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The Nestlé Creating Shared Value Report

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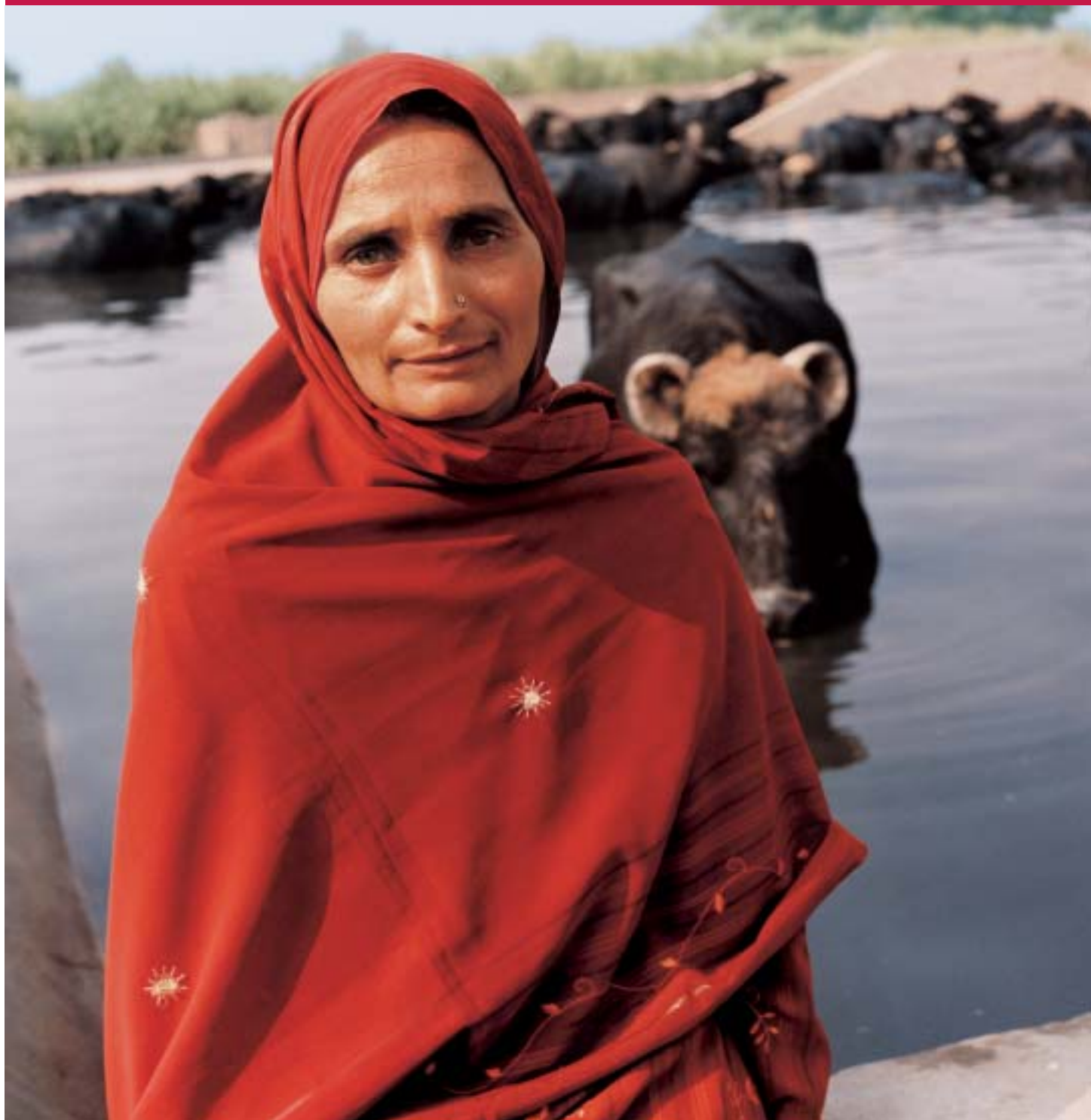
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The Nestlé **Creating Shared Value** Report



Nestlé

Good Food, Good Life



Creating Shared Value

For a business to be successful in the long term it has to create value, not only for its shareholders but also for society. We call this *Creating Shared Value*. It is not philanthropy or an add-on, but a fundamental part of our business strategy. Simply stated, in order to create value for our shareholders and our Company, we need to create value for the people in the countries where we are present. This includes the farmers who supply us, our employees, our consumers and the communities where we operate.

As a necessary condition for *Creating Shared Value*, we need to demonstrate responsible behaviour – by assuring compliance and sustainability. This includes complying with Nestlé Business Principles, national laws and international norms, and ensuring that our actions are environmentally sound, socially just and economically viable.

This publication is an integral part of our overall Company reporting, and is a companion document to the 2007 *Nestlé Management Report* and *Governance Report*. It is a first step in providing increasing amounts of worldwide information about the Company. With the development of GLOBE, our new business management information system, we can begin to provide increasing amounts of information regarding Nestlé on a worldwide basis which were previously inaccessible. As additional areas of GLOBE are implemented in future years, in areas such as human resources and product composition, we will be able to expand our reporting accordingly.

For a business
to be successful
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Highlights

Reducing our environmental footprint and reducing operational costs: pages 10-19

76%

Increase of production volume*

22%

Reduction of packaging material for bottled water**



3%

Reduction of energy use*

16%

Reduction of greenhouse gas emissions*

28%

Reduction of water withdrawal*

Improving workers' earning capacity and creating a skilled workforce: pages 20-25

917

Number of Key Business Positions

2.2

Average number of successors per Key Business Position

42%

In developing countries, local Management Committee members who are nationals of the country

65 647

Number of employees in developing countries who received formal classroom training



Helping farmers improve earnings and assuring our supply of quality raw materials: pages 26-35

610 000

Number of farmers receiving free technical assistance

97 500

Tonnes of coffee sourced directly from farmers in 2006



2-5%

Average annual milk district growth rate

29.9 million

Value of credit loans to farmers in 2006, in CHF

Expanding lower income segment's access to nutrition and broadening our customer base: pages 44-45

77 billion

Potential market for Popularly Positioned Products, in CHF



50 million

Number of consumers reached by our new factory in North-East Brazil



Improved nutrition for the consumer and increasing sales/profitability for Nestlé: pages 38-43

14.6 billion

Sales value of products "60/40+" tested in 2007, in CHF

6445

Number of products renovated for nutrition or health considerations in 2007

4.4 billion

Sales value of products with Branded Active Benefits, in CHF



1.88 billion

Total R&D expenses in 2007, in CHF

* Reference year: 1998

** Reference year: 2002

Performance summary

Nestlé has developed performance indicators to provide a focus for measuring and reporting *Creating Shared Value*.

