installations and will implement new solutions to improve their performance.
- We will continue to build and renovate new facilities in accordance with our environmental sustainability commitments.

Please [see Our Commitments](#) for more information.

Case study:

Investing in green buildings – UK and Mexico

We promote the construction of environmentally efficient buildings – whether it is a production facility or an office for our employees. Two recently completed building projects demonstrate this commitment.

At our recently opened production plant in Buxton, UK, Nestlé Waters UK invested £35 million in a new bottling and warehousing plant. It is now one of the most efficient operations of its kind in the world. We are on track to achieve an 'excellent' grading for the plant's BREEAM certification later in 2012, which takes into account the site's energy and water use as well as transport infrastructure and ecology.

Our new employee centre in Mexico became the first building in Latin America to be certified to the prestigious LEED Platinum standard. We have invested more than 12 million Mexican Pesos (more than CHF 800 000) in the building, located in the state of Chiapas. It can save 50% of energy and 80% of water use compared to a conventional building.

Energy efficient features include solar-powered lamps and a natural ventilation system that channels cooler air from below ground to create a steady room temperature. The building is also equipped with water treatment systems, water-saving bathrooms, and a vegetation-covered roof that lowers the interior temperature and filters and recovers rainwater.

Packaging

Why it's important

Packaging is essential to reducing food waste by protecting products during transportation and storage. It is also vital for food safety, freshness and providing consumers with nutritional information and portion guidance at the point of purchase.

What we stand for

The [Nestlé Policy on Environmental Sustainability](#) sets out our commitments to packaging in order to:

- Optimise weight and volume of materials;
- Lead the development and use of materials from sustainably-managed renewable resources considering packaging and product performance requirements;
- Support initiatives to recycle or recover energy from used packaging;
- Use recycled materials where there is an environmental benefit and it is appropriate.

What we're doing

Leveraging data from our reporting system and employing Nestlé Continuous Excellence practices, we have accelerated improvements in packaging performance by identifying cross-business and cross-country opportunities. Implementing these innovative solutions will help us avoid waste across the value chain and improve our environmental performance.

Optimisation programme

In 2012, our optimisation programme has helped save more than 47 000 tonnes (2011: 39 000 tonnes) of packaging material by weight, which is equivalent to CHF 94 million (2011: 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 light-weight material that is easy to recycle in many countries.

Understanding the recycling rate for packaging

In 2012, we further extended our global study with Der Grüne Punkt-Duales System Deutschland GmbH (DSD) to evaluate the recycling rate of different used packaging materials such as paper, board and cardboard, plastic, glass and aluminium, in 15 major countries targeting approximately 75% of our turnover.

The table below shows the recycling rate by packaging material category in each of the 15 countries. The rates are averages and are based on the latest available data in each market. The figures apply to our used packaging.

Nescafé refill packs

As part of the *Nescafé* Plan, we have launched new *Nescafé* refill packs made from a combination of aluminium-foil and plastic film. The optimised design uses 34% less packaging materials than our previous refill but still retains 150 grams of coffee. The innovation has enabled us to double the volume of coffee packs on a pallet meaning fewer pallets and fewer lorries to transport the same volume of coffee.

In the UK, we expect to reduce our use of lorries by 50%, thereby reducing greenhouse gas emissions from distribution by 35%. The new packs also consume less water and energy in their manufacturing. The benefits go beyond our operations since the compact refills have better on-shelf efficiency for retailers and are easier to carry and store for shoppers.

Case study:

Nespresso aluminium capsules

As part of its Ecolaboration™ commitment to sustainability and value creation, *Nespresso* has been implementing recycling solutions for its used capsules for over 20 years.

Committed to putting collection systems in place to increase its capacity to recycle used capsules to 75% by 2013, *Nespresso* reached a 76.4% capacity at the end of June 2012, surpassing its initial target one year ahead of plan.

The development of specific *Nespresso* recycling solutions where national packaging recycling schemes have not been available, such as in Finland, Germany, and Sweden has been key in reaching the Company's commitment to increase capacity.

As consumers' participation in recycling efforts is essential, *Nespresso* has also heavily invested in making it as easy as possible for consumers to return used capsules so that the aluminium can be re-used. At the end of 2012, the company had installed about 20 000 dedicated capsule collection points in 21 countries. It also put in place home collection systems in six countries, including Switzerland and the UK, where the postman picks up used capsules when delivering a new order directly to the consumers' homes.

Nespresso has also leveraged technology in innovative ways and developed partnerships to improve the recycling of aluminium, in general. For example, in France, working through the Club des Emballages Légers en Acier et Aluminium (CELA), *Nespresso* has invested in the use of eddy current technology to improve the efficiency of aluminium packaging recovery.

	Year	Paper, board, cardboard %	Plastic %	PET - bottle %	Glass %	Tinplate %	Aluminium %
Australia	2010	75,5%	34,8%	n.s.	47,0%	30,3%	67,4%
Brazil	2009	n.s.	21%	56%	47%	49%	98%
Canada	2010	64,7% (2009)	n.s.	n.s.	n.s.	67,1%	n.s.
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%
India	2010	n.s.	48,5%	n.s.	70% (2007)	n.s.	n.s.
Philippines	2010	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
Japan	2008	n.s.	20%	50%	49%	89%	87%
Mexico	2009	12%	0,5%	24%	19%	71%	13%
Russian Federation	2007	<53% (2010)	4% (2009)	12,0%	40,0	n.s.	n.s.
Spain	2010	84%	42%	n.s.	n.s.	>71%	91%
Switzerland	2009	57%	n.s.	81%	95%	82%	35%
United Kingdom	2008	80%	24%	39%	61%	62%	35%
United States	2009	71,8%	13,7%	28%	31,1%	66,2%	38%

Addressing recycling challenges in developing countries

The recycling rate of different used packaging materials depends on the availability of recycling infrastructure, a particular challenge in developing countries. In a number of countries, the only recycling method is through people scavenging packaging in landfills.

To improve the working conditions and incomes of scavengers, Nestlé Brazil was the first company to support the Scavengers Cooperatives (involving more than one million people) through a partnership with CEMPRE – the Brazilian Business Commitment for Recycling. This has resulted in the recovery of 19 016 tonnes of waste since 2006, covering seven states.

Partnerships to increase recycling

We 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 Thailand and the USA, we continue to support campaigns to encourage PET bottle recycling.

We've already expanded the recycling capacity of Nespresso capsules to beyond 76%.

We are a key member of the consortium with Enval Limited, UK. Enval has developed a method of recycling of aluminium-plastic foils, i.e. PET-food pouches, coffee packs or dehydrated soup pouches. The technology separates the material into its constituent components, producing clean aluminium ready for introduction

Assumptions and notes:

- Due to the lack of national and international standards for generating statistics, analysis of available data is sometimes based on extrapolation.
- Data refers to packaging waste from municipal waste if no other information is available.
- Often recyclables and packaging from industry and commercial sectors are recycled internally in closed-loop systems and are not included in the data.
- Separately collected waste is mostly recycled and is not disposed with household waste.
- Recycling and recycling rates refer to recycling in the country.
- Tinplate and aluminium refer to all packaging material of this fraction if no other information is added.
- Data refers to all packaging waste from municipal waste if no other information is added.
- Activities of the informal sector are partly not included in the statistical data and could lead to higher collection and recycling rates.
- n.s.: "not specified"

into the secondary aluminium supply chain and hydrocarbons that can be used as fuel or chemical feedstock.

With the contribution of £100 000, we will enable Enval to build a commercial recycling facility to process 2 000 tons of aluminium-plastic foil waste per annum and prove their technology in industrial scale. This plant will go into operation at the beginning of 2013.

Recycled materials

We use recycled paper, cardboard, PET, glass or tin plate while making sure that the safety and quality of the product is not jeopardised. We are also working with paper suppliers to improve the quality of recycled paper. Unfortunately, there are limitations on the applications of recycled board in our packaging to avoid migration of residual mineral oils and the possible consequent health concerns.

We currently use 27% of recycled material (2011 data) in its packaging and is continuously working to improve this rate. In 2011, *Herta* became the 1st national charcuterie brand in France to launch packaging containing recycled materials. Le Bon Paris and Tendre Noix Ham trays contain 20% recycled materials. Other examples include Levissima bottles in Italy, Arrowhead bottles with 50% recycled plastic in the United States and Montclair bottles in Canada made with recycled materials.

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 made with renewable materials.

The *Vittel* bottles in France are partly made with plant-based plastics, which are fully compatible with current sorting and collection systems. In early 2012, *Vittel* included 30% bio-PET in its 0.33 litre, 0.5 litre and 1 litre bottles for its retail and out-of-home channels. Today, 30% is the maximum renewable content that can be incorporated in PET at a large industrial scale.

We are exploring the potential of using bio-based material from sugar cane waste and other plant-based materials in packaging of our products.

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 in 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.

Assessing our products

Our Packaging Impact Quick Evaluation Tool (PIQET) is a streamlined multi-criteria life cycle assessment (LCA) tool that provides facts for the selection of

the most appropriate packaging for our products. Similarly our Global Environment Footprint (GEF) tool is used for our bottled water products. These two tools follow LCA methodology.

About 500 packaging specialists around the world are using PIQET and 160 specialists are using the GEF tool as part of their every day work, allowing a detailed comparison of the environmental impact of different packaging choices across a range of environmental indicators. More than 4 000 projects representing more than 13 000 scenarios have been completed using eco-design tools. For more information [see Environmental lifecycle of products](#).

PIQET in action

PIQET was used to improve the environmental performance of the 150 ml ice cream cup in Nestlé Spain. In the new packaging, the cap closure becomes the base of the cup. It allows for optimising packaging and improved environmental performance, and has resulted in cost savings.

PIQET allowed us to make an informed choice for new packaging for one of our culinary brands in Australia. The new packaging, which removes a step in the packing process, requires less material handling in warehouses and in the packing line, ensures on-shelf visibility, and has a better environmental performance resulting in reductions in CO₂, energy and water.

Industry collaboration

Consumer Goods Forum

Together with six other members of the [Consumer Goods Forum](#), we are increasing the recycling and recovery of used packaging in emerging and developing countries. The initiative began with a project to identify how best to retrieve packaging waste from municipal solid waste, drawing on lessons learned in Brazil and elsewhere.

Aluminium Stewardship Initiative

Even as a relatively small user of aluminium, *Nespresso* is one of the seven founding members of the Aluminium Stewardship Initiative (ASI), in partnership with the International Union for Conservation of Nature (IUCN). ASI members are developing the ASI Standard that defines the practices required to drive environmental, social and governance (ESG) performance improvements across the aluminium value chain. *Nespresso* is committed to playing an active part in helping drive the responsible production of aluminium.

Case study:

Ambitious goal to increase recycling

Nestlé Waters North America (NWNA) has an ambitious goal to increase the recycling rate for PET bottles to 60% by 2018. Currently, just under a third of all PET plastic bottles are recycled. By encouraging Extended Producer Responsibility (EPR) and educating consumers, NWNA is progressing towards this ambitious target.

Encouraging Extended Producer Responsibility

Long imposed on packaged goods companies in Europe, EPR in the US will require brand owners to pay for the collection and recycling of their products once they reach end-of-use.

Today, NWNA is one of the only major US consumer packaged goods companies that has given vocal support for an EPR law to cover packaging, and we're spearheading the drive to establish the recycling model in US states that do not have a deposit-and-return system for beverage containers.

NWNA has been working with Recycling Reinvented, a non-profit organisation committed to advancing recycling rates for packaging in the US through the EPR model, both through seed funding and through our CEO's leadership as a member of the organisation's board.

Educating consumers

NWNA is also educating consumers on recycling nationwide. The company partners with organisations such as Keep America Beautiful, a non-profit organization whose goal is to make America's communities cleaner and greener; and Recycle-Bowl, an annual nationwide recycling competition that has schools track and report how much recyclable material they collect, for a chance to win prizes.

The future

Successfully implementing EPR and raising consumer awareness will require collaboration with a broad range of stakeholder groups, including consumer product companies, trade associations, private haulers, municipalities, state legislatures, and environmental NGOs. NWNA has started the conversation with these groups and is committed to making EPR work in the US.



How we've performed

Materials for packaging purposes (million tonnes)	Packaging source optimisation (kilotonnes saved)
2012: 4.77	2012: 47.1
2011: 4.58	2011: 39.3
2010: 4.59	2010: 70.8

What we plan to do

We will continue to use PIQET and GEF when assessing new packaging options.

Please [see Our Commitments](#) for more information.

Transport and distribution

Why it's important

We deliver our products via a network of road, rail and sea to an increasingly urbanised population. Every day, more than 125 000 tonnes are transported to customers from our factories and distribution centres, delivering the products in highest quality and on time from the factory to the consumer.

What we stand for

We're committed to improving the environmental performance of our transport and distribution network. The [Nestlé Policy on Environmental Sustainability](#) clearly states our commitments to:

- Reduce the amount of energy consumed per kilo of product.
- Utilise sustainably-managed renewable energy sources, where economically viable.
- Control and aim to eliminate emissions, including greenhouse gases (GHG).
- Recycle or recover energy from by-products.

Applying these commitments to our distribution network (transport and warehousing), our goal is to ensure the most efficient use of our transport, thereby reducing the distances travelled, minimising our greenhouse gas (GHG) emissions and reducing noise and congestion impacts.

Delivering our commitments

Tracking the environmental impact of our transport and distribution activities is key to managing transport carbon impacts. As well as refining our tracking and reporting, we're expanding it to cover transport from distribution-centre-to-customer, as well as factory-to-distribution centre. In 2011, our reporting covered 40% of the overall volume transported, which we expanded to cover 50% in 2012. We are also exploring more robust environmental reporting IT systems.

What we're doing

To enhance our efficiency and environmental performance in transport and distribution, we:

- Optimise distribution networks and route planning across all our operations globally.
- Explore opportunities to promote transport shifts, for example by using sea and rail instead of road.
- Expand driver training, both from a safety and environmental efficiency perspective.
- Use telematics and the latest technology on our vehicles where practical, and recommend our suppliers to do the same.
- Explore alternative engines such as electric cars.
- Support the development and use of safe and efficient natural refrigerant solutions for commercial applications, and progressively phase out HFCs appliances.
- Implement-energy saving initiatives in our distribution warehouses.

Optimising distribution network and route planning

Smarter network and route planning and transport mode shifts have had a marked effect on reducing air emissions, noise and road congestion. We are pleased to report that in Poland, relocating a distribution centre resulted in a 25% decrease of distribution costs; a 20% reduction in GHG emissions and a reduction of 60 km in each domestic delivery journey. Furthermore, a new way of transporting finished products, involving short-sea transport, has more than halved GHG emissions from Poland to Portugal and halved the emissions from Hungary to Spain.

Promoting long distance transportation in Europe by rail and short-sea

We aim to shift long-distance transportation from road to either rail or short-sea shipping, both of which result in significantly lower air emissions.

In our European operations, this shift has delivered a reduction of approximately 5 300 tonnes of CO₂ equivalent in the last year.

Despite these achievements, much of our short-to-medium distance transportation continues to be by road. To mitigate its effects, we are: optimising truck efficiency (with 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 compressed natural gas, liquefied petroleum gas, methane or hydrogen).

Using telematic systems to monitor driving behaviours

Telematic systems – similar to the black boxes in aeroplanes – remotely collect data on how vehicles are being driven and their engine's performance. In 2011, Nestlé Switzerland assessed five telematic systems in 66 trucks. The tests showed that telematics encourages safer driving behaviours and improves environmental performance, which in turn reduces our operational costs.

In parallel, Nestlé Waters North America (NWNA) and our Direct Store Delivery in the US carried out similar pilots. Based on NWNA's pilot results, reduction in idle time could save as much as USD 1 000 000 in fuel costs and approximately 2 595 tonnes of CO₂ emissions. The engine diagnostics information could lead to USD 150 000 in yearly maintenance savings. NWNA plans to install telematics across its whole fleet of 1 600 route trucks in 2013. Similar savings are expected by our Direct Store Delivery in 2013. Following these successful tests in North America and Switzerland, telematics systems are now also being rolled out in other regions.

Electric trucks

In 2012, as part of our aim to reduce GHG emissions, we began testing electric trucks for customer deliveries. Nestlé Switzerland piloted two new electric trucks for ice cream and frozen food delivery, and optimised delivery routes.

Optimising warehousing

We're reducing energy consumption in our warehouses by using natural and low-energy lighting, and better insulation, and are currently exploring options to use solar panels.

Photovoltaic panels, which generate electricity from solar energy, were installed on the roofs of the Singen and Weiding warehouses in Germany. Both sites have generated nearly 1.5 million kilowatt hours within one year, equalling the annual amount of electrical energy consumed by 350 representative German households.

We estimate that approximately 357 500 tonnes of GHG emissions (2010: 450 000 tonnes) were generated from our warehousing in 2011.

How we've performed	
CO ₂ equivalent from transportation (estimated million tonnes)	GHG emissions from warehousing (estimated tonnes)
2012: 2.8 2011: 2.8 2010: 2	2012: 357 500 2011: 357 500 2010: 450 000
We have extended the scope of our reporting in 2011 to include the transport from distributions centres to customer. 2010 and 2011 figures are therefore not comparable.	We are reducing energy consumption in warehouses by using natural and low-energy lighting and improved insulation.
CO ₂ equivalent savings from road to rail and short sea shipping shift in Europe (tonnes)	Distribution facilities certified ISO 14001:2004
2012: Not available at the time of publication 2011: 5 300 2010: 2 400	2012: 130 2011: 93
We continue making progress in shifting long distance transportation from road to either rail or short-sea shipping. Data reported is for 2011 only because 2012 data was not available at the time of publication.	In 2012, 130 distribution facilities were certified ISO 14001:2004 and we continue to extend the environmental certification programme.

What we plan to do

We will continue to optimise distribution networks and route planning. As reported above, this involves exploring opportunities to improve transportation, for instance, by using sea and rail instead of road; expanding driver training both from a safety and environmental efficiency perspective; and using telematics and latest technology on our vehicles where practical, recommending that our suppliers do the same.

Promoting sustainable consumption

Why it's important

Our desire to create a more sustainable world requires understanding, collaboration and action at many levels: by governments, companies, brands and consumers. This drive also comes from consumers themselves, who want to understand the environmental impacts of their choices.

What we stand for

Our brands touch millions of people every day, so they can play an important role in raising environmental awareness among consumers and encouraging more sustainable behaviours. Ultimately, we want to help consumers by making credible, substantiated claims and by sharing our knowledge of the environmental impacts of each phase of the product life cycle – especially the use and end-of-life phases where consumers have most impact.

What we're doing

We are continually improving our products' environmental performance across the entire value chain (see [Environmental Life Cycle of Products](#)). And we give our consumers product information based on scientific, substantiated evidence so that they can make informed choices.



Nestlé UK's FareShare partnership simultaneously addresses food poverty and food waste.

Enhancing consumer understanding

Our Brand and CSV Advisory Team shares its consumer insights and provides guidance on how best to communicate with consumers. We believe this information helps consumers in their purchasing decisions. Here are some recent examples:

- In France, we continue to promote an interactive *Nescafé* life cycle assessment (LCA) communication tool. Users can learn about the environmental impacts at each product phase, or across the full life cycle.
- The *Nescafé* campaign in the UK emphasised ([see also Packaging](#)) environmental benefits, with the claim of '50% fewer lorries', along with a 'great value' message. Other sustainability messages, such as our commitment to the *Nescafé* Plan, appear on different versions of the products. As well as increasing sales and market share, research has shown that the campaign has made our target buyers think more positively about the *Nescafé* brand.
- In Singapore, we continue to offer the world's first free mobile application for iPhone and Android devices to help consumers correctly dispose of, recover or recycle their packaging. The [123Recycle application](#) scans a product's barcode to provide information on how to sort and dispose of the different parts of its packaging. The application can be downloaded from the iTunes app store or from the Android market.
- We issued a sustainability glossary and usage guidance to our communication professionals. This complements our Brands and CSV Communication Standard and claim approval process, helping marketers deliver credible, informative sustainability content.
- We launched our [Beyond the Label](#) initiative to give consumers more product information transparency. The UK *Kit Kat* pilot encourages consumers to scan a QR code on the package to discover more about the product and its impacts on nutrition, environment and society.

Benchmarking consumer awareness

In a Corporate Equity Monitor (CEM) study in 2011, based on 40 477 consumer responses, We were rated by consumers in 23 of 29 countries as performing better than the industry average on the statement "Nestlé cares for the environment". In 76% of these countries, we significantly outperformed the industry average by at least ten points.

In addition, we are engaging in social media listening, reviewing consumer services feedback and doing brand research in the countries in which we operate to continually improve our understanding of consumer interest, expectations and behaviours related to environmental sustainability.

Multi-stakeholder initiatives

We support several initiatives around the world to establish scientifically reliable and uniform environmental assessment methodologies and communication tools, such as the European Food Sustainable Consumption and Production Round Table – an initiative that is co-chaired by the European Commission and food supply chain partners and supported by the UN Environment Programme (UNEP) and the European Environment Agency.

The Roundtable has released 10 guiding principles on voluntary environmental assessment and communication of environmental information, including to consumers, and two reports, one on Communicating environmental performance along the food chain and the other on Continuous Environmental Improvement along the food chain.

We also continue to participate in voluntary initiatives to provide consumers with environmental information about our products, including participation in a national experiment on environmental communication to consumers in France, launched in 2011 by the French Ministry of Ecology, Sustainable Development, Transport and Housing. In 2012, our focus within the French experiment was to evaluate the effectiveness of our environmental communication – particularly in relation to products such as *Vittel*, *Nescafé* and *Nespresso* – and to understand consumer receptivity to information concerning GHG emissions, water and biodiversity.

We're working to improve the environmental information we provide to consumers about our products including their packaging, continuing our support for initiatives to develop scientifically reliable and consistent communication tools for consumers, through fora such as the European Food Sustainable Consumption and Production Round Table.



How we've performed

Number of countries where we are performing better than the industry average on the statement "Nestlé cares for the environment"

2011: 23 out of 29 (79%)
2010: 25 out of 33 (76%)

What we plan to do

We are planning the following activities in 2013 relating to consumer communication:

- Workshops, education and knowledge sharing for our Brands team to encourage additional consumer communication supporting informed choices and sustainable consumption.
- Introduce greater transparency regarding the environmental performance of our products based on LCAs and supported by digital and mobile technology.
- Proprietary and industry-level research on consumer attitudes and ways to promote more sustainable choices and behaviours.
- Continued participation in industry fora to help shape sustainable consumption standards, tools and best practices.

Please see [Our Commitments](#) for more information.

Waste and recovery

Why it's important

Waste has consequences beyond the loss of valuable products. It wastes increasingly scarce resources such as water, energy, and land, and generates additional costs for treatment.

What we stand for

To preserve natural resources, we recognise the importance of reducing waste along the whole value chain.

We are committed to eliminating waste at every level of our operations. We define waste as any material that arises during the manufacturing or distribution stage of a product that is destined for final disposal at offsite landfill, or incineration without energy recovery.

Our ultimate goal is zero waste and full recovery of unavoidable by-products.

What we're doing

Waste disposal and recovery from our factories

Since 2002, we have almost halved the amount of waste for disposal generated in our factories, per tonne of product. We are still on target to meet our 2015 goal of reducing waste for disposal on a comparable basis by 5%, by 2015.

Striving for zero waste

In 2012, 39 factories generated zero waste for disposal (2011: 22) and 81.9% of the waste generated in our factories is reused or recovered.

It will be challenging to achieve zero waste at every factory due to the lack of appropriate recycling infrastructure in many countries, especially for hazardous waste. However, it is our ambition to achieve zero waste for disposal where technically feasible.

For example, in the UK, seven of our production facilities have been verified by Bureau Veritas as sending zero production waste to landfill. This is a major milestone towards our target of zero waste to landfill at all our 14 UK factories, including sister companies, by 2015. To add our existing zero-waste sites of York, Girvan and Dalston, our Hayes, Halifax, Fawdon and Tutbury sites were also verified as zero waste in 2012.

In 2012, we fine-tuned our reporting of waste and by-product volumes to comprehensively report by type and destination.

Recovering sludge

More than 75% of the sludge generated by Nestlé-owned waste water treatment plants is recovered. We then send it for controlled land spreading, sludge digestion, methanisation, and composting.

Hazardous waste

Only 1.3% (2011: 1.6%) of the waste we generate can be classified as hazardous waste, in accordance with local regulations and standards worldwide. This includes detergents, oils, fuels and grease.

Eliminating food waste throughout the value chain

We transform more than ten million tonnes of perishable raw materials into finished, shelf-stable products. Avoiding food waste at the various stages of the value chain gives us a great opportunity to save natural resources. We are working on a range of initiatives to address food loss along the value chain.

Reducing waste at post-harvest stage

To reduce food waste in agriculture and the post-harvesting stages of the product life cycle, we help farmers improve their crop quality and storage. We do so by applying our Responsible Sourcing Guidelines and implementing capacity-building programmes, technical assistance and knowledge sharing.

We are also partnering with a research institution to explore ways of reducing post-harvest losses in developing countries, with the aim of disseminating good practice.

Reducing waste during manufacture and production

In our factories, we continue to explore ways to recover valuable materials in food waste that can be used as a by-product. For example, implementing a new system in some of our factories in Mexico has helped us to recover by-product that remained in the pipes at the end of production cycle. Instead of using water to flush the remaining product away, the new system, known as pigging, pushes the product out of the pipe and allows further use, rather than generating waste.

In 20 Nescafé factories, coffee grounds from the manufacturing process are being used as a source of renewable energy. Product losses are processed for adding to farm animal feed. Furthermore, metals, plastics, paper, cans and cardboard are processed by contractors and traded as commodities. Any remaining material that does not currently have a viable recycling option is sent for incineration, with energy recovery as a first option.

We are also taking steps to improve our demand planning. This reduces food waste by supporting manufacturing efficiency; reducing wastage due to age, obsolescence or the inconvenient location of finished goods and increasing freshness at point of sale.

Raising awareness in our own operations

We run campaigns that encourage our employees to reduce food waste in canteens and factories. At our headquarters, for example, an awareness-raising campaign resulted in a 30% reduction in food waste.

Portion guidance

At the product use stage, we can help consumers manage their food stocks better by offering right portion sizes and correct preparation instructions. For example, Nestlé Oceania has been helping consumers serve appropriately-sized portions for several years with the Nestlé 'portion plate'.

Packaging, storage and distribution

By providing a barrier to moisture, gases, light, aromas and contamination, packaging reduces food waste through breakage and spoilage, and increases its shelf life. We use our storage and transport expertise and technology to avoid wastage in all the countries we operate in.

Working with charities to redistribute food

Nestlé UK continues its support to FareShare, a charity working to address food poverty and food waste. FareShare redistributes surplus, fit-for-consumption food from the food and catering industry to charities that serve an average of 35 000 homeless, disadvantaged or vulnerable people a day. In 2011, Nestlé UK donated over a million meals worth of food to FareShare, and as a consequence saved 460 tonnes of waste being diverted to landfill.

Case study: Targeting zero waste

By the end of 2012, 39 factories generated zero waste for disposal – following our focus on natural resource efficiency and zero waste.

At Tutbury, the zero waste approach includes dedicating an area to each of the factory's 16 waste streams so that the materials can be carefully observed and segregated. Waste from contractors on the site is managed in the same way, providing a uniform approach across the site. As well as training and engaging employees and contractors in the waste strategy, we have also invested in balers to ease the handling and management of packaging waste.

The ability to compact materials has saved space at the factory and cut the transport footprint. Working with waste contractors that recycle in the best way possible is equally vital and the factory carries out regular auditing of suppliers to ensure compliance with waste management legislation.



How we've performed

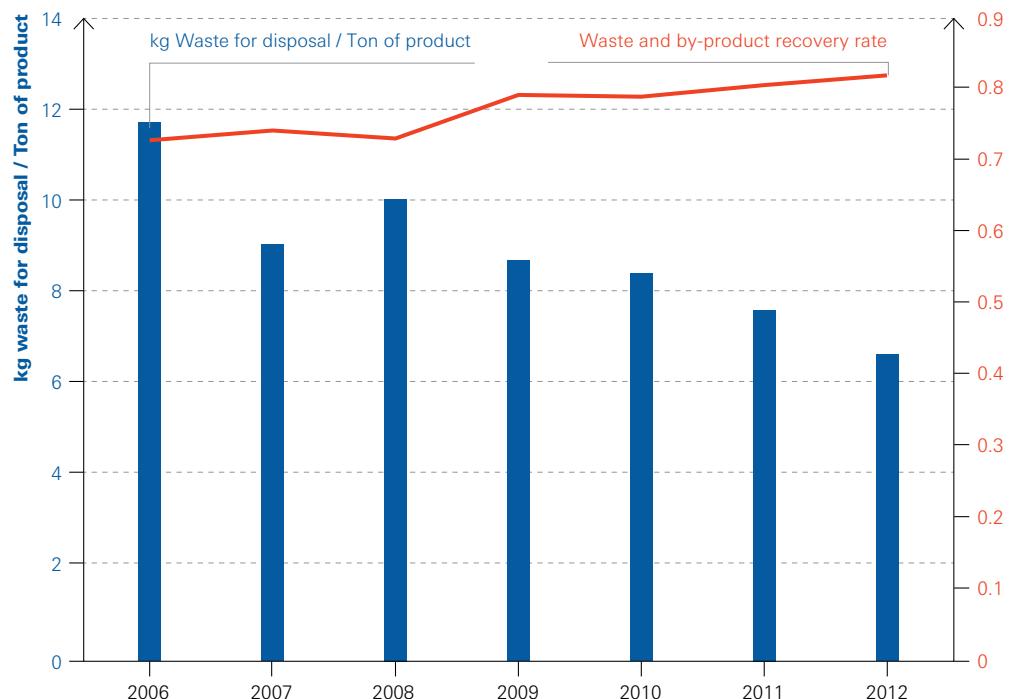
Waste disposal (million tonnes)

2012: **0.31**
 2011: 0.34
 2010: 0.41

Number of factories with zero waste to landfill

2012: **39**
 2011: 22

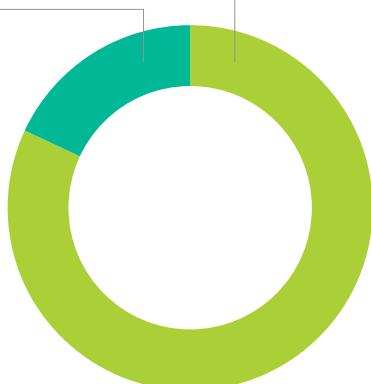
Waste for disposal generated in our factories (kg waste for disposal/tonne of product)



Waste recovery and disposal (%)

Waste for recovery (by product) 82%
 Waste for disposal 18%

	2011	2012
Waste recovery (%)	81	82
Waste disposal (%)	19	18



We recover 82% of the materials that arises from manufacturing. These materials are destined for reuse or recovery, including recycling, composting and incineration with energy recovery.

What we plan to do

We continue with our commitment to reduce waste for disposal and increase the number of factories with zero waste where technically feasible. By 2015, 10% of our factories will be zero waste to landfill.

Please [see Our Commitments](#) for more information.

Climate change

Why it's important

Climate change may exacerbate our planet's environmental challenges such as the availability of clean water; thus it may directly affect the long-term provision of continuous, safe, high-quality raw materials from which we make our products.

What we stand for

We believe that governments, companies and individuals must take measures both to reduce air emissions, and to adapt to climate change.

We are committed to lowering the greenhouse gas (GHG) emissions associated with the production and distribution of our food and beverages, by improving energy efficiency, switching to cleaner fuels and investing in renewable sources. And we commit to designing products that help consumers lower their own GHG emissions. We also work with farmers to improve their resilience to climate change.

For more information on our climate change mitigation and adaptation commitments, please refer to our [Nestlé Commitment on Climate Change](#).

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 2012 Carbon Disclosure Project (CDP) submission.

What we're doing

Increasing energy efficiency

We aim to become the most efficient energy user among food manufacturers, and continue to pursue energy efficiency in our factories. Please see the Manufacturing section for more details.

Renewable energy

Our total on-site energy generated from renewable sources accounts for 12.2% of the total consumption of our factories (2011: 11.6%). In 20 Nescafé factories, for example, coffee grounds from manufacturing process are used as a source of renewable energy.

Spent coffee grounds represent 3.4%, wood represents 3.1%, and an estimated 5.7% can be attributed to the purchase of electrical energy generated from other renewable sources.

Below are some examples of our most recent renewable energy initiatives.

- Following a power purchase agreement with Mexican wind-turbine company CISA-GAMESA, 85% of the total electricity consumed by our factories in Mexico is now supplied by wind power. We estimate that this will reduce air emissions, including greenhouse gases (GHG), by more than 124 000 tonnes CO₂ equivalent annually, comparable to taking 39 000 small cars off the road annu-

ally. We are the first food company in Mexico to obtain nearly all the electrical energy needed for its manufacturing operations from a renewable source.

- Nestlé France's Challerange factory, which produces milk powder for Dolce Gusto capsules, now operates a wood-fired boiler using woodchips sourced from forests certified by the Programme for the Endorsement of Forest Certification (PEFC) meeting 96% of the plant's fuel needs. This initiative will generate approximately 8 000 tonnes CO₂ savings per year and will help us to minimise the impact of energy price increases. Two other wood-fired boilers will come on at our Rosières (mashed potatoes) and *Herta* St Pol (sausages and hams) factories by the end 2012. These three wood boilers together will make CO₂ savings of 25% for Nestlé France.
- The new boiler at Nestlé Chile's Osorno factory, which produces Nido 1+, Nido 3+, Nido 5+ and other dairy products, uses wood sourced from local forests certified by the National System of Wood Certification of Chile. This prevents the emission of 10 400 tonnes of CO₂ per year compared to an equivalent boiler using non-renewable sources.

GHG emissions reduction

By using energy more efficiently and 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 and solar and wind energy, we've reduced our direct greenhouse gas (GHG) emissions in 2012 to 3.7 million tonnes of CO₂ equivalent, while our production volume increased by 5.5% (2011: 3.8 million tonnes CO₂eq).

Direct GHG emissions

We reduced our direct GHG emissions to 78 kg of CO₂ equivalent per tonne of product in 2012 (2011: 84 kg of CO₂eq per tonne of product). This equates to a 1.2 million tonne (24%) reduction, or a 50% reduction per tonne of product since 2002 – during which period our production volume increased by 53%.

Indirect GHG emissions

Our indirect GHG emissions from purchased energy increased by 4.9% to 3.4 million tonnes, which equals a 0.6% reduction per tonne of product compared to 2011.

We estimate to have generated approximately 357 500 tonnes of direct and indirect GHG emissions from our warehousing in 2011 and 2.8 million tonnes of CO₂ from transportation in 2011. Figures for 2012 were not available at the time of publication. See section on Transport and Distribution for more details.

Reporting Scope 3 emissions

Scope 3 emissions are all indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions. We use the "Corporate Value Chain (Scope 3) Accounting and Reporting Standard"

to estimate our GHG emissions both upstream and downstream of their operations. In 2012, we fine-tuned our 'Scope 3' emissions, covering indirect emissions such as fuel and energy-related activities (not included in Scopes 1 or 2), employees commuting and the end-of-life treatment of sold products. Our Scope 3 emissions can be found in our 2012 Carbon Disclosure Project (CDP) submission, pages 64 to 65.

We engage with some of our suppliers to obtain detailed information on their emission-generating activities also helping them to implement less GHG-intensive practices.

External reporting on climate change

In 2012, we were ranked first for both performance and disclosure in the CDP Investor Programme, making us the leading company in their 'Global 500'. The Carbon Disclosure Project (CDP) is a not-for-profit organisation aiming to reduce GHG emissions and support sustainable water use by business. They measure companies in a number of ways, including how they incorporate climate change into their business plans, how they monitor emissions, their transparency, and actions they take to mitigate their impact.

In 2012, we received the highest score in the food producers' climate strategy section of the Dow Jones Sustainability Index, for our performance in reducing and managing carbon risk.

Moving to natural refrigerants

See the section on Manufacturing for more details on how we are pioneering the replacement of synthetic refrigerants installations with safe natural refrigerants, and implementing new solutions to improve their performance.

Climate change adaptation

Increasingly, we are helping our stakeholders adapt to climate change impacts – both to support their livelihoods and the environment; sharing good practices with different stakeholders and reducing the risk to food security and the long-term supply of materials to our business. In 2012, we conducted an investigation project looking at the climate change projections for countries of importance to us and produced research papers on climate adaptation for coffee, cocoa and dairy.

We are especially committed to helping farmers to adapt and become more resilient so they can continue to grow crops in the face of changing patterns of agricultural production.

For example, after the extended drought of 2008–2010 followed by flooding rains, Nestlé Australia set up a four-year social resilience project in collaboration with the Birchip Cropping Group, to understand how wheat and sheep farm

businesses in northwest Victoria identify, interpret and respond to both acute and long-term climate challenges.

In Venezuela, we are helping farmers to provide natural shading for livestock, controlling soil erosion and preserving water.

Improving crop resistance through R&D

We use our considerable scientific expertise and resources to find ways to improve crop resilience. Our R&D Center in Tours, France, for example, works with its sister R&D Center in Abidjan, Côte d'Ivoire and other research institutes to produce drought-resistant clones and large quantities of cocoa plantlets that are less vulnerable to disease, once they reach full productivity. Furthermore their yield is potentially greater than that of most trees currently planted in cocoa farms.

See also the section on Raw Materials for details on how we're working with oat farmers and growers in Australia to increase the attractiveness of this crop while improving resilience to climatic extremes and disease.

Public policy engagement

We see the need to act on climate adaptation as a pre-competitive issue that requires the collaboration of all parties. We take part in public dialogue: for example, we are a partner of the [Adaptation Private Sector Initiative](#) of the United Nations Framework Convention on Climate Change (UNFCCC); we provided case studies on private sector engagement to the UN Environment Programme Green Economy Initiative and most recently the UNFCCC as part of an online tool that showcases how businesses and communities can adapt to the inevitable effects of climate change.

We also showcased how we are helping farmers to adapt to climate change at the United Nations Climate Change Conference in Doha in November 2012.

Through the Sustainable Agriculture Initiative at Nestlé (SAIN), we also share best practices and lessons learned. Our Agriculture department co-ordinates the SAIN network and shares SAIN cases with all our sourcing specialists and represents us in inter-professional organizations such as the Sustainable Agriculture Initiative.

How we've performed	
<p>Direct GHG emissions (million tonnes CO₂ eq.)</p> <p>2012: 3.71 2011: 3.81 2010: 3.98</p> <p>We are continuing to implement energy efficiency measures and switching to cleaner fuels.</p>	<p>Indirect GHG emissions (million CO₂ eq.)</p> <p>2012: 3.39 2011: 3.23 2010: 3.14</p> <p>Indirect greenhouse gas emissions increased by 4.9 per cent from 2011. The implementation of a new reporting system with updated emission factors resulted in an additional increase of 1.2% from 2011.</p>
<p>Total production volume versus direct GHG emissions 2002- 2012</p> <p>Update for 2012</p> <p>Since 2002 direct greenhouse gas emissions decreased by 24%. The direct greenhouse gas emission rate per tonne of product also decreased by 50%.</p>	<p>Total on-site energy consumption from renewable sources (% total)</p> <p>2012: 12.2 2011: 11.6 2010: 12.3</p>

What we plan to do

GHG emission reductions and climate change adaptation remain a key priority for us. Our ambition is to have zero GHG emissions. By 2015, we have committed to achieve energy efficiency improvements of at least 25% compared to 2005 and reduce GHG emissions per tonne of product by 35% compared to 2005, resulting in an absolute reduction of GHG emissions.

Looking more immediately to 2013, we will continue 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, wood from sustainably managed forests, and solar and wind energy.
- Extend the scope of our GHG reduction efforts beyond manufacturing along the value chain, to include procurement, logistics, consumer product use and end-of-life.
- Identify the reduction potential of, and implement programmes for, different GHGs, particularly CO₂, methane, NOx and F-gases.
- Contribute case studies on how we contribute to climate change adaptation to the Adaptation Private Sector Initiative database of the UNFCCC.

Please see Our Commitments for more information.

Biodiversity

Why it's important

We are dependent on biodiversity in many ways. We transform perishable raw materials that originate from farms, forests and the oceans into safe and value-added food products for consumers. In addition, some of our factories are areas of high biodiversity. To secure our long-term success we must ensure that biodiversity and ecosystem services continue to flourish.

What we stand for

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'.

Biodiversity is one element of Natural Capital, which also includes ecosystem services and inert resources such as fossil fuel and mineral deposits. 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.

We launched our Commitment on Natural Capital in 2012, to support our Corporate Business Principles, the Nestlé Policy on Environmental Sustainability, and the Nestlé Supplier Code. This also complements our commitments on water ([see Water](#)) and Responsible Sourcing Guidelines ([see Responsible Sourcing](#)) for commodities including palm oil, paper, soya, sugar, vanilla, milk, coffee and cocoa.



Bio-fortification of cassava at Nestlé's Experimental Farm in Yamoussoukro, Côte d'Ivoire. Scientist Mélanie Polman assesses the crop.

What we're doing

Some of the key interventions that form part of our Commitment on Natural Capital include: acting as a responsible steward of Natural Capital; reporting on risks and responses; supporting consumers to make better-informed choices and working with stakeholders.

Assessing the status of biodiversity

Understanding our dependency on biodiversity helps us decide where best to focus our biodiversity activities:

Ecosystem	Issues	Nestlé dependency	Nestlé response
Forest	Deforestation; forest degradation	Packaging, paper, timber pallets, shea, nuts, colorants	A comprehensive commitment to eliminate deforestation and programmes across the relevant commodities (see also Deforestation)
Ocean	Overfishing; acidification; warming; nutrients/Dead Zones; plastics	Seafood	Responsible Sourcing Guidelines (RSGs) on seafood (see also Responsible sourcing)
Freshwater	Water scarcity/over-extraction; water pollution	Every stage of our value chain depends upon access to freshwater	A comprehensive set of commitments and KPIs on water across supply chains, factories and public policy (see also Water)
Grasslands	Loss of high value grasslands/ biodiversity	Agriculture, grazing (milk, meat)	Application of the HCV concept, plus restoration through silvopasture programmes at dairy farm level
Atmosphere	Increasing temperature; pollutants; ozone layer depletion	Stable climate, reliable precipitation, temperature	Emission reductions initiatives at factories and use of natural refrigeration units (see also Manufacturing) tackling deforestation/high carbon soils, and facilitating the investing in biogas digesters by dairy farmers
Soil	Soil loss and degradation; increasing salinity	All our agricultural crops rely upon soil with adequate structure and nutrients	Included as part of Responsible Sourcing Guidelines (RSGs) on palm oil, soya, sugar, plus UTZ certification of cocoa

In compiling these priorities and deciding where to focus our efforts, we drew from 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 the World Wildlife Fund (WWF).

Consequently, we believe we can make the most improvements in three key ways:

- Raw material procurement
- Improvements at our factories
- Supporting public policy

Raw material procurement

We continue to implement Responsible Sourcing Guidelines (RSGs) in our palm oil, paper, soya, sugar, vanilla, seafood supply chains as well as continuing our work on the responsible sourcing of milk, coffee and cocoa. Each commodity has been identified as having a potential threat to biodiversity.

While the suppliers of these materials are already subject to our Corporate Business Principles and Supplier Code, through the RSGs we are now incorporating performance requirements on the use and management of water and soil, and elimination of deforestation in the entire upstream value chain back to origin.

Raw materials and deforestation

We have further advanced on no-deforestation by carrying out a global level analysis of where deforestation is occurring to match that against our known sourcing areas. This will allow us to better focus our efforts to eliminate deforestation through our procurement programmes and the work of the implementation of the RSGs.

We expect to refine our work in 2013 to better target current and newly emerging occurrences of deforestation. Recognising the need for collaborative action to tackle deforestation, we have also taken an active role in the Consumer Goods Forum programme on deforestation and in the Round Table for Sustainable Palm Oil (RSPO).

Raw materials and water

We have produced detailed requirements for water use in agriculture that are now being used in our RSGs to guide better water stewardship at the farm level. These requirements are based on the SAI Platform's water guidelines, but also include current thinking from the major agricultural commodity certification schemes and the Alliance for Water Stewardship draft standard.

We have further analysed our factories in water-stressed areas to look at water stewardship aspects. We have identified 21 factories to focus on in 2013 in order to further develop their approach to water stewardship.

Traceability of raw materials

The assessment of actual impacts of the production of raw materials is being evaluated through our work to map our supply chains back to the primary producer. With traceability established back to the farm or feedstock level, we will be able to work with suppliers to improve their performance and meet our Responsible Sourcing Guidelines (RSGs).

Based upon the assessment of the state of biodiversity, we are currently focusing on a shortlist of countries where biodiversity values are highest and where, through our interventions, we believe that we can bring about significant im-

provement in performance. For example, with paper packaging, we are focusing on fibre sourcing from, Brazil Canada, Chile, Russia, USA and south-east Asian countries (including China, India, Indonesia, and Malaysia). For sugar, we are concentrating on, Brazil, India and Mexico, whilst with soya our focus is on Argentina and Brazil. As we advance on this journey, we will expand this to further countries in the future.

Direct sourcing of raw materials

For our direct sourcing programmes, which cover more than half a million farmers – primarily milk and coffee – we take a more hands-on approach, assessing impacts and influencing behaviours to protect biodiversity at the farm level.

Our strategy for managing biodiversity impacts of these two key commodities is shown in the table below:

Milk	<p>Our survey of our factories' proximity to protected areas and areas of high biodiversity in 2011 revealed that dairy factories and their associated sourcing districts are often close to areas of high biodiversity. This is applicable to some of our operations in Brazil, China, Ecuador, Nicaragua, Peru, Philippines, and South Africa.</p> <p>Using, RISE (Response-Inducing Sustainability Evaluation) our assessment and action planning tool, we are working with dairy farmers to review their methods and then develop action plans for economic, social and environmental improvements at their sites. RISE studies have been completed in nine countries to date (with information pending for a further three countries, and work is due to commence during late 2012 and 2013 on the remaining ones).</p> <p><u>See the Raw materials section</u> for more information.</p>
Coffee	<p>Biodiversity issues are managed primarily through the use of the 4C Coffee Code and the <i>Nespresso AAA Sustainability Quality™</i> Program for coffee sourcing. Both of these include safeguards against sourcing from protected areas, restrictions on pesticide use, soil conservation and water course protection.</p>

Silvopastoral systems

Silvopasture is the practice of combining forestry and grazing of domesticated animals in a mutually beneficial way. Advantages of a properly managed silvopasture operation are enhanced soil protection and increased long-term income due to the simultaneous production of trees and grazing animals. We continue to implement silvopastoral systems to improve biodiversity. This involves planting different species of trees, hedges and shrubs on the same pasture land to improve biodiversity and yields. For example, Nestlé Nicaragua has recently helped ten pilot farms to implement a silvopastoral system.

Improvements in our factories

Some of our rural factories are also in areas of high biodiversity and located close

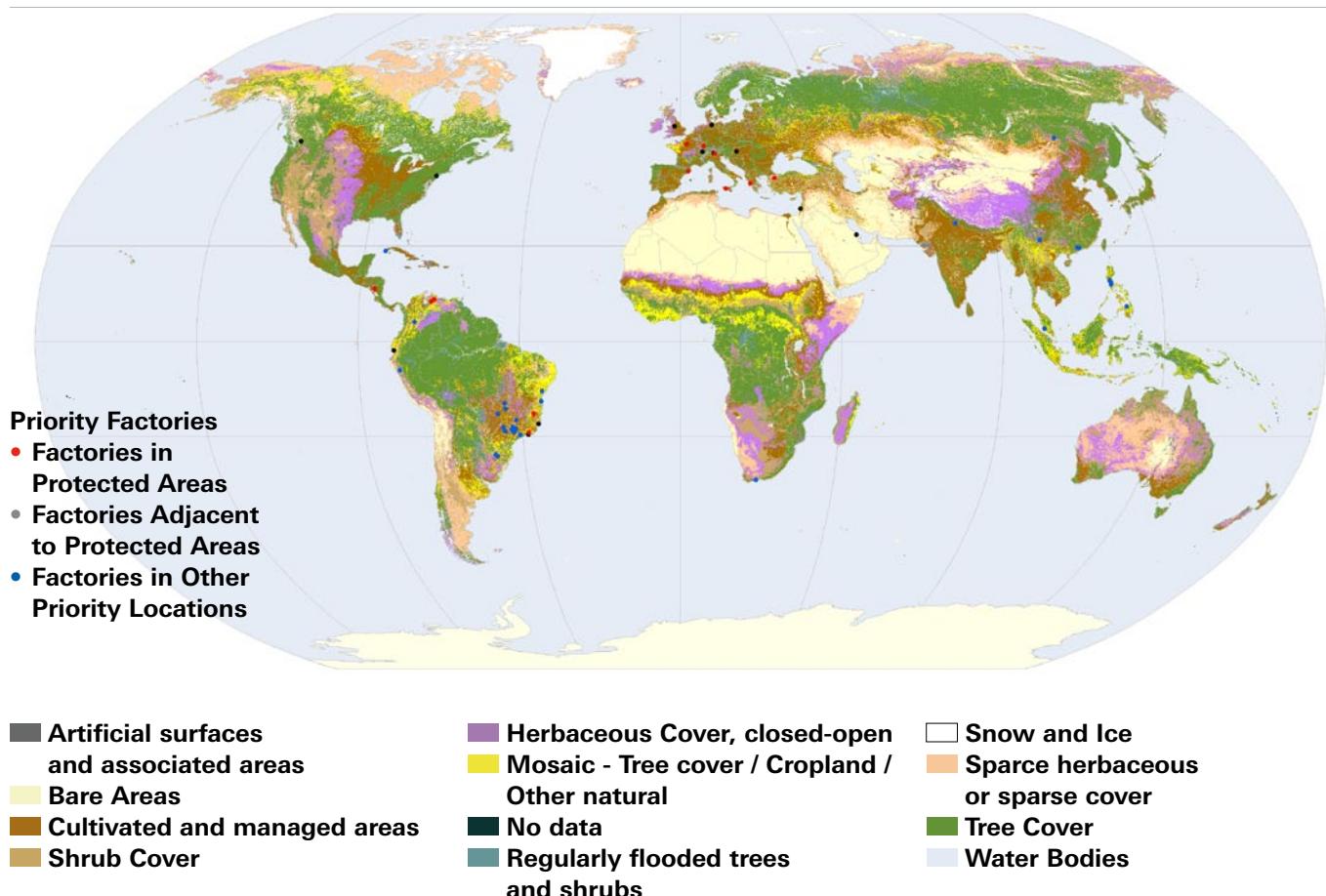
to important water areas. It is important therefore that we manage our facilities to safeguard these areas, and work with local authorities to safeguard those areas that we are dependent upon.