The summary below forms part of our communication of progress on the UN Global Compact Principles (see page 52 for further details).

Unless stated otherwise, performance indicators are for the year ending 31 December 2007.

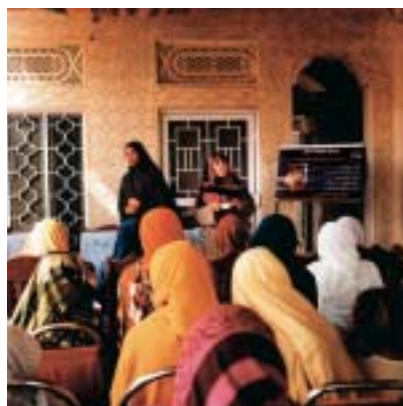
Nestlé <i>Creating Shared Value</i> performance indicators			GRI reference
		Total Group sales (CHF billion)	107.6 n/a
		Total shareholder return: 1 January 1997 – 31 December 2007	342.5% n/a
Manufacturing and our environmental footprint	Materials	Raw materials and ingredients (except water [see below], million tonnes)	20.48 EN1
		Packaging materials (million tonnes)	4.08 EN1
		By-products (for recycling, million tonnes)	1.07 EN22
		Reduction of by-products since 1998 (per tonne of product)	58% n/a
		Waste (for final disposal, million tonnes)	0.372 EN22
		Reduction of waste since 1998 (per tonne of product)	58% n/a
	Energy	Direct energy consumption (Peta Joules)	85.3 EN3
		Energy saved since 1998 (per tonne of product)	45% EN5
	Greenhouse gases	Direct CO ₂ emissions (million tonnes) ¹	4.1 EN16
		Reduction of direct CO ₂ emissions since 1998 (per tonne of product)	53% EN18
	Water	Total water withdrawal (million m ³)	157 EN8
		Water saved since 1998 (per tonne of product)	59% n/a
		Total water discharge (million m ³)	101 EN21
		Quality of water discharged (average mg COD/l)	62 EN21
	Packaging	Source reduction (thousand tonnes): 1991–2007	326.3 n/a
		Source reduction (CHF million): 1991–2007	583.7 n/a
		Reduction of packaging weight (per l of product) Nestlé Waters: 2002–2007	22% n/a
	Governance	ISO 14001/OHSAS 18001-certified sites (number of certificates)	171 n/a
		Sites audited through CARE programme	403 n/a
	Our people	Workforce size (total number of employees)	276 050 LA1
Lost Time Injuries (per million hours worked)		3.7 LA7	
Total Injury Rate (per million hours worked)		7.5 LA7	
Leadership positions ² held by women		24% LA4	
Local Management Committee members native to country in developing countries		42% n/a	
Formal classroom training received in developing countries (number of employees)		65 647 LA10	
Key Business Positions		917 n/a	
Employees with potential to fill Key Business Positions		3247 n/a	
Agriculture and rural development	Farmers trained through capacity-building programmes	111 800 n/a	
	Markets covered by (SAIN) sustainable programmes	28 n/a	
	Suppliers audited for safety, quality and processing	3 400 n/a	
Products and consumers	Popularly Positioned Products ³ : Europe (sales volume, CHF million) ⁴	212 n/a	
	Popularly Positioned Products ³ : Americas (sales volume, CHF million) ⁴	3 517 n/a	
	Popularly Positioned Products ³ : Asia, Oceania and Africa (sales volume, CHF million) ⁴	1 722 n/a	
	Nestlé Nutrition business (sales 2007, CHF million)	8 434 n/a	
	Number of products renovated for nutrition or health considerations ⁵	6 445 n/a	
	Increase in nutritious ingredients or essential nutrients (number of products) ⁵	2 603 n/a	
	Reduction of sodium, sugars, TFAS, total fat or artificial colourings (number of products) ⁵	3 842 n/a	
	- Reduction in trans fatty acid (tonnes): December 2003 – February 2007	34 200 n/a	
	- Reduction in sugar (tonnes): January 2003 – December 2006	204 000 n/a	
	- Reduction in salt (tonnes): April 2005 – December 2006	5 000 n/a	
	Products covered by <i>Nestlé Nutritional Compass</i> (% of sales)	95 PR3	
	Products with GDA labelling (% of sales) ⁶	45 PR3	
	Infant formula marketing (number of internal audits)	9 PR7	
	Infant formula marketing (number of external audits)	1 PR7	

¹ Includes CO₂ from fuel usage, refrigerants and Ozone Depletion Potential (ODP) substances
² Defined as positions with people management responsibilities
³ Products for those on lower incomes

⁴ 2007 PPP sales cover 3 markets in Zone Europe, 22 in Zone Americas and 12 in Zone Asia, Oceania and Africa
⁵ Based on reports of approximately 75% of worldwide product development teams
⁶ Based on reports for European Union only

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Cover: Razia Berveen is a “Female Livestock Worker” in Farooqa, Pakistan. She is one of the Nestlé trainers passing on knowledge and skills to 4000 women who will go on to become agricultural extension workers under a Nestlé-United Nations Development Programme (UNDP) partnership scheme in Pakistan

Left: Nestlé-sponsored training of agricultural extension workers in Renala, Pakistan. Passing on vital skills in water management encourages sustainable practices on dairy farms in Pakistan. More on page 29

Creating Shared Value: the role of business in society

Henri Nestlé founded our Company in 1866 on a single product, an infant cereal, which was created to save the life of a neighbour's child. From that time onwards, the fundamental strategy of our Company has been to create value for society, and in doing so create value for our shareholders.

As a result of this strategy, over the past 141 years Nestlé has grown from a small family-owned business to become the world's foremost Nutrition, Health and Wellness Company.

However, *Creating Shared Value* for society and investors means going beyond consumer benefit. The very first edition of the *Nestlé Corporate Business Principles* stated that "Our investments must be good for the Company and for the countries where we operate".

Creating Shared Value also means bringing value to the farmers who are our suppliers, to our employees, and to other parts of society. It means examining the multiple points where we touch society and making very long-term investments that both benefit the public and benefit our shareholders, who are primarily pension savers or retirees.