All factories operate according to our Environmental Management System and 418 factories are certified to ISO 14001:2004 standard on environmental management (2011: 413). This gives us a solid foundation on which to develop local and business sector approaches to improve our impacts, and work with stakeholders to enhance biodiversity. Where our factories are located in legally protected areas, we take special measures to manage our operations.

We planted butterfly meadows at our Fawdon, Buxton and Girvan sites in the UK to increase biodiversity.

Nestlé factories and biodiversity status

To find out which of our factories were in areas of high biodiversity/protected areas, we embarked on a project with the UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC). This process produced a searchable database of factories where we will focus our future actions, notably on 60 factories where high biodiversity risk has been identified:



The data reported on factories in/adjacent to protected areas and areas of high biodiversity relates to assessments carried out in 2011. We have not updated the data for new factories built or acquired during 2012. It is our intention to update this data every three years. In the meantime, we will use proximity to protected areas as a 'filter' in selecting new factory sites.

[Click here to see the assessment of factory locations and biodiversity.](#)

Supporting public policy

It is vital that we work in collaboration with other parties to take effective action where necessary.

In 2012, the Cambridge Programme for Sustainability Leadership published its [Natural Capital Leadership Compact](#). We are a signatory to this and we have been active in publicising it, speaking at events at the Rio Sustainability Conference and explaining our approach. As part of our commitment on Natural Capital, we are collaborating with other companies on the valuation of externalities and in 2013 we expect to report more formally on the valuation of natural capital.

We work in collaboration with other parties where possible to maximise the effectiveness of our activities. 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 continue to be 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.

Improving protected areas

We do not have responsibility for management of protected areas. Typically, national park authorities or relevant government authorities take responsibility for management matters. However, we do assist the management of some areas such as the national park at Viladrau in Spain. See also the Agrivair case study in the section on Water - Collective Action for an example of proactive land management in an area which is not protected, to lower the impact of farming and by implication restore ecological functions.



How we've performed

Palm oil purchases from sustainable sources (including GreenPalm certificates)

2012: **80% of which 13% segregated RSPO oil**

2011: 54%

2010: 20%

We aim to increase the amount of palm oil we can trace back to plantations that are independently assessed and verified against our Responsible Sourcing Guidelines which exceed the RSPO Commitments.

Countries covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes

2012: **46**

2011: 46

2010: 45

[See raw materials](#) for more information.

What we plan to do

We will continue to focus on biodiversity conservation. We will source palm oil only from sustainable sources by 2015 and help achieve zero net deforestation by 2020.

Looking more immediately to 2013, we also want to:

- Assess the feasibility of reporting on natural capital using balance sheet approach
- Continue to roll-out Responsible Sourcing Guidelines for key commodities
- Report more comprehensively on cross-company progress on deforestation and water from next year, specifically eliminating deforestation from palm oil and paper supply chains
- Develop factory-specific biodiversity action plans in some of our operations.

Please [see Our Commitments](#) for more information.

Case study:

Biodiversity projects in the Vosges water basin, France

The 'Agrivair' project – set up by Nestlé and its partners to preserve the quality of the *Vittel*, *Contrex* and *Hépar* Springs in the Vosges water basin in France – is celebrating its 20th anniversary

Protecting the ecosystem remains an important part of Agrivair and we're focusing on a number of projects that will further enhance the already rich biodiversity of the basin.

Biodiversity labelling

Agrivair is now pioneering the development of 'biodiversity labelling' by a specialised certification company. The benchmarking system will assess the inter-relations between businesses and the living environment and the degree to which biodiversity is taken into account within the range of Agrivair's activities.

Reshaping the *Vittel* river

In 2013, in partnership with the French water authority Agence de l'Eau, Agrivair, will start a project to reshape the *Vittel* river (Petit Vair) – a watercourse whose channel is oversized, riverbed eroded, and fauna and flora damaged by successive developments. The renaturation project, on an exemplary scale, will result in a watercourse with vegetation up to 2 km from the river. The aim is to recover the river's original form and function, along with its ecological and socio-economic role in the region.

Plantation Programmes

In 2013, *Vittel* will be using experience gained from a reforestation project in the Amazon basin on a range of plantation projects in the Vosges water basin. In conjunction with the region's stakeholders, the project will be implemented by the local population, farmers and local authorities. Over and above the beneficial effect for the ecosystem, these projects will contribute to developing the timber industry, eco-tourism and raising public awareness of the importance of trees.

In 2010, we received a special commendation for the best site management initiative in biodiversity from the French Ministry for Sustainable Development and the French Environment and Energy National Agency (ADEME) for its efforts to protect water reserves and restore biodiversity around the *Vittel* water source.

Water

Please refer to the chapter on Water (starting on page 79) to know about our initiatives in this area.

Human rights and compliance

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Highlights and challenges

Actions we've taken

- We have further improved our Human Rights Due Diligence Programme that now includes 8 pillars: policy commitments; stakeholder engagement; training; risk assessment; impact assessment; Nestlé's Human Rights Working Group; partnerships and dialogue; monitoring and reporting. [See the Human Rights section](#) for specific actions we've taken on each of these pillars.
- We've agreed to extend the EU Pledge on marketing to 'under 12s' to cover third-party online advertising and brand websites.
- We've worked hard to influence our retailers' and distributors' compliance with the WHO Code on the marketing of breast-milk substitutes.
- We have progressively implemented our Nestlé Integrity Reporting System across the Group.
- Our Anti-corruption training tool reflects Nestlé's position to ban all forms of facilitation payments regardless of whether such payments are legal under local laws.
- CARE Audit questionnaire revised and scope of audit expanded to include a Security section.

Challenges we've faced

- This year, we focused our efforts on five challenging human rights areas: internal alignment; awareness-raising; developing a grievance mechanism; external communication; beyond respect. [See the "Human Rights: How we've performed" section](#) for detailed information
- Lack of clarity around the WHO Code has delayed progress in its implementation and we need to build constructive dialogue to go forward.
- Market by Market implementation of Nestlé Integrity Reporting System meant that data protection and other legal hurdles had to be addressed on a case by case basis which in some instances led to a lengthy deployment process.
- Increased scrutiny of lawmakers in the area of corruption requires re-enforced in-house compliance programs (e.g. UK bribery act).
- We were one of the first major companies to start eliminating BPA in infant foods.

Our performance

- We've been able to report and demonstrate progress against core GRI human rights indicators covering the following areas: investment and procurement practices; non-discrimination; freedom of association and collective bargaining; child labour; forced and compulsory labour; security practices; indigenous rights; assessment; remediation. [See the "Human Rights: How we've performed" section](#) for detailed information
- We've completed 150 CARE audits this year, with no critical non-compliances identified.
- 24 Markets are live with the Nestlé Integrity Reporting System and 185 complaints were received in 2012.
- 657 units are now certified under our Quality Management system.
- We've recalled 11 products due to concerns about quality and safety.

External recognition

- We have been invited to present our Human Rights Due Diligence Programme at a number of international and regional events.

(See [Human Rights: Stakeholder engagement section](#))

Inside the issue: human rights and compliance

As a Company founded on principles, we strive to comply with the laws and regulations in place, and international standards wherever we operate. Ultimately, compliance is the basis for all our CSV and sustainability activities, and acts as a non-negotiable minimum requirement in everything we do.

For us, upholding compliance goes beyond keeping checklists. It requires steadfast principles that apply across the whole Company, providing clear guidance to our people and suppliers ([see our Corporate Business Principles](#)).

In a world marked by continuing economic volatility and political upheaval, with large numbers of people migrating from rural to urban areas in search of work and improved living conditions, it is particularly important that we take effective action to ensure that human rights are respected.

Therefore, as an extension of our actions to ensure compliance, we recognise there is a prevailing expectation that companies should respect human rights in their operations and supply chains. We also believe that business can have a positive impact on human rights by creating and supporting economic activity – helping people live to an acceptable standard by ensuring fair wages, working hours and working conditions.



Training retailers in WHO Code compliance in the Philippines.

Managing compliance

What we stand for

Our business practices are governed by integrity, honesty, fair dealing and full compliance with applicable laws.

Our Corporate Business Principles are the foundation of our corporate culture and describe our core commitments to our stakeholders.

Our Management and Leadership Principles and our Code of Business Conduct form the basis of how we conduct our business.

Our Code of Conduct states: "Nestlé and its employees are bound by the law. Compliance with all applicable laws and regulations must never be compromised. Additionally, employees shall adhere to internal rules and regulations as they apply in a given situation. Those internal rules are specific to the Company and may go beyond what is required by the law."

For information on managing human rights, please refer to the Human Rights section of this report.

Delivering our commitments

Governance and oversight

The Chairman, the Chief Executive Officer and other members of the Executive Board are ultimately responsible for the supervision and management of the Group. They're supported by a number of other governance bodies, including our Operations Sustainability Council; Issues Round Table; Audit Committee; Risk Management Committee; Information Security Committee; Research Development Sustainability Council; and Group Compliance Committee.

The Group Compliance Committee, serves as a steering committee for the oversight and coordination of compliance-related activities and initiatives and recommends and implements key compliance initiatives.

The Committee:

- Provides a forum for coordination internally.
- Receives briefings on compliance-related initiatives and provides cross-functional input.
- Identifies deviations from best practice, makes recommendations and drives the implementation of appropriate.
- Drives the implementation of the Company's Corporate Business Principles and our policy system and proposes the issuance of minimum standards as appropriate action.
- Regularly reports and makes recommendations to our Executive Management and provides updates on its activities to the Audit Committee and in the Company's Annual Report to Shareholders.
- Coordinates the management of complaints received by its members regarding compliance matters and enhances our procedures for the receipt, retention and treatment of such complaints.
- Informs Executive Management if, in the course of fulfilling its responsibilities,

important facts arise that reveal material violations of law or other regulations that we must comply with, indicate suspect serious wrongdoings or constitute a serious offence to our reputation.

- Has the authority to conduct or authorise investigations into or studies of any matters within the Committee's scope of responsibilities.
- Reviews and reassesses the adequacy of this Charter periodically and makes such amendments as are appropriate.

In 2012, key Group Compliance initiatives included:

- Continuous implementation of the Corporate Business Principles and the Code of Business Conduct.
- Acceleration of the deployment of the previously developed state-of-the-art anti-corruption training programme, in close coordination and collaboration with the Legal department.
- Driving Group-wide implementation of our Integrity Reporting System and providing ongoing support to all our countries of operation regarding the roll out and communication process as well as the best handling and management of actual non-compliance reports.
- Continuous implementation of the Group's Privacy Policy and the giving of direction in making privacy a mind-set rather than a specific individual or group responsibility.
- Revision of the CARE questionnaire with an expanded scope of review (including now Human Rights and Security as additional topics).
- Provision of guidance to Nestlé Continuous Excellence (NCE) with regards to compliance as one of the NCE foundations.

Integrity Reporting System

- Nestlé introduced integrity reporting ("whistle blowing") with the launch of its Code of Business Conduct, which clarified reporting channels, allowed anonymous reporting and introduced the protection of both the "whistleblower" and the accused. Building on the commitment in the Code, the Nestlé Executive Board decided in 2011 to gradually make such a system available globally.
- The system is implemented in a decentralized manner and is adapted locally to ensure employee acceptance at market level. The complainant leaves a message by phone or via the online system which will be transcribed, translated and sent to the person who has been designated by the Market as Compliance Officer. The complainant receives a log number with which he can call back, this facilitates a dialogue between the complainant and the Company without compromising the former's confidentiality.
- After piloting the Nestlé Integrity Reporting System in Russia, the focus in 2012 was on rolling out the system across the Group. The roll-out included a personal endorsement from the CEO. The messages received through the Nestlé Integrity Reporting System were investigated in accordance with Best Practices issued by Group Compliance, and several of the complaints led to findings and consequences. The overall experiences so far are positive and the system is overwhelmingly appreciated both by local management and employees. Importantly, there is little indication that the system is being abused by complaints made in bad faith.

- The “Reporting of non-Compliance Best Practices” provide guidance on how to handle investigations and ensure the protection of both the accused person and the complainant, while ensuring consistent and fair consequence management.

Monitoring and audit

The CARE programme was introduced in 2005 as a worldwide programme to help verify that Nestlé operations comply with local legislation, the Nestlé Corporate Business Principles and the Code of Business Conduct. The audits, which take place every three years and are performed by three leading independent audit companies, focus on compliance in the following areas: Human Rights and Labor Practices; Business Integrity; Safety and Health; Environmental Sustainability; Security.

Since November 2005, more than 490 sites (mainly Nestlé factories) have performed CARE audits. We have extended CARE to all Nestlé employees and all sites owned or operated by Nestlé.

CARE findings are classified in three categories: Minor (isolated and non-repetitive finding or minor issue), Major (systematic finding or major issue or infringement against local legislation), Critical (exceptional issue, which requires immediate information of Nestlé Corporate Compliance Committee). At the end of December 2012, there were no critical findings, only few major findings and mainly, minor findings.

We have systematic monitoring of the action plans in place.

In the spirit of continuous improvement and to evolve the CARE programme, in May 2012, we launched the revised, expanded CARE questionnaire. The labour standards pillar was renamed “Human Rights and Labour Practices” and now also addresses also Human Rights commitments relevant to our operations; includes new and/or rephrased questions that reinforce the audits related to Business Integrity, Safety & Health and Environment; and has added an entirely new set of security-related questions.

CARE gaps identified across all areas of compliance (by severity)

	Human Rights & Labour Practices	Safety & Health	Environmental Sustainability	Business Integrity	Security
Of which: Minor	28	38	32	12	24
Of which: Major	5	1	1	0	3
Of which: Critical	0	0	0	0	0

We have used the new questionnaire for all CARE audits as of October 2012. We have carried out 1687 CARE audits since 2005. In 2012, we carried out over 150 CARE audits.

Employee training and engagement

Our Corporate Business Principles were fully revised in 2011 and reissued to all our countries where we have operations. A sustained communications campaign involving an email to all employees, a satisfaction survey, flyers, presentations and videos at team meetings will be followed up by ongoing work to determine how best to integrate our Principles into key processes. Additionally dedicated training programmes are available for the Code of Business Conduct and our commitment against corruption.

Security Personnel

In 2012, 20% of security personnel were trained in the organisation's policies or procedures containing aspects of human rights relevant to operations.

This is an estimate and includes, for example, training of third-party security providers to Nestlé Colombia, Nestlé Sri Lanka and in Russia, where the Government has made such training mandatory .

Human Rights

Why it's important

In June 2011, the United Nations Human Rights Council endorsed a new Framework and a set of Guiding Principles in the area of "business and human rights". According to this standard, States have the duty to protect and enforce human rights, while companies have the responsibility to respect human rights as part of their business activities. This constitutes the basis of our Corporate Business Principles where we commit to respecting human rights in all our business activities.

To deliver on this commitment and to meet the expectations of our stakeholders (see below), we have taken proactive steps to prevent and address any negative impact we may have on the rights of the people we employ, do business and interact with along our value chain, (i.e. our employees, contractors, suppliers, consumers and the local communities living around our operations).

[Click here to view the "Nestlé & Human Rights" video.](#)

What we stand for

Our objective is to be exemplary in our human rights and labour practices and an acknowledged leader in business and human rights. 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 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).
- The International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work (which builds upon the eight core Conventions of the ILO).

Our approach is also guided by the outcome of a regular materiality exercise. In 2012, it highlighted that human rights – particularly with regard to our supply chain, and child labour – are of increasing importance to our stakeholders and the business.

What we're doing

Our Human Rights Due Diligence Programme is built on eight operational pillars, described below:

- Policy commitments
- Stakeholder engagement
- Training
- Risk assessment
- Impact assessment
- The Nestlé Human Rights Working Group
- Partnerships
- Monitoring and reporting

Pillar 1: Policy commitments

We integrate human rights into new and existing policies and procedures.

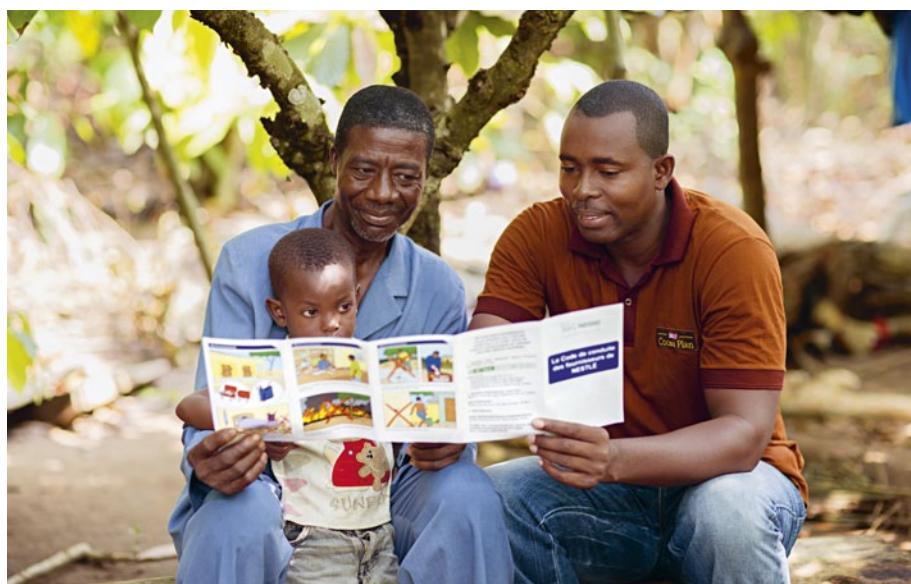
In 2009, the [Danish Institute for Human Rights](#) performed a human rights gap analysis against all our relevant policies and procedures.

In 2010, we revised our 10 Corporate Business Principles, which form the basis of our Company's culture, to include "Human rights in our business activities" as a principle. This is now considered as our Company-wide human rights policy. All our employees worldwide have received a copy of the updated Principles, and we have begun to roll out training sessions on them.

Since 2010, we have adopted or revised 12 policies and procedures to address specific human rights topics. These include, for example, the Nestlé Supplier Code, our Policy on Conditions of Work and Employment, and the Nestlé Employee Relations Policy.

In 2012, following the approach described above, we launched two new policy commitments:

- [Nestlé Commitment on Child Labour in Agricultural Supply Chains](#): We are against all forms of exploitation of children, and are firmly committed to actions to eradicate child labour from our agricultural supply chains.
- [Nestlé Commitment on Rural Development](#): Our work on rural development combines a human rights approach together with a human development approach.



Nestlé agronomist Frédéric Oura discusses a pictorial version of Nestlé's Supplier Code with an Ivorian cocoa farmer.

In addition, in 2012, we started to roll out a revised version of CARE, our independent audit programme that includes a new chapter on human rights and labour practices.

Pillar 2: Stakeholder engagement

We engage with our stakeholders on human rights issues at the international and local levels:

As part of our efforts to have our subsidiaries more engaged in UN Global Compact local networks, we hosted a workshop on business and human rights in Kenya (March 2012). As a Board member of the Global Compact network in Switzerland, we organised a dialogue with the promoters of the "Corporate Justice" Recht ohne Grenzen initiative, the Swiss UN Global Compact signatories, interested companies, civil society and other experts in the field (September 2012).

Nestlé and the International Union of Food, Workers (IUF) have agreed that it is in their mutual interest to establish a constructive and frequent dialogue (bi-annual meetings) on global labour issues. Two meetings already took place in February and December 2012.

We delivered on the commitments we've made in stakeholder consultations as part of our affiliation with the Fair Labor Association ([FLA](#)) and in particular in our Action Plans on Responsible Sourcing on:

- **Hazelnuts:** We participated in a round table stakeholder meeting on child labour in the hazelnuts supply chain organized by the Turkish Ministry of Labour in Turkey, Ankara, July 2012
- **Cocoa:** Together with the FLA, we organized a stakeholder convening in Côte d'Ivoire (Abidjan, November 2012) with all relevant local and national actors in the cocoa sector. The convening took place at our R&D Center and gathered more than 60 participants. The report of this convening is accessible on the [FLA website](#).

We continued our dialogue with Alliance Sud through formal annual high-level meetings and regular working level meetings and information exchange. Specific issues of concern, such as the corporate responsibility to respect human rights or trade union issues in Colombia and elsewhere, were discussed between Nestlé and Alliance Sud in a protected environment.

We participated in the Annual Conference of the Swiss Federal Department of Foreign Affairs (September 2012), as well as in the Annual Conference of Amnesty International Switzerland (April 2012).

In addition, we engaged with a range of national and regional stakeholders as part of the Human Rights Impact Assessments we carried out this year (see Pillar 5: Impact Assessment).

Pillar 3: Training

We train our employees and develop their capacities on human rights.

This year, we trained a further 18,103 employees as part of the roll-out of our on-line Human Rights Training Tool for our employees. The on line training continues to focus on high risk countries as a priority.

Building on the online training, we also conducted three in-depth, face-to-face training sessions, reaching 166 employees from Corporate Human Resources. On December 10, coinciding with the International Human Rights Day, we launched the first "Nestlé Human Rights Week", including a lunch-time conference with Puvan Selvanathan, Chair of the United Nations Business & Human Rights Working Group.

We'll continue and further strengthen our efforts on human rights awareness-raising and training throughout 2013, focusing on Corporate departments and countries where we carry Human Rights Impact Assessments. Combining these two initiatives – assessment and training – has proven very effective in helping our employees understand human rights and how they apply to their daily business activities.

Pillar 4: Risk assessment

We evaluate human rights risks across our business activities.

As in previous years, the members of the Human Rights Working Group supported by representatives of the Danish Institute for Human Rights and the Fair Labor Association conducted their annual Human Rights Risk Assessment.

The objective of this process is to evaluate the likelihood and potential impact (high, medium, low) of human rights risks on our business. We evaluate these risks at five levels: Nestlé facilities; tier-1 suppliers; upstream suppliers; local communities and country operations. Every risk identified as 'high' has a specific action assigned to it in order to mitigate it, to be implemented by the relevant department or country operation. Progress on implementation is reviewed throughout the year by the Nestlé Human Rights Working Group.

For the first time, we included Maplecroft risk indices as part of the review process, in order to increase our understanding of human rights risks for business in specific countries. In addition, we added nine new risk indicators (increasing the number to 48, from 39 in 2011) to take new potential risks into account in the following areas: provision of accommodation and basic services, complicity, employees' contracts, work-life balance, environmental impacts and community impacts.

This year, we identified 40 high risks at the five different levels under review: Nestlé facilities (12), tier-1 suppliers (14), upstream suppliers (10), local communities (1), and operating countries (3).

See "[How we've performed](#)" for detailed information

Pillar 5: Impact assessment

We assess human rights impacts where we operate.

This year, continuing our work with the Danish Institute for Human Rights (DIHR), we carried out three Human Rights Impact Assessments (HRIAs) in Russia, Uzbekistan and Kazakhstan. These add to the four HRIAs we've carried out previously in Colombia (2010), and Nigeria, Angola and Sri Lanka (2011).

Each of these assessments typically includes:

- In-depth interviews at the country head office with all the relevant managers: Human Resources; Legal, Marketing; Security; Safety & Health, Environment; and Procurement & Supply Chain.
- Visit of factories and distribution centres, and interviews with management and employee groups (unionized and non-unionized, male and female, young and older).
- Visit of tier-1 suppliers and interviews with management and employee groups.
- Visit of farmers or farmer associations if commodities are sourced locally
- Engagement with local representatives of:
 - Trade unions
 - Local communities
 - NGOs
 - International organisations (including UN Global Compact local networks, if any)
- A debriefing session with Nestlé country operation management
- An action plan drafted against DIHR's recommendations

Regarding investments, significant investment agreements as defined in the GRI Protocols Set for Human Rights are, in the Nestlé context, a little narrow in scope and would include only major transactions such as significant acquisitions of material and strategic importance to the Group. For 2012, this would include the acquisition of Pfizer Nutrition. However for all our acquisitions (even if not significant at Nestlé Group level as per the definition) Nestlé adopts a consistent approach and methodology which includes a detailed due diligence process supported by checklists and guidelines that should identify up front compliance and human rights issues before any firm and binding agreement is signed. In 2013 we will continue our work to fulfil our objective to ensure human rights concerns are properly identified and addressed as part of our M&A due diligence process.

Pillar 6: The Nestlé Human Rights Working Group

We coordinate our human rights activities across the business. Our Human Rights Working Group (HRWG) is made of eight departments: Human Resources, Public Affairs, Legal, Security, Compliance, Procurement, Safety, Health and Environment, and Risk Management. Its mandate is to strengthen the effectiveness and improve the coordination of human rights-related activities and initiatives across the company.

This year, our work concentrated on developing a document setting key priorities for 2012-2014. A work plan of specific actions to be carried out against these key priorities will be agreed each year by the HRWG.

Pillar 7: Partnerships

We partner with leading organisations to implement our activities. In 2012, we continued our close collaboration with the Danish Institute for Human Rights (DIHR) as part of the implementation of our Human Rights Due Diligence Programme. Our two-year partnership will be renewed in Q1 2013.

In February 2012 we became an official affiliate of the [Fair Labor Association \(FLA\)](#), which helps us address labour standards in our supply chain, starting with hazelnuts in Turkey and cocoa in the Cote d'Ivoire.

Our work with the DIHR and FLA, both expert organisations in human rights and labour, has been instrumental in helping us assess the positive and negative impacts across our entire value chain. These complementary partnerships are important drivers of our overall Human Rights Due Diligence Programme.

Pillar 8: Monitoring and reporting

We monitor our performance and report publicly on it every year. Our codes, policies, systems and practices are regularly audited. Together with our efforts on human rights risk and impact assessments, our monitoring mechanisms help us verify how far human rights have been integrated into our own operations and throughout our supply chain:

At Nestlé facilities level, the revised version of our CARE Audit programme includes a comprehensive, stand-alone Human Rights and Labour Practices section ([see "Managing compliance"](#) for detailed information). In addition, our Integrity Reporting System allows us to receive and resolve individual grievances from our employees, including when they relate to human rights issues ([see "How we've performed"](#) for detailed information)

At tier-1 supplier level, our Responsible Sourcing Audit Programme verifies compliance against the Nestlé Supplier Code. Audits are performed by external auditors, using the Sedex Members Ethical Trade Audit (SMETA) 4-Pillar guidelines. Under these guidelines, audits are performed against a large number of human rights aspects, including forced labour, freedom of association, health & safety, child labour and young workers, living wage, working hours, discrimination, regular employment, sub-contracting, discipline, migrant and agency labour, and community benefits.

At the upstream supplier level, our Responsible Sourcing Guidelines include human rights requirements that have been identified as material for each commodity. In addition, the verification and certification tools that we use as part of the Farmer Connect Programme and in our Cocoa and Nescafé Plans, such as 4C, UTZ, Fairtrade and Rainforest Alliance include specific human rights requirements.

Managing security risks

Security is an increasingly important human rights issue. We want our employees to work in an environment that is free from security concerns. The Nestlé Group Security (NGS) protects our employees, assets and reputation from threats of any kind. Externally, NGS cooperates with the relevant authorities to address security risks, and ensures we comply with applicable laws and regulations. Internally, it abides by our Corporate Business principles, Code of Business Conduct and commitment to Human Rights.

Compliance with these many different aspects of our regulatory environment must never be compromised, even when protecting our people and property against illegal activities by third parties.

How we've performed																									
Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening	Percentage of significant operations, suppliers and contractors that have undergone human rights screening, and actions taken																								
<table> <thead> <tr> <th></th><th>2010</th><th>2011</th><th>2012</th></tr> </thead> <tbody> <tr> <td>Significant investment agreements</td><td>No data</td><td>No data</td><td>100%</td></tr> <tr> <td>Contracts</td><td>No data</td><td>98%</td><td>100%</td></tr> </tbody> </table>		2010	2011	2012	Significant investment agreements	No data	No data	100%	Contracts	No data	98%	100%	<table> <thead> <tr> <th></th><th>2010</th><th>2011</th><th>2012</th></tr> </thead> <tbody> <tr> <td>Suppliers and contractors</td><td>N/A</td><td>98%</td><td>100%</td></tr> <tr> <td>Operations</td><td></td><td></td><td>11.8%</td></tr> </tbody> </table>		2010	2011	2012	Suppliers and contractors	N/A	98%	100%	Operations			11.8%
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Operations			11.8%																						
Given the nature of our business, we also reported this year on our commercial/operational contracts (e.g. 3rd party agreements for manufacturer, supply and IP licences). Unlike an investment agreement such as an M&A contract which largely ceases to have effect after the transfer of ownership, these agreements typically have ongoing terms that may span a number of years. Every purchase order we raise contains a reference and request for acknowledgement of the Nestlé Supplier Code, which specifies human rights compliance. We continue to develop the reporting of human rights issues across the business.	We assess human rights as part of our responsible sourcing audits. In our own operations we assessed 55 factories out of 468 factories covered by the CARE programme.																								
Human Rights Impact Assessments completed 2012: 3 2011: 3 2010: 1	Total number of supplier incidents of discrimination and corrective actions taken <table> <thead> <tr> <th></th><th>2010</th><th>2011</th><th>2012</th></tr> </thead> <tbody> <tr> <td>Suppliers incidents</td><td>N/A</td><td>91</td><td>121</td></tr> </tbody> </table>		2010	2011	2012	Suppliers incidents	N/A	91	121																
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How we've performed				
<p>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</p> <p>2012: 15 853 hours (18 103 employees trained via on line tool, 166 employees trained face to face.) 2011: 7 306 hours (9 653 employees in 53 countries)</p>	<p>Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms</p> <p>2012: 173</p> <p>The 173 comprises 38 men, 35 women and 100 anonymous of which 143 were resolved (32 men, 24 women and 87 anonymous)</p>			
<p>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</p> <p>2012: 22 suppliers</p> <p>Nestlé verifies compliance of its direct suppliers using the Sedex Member for Ethical Trade Audit – 4 pillars methodology. This industry recognized protocol includes labour standards and human rights criteria that are verified during on-the-spot audits of suppliers' operations. The 2012 figure reported for this KPI is based on 2184 Sedex audits.</p>	<p>Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.</p> <table> <thead> <tr> <th style="text-align: right;">2012</th> </tr> </thead> <tbody> <tr> <td>Operations 0</td> </tr> <tr> <td>Suppliers 92</td> </tr> </tbody> </table> <p>Nestlé verifies compliance of its direct suppliers using the Sedex Member for Ethical Trade Audit – 4 pillars methodology. This industry recognized protocol includes labour standards and human rights criteria that are verified during on-spot audits of supplier's operations. The 2012 figure reported for this KPI is based on 2184 Sedex audits.</p>	2012	Operations 0	Suppliers 92
2012				
Operations 0				
Suppliers 92				
<p>Operations and significant suppliers identified as having significant risks for incidences of child labour and measures taken to contribute to the effective abolition of child labour.</p> <p>Operations (2012): 0 Suppliers (2012): 34 (1.5%)</p> <p>Nestlé verifies compliance of its direct suppliers using the Sedex Member for Ethical Trade Audit – 4 pillars methodology. This industry recognized protocol includes labour standards and human rights criteria that are verified during on-the-spot audits of suppliers' operations. The 2012 figure reported for this KPI is based on 2184 Sedex audits with a global average occurrence of 1.5%. Please also <u>see section on Child Labour</u> for information on our work with the Fair Labor Association.</p>	<p>Operations 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.</p> <p>2012: 28 country operations</p>			

Challenges

Internal alignment

The “corporate responsibility to respect human rights” is a simple concept but challenging to implement. It requires clear objectives and key priorities, strategic direction, dedicated resources, and a high level of coordination across the Company (eg Human Resources, Safety & Health, Environment, Legal, Marketing, Procurement and Security). The eight pillars of our Human Rights Due Diligence Programme aim to make our approach to human rights strategic, cross-cutting, comprehensive and coordinated. The mission of the Human Rights Working Group is key to making sure that there is a strong alignment across departments and country operations.

Awareness-raising

A key challenge is to sensitize our colleagues around the world to the importance of human rights. Several pillars of our Human Rights Due Diligence Programme help us address this challenge, e.g.:

- Through the online Human Rights Training Tool we want to make sure that everybody at Nestlé understands what human rights are and how they relate to our business activities. The face-to-face training sessions designed for specific departments are used as a follow-up of the online training in order to “deep dive” into issues relating to specific functions.
- Our Human Rights Impact Assessments offer a unique opportunity for detailed discussions with colleagues and stakeholders in our country operations.
- For the first time this year we organized the “Nestlé Human Rights Week” – during which Puvan Selvanathan, Chair of the UN Business and Human Rights Working Group, presented on “Human rights: Why it’s our business”, followed by a discussion with employees.
- Roll-out of our grievance mechanism: The launch (2011) and implementation (2012 onwards) of our Integrity Reporting System has helped us better remediate cases of non-compliance, including in the area of human rights, before they escalate. It complements our overall approach to human rights risks and impacts assessment. The Integrity Reporting System has so far focused on Nestlé employees. A challenge we need to address is to enable external stakeholders to access the system. (See also the What we plan to do section below).

External communication

Communication of some elements of our human rights performance remains a challenge. Although we can report on most of our work, some activities such as the results and lessons learned of our Human Rights Impact Assessments are more difficult to report on. We plan to work on this in 2013 together with external partners (See also the What we plan to do section below).

Human rights and rural development

Our approach has so far focused on our responsibility to respect human rights, and therefore belongs to the Compliance section of our “CSV pyramid”.

The Rural Development Framework offers a unique opportunity to put more emphasis on our positive contribution to human rights throughout our supply chain. Defining the right indicators will be challenging but we're confident that the involvement of the Danish Institute for Human Rights and the Fair Labor Association will help. We'll report on the results and lessons learned of the implementation of the Framework pilot phase in 2013.

What we plan to do

Our plan for 2013 is to further roll out our Human Rights Due Diligence Programme through the Company, with a particular focus on high-risk country operations.

As part of this approach, we plan to:

- Update the human rights gap analysis that the Danish Institute performed in 2009 in order to measure the progress we've made at the policy and procedures level. Priorities in this area will be on security and human rights; community engagement; and investment agreements, including mergers and acquisitions
- Continue our engagement on human rights with key stakeholders, in view of further improving our analysis of material issues in the area of human rights
- Continue the roll-out of our online Human Rights Training Tool to our employees worldwide and provide tailored face-to-face training on human rights to 3 or 4 departments at the global headquarters
- Further improve our Corporate Human Rights Risk Assessment process and better incorporate relevant materials, news and issues as part of the yearly review process
- Carry out three to four additional Human Rights Impact Assessments in high-risk country operations and release a public document summarizing the results and lessons learned of all HRIs carried out so far
- Further strengthen the Nestlé Human Rights Working Group in order to reinforce its coordination and monitoring roles as part of the implementation of the overall Human Rights Due Diligence Programme
- Renew our two-year partnership with the Danish Institute for Human Rights and expand our work on hazelnuts and cocoa with the Fair Labor Association
- Further integrate human rights elements in our monitoring systems, in particular during the revision process of the Nestlé Supplier Code and the development of the Responsible Sourcing Guidelines

In addition, we will:

- Start the pilot phase for the implementation of the Rural Development Framework and report on results, including on the human rights indicators used as part of this process
- Open our existing Integrity Reporting System to grievances from external stakeholders

Please [see the section on Our Commitments](#) for more information.

Child labour

What we stand for

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 our Corporate Business Principles. For more detail, please see our [Nestlé Commitment on Child Labour](#) and also [Background Guidance](#) on the issue of child labour.

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.

Delivering our commitments

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

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

Key aspects of our strategy to combat child labour include:

- **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 country-level.
- **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.

What we're doing

We are committed to proactive, collaborative action through interventions targeting higher risk commodities and countries (high-risk commodities and countries are listed in a Guidance document, and reviewed regularly).

Our priorities commodities for tackling child labour are cocoa, hazelnuts and vanilla.

In 2012, we launched Action Plans with the Fair Labour Association (FLA) to work towards eliminating child labour from our cocoa supply chain in Côte d'Ivoire and our hazelnut supply chain in Turkey. We also launched an Action Plan to eliminate child labour from our natural vanilla supply chain in Madagascar. Our ambition is to source 100% certified natural vanilla by 2014 for all our businesses worldwide.

Please [see Our Commitments](#) for more information.

Responsible advertising and marketing

Why it's important

We share concerns about rising obesity throughout the world. As a Nutrition, Health and Wellness Company, we have a responsibility to promote our products in ways that encourage balanced consumption, especially in children.

What we stand for

Consumer communication is one of our [Corporate Business Principles](#) which form the foundation of all we do. The Principles state: "We are committed to responsible, reliable consumer communication that empowers consumers to exercise their right to informed choice and promotes healthier diets."

Our responsible marketing journey

Our very first Corporate Business Principles, issued in 1999 and reviewed periodically ever since, included a set of principles specifically on appropriate communication with consumers. Three years later we released a comprehensive and detailed set of [Consumer Communication Principles](#). These principles, which still apply to all kinds of consumer communication by our marketing staff and advertising agencies globally, stipulate that our advertisements must:

- Be truthful and credible
- Encourage moderation
- Not generate unrealistic expectations of popularity or success
- Not undermine parental authority.

As awareness of the effects of advertising to children grew, in 2008 we introduced our Policy on Marketing Communication to Children which was updated in September 2011. The updated policy states that we do not directly advertise or market our products towards children under six years of age. Advertising to children aged six to 12 is restricted to products with a nutritional profile that helps them achieve a healthy, balanced diet, including limits for ingredients such as sugar, salt and fat.

Delivering our commitments

We've already mentioned our Consumer Communication Principles and Policy on Marketing Communication to Children, and have an implementation process in place to ensure global compliance with them. This process comprises:

- Implementation guidelines that explain the restrictions on advertising products that do not fulfil Nestlé's Nutritional Foundation (NF) criteria; how to brief our advertising and media agencies; and conditions to meet if we sponsor an event.
- A marketing monitoring system, which reports annually on all TV, print, digital and school event marketing. This goes to our internal audit group, which flags any non-compliance situations directly to the Executive Board.

Our voluntary commitments

Our policies are guided by the global, regional and national commitments and pledges, listed below, that aim to establish industry consensus on minimum standards for marketing to children.

International Food & Beverage Alliance (IFBA) commitment

We're a founding member of the International Food and Beverage Alliance (IFBA). In 2008, IFBA members voluntarily committed to monitor and report publicly and annually on compliance with the IFBA Global Policy on Advertising and Marketing Communications to Children which is in line with the aims of the 2010 World Health Organisation (WHO) set of Recommendations on the Marketing of Foods and Non-alcoholic Beverages to Children..

For 2012, in its fourth year of compliance monitoring and reporting, IFBA members have demonstrated a high rate of compliance consistent with previous years' results. It found 100% compliance in print and online advertising, and 98.9% compliance in television advertising.

The Report was based on a review of close to 450 000 television ads on 200+ channels reviewed over a three-month period across seven countries – China (Shanghai region), Colombia, Malaysia, Russia, Saudi Arabia, Singapore and South Africa. 57 print publications and 87 websites were reviewed across five countries – Brazil, China (Shanghai region), Russia, Singapore and South Africa.

EU Pledge commitment

The EU Pledge is a voluntary initiative by leading food and beverage companies – including Nestlé – to change the way they advertise to children. We developed it in response to EU calls for the food industry to use commercial communications to help parents make the right dietary and lifestyle choices for their children. Our 2008 Policy on Marketing to Children was a direct result of our commitment to the Pledge.

Initially, EU Pledge member companies committed to not advertise products to children under 12 years of age unless the product fulfilled specific nutrition criteria. 'Advertising to children under 12 years' was defined as advertising to media audiences with a minimum of 50% of children under 12 years. We and the other EU Pledge member companies have now enhanced this commitment by lowering the audience threshold to 35% of children under 12 years.

As of 1 January 2012, EU Pledge companies have extended the 'under-12' commitment to cover both third-party online advertising and brand websites.

Our overall EU Pledge compliance rate in 2012 was 98.5% for TV, 100% for print and online. We maintain tight control of our media planning and buying to retain close to 100% compliance across all media.

Results from the 2012 third-party monitoring report show a 73% decline in advertising of products that do not meet Nestlé's EU Pledge companies' nutritional criteria in programmes targeted at children (2011: 79%).

Local pledges

To date, we have signed voluntary pledges on the marketing of foods to children covering almost 50 countries globally. These pledges represent a positive step towards helping children adopt sound dietary habits and a healthy lifestyle. The latest example was the launch of the Malaysian Pledge in December 2012 under the auspices of the Ministry of Health. The Food Group of the Federation of Malaysian Manufacturers (FMM) has pledged to work with advertising associations to limit advertisements of products which do not meet the criteria of nutritional value to children aged 12 and below.

What we're doing

Supporting EU Pledge nutritional criteria

In November 2012, EU Pledge signatories agreed that from December 2014, they will extend compliance to also include 'common nutritional criteria'. The EU Pledge nutrition criteria are designed to foster innovation, reformulation and competition for a shift towards advertising of better-for-you products. We already have our own nutritional foundation criteria ([see family nutrition](#)), but we welcome the common criteria as an important step towards better transparency and consistency.

Encouraging wider adoption of national pledges

In addition to our global and regional commitments, we're also encouraging our competitors at country-level to adopt more stringent standards by joining national pledges. In Belgium for example, we're working with the Belgian Advertisers Association, the Belgian Food Association and other large companies to create the Belgian Pledge. We've also lobbied for retailers and local food and beverage players to be included in the Pledge.

The Belgian Pledge requires companies not to communicate to children under 12 about food and drinks that don't adhere to specific nutritional criteria. It covers TV, print, radio and internet advertising.

How we've performed

Monitoring compliance with the IFBA Pledge

We are increasing our focus on IFBA compliance reporting to provide a global perspective on our efforts to limit marketing communications to children. Our overall IFBA Pledge compliance rate in 2012 was 98.7% for TV, 100% for print and online. The fourth year of monitoring demonstrates a continued high rate of compliance consistent with previous years' results.

IFBA Pledge compliance by medium

Medium	IFBA Pledge overall compliance rate (all signatories)	Nestlé compliance rate
Tv	98,9%	98,7%
Print	100%	100%
Online	100%	100%

Responsible infant food marketing

Why it's important

Breastfeeding is the best start a baby can have in life. We support the World Health Organisation's (WHO) 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 health care professionals. For infants who are not breastfed, infant formula is a vital product. However, its availability in the market place must not undermine breastfeeding.

You can also get answers to your specific questions in our [Frequently Asked Questions](#).

What we stand for

Infant formula is the only product recognised to be a suitable breast-milk substitute (BMS) by the World Health Organization (WHO). We manufacture high-quality infant formula for babies that are not breastfed, and it is our commitment to make these products available in a responsible manner to those who need them.

We have learned a great deal from our past experience of marketing breast-milk substitutes in low and middle-income countries, and we recognise our responsibility to go beyond what were common marketing standards at the time.

Commitment to the WHO Code

Public health concerns over the marketing and use of breast-milk substitutes, in particular in developing countries led to the adoption of the World Health Organization's International Code for the Marketing of Breast-milk Substitutes (WHO Code) by the World Health Assembly in 1981. We were the first company to implement policies based on the WHO Code in its operations in developing countries from 1982. [Our Policy and Instructions](#) for Implementation of the WHO International Code of Marketing of Breast-Milk Substitutes have been revised several times, most recently in 2010.

The aims of the WHO Code are to contribute to the safe and adequate provision of nutrition for infants, particularly by protecting and promoting breastfeeding, and to ensure the proper use of BMS when necessary on the basis of adequate information and through appropriate marketing and distribution. We're strongly committed to marketing our infant food products in accordance with the WHO Code as implemented by national governments everywhere in the world.

'Higher risk' countries are those with higher levels of mortality and rates of acute malnutrition of children under five as defined by UNICEF. Where these 152 higher risk countries have implemented national measures giving effect to the WHO Code, we follow their measures, the Nestlé Policy and Instructions or the WHO Code, whichever is the stricter rule.

Delivering our commitments

We have implemented extensive management systems across all our operations – to support compliance with the WHO Code. These systems outline our policies and procedures and give detailed operational guidelines to all our employees involved in the sale and marketing of breast-milk substitutes with the objective of ensuring compliance with our policies and local regulations at all levels.

Governance and oversight

The CEO of Nestlé Nutrition, Luis Cantarell, who is a member of our Executive Board, has been delegated by our CEO to be responsible for implementing and monitoring the Nestlé Policy and Instructions for Implementation of the WHO International Code of Marketing of Breast-milk Substitutes.

An internal Code Compliance Committee, composed of senior management, including three members of the Executive Board, is responsible for overseeing and advising management on the Company's compliance with the WHO Code and internal policies related to it.

Monitoring, audit and reporting

Internal audit: A rigorous internal audit system ensures that we comply with the Nestlé Policy and Instructions, and with national legislation, across our operations. Some 10 countries were audited by corporate internal auditors in 2012.

External audit: Every year, third-party auditors appointed by FTSE verify our compliance with the FTSE4Good breast-milk substitutes marketing criteria (see also FTSE4Good BMS criteria) in two higher-risk countries.

External audits are also performed by Bureau Veritas, one of the world's leading verification and auditing firms, in a minimum of three countries each year. Bureau Veritas conducted independent Code compliance audits in Argentina, Ukraine and Armenia, and Vietnam.

The latest Bureau Veritas Assurance Statements can be found here:

2012	Ukraine, Armenia	Vietnam	Argentina
2011	Cameroon	Jamaica	Laos
2010	India	Philippines	Ghana
2009	Brazil	Ecuador	Salvador

Reporting on WHO Code compliance

We are strongly committed to transparency and report regularly and publicly on matters related to WHO Code compliance. Annual Code compliance reports and external audit summaries are available here:

2011 [2011 External Report on Nestlé's WHO Code compliance](#)

2010 [2010 External Report on Nestlé's WHO Code compliance](#)

2009 [2009 External report on Nestlé's WHO Code compliance](#)

We take any corrective action required as soon as possible, and integrate what we learn as a result into our management systems.

Our main challenge in monitoring is controlling how third parties, such as retailers and distributors, market our infant formula products. For instance, we are aware that some retailers hold in-store promotions that are in breach of the WHO Code. We try to minimise breaches by third parties by including clauses on WHO Code compliance in contracts with our direct customers and providing training to retailers on standards. We are still working to address this challenge.

Whistle-blowing and reporting procedures

Our internal WHO Code Ombudsman System has been in place since 2002. This allows employees to report concerns about our infant food marketing practices in a confidential manner, outside their line management. The Executive Vice President for Human Resources acts as Group Ombudsman. Any employee can report allegations or concerns about Code compliance directly to him.

To complement this, we are in the process of completing the roll out of the Nestlé Integrity Reporting System to all employees. This is an externally run channel for raising concerns anonymously about any of our policies and procedures. Our goal is to have global coverage with either the Integrity Reporting system or an existing system that is equivalent, by mid-2013.

For stakeholder reporting channels, please see 'Addressing stakeholder concerns' below.

We investigate all concerns and allegations about non-compliance with our policies or local regulations.

Transparency and disclosure: FTSE4Good BMS criteria

FTSE4Good is the responsible investment index of the FTSE Group, a world-leader in the provision of global index and analytical solutions owned by the London Stock Exchange. FTSE4Good includes companies that demonstrate good implementation of environmental and social standards. In addition, it is the only global responsible investment index having laid out clear criteria on the marketing of breast-milk substitutes (BMS criteria). Companies operating in the BMS sector are required to adhere to FTSE4Good's BMS marketing standards.

These standards build on the WHO International Code of Marketing of Breast-milk Substitutes and subsequent World Health Assembly (WHA) resolutions ('The Code'). They were drafted by FTSE and updated based on the outcomes of a consultation exercise with companies, investors and NGOs, including both UNICEF UK and Save the Children.

We are the first, and so far the only, infant formula manufacturer to be included in the FTSE4Good index. The BMS criteria sets out that, once included, companies are required to undergo an external verification process.

This process is helping us identify areas for improvement and, thereby, participates in our efforts to continually improve our responsible marketing of breast-milk substitutes. See 'what we're doing' for a list of actions arising from the FTSE4Good verification process.

We welcome FTSE's initiative in developing the FTSE4Good BMS criteria and view this as an opportunity to strengthen implementation of the WHO Code with robust governance structures.

Employee training

We train all staff involved in the marketing of breast-milk substitutes in high-risk countries on the WHO Code. These employees are regularly tested on their knowledge of the WHO Code and the Nestlé Policy and Instructions. Deliberate or serious violations of our policies may lead to disciplinary action, including termination of employment. In 2012, 100% of infant formula marketing staff in high-risk countries were trained in the WHO Code.

We do not set sales targets or provide incentives or bonuses based on the sales volumes of BMS.

Marketing and sales staff are not compensated on achieving BMS sales targets. Knowledge and actions relating to the WHO Code is included in their bonus calculation.

Encouraging breastfeeding

There is indisputable evidence that breastfeeding gives babies the ideal nutrition and best start in life. The nutrition a baby gets in the first 1000 days sets the foundation for better health in later life. We partner with relevant stakeholders through our 'Start Healthy, Stay Healthy' global initiative, which encourages breastfeeding.