Over a period of decades, we have worked with millions of milk and coffee farmers to make them better suppliers, and in so doing, have helped them to climb out of poverty and to prosper. Today, we work with about 600 000 farmers globally, providing free technical assistance, infrastructure and over CHF 29.9 million of micro-credit loans. About half our factories are in rural areas in the developing world, and have a profound impact on family income, quality of life, and the future for the next generation.

Creating Shared Value additionally means treating the environment in a way that preserves it as the basis of our business for decades, and centuries, to come. Ending dangerous trends in air and water pollution and mismanagement is basic to our being able to sustain a growing Food and Beverages business. We all share one

home – planet earth – and the future of our business is inextricably linked to the future of the planet.

Creating Shared Value means thinking long term, while at the same time delivering strong annual results. One of the fundamental Nestlé Corporate Business Principles is that "we will not sacrifice long-term development for short-term gain".

We aim for (and have achieved) consistent improvements in annual performance through what we refer to as "The Nestlé Model": annual organic growth of 5% to 6%, combined with a sustainable annual increase in the profit (EBIT) margin. But we resist short-term temporary business and social solutions. For instance, we have purposely avoided being listed on stock exchanges which require reporting of quarterly earnings, because we believe this can lead to business thinking which is too focused on the short term.

As a result of this approach to business, independent research on the *Nestlé* brand indicates that globally we are rated very highly on "fulfilling our responsibilities to society", and particularly in developing countries. The strength of the *Nestlé* brand, including its performance in this area, is fundamental to the success of our Company. It is a result of taking our relationship with society seriously over many decades, and building a brand based on *Creating Shared Value*.

However, we are not satisfied with the *status quo*. For instance, we are increasingly focused on providing affordable, nutritious foods to lower-income populations in developing countries. In 2007, working with national governments, we opened large, state-of-the-art factories in rural areas of Brazil, China and Pakistan, to produce food with high nutritional value at an affordable cost for the local population.



Creating Shared Value means thinking long term, while at the same time delivering strong annual results. One of the fundamental Nestlé Corporate Business Principles is that 'we will not sacrifice long-term development for short-term gain'



Peter Brabeck-Letmathe,
Chairman and CEO, Nestlé

Nestlé Chairman and CEO Peter Brabeck-Letmathe visiting a Mexican coffee farm in Jicotepec during a training session for the coffee growers participating in Nestlé's Technical Assistance programme. Mr Gonzalo Contreras, one of Nestlé Mexico's agronomists, demonstrates a Coffee Berry Borer insect trap that enables pest control without using pesticides, contributing to more environmentally sound coffee growing conditions



This report is a first step in providing data on a global level regarding *Creating Shared Value*. It is an integral part of our Company reporting, together with the 2007 *Nestlé Management Report* of financial results. It follows a publication two years ago on Nestlé, in which Harvard's Mark Kramer and Professor Michael Porter established a framework to examine our Company in Latin America in terms of *Creating Shared Value*. As a result, we have defined a multi-year plan for a step-by-step expansion of our measurement of *Creating Shared Value*. Access to global information has been a significant internal limitation on our reporting, but our new GLOBE business information system will, for the first time, allow us to provide global Nestlé information in many areas where it is currently unavailable.

We began planning this report with a study of outside views on what is most relevant for us to report, and thank the SustainAbility organisation for their help in this. We have also sought stakeholder feedback via an engagement process in different regions of the world facilitated by AccountAbility International. As a result, included in the report is a summary of Nestlé activities in relation

to the Global Reporting Initiative, the UN Global Compact Principles and the UN Millennium Development Goals.

As I prepare to hand over the Chief Executive Officer role to Mr Paul Bulcke, I reflect on the past eleven years as Nestlé CEO, during which time we have increasingly sought to engage with society and to communicate about the interdependent relationship of Nestlé with the people of the countries where we operate.

In my continued role as Chairman of Nestlé, I will remain committed to assuring that we continue to expand our thinking and engagement in this area. This report is part of an evolving process, and I hope that it helps you to understand and evaluate Nestlé's interdependent relations with people and the planet.

A handwritten signature in black ink, appearing to read 'P. Brabeck-Letmathe'.

Peter Brabeck-Letmathe
Chairman of the Board and
Chief Executive Officer

Company profile

Nestlé is the world's leading Nutrition, Health and Wellness Company



Vevey

Location of the Company's headquarters, in Switzerland

1866

Year the Company was founded

107.6 billion

Total Group sales, in CHF

10.6 billion

Net profit, in CHF

276 050

Number of employees

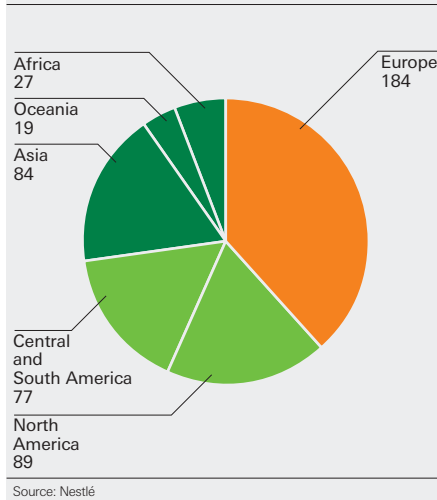
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Number of factories

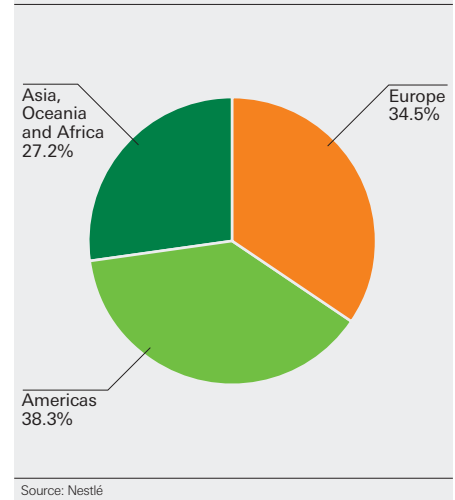
86

Number of countries in which the Company has operations

Nestlé factories by continent, 2007



Nestlé employees by geographic area, 2007



Sales and organic growth by product category, 2007

Product category	Sales (CHF billion)	Organic growth
Powdered and liquid beverages	17.9	10.3%
Nestlé Waters	10.4	6.6%
Milk products and Ice cream	20.7	7.8%
Nestlé Nutrition	8.4	9.7%
Prepared dishes and cooking aids	18.5	4.0%
Confectionery	12.3	5.3%
PetCare	12.1	7.0%
Pharmaceutical products	7.3	11.0%