Stakeholder engagement

We believe that effective cooperation between all key stakeholders, including governments, industry and not-for-profit organisations, is necessary to help improve maternal, infant and young child nutrition.

Working with NGOs

In 2012, we held two stakeholder convenings with a number of NGOs which addressed, among other topics, infant formula marketing. It is our policy to respond to anyone who raises a concern on the subject.

Unfortunately, issues around interpretation and implementation of the WHO Code have resulted in a lack of collaboration and progress in this area. We therefore welcome a meaningful, fact-based and constructive dialogue on WHO Code interpretation and implementation.

Collaborating with other infant food manufacturers

We are a founding member of the International Special Dietary Foods Industries (ISDI), which was formed to encourage responsible marketing standards for the infant food industry and to facilitate industry dialogue with the World Health Organization (WHO) and governments.

At the European level, we are a member of the European Dairy Association (EDA) and of the Association of the Food Industries for Particular Nutritional Uses (IDACE). We also take part in national associations in countries where they exist.

Working with governments and international organisations

We work through trade associations with national and international health organisations to help develop balanced and science-based public health policies.

We support the development and implementation of strong national legislation by governments giving effect to the principles and aim of the WHO Code, which is monitored through impartial procedures. This will help remove any ambiguity concerning interpretation and implementation and contribute to create a level competitive playing field for business.

Through our interactions with national and international health organisations, we aim to:

- Encourage the continued use of valid science in research and development related to infant and young child nutrition.
- Support efforts by governments and communities to increase public awareness of sound infant feeding practices.
- Promote balanced legislation and science-based regulation at national, regional or international level.

In all these interactions we follow the [Nestlé Policy on Transparent Interactions](#).

We are committed to making our positions on maternal, infant and young child nutrition publicly available:

- [Position statement on WHO MIYCN implementation plan - 2012](#)
- [Position statement on promoting health through the life course 2013](#)
- [Position statement on WHO reform: Governance reforms engagement with NGOs 2013](#)

Addressing stakeholder concerns

We encourage stakeholders and the general public to tell us of any concerns or allegations around BMS marketing through our external grievance mechanism. Below are our responses to concerns raised directly with us:

We also publicly respond to the International Baby Food Action Network (IBFAN)'s report 'Breaking the Rules', which compiles concerns about infant food marketing practices by all major infant food manufacturers, including Nestlé. We investigate all allegations made in the report and publically communicate the result of our investigations. We take corrective action whenever it is warranted.

Nestlé responds to Baby Milk Action concerning Wyeth's marketing practices	25/06/2012
Nestlé's response to the court case on labelling in India	24/04/2012
Nestlé publishes results of external audit in Laos	29/11/2011
Nestlé responds to allegations of non-compliance with the WHO Code in Armenia	29/11/2011
Nestlé investigates allegations by NGOs in Laos	07/07/2011
Nestlé investigates allegations of non-compliance with WHO Code	10/11/2009
Campaign for ethical marketing	23/09/2009

- [Nestlé Response to IBFAN Report 2010](#)
- [Nestlé Response to IBFAN Report 2007](#)
- [Nestlé Response to IBFAN Report 2004](#)

What we're doing

In 2012, our WHO Code compliance work focused on improving the following areas arising from the FTSE4Good verification process:

Influencing our retailers' and distributors' own compliance with the WHO Code through:

- Inclusion of WHO Code compliance clauses in all formal agreements and contracts.
- Wider distribution of instructions of what is and is not allowed at the point-of-sale.
- Training on WHO Code compliance to third parties' staff.

Reinforcing guidelines related to the management of display cabinets in pharmacies, to ensure that such cabinets are not perceived as promotional.

Improving rules around the sponsorship of healthcare professionals in scientific domains related to infant and young child nutrition: new guidelines covering sponsorship of research and education; sponsorship of health workers; funding

of academic activities; and consulting arrangements.

Developing a dedicated corporate grievance mechanism open to relevant third parties and external stakeholders to report concerns regarding any of our policies or business principles, including marketing of breast-milk substitutes.

What we plan to do

We will continue to comply with the Nestlé Policy and Instructions and to improve our management systems and procedures based on experience and feedback from stakeholders.

We completed the acquisition of Wyeth Nutrition on 30 November 2012, following the successful conclusion of the regulatory process in most countries. We are now working with Wyeth Nutrition to align our stringent WHO Code policies and management systems

→ How we've performed	
<p>Nestlé contraventions of infant formula marketing policy requiring remediation</p> <p>2012: 22 2011: 19 2010: 7</p> <p>Based on internal and external audits and input from stakeholders. From July 2010 more countries were included in the higher-risk category where the Nestlé policy and instruction on implementing the WHO Code applies as a minimum requirement.</p>	<p>Infant formula marketing staff in higher-risk countries trained in the WHO Code (% of staff)</p> <p>2012: 100 2011: 100 2010: 100</p>

Case study:

Implementing the WHO Code on the marketing of breast-milk substitutes

Background

Following a decade of public health controversy over the marketing and use of breast-milk substitutes, in particular in developing countries, the World Health Organization's International Code for the Marketing of Breast-milk Substitutes was adopted by the World Health Assembly in 1981.

The concern was that promoting these products to the public could lead to their unsafe use in regions with lack of clean water, poor sanitary conditions, and low literacy rates.

The aim of the WHO Code

The WHO Code aims to ensure the safe and adequate provision of nutrition for infants – both by protecting and promoting breastfeeding, and by ensuring the proper use of breast-milk substitutes when these are necessary. To achieve the second aim, the Code has provisions about appropriate marketing of breast-milk substitutes; dissemination of information and education on infant feeding; and the labelling and quality of breast-milk substitutes. It also provides a framework for cooperation between key stakeholders, including governments, industry and non-governmental organisations.

Nestlé and the WHO Code

We have made significant progress in applying the WHO Code and have been independently recognised as having the most robust policies and systems for its implementation:

- We were the first company to develop policies based on the WHO Code, and apply them across our entire operations in high risk countries.
- We've implemented a detailed global management system, comprising procedure manuals; an internal ombudsman system; internal and external audits; staff training; and reporting on breast-milk substitute marketing and compliance.

We apply the WHO Code as implemented by national governments everywhere in the world. In 152 countries with high levels of mortality and high rates of acute malnutrition in children under 5 ('higher risk' countries), we apply the WHO Code and the Nestlé Policy and Instructions on Implementing the WHO Code as a minimum requirement. The Nestlé Instructions give implementation guidelines on Company policy in accordance with the WHO Code to management and personnel at all levels who are involved with the marketing of all products marketed as breast-milk substitutes in all the countries we operate in.

Where higher-risk countries have implemented a local code or other national measures giving effect to the WHO Code, we follow the national code/measures in addition to the WHO Code and the Nestlé Instructions.

[Read a summary of what our policy means in practice in higher risk countries.](#)

Current and future challenges

We believe the WHO Code is an important public health instrument for protecting breastfeeding and have publicly stated our support for it. However, more than three decades after the adoption of the WHO Code, there are continuing disagreements about the interpretation, implementation, monitoring and compliance with the Code, particularly around geography and product scope.

To find a resolution to these differences in interpretation and application of the WHO Code, we call for a meaningful, fact-based and constructive dialogue with all key stakeholders, including international agencies. We seek, with others, to move into genuine cooperation to contribute to the health and nutrition of mothers, infants and young children.

Anti-corruption

Why it's important

Corruption in the public and private sector is a wide-spread risk in a number of countries where we operate. This poses a significant risk to us, since it can undermine one of our most important assets – stakeholder trust. To operate successfully and efficiently in such environments requires that Nestlé employees have a clear understanding of our commitments, what they mean in practice and how to avoid falling short of them.

What we stand for

Nestlé condemns any form of bribery and corruption (Sections 10 and 11 of our Code of Business Conduct) and shares the view of the United Nations which flag corruption as a major hindrance to sustainable development (Principle 10 of the UN Global Compact). Based on the above, the Company has made the following commitments:

We will not use bribes. Nestlé prohibits all forms of bribery of “Public Officers” or “Business Partners”.

We will not accept bribes. Nestlé is against using bribes in order to obtain or retain a business advantage and does not allow its employees or other representatives to base commercial decisions on anything but rational, objective and transparent criteria. Accordingly, accepting bribes can never be deemed tolerable, regardless of the circumstances.

We are against facilitation payments. Nestlé does not allow facilitation payments. Such payments are only acceptable if they are necessary to prevent the risk of an imminent physical harm of a Nestlé employee.

We will not use others to do what we consider wrong. Under no circumstances must intermediaries be used for the purpose of circumventing any of these rules. Moreover, we strictly forbid third parties acting on Nestlé’s behalf to pay bribes or facilitate payments. The decision to hire an intermediary needs to follow an appropriate due diligence and selection process. If it becomes clear or appears likely during the course of the relationship that the intermediary is reverting to practices that are not acceptable under these rules, the cooperation must be ended as soon as possible. Whenever appropriate, anti-bribery provisions must be included in the contracts engaging an intermediary.

Delivering our commitments

Governance and oversight

The Nestlé Code of Business Conduct, one of our key policies, including its commitment against any form of corruption or bribery, has been issued jointly by the Executive Board and the Board of Directors. The Code has been deployed throughout the entire organization worldwide and its implementation is accompanied by a robust and comprehensive training regime led jointly by Human Resources, Legal and Group Compliance departments.

Accountability for compliance with the Code of Business Conduct and for adhering to the zero tolerance policy in the area of corruption lies with the Market Head, i.e. the overall responsible CEO in a given territory. The Market Head is supported by dedicated functions such as Legal, Human Resources, Audit and Compliance, which assist in training and advising employees as well as in monitoring employee behaviour and consequence management. Local functions report into the respective corporate functions in order to ensure overall consistency and alignment.

The corporate compliance framework is defined by Group Compliance ([see also Managing human rights and compliance](#)), our dedicated compliance function that reports into the Group's Compliance Committee and the Executive Board.

The Compliance Committee meets bi-monthly. It is our main platform to monitor the Company's overall compliance performance, to review new projects and to update on any developments in the compliance arena, including our anti-corruption approach. Its make-up is truly cross-functional with all relevant functions represented at senior level. The minutes of the meetings are shared with the CEO.

The Executive Board reviews and validates both our Corporate Compliance Programme once per year – on the basis of an annual and comprehensive Compliance Report – and reviews and approves all major Compliance projects on an ongoing basis, again, with the inclusion of our anti-corruption program. With this, it is guaranteed that the Executive Board is fully informed and kept up to date on the overall framework and direction of the Compliance Programme as well as on individual projects and initiatives. The Compliance Report mentioned above is also shared with the Audit Committee as well as with the entire Board of Directors.

Monitoring anti-corruption

Anti-corruption monitoring is a component of our business auditing, both internally and externally through our CARE programme. We use audit findings to identify areas for improvement or functions that require additional training.

Activities that infringe on our Code of Business Conduct, including cases of bribery or corruption, are investigated on a case-by-case basis and may result in disciplinary sanctions or criminal charges. We encourage and expect our employees to report any misconduct either openly or confidentially. Our Integrity Reporting System, which we began rolling out in 2011, provides an additional option for anonymous, 24/7 confidential reporting of non-compliance.

Nestlé does not operate in environments where there is risk of high-level bribing. However, we do operate in environments where small bribes and/or facilitation payments are common practice. Thus, our focus is on enforcing our zero-tolerance policy, which includes banning all facilitation payments, regardless of whether they may be permitted under local laws.

What we're doing

Corruption incidents

While to the best of our knowledge, no public allegations of corruption were made against Nestlé in 2012, as a matter of principle all allegations against Nestlé for non-compliance, whether made internally or externally, are taken seriously and investigated thoroughly. Nestlé employees are encouraged to raise concerns with line management, specialized functions or directly with senior management; if deemed appropriate they can file complaints anonymously through Nestlé's Integrity Reporting System, which is run by a third party and accessible 24/7 via web or phone service.

Our commitment to fighting corruption goes beyond what is under our direct control and seeks to include the entire supply chain. In 2012 and we identified a situation of systematic corruption between one of our suppliers and the local customs authorities. True to our 'zero tolerance policy' we closed down all operations in this country for an extended period of time. It was only after assuming full control over the entire supply chain by establishing a new company that sells and markets our products did we resume business.

Anti-corruption training

Our stance against corruption is unilateral and consistent across our entire Group. We developed an online anti-corruption assessment training programme in 2010 to help employees avoid inappropriate behaviour. The tool incorporates short animations and a 'best practice' document, and is available in all the countries we operate in. The tool now has a tracking capability which will allow us to make the training mandatory and monitor actual participation. We continue to provide extensive training on our Corporate Business Principles and on the Code of Business Conduct. The Code of Business Conduct e-Learning tool includes a specific section on anti-corruption.

Based on information provided by Legal/Compliance in our three Zones, we estimate the percentage of employees trained in our anti-corruption policies at 20%. We are in the process of improving the level of visibility and are confident that the figure we will be providing for next year's report will be more. At the same time, we will also work towards raising the aforementioned percentage.



How we've performed

Number of public allegations of corruption 2012: 0	Percentage and total number of business units analysed for risks related to corruption 2012: 80% 2011: 80%
Percentage of employees trained in organisation's anti-corruption policies and procedures 2012: 20%	We periodically review information on corruption indexes and feel that the initial assessment still holds true, and that our risk exposure has not significantly changed, neither regarding the type of risk nor geographically.

What we plan to do

We will increase the visibility of our training efforts and achievements at corporate level. We will also review and renew the anti-corruption and bribery risk assessment.

We periodically review information on corruption indices as part of a high level risk assessment and plan to do a formal risk assessment review for 2013. We do not foresee a deep dive assessment per country but rather a validation/correction of the existing high level risk review. Our business has not changed which means that generally we face the same types of risk, e.g. facilitation payments, pressure from government officials etc. Similarly, the country by country index of Transparency International, for instance, has seen only gradual developments/changes over the past two years. Nonetheless, the review and potentially re-calibration of our risk assessment is planned.

We also plan to introduce corruption audits in high-risk countries with implementation of this programme commencing in 2013.

Product safety and quality

Why it's important

Consumer trust is fundamental to our success. And that trust begins with the safety and quality of the food we produce.

What we stand for

Quality assurance and product safety is one of our Corporate Business Principles which form the foundation of all we do. The Principles state:

“Everywhere in the world, Nestlé represents a promise to the consumer that the product is safe and of high standard.”

We are committed to delighting our consumers with food and beverage products that are consistently safe, compliant and of the highest quality. We maintain the same high standards in all countries in which we operate.

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.

Delivering our commitments

Nestlé Quality Management System

To gain consumer trust we need to manage all aspects that influence the quality of our products. Our Quality Management System ensures that we can deliver on our commitment to quality and food safety. Our 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 suppliers for all our raw materials and packaging materials. Equally we keep records of which product we have sold to which customer.

Compliance with our 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 22 000, FSSC 22 000.

93% of our sites are certified by the Nestlé Quality Management System (NQMS) which corresponds to 657 sites. The compliance rate for these 657 certified sites for NQMS is 100%.

Governance and oversight

The quality assurance and food safety system is an integral part of our Corporate Business Principles, which are endorsed by our Chairman and CEO.

The quality organisation in our countries of operation and globally managed businesses report through the Technical or Operations Manager to the Market Head and business CEO. Functionally the quality organisation reports to our Head of Quality management who reports to the Chief Operations Officer.

Employee engagement

We strongly believe that quality starts with the behaviour of each of our employees and we enable operators to exchange feedback about behaviours that are critical to quality.

We've implemented a system for the global sharing of learning from quality incidents to prevent these from recurring. This support in developing positive behaviours is re-enforced on the shop floor to prevent quality and safety issues.

Consumer engagement

Our worldwide consumer services organisation ensures that we can immediately respond to any consumer or trade complaints and can take any corrective action without delay. Almost all our branded products carry an invitation to the consumer to 'talk to Nestlé'. Addresses or phone numbers are printed on every label.

What we're doing

Food safety

We are committed to the mitigation or elimination of potentially harmful chemical and microbiological compounds and have surveillance plans in place to monitor risks in the materials we use to manufacture our products.

Our common goal is to ensure that the food safety system across the food chain is robust, and equipped with the necessary resources. Food business operators are today more than ever aware of their primary obligation, which is to ensure that the products they place in the marketplace are safe for consumption.

The following are two examples of harmful chemical and microbiological compounds that we are working to eliminate:

Acrylamide

In the last decade, there has been a significant effort to understand and control the naturally occurring compound acrylamide – a carcinogenic substance found in a wide range of cooked foods, prepared industrially, in catering, or at home. We have voluntarily committed to lowering the presence of acrylamide in our products, are working with industry partners and FoodDrinkEurope, following the ALARA principle (as-low-as-reasonably-achievable), and are continuously reducing the level of acrylamide in food.

In certain categories, technologies have been modified and tools such as Asparaginase implemented resulting in almost complete acrylamide reduction.

Pesticides and natural toxins

To ensure the safety and quality of our finished products, we source all our raw materials from specifically selected suppliers and farmers. For example, we have developed a specific ‘baby food’ contract farming system in different parts of Europe to meet our strict internal controls, as well as legislative requirements relating to physical, chemical and microbiological hazards, which is being rolled out world-wide.

Examples of agronomical good practices and contract farming initiatives in Portugal, Spain, France, Belgium, Poland, Germany, Italy, Austria and Finland include:

- reduced pesticide inputs through the use of ‘mating disruption technique’ for the control of insect pests in orchards in Italy, Germany, France, and Poland. This approach greatly reduces the need for using pesticides with reduced environmental impact and residues as a result;
- practices to reduce natural toxins in cereals including crop rotation, selection of sowing techniques, varieties, plant protection inputs and storage;
- practices to reduce heavy metal contamination in crops such as wheat, carrot and rice; and
- practices to reduce nitrate content in raw materials by selection of soils and reduced nitrogen fertilizer use.

Through these measures and others, Nestlé is able to establish a more secure supply of safe raw materials to our factories.

Product recalls

From the more than one billion products we sell per day, we recalled 11 products in 2012 due to concerns over quality and safety.



How we've performed

Total number of product recalls

2012: **11**
2011: 10
2010: 8

Compliance rates with Nestlé Quality Management System (number of sites)

2012: **100% (657 sites)**

93% of our sites are certified for NQMS, which corresponds to 657 sites.

What we plan to do

- The year 2013 will represent a continuing evolution of all the programs and measures that we have been implementing under the NCE framework to accelerate our journey to zero defect, zero waste and 100% consumer delight.
- Internally we have developed a quality “pyramid” on behaviours, which is launched in all factories and will be further integrated into all our improvements projects.

Consumer privacy

Why it's important

In a digitally-connected world, consumer privacy is becoming an important issue for many stakeholders. We regard privacy as a human right, and are morally and ethically obliged to protect consumers' personal data.

What we stand for

We respect the privacy of our consumers, employees and other stakeholders and are committed to protecting their personal data. This includes the right of individuals to be informed of and make decisions regarding the processing of their personal data.

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.
- Not be transferred to third parties or other countries without adequate safeguards.
- The processing of sensitive personal data is subject to further restrictions.

Delivering our commitments

Nestlé's Group Data Protection Office verifies compliance with our Privacy Policy, and provides advice, assistance and guidance to other departments on its implementation.

What we're doing

We closely monitor changes in the regulatory environment (such as the new EU Cookie Laws, and proposed new European data protection framework), and design solutions that are both scalable and meet our consumer expectations.

Working with our key technology partners, we're trying to develop common views on how personal data can or cannot be used in marketing activities. The bias is towards a conservative approach – in other words, we put our consumers' presumed interest in privacy first when in doubt.

We have completed a first round of 'privacy compliance assessments' on many of our web digital properties. We did not identify critical issues, but made adjustments to our web privacy notices as well as to the third-party trackers included on some websites.

We have prepared new digital development processes and internal standards that put more emphasis on the need to take privacy requirements into account at the early stages of the projects.

What we plan to do

We'll continue to pursue our cross-functional approach in 2013, with the aim of making privacy part of everyone's mindset, rather than the responsibility of a specific individual or group. Group Compliance will continue to set the Privacy Policy, advise on its correct interpretation and maintain its leading role in making Nestlé a company that respects privacy.

Global principles

Why it's important

We operate in many jurisdictions where regulatory requirements are below the standards we deem acceptable. Adhering to voluntary norms, principles and commitments enables us to apply consistent global standards in line with international best practice.

What we stand for

We apply our strong values and principles everywhere we operate. Our overriding aim is to ensure that our investments are beneficial, both for our shareholders and people in the countries where we do business.

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 UNGCs Working Groups and initiatives, including LEAD, the platform for companies with a history of engagement with the UN Global Compact.

UNGC CEO Water Mandate

Nestlé is a founding signatory of this initiative, which is designed to help companies develop, implement and disclose their water sustainability policies and practices.

UN Millennium Development Goals (MDGs)

We regard the MDGs as highly important objectives. We contribute to partnerships that harness local knowledge and capabilities for positive, sustainable change.

In 2005, we produced a first report on what we are doing to help reach the MDGs. In 2010, two-thirds of the way to the UN's 2015 deadline, we 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).

See below recent examples of Nestlé's actions:

	Millennium Development Goal	Our actions
MDG 1	Eradicate extreme poverty and hunger	The Nescafé Plan
MDG 2	Achieve universal primary education	Building/refurbishing schools, Côte d'Ivoire - Partnership with World Cocoa Foundation
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

International Human Rights Standards

We are committed to respecting human rights, as set out in the International Bill of Rights, made of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, as well as in the ILO Core Conventions.

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 on labour and in particular the ILO Eight Core Conventions on Fundamental Rights. 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.

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 high-level meeting on non-communicable disease prevention and control

We 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.



Our People

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Highlights and challenges

Actions we've taken

- We've developed action plans to make sure all our employees understand and work in accordance with our Corporate Business Principles
- We've completed our 2012 Nestlé and I survey, with results due to be published in early 2013
- We've introduced a zero injuries and illnesses target for employees
- The Executive Board has approved a 2012-2015 Roadmap toward Excellence, setting out our long-term strategic priorities for health and safety

Challenges we've faced

- Reducing risks of serious injury and fatalities is a key priority for us. The need for stringent controls and vigilance was reinforced by the fact that five people lost their lives while working for us in 2012. [Read more here](#)
- We need to do more to help employees' partners find work following relocation. [Read more here](#)
- In a dynamic and diverse organisation such as ours, it is a challenge to ensure that our people are bonded by the same values and corporate culture. [Read more here](#)

Our performance

- Employee turnover this year was 10.3%
- Our workforce now comprises 33% women and 67% men
- We've achieved a 5% improvement in our Total Recordable Injury & Illness Frequency rate but our Lost Time Injury and Illness Frequency Rate was up 6% compared with last year
- On average, every Nestlé employee completed 10 hours of training this year

External recognition

- In 2012, we have, for the seventh year, been ranked Number 1 in the consumer food products industry in Fortune magazine's annual survey of "The world's Most Admired Companies". Nestlé received the top score in every category rated: people management, innovation, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of products/services and global competitiveness.

Inside the issue: Our people

Every day, our people bring Nestlé into the lives of our consumers, clients, customers and stakeholders.

The 339 397 people who currently work for Nestlé worldwide help us to gain and build competitive advantage – through their energy, imagination and local insights.

With the ongoing global economic crisis, it is more important than ever that we continue to develop our workforce to be responsive to a rapidly changing world. Engaging employees effectively is vital in order to build loyalty and sustain high performance at a time when so many people are concerned about social and economic challenges.

Our investment in people benefits employees and their families through competitive reward and benefits packages. Through training and development we help employees to maximise their earning and consequently their purchasing power. We also engage them in Nutrition, Health and Wellness initiatives in the workplace.

Managing our people

What we stand for

Nestlé's business practices are founded on the principles of integrity, honesty and fair dealing, as well as legal compliance. These are enshrined in our Corporate Business Principles – and each of us is responsible for demonstrating them in our daily working lives.

The mission of Human Resources is to provide professional guidance to line managers and employees aiming to deliver superior business results by optimising the performance of our people, while ensuring a responsible culture of respect and responsibility, including exemplary working conditions.

Nestlé Corporate Business Principles

The Corporate Business Principles are well established as the basis of our corporate culture. The current version, adopted in 2010, includes 10 overarching business principles – accompanied by a set of detailed policies, standards and guidelines for achieving them.

Three of the Principles have a direct bearing on our people: namely human rights in our business activities (see Human rights and compliance); leadership and personal responsibility (see Employee and Career Development); and health and safety at work (see Safety and Health). They are supported by the following policies and management systems:

- 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
- Employee Relations Policy
- Supplier Code
- Policy on Human Resources

Our Chairman and CEO expect each individual to live up to these standards. For this reason, our Business Principles are included in all business planning, auditing and performance reviews across the company.

Delivering our commitments

Governance and Oversight

Human Resources has a streamlined approach to ensuring functional leadership and the highest level of focus, clarity, and efficiency. Our structure is based on three dedicated areas that provide specialised services (Centres of Expertise), deploy HR strategies within a specific business (Business Partners) and perform transactional activities (Employee Services).



Chefs in the new R&D Centre at Manesar, India.
The centre focuses on nutritious, affordable products for lower income consumers.

Recruiting the right people

At Nestlé we look for the right fit with our Company in terms of culture, values and skills. Due to our strong “pipeline” of successors for more senior positions, external recruitment focuses on entry and young professional levels.

Our recruitment teams are decentralised in order to respond speedily, given their knowledge of local needs and good understanding of the local business environment and labour market. To ensure consistency, our corporate function provides good practices, tools and standards to all recruitment teams at the country-level.

We recruit people based on our Nestlé Leadership Framework, which lays out the behaviours and soft skills for positions at all levels. Our hiring teams use a common interviewing method to identify the right skills in line with this model and cultural attributes.

Employee and career development

Since 2010, we have delivered a major communication and internal engagement programme to raise awareness of our Corporate Business Principles. Introductory communication and training toolkits have now been used in every country. In 2011, the focus was on building understanding of the Principles. An intranet site, ‘We make Nestlé’, is a central resource to help employees learn more about the Principles, apply them to their activities, share good practices and verify performance.

In 2012, action plans ensured all employees fully understood the content, application and monitoring of the Principles. As part of our Nestlé & I survey, we also evaluated whether teams have discussed and applied the Principles in their day-to-day work.

Safety and health

Why it's important

Our company is founded on caring: for our consumers, for the communities in which we operate and most fundamentally for our colleagues.

What we stand for

Safety and health at work is one of Nestlé's Corporate Business Principles which form the foundation of all we do. The Principles state:

"We are committed to preventing accidents, injuries and illness related to work, and to protect employees, contractors and others involved along the value chain."

Safety and health is thus a fundamental value of our company. Whatever we do at work, nothing is worth the risk of injury. This is why we say that 'one accident is one too many'.

Our safety and health goal is zero injuries and illnesses, a holistic aim that includes all forms of harm to the individual. It's grounded in Nestlé Continuous Excellence – our drive to achieve the very highest operational standards wherever we work in the world.

Delivering our commitments

Nestlé Occupational Safety and Health Management System

We continuously improve our safety and health policies, standards, procedures and processes through the Nestlé Occupational Safety & Health Management System (NSMS). This is based on the internationally recognised OHSAS 18001, but we have also added requirements specific to our business activities.

By the end of 2012, the following sites were certified to OHSAS 18001:

- 418 out of 468 factories (2011: 410 out of 461). Factories that are not yet certified are new acquisitions, which are working towards certification.
- 130 distribution facilities (2011: 93)
- 24 R&D centers

We have started to extend the certification programme to our offices and sales units.

Governance and oversight

All Executive Board meetings now start with a safety and health review. We are steadily extending this approach into management meetings at every level in the company, right down to local work groups. The reviews consider performance, incidents and lessons learned, and progress against key objectives.

In 2011 we created two new corporate fora to provide additional oversight:

The Safety and Health Functional Leadership Team to a group of senior safety and health professionals from across the world who meet regularly to identify priorities and share challenges, learnings and good practices.

The Safety and Health Council – senior managers from different areas of the business who oversee the development and implementation of programmes and provide support and resources. The council meets quarterly and accordingly, held four meetings in 2012.

Monitoring and audit

It is a core requirement of the NSMS that local sites undertake regular self-audits of compliance with legal requirements, Nestlé corporate requirements as well as local policies and procedures. Our Nestlé Group Audit function also carries out compliance audits around the world and oversees risk management processes.

Safety and health is a key element of this process, and we use commonly-occurring audit findings to help prioritise improvement projects. In 2012, the most common findings related to:

- Forklift truck management
- Storage and racking
- Classification and reporting of injuries and illnesses

For these common findings, Group requirements have been reviewed and updated and additional training provided.

Facilities that are not yet certified to OHSAS 18001 are included in CARE, our external audit programme. CARE helps us ensure we comply with local legislation and the Nestlé Corporate Business Principles, including those relating to safety and health.

What we're doing

In the immediate future, we'll continue to focus primarily on workplace risks, and on the safety and health of our employees and on-site contractors. In tune with our philosophy of caring, we intend to broaden our approach to include wellness and off-the-job safety, and the safety and health of others throughout our value chain.

Safety and Health Roadmap towards Excellence

Our 'Roadmap towards Excellence' was endorsed by the Executive Board in January 2012. The Roadmap sets out five long-term strategic priorities:

- **Personal ownership and engagement** – winning hearts and minds; and embedding the safety & health agenda into parts of Nestlé other than operations – for example in sales, marketing, finance and procurement – through training and other development activities.
- **Managing key risks** – implementing global best practices to manage the risks of serious or fatal injury, for example in vehicles and driving, material handling equipment, machinery, process safety and construction.
- **Health management** – strengthening our occupational health programmes, with a focus on ergonomics, finding the causes of work-related illness and enhancing team and personal resilience ([see Workplace wellness](#) for more details).

- **Management processes** – going beyond OHSAS 18001 certification by strengthening internal audit, communication and training programmes; and developing more consistent approaches for key processes, such as ‘permit-to-work’.
- **Functional capability and leadership** – making the safety and health function an ‘admired function’ by promoting professional qualifications, ongoing personal development and training, and more effective cross-functional working.

How we are meeting the aims of our new Roadmap

Personal ownership and engagement

In 2012, we worked with the training provider TACK International to develop a new workshop for Nestlé managers, called ‘Leaders Taking Ownership of Safety and Health’. It’s offered in different languages to Nestlé managers around the world. The first attendees outside Switzerland, the management team in Egypt gave very positive feedback. In 2013, we’ll use this training to supplement existing safety leadership workshops in different parts of the world.

Managing key risks

In 2011, we developed a new corporate standard for the management of onsite material handling equipment, including forklift trucks. This standard, which we arrived at after extensive benchmarking with other companies, includes a new process for assessing the risks of collisions with pedestrians. In 2012, we implemented this process in over 500 factories and distribution centres, generating over 11 000 improvement actions.

Management processes

In 2012, we created standard audit tools for the 15 ‘foundational’ safety and health topics that we apply in our factories and R&D centers. We explained the use and benefits of these new tools in 13 two-day workshops for safety and engineering staff from every region we operate in. From 2013, every factory and R&D center in Nestlé will be assessed annually using these new tools.

Health management – ergonomics

In 2012, we launched a new corporate programme called ErgoPro. It improves our ability to assess and manage ergonomic risks within our factories, with an emphasis on manual handling in manufacturing, and on repetitive tasks in filling and packaging. Building on an existing partnership between our UK & Ireland business and the UK’s Health & Safety Laboratory (HSL), we organised a training session in Buxton, UK. This was attended by 14 participants from different countries, who are now cascading and implementing what they’ve learnt in their own regions. Two more training sessions have been planned for 2013.

Functional capability and leadership

In 2012, a global workshop was organised for our regional Safety, Health, and Environmental Sustainability (SH&E) functional leaders.

Safety performance

Our safety performance has improved in recent years and we are currently among the top performers in the food and beverage industry. Nevertheless, our performance still lags behind that of some multinational companies. We regularly benchmark with organisations in different industries to gain insights into how we can improve further.

In 2012, we achieved a 5% improvement in Total Recordable Injury & Illness Frequency rate (TRIFr). However, our Lost Time Injury and Illness Frequency rate (LTIFr) deteriorated and was 6% higher than in 2011.

We believe that improved reporting is to a certain extent responsible for this levelling off, thanks to better recognition of occupational illnesses, greater awareness of reporting requirements and more accurate and consistent classification of incidents. But the fact remains that, to achieve our ultimate goal of zero injuries and illness, we must continue to drive real and sustained reductions in the years to come.

Fatalities

Reducing risks of serious injuries and fatalities remains a key priority. Our Safety and Health Roadmap commits us to improve our management of key risks, especially in driving, contractors and construction, machinery, forklifts, electricity and process safety. To do so, we are introducing new programmes based on extensive benchmarking and industry best practice.

The need for further improvements was reinforced by the fact that five people lost their lives while working for us in 2012. Of these five fatalities, one was a Nestlé employee and four were contractors. The employee was a member of the sales staff and they died in a road traffic accident. The four contractors were involved in different construction and maintenance activities: three of the contractor deaths resulted from falls from a height, while the fourth was from a collision with a mobile elevated work platform.

Statistically, this compares with 18 fatalities in 2011, 11 in 2010 and four in 2009. We deeply regret these fatalities and are striving to prevent similar incidents in the future – in particular through improvements to our Capital Project Management process and our Safe Driving programme.

Lost day rate

In 2012, our Lost Day Rate was estimated to be 66 lost days per million working hours (2011: 72). It's an estimate because some countries reported lost work days while others report lost calendar days. From 1 January 2013 we will harmonise our approach across the Group and report lost calendar days.

Sickness absence

In 2012, our overall sickness absence rate was estimated to be 2.5% (2011: 2.1%). This percentage continues to be an estimate because we still have some variations in measurement methods between different countries, and because we have not yet been able to collate this information within the USA.

How we've performed	
Fatalities of employees and on-site contractors 2012: 5 2011: 18 2010: 11	Total Recordable Injuries and Illnesses per million hours worked 2012: 3.6 2011: 3.8 2010: 4.2
Lost time injuries and illnesses per million hours worked (by geographic zone) 2012: 2.1 (Americas) 1.1 (Asia, Africa and Oceania) 3 (Europe) Includes three geographic zones globally managed businesses and major joint ventures such as Cereal Partners Worldwide (CPW) as well as as R&D.	Total recordable injuries and Illnesses per million hours worked (by geographical zone) 2012: 4.8 (Americas) 2.2 (Asia, Africa and Oceania) 4 (Europe) Includes three geographic zones, globally managed businesses and major joint ventures, such as Cereal Partners Worldwide (CPW), as well as R&D. 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.
Sickness absence 2012: 2.5%	Lost Time Injury Frequency Rate per million hours worked 2012: 1.9 2011: 1.8 2010: 1.8

Workplace wellness

Why it's important

It's our duty as a responsible employer to encourage healthy behaviour through targeted wellness activities and to create a favourable environment maintaining or improving one's health condition.

What we stand for

Nestlé follows the principle of 'healthy minds in healthy bodies'. Wellness is embedded in Nestlé's strategy to be the world's leading Nutrition, Health and Wellness Company. It is also exemplified in our global commitment to 'Good Food, Good Life'. We want our employees to understand this commitment, by experiencing it on a daily basis.

What we're doing

Wellness as part of our Safety and Health Roadmap

To date, Nestlé's workplace wellness activities have been largely driven by individual needs at the country level and have focused on issues such as employee assistance programmes, counselling, fitness centre provision, smoking cessation, stress management, health screenings and other services.

This section of the report will provide a snapshot of our activities across different countries prior to the implementation of the Safety and Health Roadmap. We will report in more detail on the Roadmap in subsequent Nestlé in Society reports.

Enhancing work-life environment

Nestlé's ability to provide working conditions that match the expectations of our workforce is key to our continued success. The work-life environment is an important aspect of workplace wellness. Our recently launched Policy on Conditions of Work and Employment outlines our commitments in terms of 'Work-life environment', which includes providing work-life flexibility and lifestyle and wellness programmes.

Encouraging work-life flexibility

Nestlé recognises that employees need and expect to work flexibly, so that they can connect their busy work and home lives. It makes business sense for us to do this since we want to attract talented individuals who can manage their time efficiently and productively.

Following the launch of the 'Flexible Work Environment at Nestlé Guidelines', more than 20 countries including at the global headquarters launched their own flexibility guidelines, clearly outlining how the working culture is based on performance, not presence.

In early 2012, we launched a practical guide ('Flexible Working Arrangements') to help managers and employees in our head office explore flexible working

practices. The new guidance clarifies potential options for flexible work arrangements including changes to working times, changes to working location, and 'career pacing' opportunities such as sabbaticals or education leave.

In July 2012, we launched the Service Centre, a pilot project at headquarters in Switzerland to provide employees with services designed to ease their lives.

Lifestyle and wellness programmes

Work-related stress is becoming the leading cause of lost work days in many countries. Nestlé has been committed to understanding the causes and remedies for stress for a number of years. For example, between 2008 and 2011, Nestlé Switzerland was involved in a pilot stress management project called SWiNG which examined workplace stress through online assessment. We continue to use the online assessment (Stress-Tool) at our Nestlé Switzerland head office and some factories in the country.

Nestlé Japan started an initiative on stress and resilience that was well-received by employees.

Proactively, we're working on a range of health promotion initiatives across our country operations globally to address this important issue. For example, in 2012, Nestlé Brazil, Nestlé Mexico, and Nestlé USA supported Wellness Week, an initiative of the Pan-American Health Organization, Regional Office of the World Health Organization (PAHO/WHO). In the United States, we ran a series of programmes to achieve a healthy lifestyle through physical activity, preventative care and a balanced diet at 12 sites, reaching more than 2 100 employees.

Working-time and parental support

As stated in our Policy on Conditions of Work and Employment, we continue to focus on areas of work-life balance and flexible working conditions, including:

- **Encouraging fair working time:** Working hours represent an important element of work-life flexibility. In 2012, Nestlé introduced a commitment to limit working time to a maximum of 60 hours per week in all our operations (where no relevant local rules are in place, or where maximum working time limits are higher). To ensure this commitment is adhered to, from 2013, Nestlé's Human Resources function is being tasked with enabling managers to take responsibility for promoting and encouraging reasonable working times consistent with this Policy.

Case study:

HIV/AIDS workplace wellness programme in South Africa

Nestlé South Africa recognizes that HIV/AIDS is a chronic disease, which requires exceptional responses that are different from other chronic diseases. We also acknowledge that chronic diseases should be managed in the same manner as other illnesses in terms of employment policies and benefits, including disability benefits and leave of absence.

Nestlé South Africa runs a well-established HIV prevention, support and management programme for all employees and their spouses or life partners. The programme includes a variety of corporate interventions such as 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.

In the spirit of respect for the human rights and dignity of people living with chronic diseases, the programme aims to ensure that employees with chronic diseases, their partners and families do not suffer from any form of unfair discrimination and stigmatisation.

We work closely with our company medical insurance providers to ensure free access to testing and, where necessary, access to medication and anti-retrovirals for employees and their families. For employees (and their life partners) not covered by medical insurance, we offer a corporate HIV/AIDS programme managed by Aid for AIDS. This programme offers counselling, testing, ongoing medical support and anti-retrovirals at no cost to the employee.

Nestlé ensures that the confidentiality of any health information of individuals living with chronic diseases is maintained, in line with medical ethics and acceptable norms and standards.

- **Supporting new parents:** Nestlé's maternity and paternity leave is guided by legislation at country-level. Both Japan and Italy have introduced parental leave where fathers are allowed to take two weeks paid time off with their new family member. We offer support to new and existing parents in a number of ways. For example, young families can use crèches at approximately 10 head office locations. Two factories, Japan and Pakistan, also recently opened crèches. We also offer breast-feeding rooms at a number of our head offices and factories. New fathers are offered paternal leave to spend time with their families.

Return to work and retention rates after child-birth are useful indicators of work-life satisfaction and work-life flexibility. Looking at employees who took parental leave over a 12 month period , the return-to-work rate was 89% for women (2011: 70%) and 92% for men respectively (2011: 79%).

The Diversity section also details our Gender Balance initiative that, amongst other things, promotes work-life flexibility initiatives for both men and women.

Disease prevention programmes

We continue to develop disease prevention programmes at many of our sites and offices. Among other things, these programmes provide vaccinations, HIV/AIDS prevention information and care in some low-income countries; cardiovascular and diabetes testing; and distribution of impregnated mosquito bed nets to prevent the transmission of malaria. The programmes are delivered or managed locally by occupational health professionals, nutritionists and rehabilitation experts, with support from other voluntary 'site champions', Human Resources and other business functions.



How we've performed

Return to work and retention rates following parental leave (%)

2012: **Women = 89; Men = 92**

2011: Women = 70; Men = 79

We were able to automate this KPI in 2012 and increase our coverage to 29 markets.

What we plan to do

Our health management strategic priority which forms part of Nestlé's Safety and Health Roadmap will have four three-year focus areas, including two related to the workplace wellness agenda:

- **Resilience and stress:** through resilience programmes we aim to enhance our employees physical and mental health to enable them to lead more engaged, productive and satisfying lives
- **Wellness:** wellness is already a vitally important aspect of our overall Group business strategy, as this relates to the products and services that we develop and supply. We want to deliver this commitment to employees by developing a more consistent framework that uses tried and tested Interventions, and to measure health outcomes more effectively.

Our Human Resources function will take functional ownership for our strategies on wellness and on resilience and stress. In particular, they will be expected to partner with the Safety and Health manager to develop a health strategy in our countries of operation.

Labour relations

Why it's important

We operate in diverse social contexts where sustained and constructive dialogue with employees is important. Without this effort, labour disputes can cause business continuity issues, and affect a wide range of stakeholders beyond the working site.

What we stand for

We aim to foster a culture based on trust, mutual respect and dialogue, starting with managers and employees. This commitment has been clearly set in our Corporate Business Principles. Moreover, we have established a framework to ensure that everyone at Nestlé is aligned with this goal.

The Employee Relations Policy reinforces Nestlé's commitment to long-term business development through an open dialogue with its employees. We aim to foster this culture by:

- Respecting the right of our employees to join organisations of their choosing, and to engage in constructive negotiations.
- Offering competitive and fair wages and benefits that enable employees to meet their needs in accordance with local living standards.

The Nestlé Policy on Conditions of Work and Employment sets some aspirational goals and minimum requirements regarding work arrangements and working conditions, in line with the International Labour Organisation (ILO) core conventions, and the Organisation for Economic Cooperation and Development (OECD) Guidelines on Multinational Enterprises.

Our aim is continuous improvement in working conditions, focusing on:

- **Regular and temporary employment:** while we favour regular employee status for our employees, the exceptional use of temporary employees is guided by a number of considerations, such as compliance with local law and that they should not be subject to differences in employment conditions solely as a result of employment status.
- **Outsourcing to service providers:** according to our Corporate Business Principles and the Supplier Code, service providers and their employees should adhere to certain minimum standards for their employees.
- **Working time:** complying with legal requirements in respect of working hours in all the countries in which we operate but also asking managers to recognise as a reference point the working time limit of 60 hours per week (including overtime) where no lower legal working time limit is applicable.

Delivering our commitments

Implementing the Policy on Conditions of Work and Employment is a joint effort. It requires strategic leadership and guidance at corporate level, and local leadership and action at the country level.

In 2011 we rolled out a Working Conditions Action Plan questionnaire to assess alignment with our Policy on Conditions of Work and Employment and to encourage the development of corrective action plans where gaps were identified notably in relation to working time and types of employment, recognized as the highest priority areas of improvement. In response to the questionnaire, all countries where we have operations have since developed a roadmap to address these areas of opportunities.

Employee relations strategy

Our employee relations strategy is about encouraging open dialogue with employees and external stakeholders.

We support collective dialogue and negotiations with employee unions and other representative associations within the local legal framework. We also aim to foster open dialogue with external stakeholders such as trade unions and NGOs on labour matters.

What we're doing

Fostering relations with trade unions

We have developed local initiatives and training to foster relations between managers, employees and trade unions, in many countries. For example in Chile, we are strengthening relations with trade unions through scholarships and financial support to help union leaders study trade union diplomacy at university. We have also invited some trade union leaders to participate in local NCE (Nestlé Continuous Excellence) initiatives and Labour Committees.

Another good example of fostering relations with trade unions is our confectionery factory in York, where through management, worker and trade union collaboration we've set out to improve our safety and health performance.

Collective bargaining and freedom of association

In 2012, more than 50% of our employees worldwide were covered by collective bargaining agreements, demonstrating our strong commitment to industrial dialogue. Where local legislation does not allow minority groups to negotiate collective agreements, we maintain regular dialogue with unions on issues of common interest.

Being conscious that we operate in different social contexts, in 2012 , we identified markets where freedom of association and collective bargaining may be at risk in our factories: Brazil, Central and West Africa, Ecuador, Greater China, North East Africa, Colombia, Russia, and

Case study:

Resolving a labour dispute in Pakistan

At Nestlé Pakistan, due to the seasonality of the milk processing business it became necessary to re-evaluate the number of permanent and temporary workers needed at the Kabirwala factory.

In March 2011, 247 contractors took legal action in an attempt to force the Company to provide them with permanent employment.

Nestlé Pakistan established a dialogue with the local union throughout the dispute in order to find a workable solution.

On 30 May 2012, it was agreed on a roadmap to guide the restructuring of its workforce at the Kabirwala factory. 277 contractors at the Kabirwala factory meeting the skills requirements approved by Nestlé Pakistan and the union have become permanent employees since 1 August 2012. An additional 900 employees will be hired across its operations by the end September 2014 as a result of business growth in the country. The agreement between Nestlé Pakistan and IUF Pakistan brings to an end the dispute.

Case study:

Improving negotiation skills in Indonesia

We often provide training to staff involved in labour negotiations. For example, Nestlé Indonesia appointed a training partner in 2012 to build awareness and enhance negotiation skills of 22 local labour union team representatives. The course aimed to enhance the skills of the team, emphasizing the principle of 'win-win negotiation'.

Eurasia, Pakistan, Indochina, the Caribbean, Ukraine, the Middle East, and Southern Africa. We identify high risk countries through external ratings, including the FTSE4Good Index which updates its list of high risk countries every year.

Our Employee Relations Policy and the Policy on Conditions of Work and Employment aim to address risks related to freedom of association and collective bargaining.

Minimum notice period

Prior to significant operational changes that could substantially affect our employees, we provide them with an average notice period of approximately 50 days, although the period varies from country to country. This minimum notice period is specified in collective agreements of 27 countries.

Workplace relations challenges

We enjoy good relations with the vast majority of our unions, but even with our strong commitment and the dedication of our local managers, we still face occasional incidents. In 2012, 34 industrial actions took place globally (2011: 39) which were all resolved through dialogue and engagement at local level.

The percentage of working time lost due to industrial disputes, strikes and/or lock-outs was 0.07% (2011: 0.02%) on average.

Discrimination

There were 85 claims of discrimination in our operations during 2012. Of these 35 have been reviewed and a remediation plan is underway in seven cases (in four of these seven cases results are being reviewed through internal management processes). In 43 cases the incident is no longer subject to action (ie the situation has been resolved).

Resolved labour disputes

In our 2011 CSV report, we reported on two disputes that we are pleased to announce were resolved in 2012.

A long running dispute between Nestlé Indonesia and the local trade union, SB-NIP which is affiliated to the International Union of Food Workers (IUF) was settled on 29 May 2012.

On 30 May 2012, Nestlé Pakistan and our local union supported by IUF agreed on a roadmap to guide the restructuring of its workforce at the Kabirwala factory. See the case study for further details on this dispute and how it was resolved.

Legal action by a Colombian trade union

On 6 March 2012, it was announced that a Colombian trade union represented

by the European Center for Constitutional and Human Rights was taking legal action against Nestlé linking us with the murder of a former employee. Nestlé's position on this matter is addressed in [a letter from our Chairman Peter Brabeck-Letmathe](#) in which we categorically reject these accusations.

How we've performed	
Number of industrial actions 2012: 34 2011: 39	Working time lost due to industrial disputes, strikes and/or lock-outs (%) 2012: 0.07% 2011: 0.02
Percentage of employees covered by collective bargaining agreements 2012: 51% 2011: >50	Total Number of Incidents of Discrimination 2012: 85

What we plan to do

We will continue to foster productive relationships between managers, employees and trade unions, resolving labour disputes where they arise. In particular, we want to ensure that our local operations apply corporate standards relating to labour relations.

Employee engagement

Why it's important

Engaged employees make the greatest contribution to our efficiency, culture and results. Ultimately, they deliver value to our consumers, customers and all stakeholders.

What we're doing

We invite every employee to take part in improving the way we do business – through their personal reporting line, local initiatives and taking part in our global, 'Nestlé and I' employee survey. This survey gives us insights into the key enablers and barriers to employee engagement; and informs the measures we take to raise our performance.

Nestlé and I survey

188 055 staff responded to the Nestlé and I survey (77% of the total workforce). As well as being proud to work for the Company, the survey revealed that our employees believe that we:

- Have strong company values.
- Demonstrate a clear focus on ethics and safety.

Employees also said they wanted to see improvement in:

- Recognising high performance and managing low performance.
- Communication, feedback and coaching from line managers.
- Demonstrating transparency in relation to career development.
- Ensuring higher levels of empowerment and accountability.

Following our last complete Nestlé and I survey at the corporate level, we have focused on the following areas:

- Reward and recognition (this section).
- Flexible working conditions ([see Workplace wellness](#)).
- The role of the line manager, coaching and feedback ([see Employee and Career development](#)).

These results feed into action plans, which are being implemented at both corporate and country level. Every line manager can see consolidated, anonymous results for their teams so they can work together to continue enhancing areas of strength and build and follow up on action plans for areas needing attention. The countries we operate in have been developing their own local action plans based on the feedback of the 2011 Nestlé and I country-level surveys.