Source: Nestlé

Far left: Inauguration of our new milk factory in Hailar, Inner Mongolia, which opened in 2007 backed by a Nestlé investment of over CHF 20 million. More on page 14

Left: Kevin Duck, a Nestlé employee at Cereal Partners UK, manufacturers of *Shredded Wheat*. Wholegrain provides important nutritional value and 1.6 billion additional servings

have been added over the last two years to Nestlé brands sold in Europe. More on page 42

Below: Products with proven superiority in consumer preference and nutritional value are the foundation of Nestlé's strategy. Our proprietary testing process, called 60/40+, helps

bring a nutritional "plus" while also addressing public health-sensitive nutrients. Enhanced nutritional value is already driving Nestlé's business growth. More on page 38



About this report

This report is Nestlé's first attempt at a global *Creating Shared Value* Report, concerning our corporate social responsibility and sustainability. It is an integral part of our reporting and a companion document to our 2007 *Management Report*. Information covers Nestlé's global operations for the year ending December 2007, unless otherwise stated and has been subject to external assurance (see page 56). The report covers those business impacts of particular concern to our stakeholders (see below for how these impacts have been identified and prioritised). [More information on a wider range of topics is available on our website at \[www.nestle.com/csv\]\(http://www.nestle.com/csv\)](#)

We first explored the concept of *Creating Shared Value* in our 2005 report, *The Nestlé Concept of CSR*, which focused on our Latin American operations. Its authors, FSG – Social Impact Advisors, led by Managing Director Mark Kramer (also Senior Fellow at Harvard University's John F. Kennedy School of Government) then challenged Nestlé to provide further evidence. Since then, in conjunction with our business areas and advisers including SustainAbility and AccountAbility, Nestlé has identified and assessed critical issues, developed global performance indicators and engaged stakeholders in debate.

The result is this, our 2007 *Creating Shared Value Report*, a first step towards providing evidence that the successful creation of long-term shareholder value is dependent also on the creation of value for society.

Our reporting history

Previous reports have focused on specific topics or regions, as detailed below:

- *The Nestlé Water Management Report* – 2006;
- *Nestlé, the Community and the UN Millennium Development Goals* – 2006;
- *The Nestlé Concept of CSR as Implemented in Latin America* – 2005;
- *The Nestlé Commitment to Africa* – 2004;
- *Faces of Coffee* – 2003;
- *Nestlé and Water: Sustainability, Protection, Stewardship* – 2003;
- *The Nestlé People Development Review* – 2002;
- *Sustainability Review* – 2001;
- *Nestlé Environmental Progress Report* – 2001;
- *Nestlé and the Environment* – 1995.

[Previous reports are available at \[www.nestle.com/csv/downloads\]\(http://www.nestle.com/csv/downloads\)](#)

Key issues

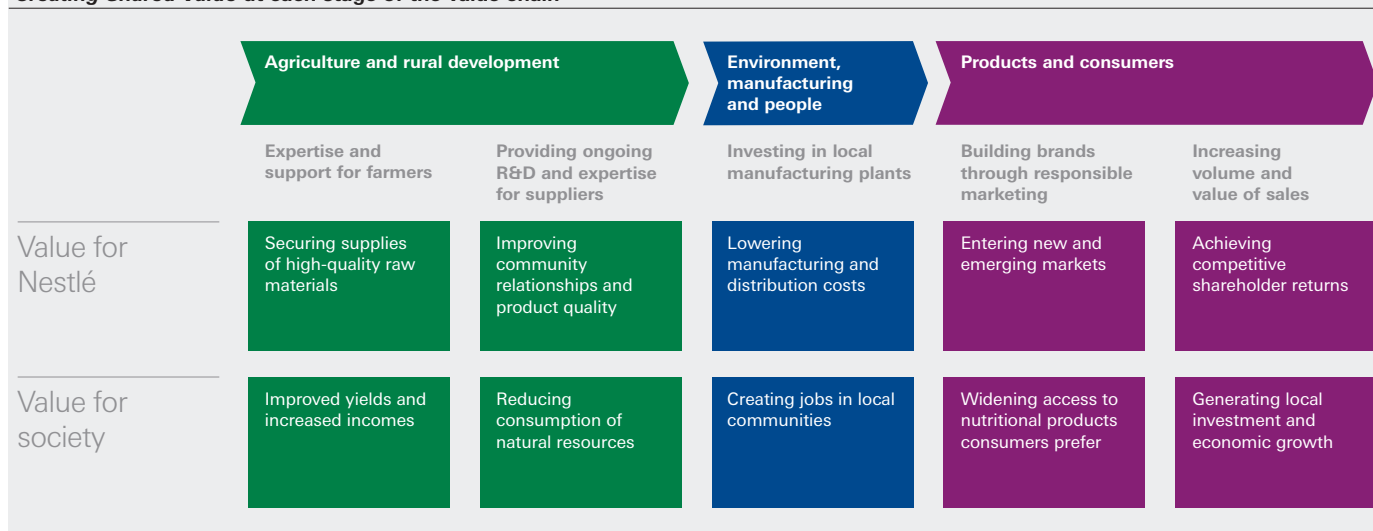
This report focuses on areas which have a significant current or potential impact on the Company, are of significant concern to stakeholders and over which Nestlé has a reasonable degree of control.

Working with SustainAbility and using their best practice methodology, we undertook a systematic process to prioritise the issues deemed most critical to the Company, drawing on the opinions of investors, civil society groups and the media, and then assessed them with Nestlé executives.

Five areas were identified and prioritised for inclusion in this report:

- *Manufacturing and our environmental footprint*: Managing operations with respect to the environment; and how responsible safety, health and environment practices create a more efficient and cost-effective business (pages 10-19);

Creating Shared Value at each stage of the value chain



- *Our people*: Acting as a responsible employer (pages 20-25);
- *Agriculture and rural development*: Nestlé's approach to agricultural sourcing (pages 26-35);
- *Nutrition, Health and Wellness*: Nestlé's strategy of improving Nutrition, Health and Wellness as a driver of business growth (pages 38-43);
- *Marketing and communication*: Marketing based on improving information concerning nutrition and health in a responsible way (pages 46-51).

The business case for Nestlé: simultaneous benefits for Nestlé and society

Nestlé's long-term objective is to create sustainable value for its shareholders. To do this, we need to create value for the societies where we operate. The diagram above shows how Nestlé's actions at each stage of its value chain are driven by its business strategy, but also create value for the societies where we are present.

Reporting boundary and scope

Data is provided for Nestlé's wholly owned companies and subsidiaries, excluding joint ventures and suppliers, unless otherwise stated. As part of continuously developing our approach to shared value creation, we will explore the possibility of widening the scope of our reporting.

The environmental data refer to factories only, including Cereal Partners Worldwide and Dairy Partners Americas. Alcon reports separately. Health & Safety figures cover all Nestlé employees, as well as approximately 61 000 contractors.

Look closer @ nestle.com

Complementary video and slide-show material is summarised in "look closer" boxes throughout this report. At www.nestle.com/csv, you can also listen to audio content, and read case studies, policies and publications on [Creating Shared Value](#).

Business Principles and strategy

Nestlé has a strong corporate culture, which unites people from widely different backgrounds in over 100 countries in a single corporate culture built around basic human values and principles. Our first principle is that our investments must be good for the Company and for the countries where we do business.

Business Principles

The Nestlé culture and relationship to stakeholders is expressed in the:

- *Nestlé Corporate Business Principles;*
- *Nestlé Management and Leadership Principles;*
- *Nestlé Code of Business Conduct.*

Global policies on nutrition, marketing, environment, occupational health and safety and human resources support these principles. [Nestlé's principles and policies are available for download from www.nestle.com/csv/downloads](http://www.nestle.com/csv/downloads)

Key management tools include the Nestlé Environment Management System (NEMS) and our HR Management System. Formal and informal networks of Nestlé experts also share information in order to develop global best practices.

A framework for *Creating Shared Value*

Nestlé's approach is based on:

- A long-term view;
- Strong presences in, and understanding of, countries and cultures;
- Responsibility and accountability.

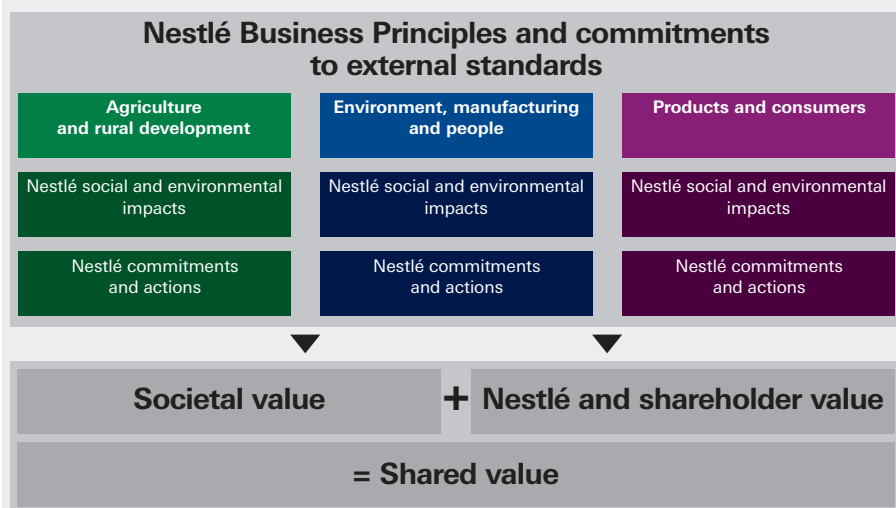
To deliver shared value we will also:

- Continue to develop new skills in response to rapidly changing markets and operating conditions;
- Continue to apply our global principles and standards consistently and rigorously in all countries;
- Foster sustainable development in partnership with others, not just in our own direct operations, but also by collaborating with others on wider issues where we can bring influence and leadership to bear;
- Understand and address the risks and opportunities raised by our most critical sustainability impacts;
- Address them by strengthening our governance and management systems;
- Develop clear goals – financial, environmental and social;
- Work with our business partners and stakeholders to deliver shared value.

Later sections of this report outline specific social and environmental challenges we are addressing in relation to products, consumers, employees, agriculture, sourcing and manufacturing.

The diagram opposite summarises Nestlé's framework for *Creating Shared Value*.

Nestlé's framework for *Creating Shared Value*



In every part of our value chain, from sourcing to end product, *Nestlé Business Principles* and external standards are the basis of all our activities. At every stage, we are committed to managing impacts and delivering benefits, *Creating Shared Value* for Nestlé and society

Engaging with our stakeholders

To understand the environment in which the Company operates, Nestlé experts throughout the Company engage with consumers, investors and NGOs to inform the actions the company takes, the products we produce and the information we communicate. This year, we have also undertaken corporate engagement with opinion formers; see page 54 for more details.

Nestlé also works closely with peers to develop market-wide frameworks. These include the Sustainable Agriculture Initiative (see pages 33–35) and PROGRESS, a forum of leading Fast-Moving Consumer Goods (FMCG) brand producers supporting responsible sourcing practices and sustainable production systems.

Auditing and assurance standards

We ensure rigorous application of principles and policies through auditing and assurance standards:

- Compliance against Corporate Business Principles in the areas of HR, safety, health and environment is assured through our CARE programme, which relies on an independent, external audit network;
- In addition, manufacturing sites are being progressively certified against standards including ISO 14001, OHSAS 18001 and ISO 22000;
- Infant food marketing activities are independently audited internally and externally;
- Suppliers are regularly screened and audited.

Formal governance bodies

- Operations Sustainability Council;
- Audit Committee;
- Risk Management Committee;
- Group Compliance Committee.

The Board is the ultimate governance body of the Company and is responsible for the supervision of the Group. With the exception of Peter Brabeck-Letmathe (Chairman and CEO), all members of the Board of Directors are non-executive members.

For full information on governance, please see our *Corporate Governance Report 2007* at www.nestle.com/csv/downloads

Setting objectives

Nestlé has a culture of continuous improvement and generally considers historical performance trends to be more revealing and useful for future planning than setting individual forward targets.

Manufacturing and our environmental footprint

Opposite: Water treatment plant, Agbara, Nigeria. Nestlé invests in water treatment plants in developing countries even when there is no legislation because maintaining good water quality in the areas surrounding our plants has direct benefits for our business. This plant has served as a model for another treatment plant in Tema, Ghana

Nestlé factories are a major engine of rural development and of new environmental quality standards, particularly in developing countries. Nestlé has made major strides in reducing environmental impact, thus helping to reduce costs and ultimately improving profitability and long-term sustainability.