We are currently gathering responses to the 2012 Nestlé and I survey. The consolidated results will be available in early 2013, and we will report on them in our 2013 Nestlé in Society report.

Reward and recognition

Total Rewards Policy

In response to the Nestlé and I survey results, we have improved communication of reward and recognition issues. We launched our Total Rewards Policy in 2012 which aims to give both the business and our people a clear understanding of Total Rewards and the principles behind them. These guiding principles are to:

- Provide a globally consistent framework with the flexibility for each country of operation to create competitive programmes that complies with local legislation.
- Focus on attracting and retaining talented employees, building a high-performance culture and ensuring a highly engaged workforce that achieves sustainable business results.

The elements valued by employees within each country of operation that allow us to attract, retain and engage employees, include the following:

- Fixed pay
- Variable pay
- Benefits
- Personal growth and development ([see also Employee and Career Development](#))
- Work-life environment ([see also Workplace wellness](#)).

For details on reward, please visit the [Your Career](#) section of the corporate website.

Recognising our employees

Nestlé believes that recognition is closely linked to managerial dialogue, behaviour and leadership and that it is translated by genuine acknowledgement of individuals, their contribution and achievements. We believe that this should be a consistent part of our everyday interaction with one another.

Some of our countries of operation have issued more structured and visible recognition programmes, following the release of Corporate Recognition Guidelines in November 2011.

Nestlé Brazil, for example, has introduced an online recognition portal, outlining everything that Nestlé Brazil offers as part of its contract of employment. They have also introduced recognition cards so employees can acknowledge the work of a colleague – either as an e-card or paper card for those who do not work with a computer. To support these recognition initiatives they have carried out extensive training to highlight to line managers the importance of recognition and its impact in changing mindset and culture.

Nestlé USA introduced a Rewards and Recognition programme for all employees called Real Recognition. Real Recognition is an online programme enabling all salaried employees to quickly and easily recognise co-workers. The award criteria are clearly explained on the Real Recognition web site, and align with

the Nestlé USA Blueprint for Success, the Nestlé Leadership Framework and our commitment to 'Good Food, Good Life'. With Real Recognition, there is now a shared recognition programme across Nestlé USA and Nestlé Professional in which all employees can easily participate using their mobile smart phones or work computers.



How we've performed

Total rate of new employee hires (%)	Total rate of employee turnover (%)
2012: 11.8	2012: 10.3
2011: 12.01	2011: 10.8

What we plan to do

We have recently finalized the roll out of our 2012 Nestlé & I survey. The consolidated results will be available by the end of March 2013, and we will report on them in our 2013 Nestlé in Society report.

Meanwhile, as discussed above, our countries of operation will continue to implement action plans based on the results from the 2011 Nestlé and I survey, while also implementing the Total Rewards Policy.

Employee and career development

Why it's important

Our goal of positive growth and sustained performance cannot be achieved without talented and skilled people. This is why we implement a best-practice approach to training, learning and development.

What we stand for

We are committed to continuous learning and development for our people. We encourage people to test their skills and develop new ones; both by giving them responsibility as early as is reasonable, and by offering opportunities to work with people from many different countries and cultures.

What we're doing

Career development

While our training and learning approach reflects our decentralised nature in that employees are given the knowledge and tools they need to respond to local needs, we also recognise the need for a Company-wide strategy of career development.

The Job Success Profile is a key document that supports career development at Nestlé. This identifies what does and doesn't constitute as success in a given role and enables employees to have a clear picture of what they need to do to deliver to the requirements of their role as well as identify any learning gaps and plan appropriate development.

Job success profiles – published at corporate and local levels – are integral to our personal development processes, which are monitored by Human Resources business partners, training and learning consultants and auditors.

Relevant job success profiles are published on the intranet – which also give detailed information about possible career paths. For operators on the factory floor, we use a tailored skills matrix to track development and learning needs.

International career development

Among the things that make a career with us so appealing are the opportunities for international career development. 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 employees to transfer their expertise across Nestlé, through short-term missions, project assignments or expatriation.

We aim for equal movement between emerging and developed countries. In 2012, we gave additional focus to the movement of talent across diverse geographies, particularly from emerging to developed countries. Our key priority remains that we always have the right talent at the right place at the right time.

In 2012, 30% of all expatriates at Nestlé's Swiss headquarters and central functions were from emerging markets (2011: 40%), and 53% of expatriates from our

Swiss headquarters were based in developing countries (2011: 64%).

Responding to the rise of 'dual career relationships'

We have a number of initiatives in place to support dual careers at Nestlé. Find out more about our work with the International Dual Career Network (IDCN) in the Diversity section.

Employees can also give their careers an international dimension at our International Training and Conference Centre in Rive-Reine, Switzerland, where Nestlé people exchange ideas in seminars and training courses designed to foster leadership in the Company. This year 2 148 employees from around the world attended courses at Rive-Reine (2011: 2 103), of which 939 (44%) were women (2011: 42%).

Developing talent

We believe in leadership at all levels, on an individual and team basis. We have wide-ranging measures in place to meet this challenging aspiration.

Leadership framework

We have strengthened our leadership framework in response to the feedback from the Nestlé and I survey by identifying competencies at three levels, allowing for greater focus and results in our developmental initiatives. We believe this will make a big difference to the way we develop the right leadership capabilities to drive our business.

Recognising that diversity is also a source of competitive advantage, this year we've made talent diversity part of our Human Resource priorities, which are aligned to our business needs and future challenges. Find out more about our work to promote gender balance in the Diversity section.

Developing local talent and local hiring

We believe in recruiting and developing local talent – especially in developing countries – while also promoting international career possibilities for our employees. The proportion of Local Management Committee members in developing countries native to that country was 49.5% (2011: 53%). The proportion of Local Management Committee members in developed countries who were native to that country was 59% (2011: 58%).

Improving line manager capability

Line managers have long been recognised as vital to our continued success. Indeed, following feedback from the 2011 'Nestlé and I' employee survey, line manager capability has been identified as one of our key priorities in 2013.

Corporate actions taken in 2012 to address this issue include the launch of a revised leadership framework; enhancing our Progress and Development Guide

and continuing to build a strong network of coaches through training programmes such as 'Everyday Coaching'. We also ran 26 half-day sessions dedicated to feedback practice. Ten additional sessions have been planned for 2013.

We have also been active at the country level. Nestlé UK, for example, has established a 'Manager's Toolkit' available on the intranet, comprising 21 e-learning modules to support line managers through the career path of an employee.

Employee mentoring

Our Human Resources policy states that each manager has a duty to act as a mentor to his or her employees. We use employee mentoring as a powerful tool across the business, providing access to valuable personal experience, insights and guidance from more senior Nestlé staff.

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 professional development. The programme, now in its third year, includes 500 executives – some of whom have been mentees themselves.

Our focus now is to connect the corporate mentoring programme with our many local business programmes at the country level, to ensure development continuity throughout the employee life cycle.

Best-practice training

We want all our work places to offer best practice training methodologies, tools, support mechanisms and structures.

We support our core curriculum of more than 50 courses with videos and e-courses – essential training tools for a workforce of our size. Among the hundreds of general e-courses we offer globally, 351 have been specially developed for Nestlé.

Training is delivered by Nestlé, or by local/global external partners as appropriate. In 2012, we signed a contract with Cornerstone OnDemand to supply our first ever Global Learning Management System. This strategic partnership aims to maximize our employees' development journey.

The system, to be rolled out from January 2013, will benefit Nestlé by creating a central space for employees to arrange and undertake training, and by making monitoring and management information more readily available.

Case study:

Factory of the future at Tanauan, Philippines

Nestlé Philippines opened its new Tanauan Factory in Batangas, Philippines, in October 2012. The factory, which produces Coffee-mate non-dairy creamer, is among the most advanced that Nestlé has ever built, with a modern design that optimises environmental performance.

With a projected workforce of 214 people by 2013, and a major role in the local economy, Tanauan has given us an opportunity to implement best-in-class recruitment and training practices from the start. Our 'people plan' for the factory encompasses three key areas:

Recruitment and screening

As well as using a talent-mapping process to assess technical and behavioural competencies, we wanted to hire people with the right 'fit' with our culture and values. We therefore trained line managers in competency-based interviewing. We also ran a 'same-day' recruitment process.

Induction and training

While induction focused on the competencies and working practices underpinning factory processes, we also used the VOYAGE programme (Values Orientation for Employees Towards Growth & Excellence) to introduce new employees to Nestlé's missions, vision and values – with detailed reference to safety, health and environment and quality.

Culture-building

Our overriding aim at Tanauan is to create a highly engaging working environment. To achieve this, we are implementing a range of culture-based initiatives – such as:

- A collaborative exercise to define the factory vision and mission.
- A slogan, 'Dapat Right' (must be right), that reflects active understanding of, rather than blind compliance with, rules and standards .
- A less hierarchical environment, including an 'open-door policy', gender distinction for locker rooms only, the same uniforms at all levels, and no reserved parking for executives.
- Open communication, supported by activities such as team huddles, employee surveys, and appropriate reward and recognition.

Our human resources team is responsible for the 'Leadership Development' and 'Education and Training' components of the Nestlé Continuous Excellence initiative. Work on pilot programmes for these components began in 2012 and they will be deployed in 2013.

In 2012, each employee received an average of 10 hours' training (2011: 2.02 hours). This figure covers approximately 80% of employees in the countries we operate in.

Best-practice knowledge sharing

Knowledge sharing is another way we disseminate best practice training. The corporate and country level teams of each function are responsible for ensuring an adequate knowledge transfer process, through their communities of experts. This enables our operating companies to utilise our knowledge and operate according to global best practices and policies.

Promoting lifelong learning

Nestlé is committed to supporting lifelong learning, as stated in *Nestlé on the Move* and other corporate documentation.

Succession planning

We continue to use succession planning to maintain a healthy supply of the talented people we need. Robust, high-quality succession planning helps us to develop people into new roles, which in the long term, allows us to provide people with growth opportunities. Succession planning also strongly complements our efforts relating to gender balance and diversity ([see Diversity](#)).

In 2012, 75% of key Nestlé positions were filled through succession planning (2011: 79%). Promotions through succession planning are exclusively based on competence, insight, performance and potential. About 6 000 people have now been identified as potential successors for key Nestlé positions at deeper levels within the organisation.



How we've performed

Average hours of training per year per employee

2012: **10**

2011: 2.02

2010: 0.58

The 2012 figure is significantly higher than the 2011 reported figure because:

1. Greater coverage (62 % in 2011 and 80% on 2012)
2. E-Learning hours were tracked and included for the first time.

Local Management Committee members native to country in developing countries (%)

2012: **49.5**

2011: 53

2010: 48

Covers all Nestlé employees including joint ventures.

Key positions filled through succession planning (%)

Key positions

2012: **75** (2012 scope of measurement has changed to include all key positions in the Group. 2011 & 2010 are now stated in line with this updated scope).

2011: 73

2010: 63

Continued increase of the results, our target is 80%.

Percentage of expatriates at Nestlé's headquarters and central functions from emerging markets

2012: **29.2%**

2011: 40%

Covers all Nestlé employees including joint ventures.

What we plan to do

- We will continuously focus on business priorities as a key driver for people development at Nestlé.
- Coaching will also play a much larger role in our provision of training, as we realise how effective it can be in accelerating development. Consequently, we'll be launching a Nestlé-accredited 'Train the Trainer' programme as well as coaching courses.
- We will also continue to implement high quality succession planning.

Diversity

Why it's important

We are already a highly diverse organisation in terms of our geographical spread and employee profile. Diversity and gender balance must stay at the top of our agenda – enabling us to draw from an ever broader, larger talent pool; make better-informed decisions; and deliver more robust consumer insights.

What we stand for

Our Corporate Business Principles state: "We treat each other with respect and dignity and expect everyone to promote a sense of personal responsibility. We recruit competent and motivated people who respect our values, provide equal opportunities for their development and advancement, protect their privacy and do not tolerate any form of harassment or discrimination."

Our Human Resources Policy is a key component of our 'leadership and personal responsibility' Corporate Business Principle. The policy sets out the attitudes we expect from our people, such as mutual respect, trust and transparency, and open communication and cooperation.

We respect international conventions concerning employees' rights and do not tolerate discrimination for any reason, including origin, nationality, religion, race, gender, age or sexual orientation.

We want to develop an environment, culture and leadership that provides equal opportunities for all, especially at management levels.

What we're doing

Diversifying talent at Nestlé will focus on attracting, engaging and developing people to ensure the right mix of talent to meet current and future business needs.

Gender Balance initiative

We formalised our approach to gender issues through the Gender Balance initiative launched in 2008.

Gender Balance: Our achievements so far and ambitions for the future.

Ultimately we want gender balance to become a cultural and business asset, rather than a short-term necessity driven by talent shortage, demographic change and regulation.

Currently, our gender balance strategy focuses on:

- Improving the diversity of the group talent pool as we grow in specific countries, and to meet our global talent needs.
- Developing people with both local knowledge of identified growth markets and global Nestlé business experience along with our principles and values.

Improving gender balance in management teams

We aim to remove all gender-related barriers to men and women. In particular, we have made important progress towards improving the representation of women on our management teams, moving from 15% in 2008 to 21% in 2012 (2011: 20%). While this is encouraging, we will continue to carry out communication and succession planning and remove all gender-related barriers to women achieving management positions.

Promoting dual careers

One challenge faced by Nestlé and other multi-nationals is that increasingly, our employees are in 'dual-career relationships'; a partner's career may lessen their own desire for mobility. In response, we have led the International Dual Career Network (IDCN) initiative. This consists of around 20 international partner organisations facing similar issues of career and work continuity for their employees' partners. Now a year old, the IDCN provides a network to help partners get back into work – as well as providing a great pool of professional talent to recruit from.

Inclusive employment

An inclusive workplace is one where everyone, regardless of their perspective, skills or abilities is able to contribute and progress.

Case study:

Inclusion employment in Mexico

One example of inclusive employment relates to the employment of people with disabilities through programmes that offer long-term benefits. In Mexico for example, Nestlé has been recognised by Fundación ParaLife for its 'Awareness and Occupational Inclusion Programme', designed to foster greater diversity and team spirit in the workplace.

The programme, implemented between 2010 and 2011, saw Nestlé work with Fundación ParaLife to become the largest single employer of people with disabilities in Mexico over a one-year period. Today, one-fifth of the employees at our call centre have some form of disability. The majority have been hired through the programme.

How we've performed																																													
Total workforce broken down by region	Total number of managers broken down by gender and age group																																												
Total workforce <table> <tr> <td>Europe</td><td>97 064 (29%)</td> <td>Total managers</td><td>Male (%)</td><td>Female (%)</td></tr> <tr> <td>Americas</td><td>112 751 (33%)</td><td><30</td><td>3 782</td><td>60 40</td></tr> <tr> <td>Asia, Oceania and Africa</td><td>129 584 (38%)</td><td>30 to 50</td><td>29 510</td><td>69 31</td></tr> <tr> <td>Total</td><td>339 397</td><td>>50</td><td>7 951</td><td>81 19</td></tr> </table>	Europe	97 064 (29%)	Total managers	Male (%)	Female (%)	Americas	112 751 (33%)	<30	3 782	60 40	Asia, Oceania and Africa	129 584 (38%)	30 to 50	29 510	69 31	Total	339 397	>50	7 951	81 19																									
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We have 179 119 male employees (2011: 173 813) and 82 674 female employees (2011: 85 193). Of the entire workforce, 33% of employees are female and 67% male. We have 1 505 part-time male employees (2011: 1 365 male) and 5 962 female part-time employees (2011: 5 666). 68% of temporary workers are female and 32% are male.																																													
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How we've performed

Weighted comparative salary ratio average by gender

	Male (%)	Female (%)
2012	95	91
2011	99	94

Reporting on this KPI in 2011 was done mainly on our senior Managers (2 820 employees in scope). For the 2012 Reporting exercise, we have included our Professional staff in addition to the senior Management Staff (a total population scope of 45 042).

2012 results further demonstrates our commitment to our Total Rewards Policy and our basic principles of fairness and non-discrimination.

Leadership positions held by women (%)

2012: **29.2**
2011: 28
2010: 27.3

Covers Nestlé employees registered on the Human Resources system (approximately 80 per cent of all employees)

The number of disabled employees reported in 2012 is 2 404 (2011: 3 874). Due to privacy regulations and the sensitive nature of this KPI, this number only reflects those countries that were able to report it.

What we plan to do

Gender Balance will continue to be a high-priority corporate initiative, with a focus on:

- Education and awareness, training trainers on how to run gender balance awareness programmes within our countries of operation, focusing on line managers.
- Easing mobility of talent in dual career situations through rolling out the International Dual Career Network IDCN globally, launching 5-8 new networks in 2013.
- Continuing with the corporate mentoring scheme, matching identified high performing talent with senior leaders in the organisation, and rolling out a global mentoring culture within the Group, so that everyone who could benefit from a mentor can access one at different times in their career.

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Bureau Veritas' Independent 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 Nestlé in Society: Creating Shared Value and Meeting Our Commitments report ('the CSV report') published on the [Nestlé website](#). The overall aim of this process is to provide reassurance to Nestlé's stakeholders over the accuracy, reliability and objectivity of the reported information and that it 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 2012. Specifically, this included the provision of assurance over:

- Statements, information and performance data contained within the CSV report; and
- 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 engagement. Information and performance data subject to assurance is limited to the content of the CSV report and the provision of this information on Nestlé's website as at 5th April 2013. Content contained within the Nestlé in Society: Creating Shared Value and Meeting Our Commitments Summary Report was not assured.

Opinion and commentary

In our opinion, the content of the CSV report 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 report:

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/aa-1000as.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.

- adequately represents the material issues of the business;
- provides a reliable account of CSV related information and performance activities during 2012;
- meets the GRI 3.1 requirements for the A+ application level; and
- 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.

Positive Developments

We are pleased to observe progress in the following areas:

- The inclusion of the forward-looking commitments within the report provides a clear mechanism for external stakeholders to measure Nestlé's future CSV performance, and demonstrates Nestlé's on-going commitment to being held accountable for its actions.
- The materiality assessment process has been further refined and integrated within the business.
- There is an increasing emphasis on engagement and dialogue with external stakeholder groups through, for example, the CSV convenings, and the formalisation of a number of partnerships with civil society organisations (e.g. Fair Labor Association).
- The content and presentation of information contained within the report has been further developed to provide a more consistent approach to reporting on CSV issues, making it easier for external stakeholders to understand the issue, why its important to Nestlé, performance trends and future challenges.
- The implementation of new Global HS&E reporting system and improvements across many operational CSV aspects (including energy, water and waste reductions within Nestlé's operations) should be commended.

Key observations and recommendations for 2012

- Nestlé continues to produce a comprehensive report covering its material social, ethical and environmental issues (and their management) across a diverse product and organisational footprint. However, for some CSV issues (for example, local community investment, farmer support, supply chain human rights) the current information systems do not provide detailed quantitative and qualitative data across all markets and for all activities. Nestlé should ensure that comprehensive and robust data collection and internal checking processes are in place for all its material CSV issues / impacts, forward commitments and GRI disclosures.
- Investments, Joint Ventures (JV's) and commercial acquisitions continue to play an integral part in Nestlé's growth and long term strategy. Each of these agreements have unique CSV related issues and challenges - for example, the nutritional profile of a new product, operational control of the entity, integration process, etc. Nestlé should ensure that relevant CSV aspects associated with its major investments, JV's and acquisitions are identified, and that (where relevant) this information is disclosed externally in a timely manner.
- As Nestlé continues to further expand its portfolio of health and wellness products into areas such as chronic diseases - traditionally addressed by pharmaceutical products - it will become increasingly subject to 'pharma' related issues such as managing animal welfare, human clinical trials, sales and marketing.

Nestlé should consider providing more information on the internal processes for the management of these issues in future reporting.

- Nestlé should be commended on the progress it has made to formalise its approach to address key agricultural supply chain impacts (through, for example, the implementation of Rural Development Framework and Responsible Sourcing Guidelines for key commodities). Future CSV reports should include information on the progress and lessons learned from these programmes, as well as emerging issues at the farmer level such as climate change impacts, resource grabbing and micro finance.
- Water (as well as biodiversity and natural capital management) continues to be of paramount importance for Nestlé's continued success. Whilst Nestlé should be commended on the reductions in water use within its own operations, and the work undertaken to raise the issue of water scarcity at a global level, further understanding and information is needed on the impacts of Nestlé's activities at the local watershed level, and water use down its supply chain.

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 2012. The output from these activities continues to inform Nestlé's CSV strategy and reporting, and internal risk management process. The extension of the stakeholder engagement programme to include more input from the local communities in which Nestlé operates would further improve Nestlé's understanding of its local CSV issues and impacts.

Materiality⁴ – The identification of material issues and the capturing of material concerns of stakeholders for the purposes of CSV reporting is robust, and continues to be undertaken on an annual basis. For 2012, the materiality determination process has been further refined to include long-term social, environmental and political trends; and the outputs of this process were further disseminated across the business. Future updates to the materiality assessment process should occur earlier in the reporting cycle, and include the timely output from any formal stakeholder engagements.

Responsiveness⁵ - Nestlé continues to improve its responsiveness to reporting on material issues, as demonstrated via the expansion of the report content in 2012. Further, the report also includes more detail on issues of concern highlighted by certain external stakeholder groups – for example, child labour in the cocoa supply chain. Nestlé should consider reviewing the different mechanisms (i.e. web, CSV report, social media, etc.) by which it can communicate and respond to its external stakeholders' concerns.

Methodology

We undertook the following activities to inform our assurance engagement:

- interviewed 60 personnel at various levels throughout the organisation. The majority of interviews were conducted at Nestlé's head office in Vevey, Switzerland;

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.

- document reviews, data sampling and interrogation of supporting databases and associated reporting systems as they relate to selected content and performance data;
- 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;
- attended, as observers, the stakeholder convening held in London in October 2012. Prior to attendance we also met with the convening facilitators to review the methodology for the selection of participants;
- reviewed the materiality analysis undertaken by 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 CSR 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 Nestlé in Society: Creating Shared Value and Meeting Our Commitments report ('the CSV report') 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 contained 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 2013

GRI Statement



Statement GRI Application Level Check

GRI hereby states that Nestlé SA has presented its report "Nestlé in Society: Creating Shared Value Report" (2013) 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. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

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

Amsterdam, 4 April 2013

Nelmaria Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because Nestlé SA 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 25 March 2013. GRI explicitly excludes the statement being applied to any later changes to such material.