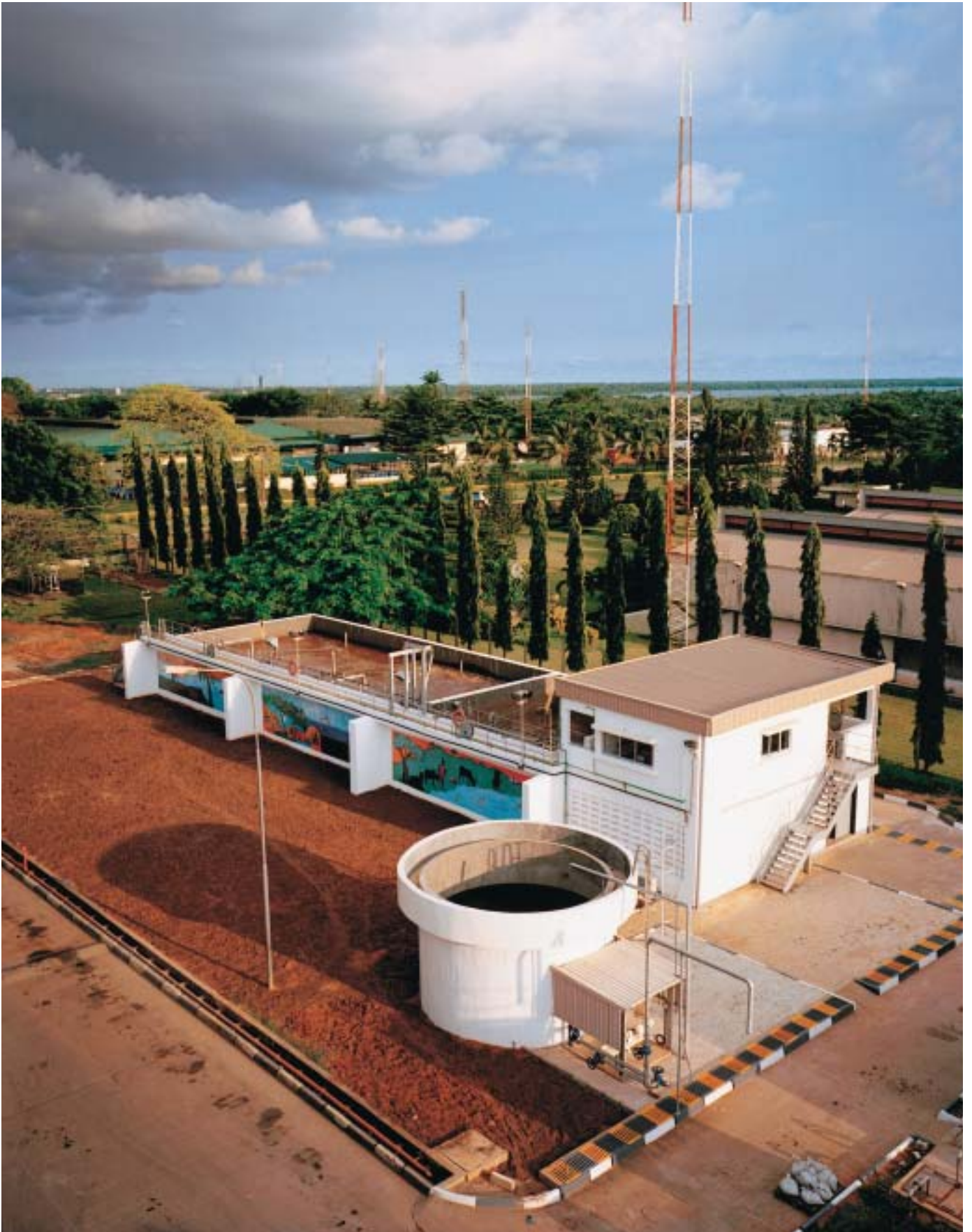
Creating Shared Value

Value for Nestlé

Building high-quality, high-performing factories with good and continuously improving environmental performance, supported by strong local businesses, enables Nestlé to achieve sustainable profitable growth by meeting the increasing demand for food and beverages. As a company that requires high-quality agricultural raw materials and clean water throughout its value chain we depend on a clean environment and the sustainable use of natural resources to assure the long-term success of our business.

Value for society

Our major investments in rural areas help workers acquire new skills and higher income, develop local suppliers and entrepreneurs, and raise environmental standards.



18%

Proportion of factories certified to ISO 14001 and/or OHSAS 18001

The global context

Our principle is to manufacture, when possible, in countries from which we source commodities, rather than to export the raw materials. Regional manufacture for regional markets means our products have fewer miles to travel, resulting in lower transportation costs and less environmental impact. Today, about half our factories are in the developing world, located primarily in rural areas, reflecting our long-term approach to investment and our ability to operate in diverse and complex environments. For example, Nestlé has operated in South Africa since 1927 and in Brazil since 1921. And we continue to manufacture coffee in Côte d'Ivoire despite the sporadic violence and civil unrest there over the last few years. Among Nestlé's major industrial investments in developing countries in 2007 were:

- *Pakistan*: The world's largest milk processing plant in Kabirwala. Investment: CHF 90 million;
- *Brazil*: Popularly Positioned Product plant in Feira de Santana, Bahia province. Investment: CHF 60 million;
- *China*: Milk processing plant in Hailar, Inner Mongolia. Investment: CHF 20 million.



All these facilities have been equipped from their inception with up-to-date environmental technologies, such as plants to treat the water used in manufacturing processes before returning it clean to the ecosystem.

Our key environmental focus areas are water, energy and packaging. As well as managing these areas holistically throughout our business, we are increasingly working along the whole value chain to positively influence how they are addressed beyond our operations. This helps to improve quality, reliability and costs from farm to fork.

[For full coverage of all environmental performance areas, including transportation and refrigeration, please visit \[www.nestle.com/csv/environment\]\(http://www.nestle.com/csv/environment\)](http://www.nestle.com/csv/environment)

Environmental management

We have invested significant resources in the Nestlé Environmental Management System. NEMS helps ensure compliance with legislation and with the Nestlé Policy on the Environment, helps Nestlé to achieve continuous performance improvement and contributes towards sustainable development.

In addition, we are seeking external certifications for all our factories in line with ISO 14001, the internationally recognised environmental management system standard. This provides a common language and enables compliance to be demonstrated more easily to our stakeholders.

18% of our factories are certified to ISO 14001 and/or OHSAS 18001. We aim to certify 100% of our factories by 2010.

84% of our factories have been audited within the scope of our CARE programme.



Estelle Kouadio works in Nestlé's Maggi factory near Abidjan, Côte d'Ivoire, where we have continued our operations despite severe civil unrest in recent years

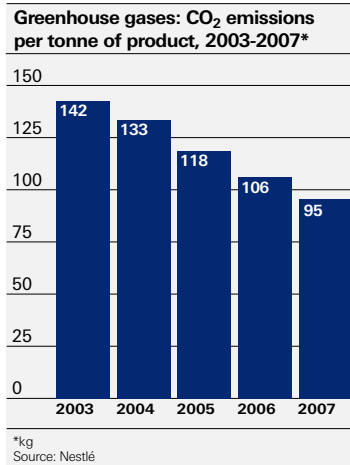
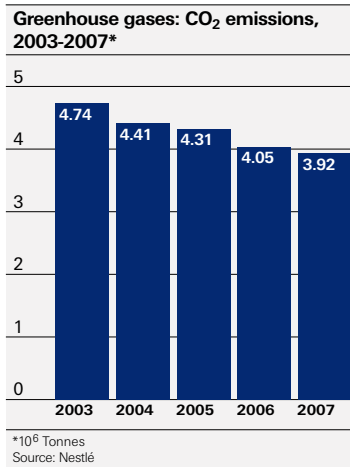
403

Number of factories audited within the scope of our CARE programme

Reducing our carbon footprint

Nestlé's drive for improved energy efficiency has a direct positive impact on our greenhouse gas (GHG) emissions. Additional reduction of GHG emissions is achieved through a number of our factories switching to cleaner fuels such as natural gas. Nestlé has reduced GHG emissions by 17.3% since 2003. We are committed to continue our established track record of improvement for the foreseeable future.

Along with over 2000 of the world's largest companies, Nestlé participates in the Carbon Disclosure Project (CDP), in order to share our strategy and results. This is part of our ongoing effort to enable our performance to be benchmarked and drive further improvements. We are also among a small number of companies participating in a CDP trial to raise awareness among suppliers. We are leading this pilot in our own supply chain to inspire performance improvements and help address the issue of efficiency and energy savings beyond our own operations.



Insight Investment, the asset manager of major institutional investor HBOS Group, gave a 100% score to Nestlé for governance of carbon issues.* We have also been identified as the most carbon-efficient company among the Dow Jones Stoxx 600 food products companies, on the basis of direct GHG emissions per revenue (Merrill Lynch, *Carbon Leaders: Quality Win-Win Stocks*, 31 August 2007).



At the Nestlé Product Technology Centre in Beauvais, France, we are working with partners to develop commercial ice-cream freezers using natural refrigerants and other new cooling technologies that have low energy consumption, no effect on the ozone layer and are inherently safe in public use

We recognise the need to continue working with others to implement our strategy worldwide. Recent progress includes:

- Generating energy from the combined production of steam and electricity (co-generation), which improves energy efficiency and reduces greenhouse gases emitted;
- Methane recovery (methanisation). We increasingly recover methane gas generated from our water treatment plants and we use it as a fuel. In our Shimada factory in Japan, for example, this has resulted in a 38% reduction in GHG emissions.

* Nestlé's overall score in the Insight Carbon Assessment was 57%

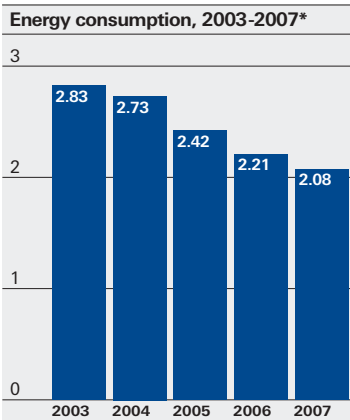
Industrial investments: Hailar milk processing plant, China



Nestlé's state-of-the-art milk factory in Hailar, Inner Mongolia was opened in July 2007 with an investment of over CHF 20 million. Since Nestlé began investing in China two decades ago, we have opened 21 factories and today employ about 13000 people. Nestlé buys fresh milk from some 40000 Chinese farmers and provides them with an overall regular

income of around CHF 500000 per day, fostering rural sustainable development for the communities concerned. At least 200000 people benefit directly and indirectly from Nestlé's milk activities in China. Hailar was one of three major Nestlé investments in rural regions in 2007, the others being in Pakistan and Brazil





*10⁹ Joules (GJ) per tonne of product
Source: Nestlé

We have reduced our energy usage by 3% from 1998 to 2007 while in the same period increasing our production volume by 76%. Our objective is to achieve annual energy savings of 1%-2% per tonne of product over the next five years

We have also recently aligned our reporting of GHGs to internationally recognised standards (Greenhouse Gas Protocol, WBCSD/WRI 2004) so as to present an accurate and consistent account of our emissions through the use of standardised approaches and principles.

We are among the first food companies to join the Global Reporting Initiative multi-stakeholder programme



Co-generation plant at Mainz coffee factory, Germany, where spent coffee grounds are used as fuel

to develop a global reporting standard and indicators on sustainability in the food sector. Nestlé is also among 150 companies calling for a comprehensive, legally binding UN framework to tackle climate change, in a communiqué published by The Prince of Wales' Corporate Leaders Group in December 2007.

For more information, please visit www.nestle.com/csv/climatechange

Improving our energy efficiency

Nestlé improves its energy efficiency, saving around CHF 33 million in 2007 through these efforts, mitigating the impact of soaring energy prices. In addition, we also use renewable energy sources, such as coffee grounds generated in our coffee factories, to reduce our reliance on non-renewable fuels. Nestlé invests significantly in raising awareness, training and technical improvements (approximately CHF 40 million annually).