GRI content index

STANDARD DISCLOSURES PART 1: Profile Disclosures								
Profile Disclosure	Description		Reported	Cross-reference				
1. Strategy and Analysis								
1.1	Statement from the most senior decision-maker of the organization.	●		CSV: A message from our Chairman and CEO (p 3)				
1.2	Description of key impacts, risks, and opportunities.	●		CSV: Materiality (p 15-17) ES: Inside the issue: nutrition (p 50) W: Inside the issue: water (p 81) RD: Inside the issue: rural development (p 101) RS: Inside the issue: responsible sourcing (p 116) EN: Inside the issue: environmental sustainability (p 155) HR&C: Inside the issue: human rights & compliance (p 210) OP: Inside the issue: our people (p 253) AR: Principal Risks and Uncertainties (p 52-53)				
2. Organizational Profile								
2.1	Name of the organization.	●		Creating Shared Value Summary Report 2012 (Cover, Back cover, throughout)				
2.2	Primary brands, products, and/or services.	●		AR: The Nestlé Roadmap to Good Food, Good Life: Overview (p 14) COM: Brands				
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●		COM: Financial Overview operating segments CFS: Notes (p 53 - segment reporting) CFS: Companies of the Nestlé Group (p 118-136)				
2.4	Location of organization's headquarters.	●		AR: Shareholder information (p 55)				
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: factories (p 54) AR: Corporate Governance and Compliance (p 8-11)				
2.6	Nature of ownership and legal form.	●		CFS: Companies of the Nestlé Group (p 118-136)				
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●		AR: Principal key figures (full geographic and business unit breakdowns - p 41-52)				
2.8	Scale of the reporting organization.	●		AR: Front inside flap (p II-III) AR: Geographic data: factories (p 54) CSV: Key Performance Indicators CFS: Financial information - 5 year review (p 116-117)				
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●		AR: Letter to our shareholders (p 2-6) CFS: Acquisitions and disposals (p 63-65)				
2.10	Awards received in the reporting period.	●		HCSV: Partnerships and industry alliances (p 33) W: Highlights and Challenges (p 80) ES: Highlights and challenges (p 153) OP: Highlights and challenges (p 252)				
3. Report Parameters								
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	●		CSV: About this report (p 6)				
3.2	Date of most recent previous report (if any).	●		CSV: About this report (p 6)				
3.3	Reporting cycle (annual, biennial, etc.)	●		CSV: About this report (p 6)				
3.4	Contact point for questions regarding the report or its contents.	●		CSV: A message from our Chairman and our CEO (p 7) CSV: About this report (p 7)				
3.5	Process for defining report content.	●		CSV: About this report (p 6) CSV: Materiality (p 3-17)				
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 this report (p 6)				
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●		CSV: About this report (p 6)				
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 this report (p 6)				

Profile Disclosure	Description	Reported	Cross-reference
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 this report (p 6) HCSV: Measuring progress (p 26)
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 this report (p 6)
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	CSV: About this report (p 6)
3.12	Table identifying the location of the Standard Disclosures in the report.	●	CSV: GRI content index (p 287)
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	CSV: Assurance statement (p 282) CSV: About this report (p 6)
4. Governance, Commitments, and Engagement			
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.	●	HCSV: Governance (p 23) CGR: Group structure and shareholders, Capital structure, Board of Directors, Executive Board (full description of structure - p 3-19)
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	CGR: Board of Directors (p 7) The chairman is not an executive officer.
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 (p 6-10) All members of the Board of Directors are independent/non-executive directors, with the exception of the Nestlé CEO.
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	CGR: Information policy for shareholders (p 22) CGR: Information & control instruments vis-à-vis Executive Board (p 14)
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 (p 31)
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 (p 11-12) NCBC: Conflicts of Interest (p 2)
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.	●	CGR: Elections & terms of office (p10) and Nomination Committee for principles of selection of the Board of Directors (p 11-12) CGR: Appendix 1: Compensation Report 2012 (p 28 - Principles for Compensation of the Executive Board)
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.	●	CSV: Creating Shared Value explained (p 9) CSV: Our Corporate Business Principles (p 10)
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.	●	AR: Principal Risks and Uncertainties (p 52-53) HCSV: Governance (p 23) CGR: Board of Directors > Definition of areas of responsibility, Information and control instruments vis-à-vis the Executive Board (p1 3)
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	CGR: Appendix 1: Compensation Report 2012 (p 31 - Principles of Compensation of the Executive Board)
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	ES: Managing environmental sustainability (p 156)

Profile Disclosure	Description	Reported	Cross-reference
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	HCSV: Partnerships and industry alliances (p 39-43 - UNGC initiatives) HR&C: Global principles and goals (p 249-250)
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.	●	HCSV: Partnerships and industry alliances (p 39-41) W: Highlights and challenges (p 80 - other water-related memberships) HR&C: Responsible infant food marketing (p 235 - infant food-related memberships)
4.14	List of stakeholder groups engaged by the organization.	●	HCSV: Stakeholder engagement (p 27 - description of types of stakeholder groups engaged through convenings) HCSV: Partnerships and industry alliances (p 34-44 - full list of stakeholder groups engaged)
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	HCSV: Stakeholder engagement (p 27-29)
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	HCSV: Stakeholder engagement (p 27-29 - engaging global network) HCSV: Governance (p 23 - engaging external experts) N: Managing nutrition (p 53 - engaging nutrition-specific stakeholders) W: Public policy engagement (p 84-85); Community engagement (p 96-98 -engaging water-specific stakeholders) RS: Managing responsible sourcing (p123 - engaging responsible sourcing - specific stakeholders) OP: Employee engagement (p 269 - engaging employees)
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.	●	HCSV: Stakeholder engagement (p 27)

STANDARD DISCLOSURES PART 2: Disclosures on Management Approach (DMAs)								
G3.1 FPSS	Description	Reported	Cross-reference	Reason for omission				
DMA SC Disclosure on Management Approach SC								
Aspects	Protecting natural resources	●	ES: Managing environmental sustainability (p 156-160) ES: Manufacturing (p 170-174) ES: Waste and recovery (p 188-191)					
	Minimizing toxicity	●	HR&C: Product safety and quality (p 243-246)					
	Fair trade	●	RS: Managing responsible sourcing (p 117-121)					
	Fair compensation for labor	●	HR&C: Human rights (p 220) OP: Labour relations (p 265)					
	Traceability	●	RS: Managing responsible sourcing (p 118-122) HR&C: Product safety and quality (p 243-244)					
	Genetically modified organisms (GMOs)	●	N: Research and development GMO FAQ					
	Animal welfare	●	HR&C: Animal welfare (p 149-150)					
	Biofuels	●	RS: Deforestation (p 127) Biofuels FAQ					
DMA EC Disclosure on Management Approach EC								
Aspects	Economic performance	●	AR: Financial Review (p 41-51) CSV: Our Corporate Business Principles (p 10) HCSV: Governance (p 23)					
	Market presence	●	AR: Financial Review (p 41-51) CSV: Our Corporate Business Principles (p 10) HCSV: Governance (p 23)					
	Indirect economic impacts	●	AR: Financial Review (p 41-51) CSV: Our Corporate Business Principles (p 10) HCSV: Governance (p 23)					
DMA EN Disclosure on Management Approach EC								
Aspects	Materials	●	ES: Raw materials (p 166-169)					
	Energy	●	ES: Manufacturing (p 170-175 - equipment, manufacturing, buildings) ES: Climate change (p 193-195)					
	Water	●	W: Managing water (p 82-83 - overall approach) W: Public policy engagement (p 84-85 - approach to stakeholder engagement on water) W: Collective action (p 86-88 - approach to partnering on water) W: Water in our operations (p 90-93 - approach to managing factory water supply) W: Water in our supply chain (p 94-95 - approach to working with suppliers on water) W: Community engagement (p 96 - approach to working with communities on water & sanitation)					
	Biodiversity	●	ES: Biodiversity (p 198-203)					
	Emissions, effluents and waste	●	ES: Manufacturing (p 172 - air emissions) ES: Waste and recovery (p 188-190) ES: Climate change (p 193-195 - GHG emissions)					
	Products and services	●	ES: Environmental lifecycle of products (p 161-164) ES: Packaging (p 176-180)					
	Compliance	●	ES: Managing environmental sustainability (p 157 - Nestlé Environmental Management System) ES: Manufacturing (p 170 - ISO 14001)					
	Transport	●	ES: Transport and distribution (p 181-183)					
	Overall	●	ES: Managing environmental sustainability (p 156-160)					

G3.1 FPSS	Description	Reported	Cross-reference	Reason for omission
DMA As				
DMA LA	Disclosure on Management Approach LA			
Aspects	Employment Labor/management relations COMM Occupational health and safety Training and education Diversity and equal opportunity Equal remuneration for women and men	● ● ● ● ● ● ●	OP: Managing our people (p 254-255) OP: Labour relations (p 265-268) OP: Safety and health (p 256-259) OP: Workplace wellness (p 261-263) OP: Managing our people (p 255) OP: Employee & career development (p 272-275) OP: Diversity (p 277-278) OP: Diversity (p 277)	
DMA HR	Disclosure on Management Approach HR			
Aspects	Investment and procurement practices Non-discrimination Freedom of association and collective bargaining Child labor Prevention of forced and compulsory labor Security practices Indigenous rights Assessment Remediation	● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ●	RS: Managing responsible sourcing (p117 - approach to procurement practices) HR&C: Human rights (p 218-219 - approach to risk assessment across business activities) HR&C: Managing compliance (p 213 - approach to managing within own operations) HR&C: Human rights (p 218-219 - approach to managing across business activities & suppliers) OP: Labour relations (p 267 - approach to managing within own operations) OP: Diversity (p 277 - approach to managing within own operations) RD: Farm & factory workers (p 108 - approach to managing among suppliers) HR&C: Human rights (p 218-219 - approach to managing across business activities & suppliers) OP: Labour relations (p 266 - approach to managing within own operations) HR&C: Human rights (p 216 - child labour in context of overall approach to human rights) HR&C: Child labour (p 226) HR&C: Managing compliance (p 213 - approach to managing within own operations) HR&C: Human rights (p 218-219 - approach to managing across business activities & suppliers) HR&C: Managing compliance (p 213 - approach to managing within own operations) HR&C: Human rights (p 221 - approach to managing across business activities & suppliers) RD: Community engagement (p 112) HR&C: Managing compliance (p 213 - approach to managing within own operations) HR&C: Human rights (p 218-219 - approach to managing across business activities & suppliers) HR&C: Managing compliance (p 213 - approach to managing within own operations) HR&C: Human rights (p 220 - approach to managing across business activities & suppliers)	

G3.1 FPSS	Description	Reported	Cross-reference	Reason for omission
DMA SO Disclosure on Management Approach SO				
Aspects	Local communities	●	RD: <u>Managing rural development (p 104 - rationale for engaging communities as part of the Rural Development Framework)</u> RD: <u>Community engagement (p 110 - specific approach to community work)</u>	
	Healthy and affordable food	●	N: <u>Managing Nutrition (p 52 - in context of overall approach to nutrition)</u> N: <u>Consumers in emerging markets (p 70-72 specific approach to providing healthy & affordable food)</u>	
	Corruption	●	HR&C: <u>Managing compliance (p 212 - in context of overall approach to compliance)</u> HR&C: <u>Anti-corruption (p 239-241 - specific detail on anti-corruption)</u> NCBC: <u>Bribery & corruption (p 6)</u>	
	Public policy	●	HCSV: <u>Public policy and engagement (p 30)</u> W: <u>Public policy and engagement (p 84 - specific to water)</u>	
	Anti-competitive behavior	●	CSV: <u>Nestlé Corporate Business Principles (p 10)</u> NCBC: <u>Anti-trust & fair dealing (p 5)</u> AR: <u>Corporate Governance and Compliance (p 8-11)</u>	
	Compliance	●	AR: <u>Corporate Governance and Compliance (p 8-11)</u> HR&C: <u>Managing compliance (p 211-213)</u>	
DMA PR Disclosure on Management Approach PR				
Aspects	Customer health and safety	●	HR&C: <u>Product safety and quality (p 243-245)</u>	
	Product and service labelling	●	N: <u>Family nutrition (p 65-66)</u>	
	Marketing communications	●	ES: <u>Promoting sustainable consumption (p 186 - role of communications in raising consumer awareness of sustainability)</u> HR&C: <u>Responsible advertising and marketing (p 228-230 - general approach)</u> HR&C: <u>Responsible infant food marketing (p 231-236 - infant food-specific approach)</u>	
	Customer privacy	●	HR&C: <u>Consumer privacy (p 247)</u>	
	Compliance	●	AR: <u>Corporate Governance and Compliance (p 8-11 - overall approach)</u> HR&C: <u>Responsible advertising and marketing (p 259 - approach to monitoring on marcomms)</u>	
DMA AW Disclosure on Management Approach AW				
Aspects	Breeding and genetics	○		Not applicable
	Animal husbandry	○		Not applicable
	Transportation, handling and slaughter	○		Not applicable

STANDARD DISCLOSURES PART 3: Performance Indicators								
G3.1 FPSS DMAs	Description	Reported	Cross-reference	If applicable, indicate the part not reported	Reason for omission	Explanation	To be reported in	
Sourcing								
Across all aspects of sourcing								
FP1	Percentage of purchased volume from suppliers compliant with company's sourcing policy.	●	RS: Managing responsible sourcing (p 125)					
FP2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard	●	RS: Highlights & challenges (p 115) RS: Deforestation (p 128 palm oil) RS: Coffee (p 139-141) RS: Cocoa (p 144)	Percentage/volume information	Proprietary information	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 COMM	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.	●	AR: Financial Review (p 38-55) CFS	Community investments	Not available	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 in the 2013 CSV report, which comes out in March 2014.	2014	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	ES: Climate Change (p 195) CDP submission					
EC3	Coverage of the organization's defined benefit plan obligations.	●	CFS: Employee benefits (p 78-80)					
EC4 COMM	Significant financial assistance received from government.	●			Not available	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 extending our data collection processes for reporting in the 2013 CSV report, which comes out in March 2014.	2014	

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation	To be reported in
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: Managing rural development (p 104 - policy) RD: Farmers (p 106 - spending on farmers) RD: Farm and factory workers (p 109 - policy & practices)	Proportion of spending on locally-based suppliers	Proprietary information	We provide information on financial assistance to farmers to give a representation of scale, but are unable to report the details of locally-based spending to commercial sensitivities.
EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●	OP: Employees & career development (p 211)			
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: Farmers (p 106-107 - capacity-building & plant research) RS: Coffee (p 137-138 development of centralized infrastructure, efforts to increase crop productivity) RS: Cocoa (p 144 - capacity-building, plant research)	Financial information not collected	Not available	Contextual information is provided on infrastructure investments, but infrastructure spend is not systematically collected across all Nestlé markets. This information will be collected and reported for the 2013 CSV report, which comes out March 2014.
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	RD: Managing rural development (p 102-104) RD: Farm and factory workers (p 109)			
Environmental					
Materials					
ENI COMM Materials used by weight or volume.	●	CEPI ES: Raw materials (p 169)			
EN2 Percentage of materials used that are recycled input materials.	●	CEPI ES: Packaging (p 178)			

STANDARD DISCLOSURES PART 3: Performance Indicators								
G3.1 FPSS DMAs	Description	Reported	Cross-reference	If applicable, indicate the part not reported	Reason for omission	Explanation	To be reported in	
Energy								
EN3	Direct energy consumption by primary energy source.	●	CEPI ES: Manufacturing (p 174)					
EN4	Indirect energy consumption by primary source.	●	CEPI ES: Manufacturing (p 174)					
EN5	Energy saved due to conservation and efficiency improvements.	●	ES: Manufacturing (p 171) ES: Transport & distribution (p 183) ES: Climate change (p 193-197)					
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: Environmental lifecycle of products (p 164-165)					
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	ES: Climate change (p 194)					
Water								
EN8	Total water withdrawal by source.	●	CEPI W: Water in our operations (p 93)					
EN9	Water sources significantly affected by withdrawal of water.	●	W: Collective action (p 88-89)		Not available	See explanation in text (Water: Collective Action)		
EN10	Percentage and total volume of water recycled and reused.	●	CEPI W: Water in our operations (p 93)					
Biodiversity								
EN11 COMM	Location and size of land or waters owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	CEPI ES: Biodiversity (p 202)					
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 (p 202)					
EN13 COMM	Habitats protected or restored.	●	ES: Biodiversity (p 203-205)					
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	●	ES: Biodiversity (p 198-204) Nestlé Commitment on Natural Capital					
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	○						

G3.1 FPSS Description DMAs	Reported	Cross-reference	If applicable, indicate the part not reported	Reason for omission	Explanation	To be reported in
Emissions, effluents and waste						
EN16 Total direct and indirect greenhouse gas emissions by weight.	●	CEPI ES: Climate change (p 197)				
EN17 Other relevant indirect greenhouse gas emissions by weight.	●	ES: Manufacturing (p 172-174)				
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	ES: Climate change (p 193-197) ES: Manufacturing (p 170-172) ES: Transport & distribution (p 181-183)				
EN19 Emissions of ozone-depleting substances by weight.	●	CEPI				
EN20 NO _x , SO _x and other significant air emissions by type and weight.	●	CEPI				
EN21 Total water discharge by quality and destination.	●	CEPI W: Water in our operations (p 93)				
EN22 Total weight of waste by type and disposal method.	●	CEPI ES: Water in our operations (p 191)	Not broken out by type of waste and disposal method / destination	Not available	We fine-tuned our reporting of waste and by-product volumes to comprehensively report by type and destination. From September 2012, we started consolidating the waste by type and destination, and we will be able to provide detailed information in 2014.	2014
EN23 Total number and volume of significant spills.	●	CEPI				
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.	●	W: Collective action (p 88)		Not available	See explanation in text (Water: Collective Action)	

G3.1 FPSS Description DMAs	Reported	Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation	To be reported in
Products and services						
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	ES: Environmental lifecycle of products (p 161-165)				
EN27 Percentage of products sold and their packaging materials that are reclaimed by category.	●	ES: Packaging (p 177, 180)				
Compliance						
EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	CEPI CFS: Note 12: Provisions and contingencies (p 86-87)				
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 (p 183)				
Overall						
EN30 Total environmental protection expenditures and investments by type.	○					
Social: Labor Practices and Decent Work						
Employment						
LA1 Total workforce by employment type, employment contract, and region, broken down by gender.	●	OP: Diversity (p 279-280)				
LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region.	●	OP: Diversity (p 280)				
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: Workplace wellness (p 263)				
Labor/management relations						
LA4 Percentage of employees covered by collective bargaining agreements.	●	OP: Labour relations (p 268)				
LA5 Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	●	OP: Labour relations (p 267)				

G3.1 FPSS Description DMAs	Reported	Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation	To be reported in
FP3 Percentage of working time lost due to industrial disputes, strikes and/or lock-outs, by country.	●	OP: Labour relations (p 268)				
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 (p 260)	Nestlé does not currently report occupational health and safety metrics by gender because it is not seen as relevant. 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 from 2013 onwards.	Not available	Data collection processes are being extended in 2013 to cover this information. Data will be available in 2014, and will be reported where relevant.	2014
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	OP: Workplace wellness (p 262)				
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: Employees & career development (p 276)				

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation
Training and education				
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	① OP: Employees & career development (p 274)	Have provided information on skills	Not available	<p>Nestlé is committed, as stated in Nestlé on the Move and other Corporate documentation, to support Lifelong Learning. In a people flexible society, staff needs to be helped to keep abreast of the evolution in a fast changing environment, in order to increase the efficiency of the Company.</p> <p>What is needed:</p> <ul style="list-style-type: none"> • Supportive leadership and management (vision) • A sustainable Learning Culture with learning commitment from employees (attitude development) and guidance and advice (from specialists) • Environment with Access to means/tools (budget, resources, methods) • Continual Promotion and Awareness (Motivation and Sustainability) • Evaluation and Measurement (realize the positive results in the Business). <p>There are sometimes circumstances where factory closures do happen or important restructuring happens. In our Employee Relations policy policy, we follow local legislation and agreements, and we establish a social plan to help with the transition.</p>
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.	① OP: Diversity (p 279-280) CGR: Board of Directors (p 6)	Employees are not broken out by minority group.	Proprietary information	Employees are not broken out by minority group due to differing privacy concerns in our markets.

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, Reason indicate for the part not reported	Explanation
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 (p 280)		
Social: 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.	● HR&C: Human rights (p 222)		Similar to what we reported in the 2011 report, this year we have provided detail on the total number of significant investment agreements which include human rights reviews. Given the nature of our business, we have also incorporated in 2012 our operational / commercial contracts (e.g. 3rd party agreements for manufacturer, supply and IP licences,) within this definition. We are continuing to develop the reporting of human rights issues across the business and in 2013 we will continue our work to fulfil our objective to ensure human rights concerns are properly identified and addressed as part of our M&A due diligence process
HR2 Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	● HR&C: Human rights (p 222)		
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.	● HR&C: Human rights (p 223)		
Non-discrimination			
HR4 Total number of incidents of discrimination and corrective actions taken.	● OP: Labour relations (p 268)		
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.	● HR&C: Human rights (p 222)		

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation
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.	● HR&C: Human rights (p 223) RS: Cocoa (p 143)			
Prevention of 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.	● HR&C: Human rights (p 222)			
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.	● HR&C: Managing compliance (p 214)			The indicator is partially reported since it is currently an estimate and will be improved in future years.
Indigenous rights				
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.	● RD: Community Engagement (p 113)	Not available		The indicator is partially reported this year since the figure includes FPIC incidents from RSG assessments for palm oil and paper. In future years this figure will be updated as more assessments are carried out for more commodities.
Assessment				
HR10 Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	HR&C: Human rights (p 222-223)			
Remediation				
HR11 Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	● HR&C: Human rights (p 223)	Scope of reporting under this indicator does not yet cover all Nestlé markets	Not available	The indicator is partially reported because Nestlé's new Integrity Reporting System is currently in the process of being rolled out (24 markets to date) and the indicator covers only these countries so far.

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation	To be reported in
Social: Society					
Local communities					
SO1 (FPSS) Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	● RD: Community Engagement (p 110-112) See also				
SO1 (G3.1) Percentage of operations with implemented local community engagement, impact assessments, and development programs.	● RD: Community Engagement (p 112)	Percentage of operations figure.	Not available	Nestlé Waters is carrying out community engagement work across its factories and we will produce guidance for the rest of the Nestlé (food) factories this year. In 2012, rather than produce detailed guidance and roll it out to the Nestlé factories as committed last year, we concentrated on putting together a detailed approach to the rural communities that we prefer to focus upon. More details in the RD: Community Engagement section.	2015
SO9 Operations with significant potential or actual negative impacts on local communities.	● RD: Community Engagement (p 111)				
SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	● RD: Community Engagement (p 111-112)				

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, Reason indicate for the part not omitted reported	Explanation
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.	<p>● N: Managing Nutrition (p 51-54 - overall approach) N: Research and development (p 55-59 - specific to nutritional science) N: Maternal and infant nutrition (p 60-63 - specific to mothers and infants) N: Family nutrition (p 64-67 - specific to portion sizes and healthy diets) N: Consumers in emerging markets (p 70-74 - specific to affordable, healthy food) N: Nutrition for older people and those with other specific nutritional requirements (p 76-78 - specific to older people)</p>		
Corruption			
SO2 Percentage and total number of business units analyzed for risks related to corruption.	<p>● HR&C: Anti-corruption (p 242)</p>		In 2011, Nestlé 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.	<p>● HR&C: Anti-corruption (p 242)</p>	Indicated as "Partially" (although nothing has been "not reported") because we consider this year's figures to be estimates, and expect next year's to be more robust. See explanation for more.	Not available Based on information provided by Legal/Compliance in our three zones, we estimate the percentage of employees trained in our anti-corruption policies at 20%. We are in the process of improving the level of visibility and are confident that the figure we will be providing for next year's report will be more robust. At the same time, we will also work towards raising the aforementioned percentage.
SO4 Actions taken in response to incidents of corruption.	<p>●</p>		

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation
Public policy				
SO5 COMM Public policy positions and participation in public policy development and lobbying.	● HCSV: Public policy and Engagement (p 30) W: Public policy engagement (p 84-85 - specific to water)	Significant differences between lobbying positions and stated policies, sustainability goals or other public positions nor do we conduct any lobbying activities related to subsidized or otherwise advantaged production.	Not available	We outline our approach to public policy and advocacy activities, but are developing action plans to continuously improve collecting information from our markets. Progress will be communicated in 2014.
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	○			
Anti-competitive behavior				
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	○			
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 (p86-87)			
Social: Product Responsibility				
Customer health and safety				
PR1 COMM 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: Family nutrition (p 64-67) ES: Product safety and quality (p 243-245)			
PR2 COMM 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.	● HR&C: Product safety and quality (p 246)			We consider the most material part of this indicator to be product safety for the end consumer.

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation
FP5 Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards.	● HR&C: Product safety and quality (p 246)			
FP6 Percentage of total sales volume of consumer products, by product category, that are lowered in saturated fat, trans fats, sodium and sugars.	○ N: Family nutrition (p 68)	Percentage of total sales volume not reported, only number of items	Not available	We currently are assembling the recipe management system to meet this indicator. It will be ready in time for the 2013 CSV report
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: Family nutrition (p 68)	Percentage of total sales volume not reported, only number of items	Not available	We currently are assembling the recipe management system to meet this indicator. It will be ready in time for the 2013 CSV report
Product and service labelling				
PR3 COMM Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	● N: Family nutrition (p 64, 69) ES: Promoting sustainable consumption (p185)			
FP8 Policies and practices on communication to consumers about ingredients and nutritional information beyond legal requirements.	● N: Family nutrition (p 65)			
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	● HR&C: Responsible infant food marketing (p 235)			
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	○			

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, Reason indicate for the part not reported	Explanation
Marketing communications			
PR6 COMM Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	● HR&C: Responsible advertising and marketing (p 228-230) HR&C: Responsible infant food marketing (p 232-236)		
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.	● HR&C: Responsible advertising and marketing (p 229-230) HR&C: Responsible infant food marketing (p 236)		
Customer privacy			
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	○		
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 (p 86-87)		
Animal Welfare			
Breeding and genetics			
FP9 Percentage and total of animals raised and/or processed, by species and breed type.	○	Not applicable	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.

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, indicate for the part not reported	Reason for omission	Explanation
Animal husbandry				
FP10 Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic.	<input type="radio"/>	Not applicable	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.	
FP11 Percentage and total of animals raised and/or processed, by species and breed type, per housing type.	<input type="radio"/>	Not applicable	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.	
Animal husbandry				
FP12 Policies and practices on antibiotic, anti-inflammatory, hormone, and/or growth promotion treatments, by species and breed type.	<input type="radio"/>	Not applicable	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.	

G3.1 FPSS Description DMAs	Reported Cross-reference	If applicable, Reason indicate for the part not reported	Explanation
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"/>	Not applicable	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.

Key

- Fully reported
- Partially reported
- Not reported

Abbreviations

- AR:** Annual Report 2012
- CFS:** Consolidated Financial Statements of the Nestlé Group
- CSV:** Creating Shared Value at Nestlé
- HR&C:** Human Rights & Compliance
- HCSV:** Responsible Sourcing
- NCBP:** Nestlé Corporate Business Principles
- RD:** Rural Development

- RS:** Responsible Sourcing
- N:** Nutrition
- NCBC:** Nestlé Code of Business Conduct
- W:** Water
- ES:** Environmental sustainability
- OP:** Our people
- COM:** Nestlé Corporate website
- DMA:** Disclosure of Management Approach