Integrating CSR concerns into a company's strategy – instead of considering them merely as add-ons – is central to implementing this concept meaningfully. For developing countries, this also means giving special attention to developmental concerns, such as upgrading local suppliers, training and transfer of technology. Nestlé is certainly taking a number of exemplary steps in this direction



Karl P. Sauvant, Ph.D., Executive Director, Columbia Program on International Investment, and Co-Director, Millennium Cities Initiative

Reducing our water consumption

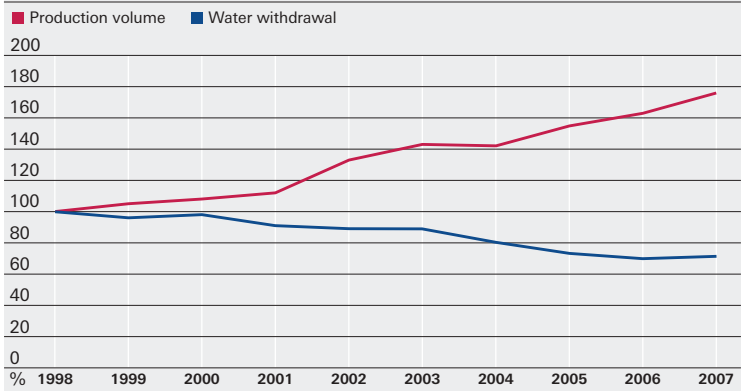
We are committed to becoming the most efficient water user among food manufacturers. Reduction of water consumption has been part of management practice at plant level for many years. A formalised, company-wide effort initiated in 1997 has achieved further significant efficiencies.

Nestlé Waters is the world's bottled water leader but withdraws a very small percentage of global freshwater usage annually. Total volumes withdrawn by Nestlé Waters represent no more than 0.0009% of all water withdrawn by humans. More than half of this water goes directly into the 72 bottled water brands we sell worldwide and quantities withdrawn are strictly aligned with bottling unit needs. The rest is mainly water used for operational processes and cleaning. The amount of additional water we need to produce 1 litre of bottled water is currently 0.81 litres. Through rigorous practices in the production process, this represents a reduction of around 34% over 6 years.

Aquapod is an innovative form of packaging that appeals to children, encouraging them to choose water in preference to sweetened soft drinks



Water withdrawal versus production volume, 1998-2007*



*Relative to index 1998
Source: Nestlé

Since 1998, Nestlé has increased its food production volume by 76%. Over the same period we have reduced our water withdrawal by 28%. We aim to reduce annual consumption per tonne of product further by 2%-3% over the next five years

Bottled water, health and environment

There is growing consumption of bottled water, and level or decreasing consumption of sugared soft drinks. This is positive for health, but does this growing consumption of bottled water have a negative environmental impact?

Nestlé Waters strives to be a responsible water user, working in line with local regulation as well as our own business standards. A dedicated team of hydrogeologists provides advice and monitors the water sources to ensure good stewardship. This is both for the benefit of society, and for Nestlé to be able to sustain a long-term

business. Bottled water also uses far less water than other bottled drinks. 70% of the world's water is withdrawn by agriculture, while bottled water uses very little. Transportation is an issue to be addressed, and we are working to shorten the distance from source to consumer. Regarding use of plastics, Nestlé has developed the lightest-weight bottle in the industry, which is also twice as light as soft drink bottles. The issue of waste produced by discarded water bottles is part of a wider problem that only recycling will solve. While water bottles make up less than 1% of refuse in public dumps in the USA, plastic bottles can be recycled, melted and reused. Nestlé supports a wide variety of recycling initiatives, including the recent New York marathon, where we worked with the New York Road Runners to recycle all the 75 000 containers used to provide water to the competitors. But much remains to be done in recycling of all types of refuse, which must be tackled as an integrated system. In the majority of places where we sell bottled water, most consumers also drink tap water. However, the convenience of chilled water in a bottle continues to be increasingly demanded by consumers and preferred to soft drinks.

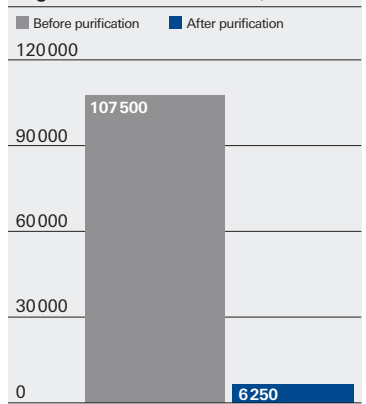


At the Gerber baby food factory in Fremont, Michigan, water used in primary plant processes (such as washing raw materials, pictured) is recycled for secondary uses (for example, washing floor drains). It is then piped 4 miles down the road to the Gerber 450 acre farm to irrigate crops that are grown to produce animal feed for local farmers

Returning cleaned water to the ecosystem

Our first objective is to minimize the volume of water used in our operations. Secondly, we continue to invest in plants to treat water after it has been used in manufacturing, returning cleaned water to the ecosystem. We decrease the organic burden to the environment by treating water to remove the vast majority of organic pollutants.

Organic load in waste water, 2007*

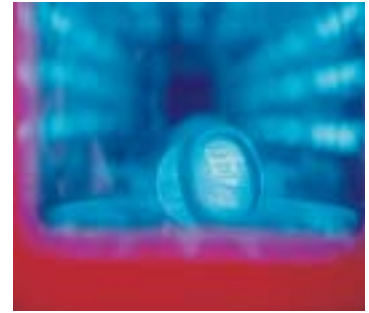


*Tonnes Chemical Oxygen Demand (COD)
Source: Nestlé

Treated water leaving Nestlé factories is returned cleaned to the ecosystem, containing reduced levels of COD (Chemical Oxygen Demand, or organic pollution in water) after purification in Nestlé plants



Left: Khun Taleungkiet at the Chachoengsao coffee factory in Thailand, testing the quality of water that has been treated for re-use. It is our first “zero water discharge” factory that recycles almost all water, either in cooling towers or for irrigation of an adjacent coffee nursery



Key challenge

Sustainable water use

As populations rise and standards of living improve, demand for fresh water is forecast to increase. Over 1 billion people currently lack access to water and over 2.4 billion lack access to basic sanitation. Nestlé needs access to clean water to conduct its business, consumers need it to prepare many of our products, and our supply chain partners need it to produce the agricultural raw materials we rely on.

Our response

We have reduced water withdrawal in our direct operations by 28% since 1998. At the same time our production volume has increased by 76%. As well as managing our direct water consumption, we are increasingly contributing

to improving the management of water outside our direct operations. We support Project WET, an education programme promoting water stewardship. Since 1992 this has reached several million children in over 20 countries. Agriculture withdraws some 70% of available freshwater globally so we are increasingly working to help our supply chain to improve their practices through our extensive network of agricultural advisers (see Agriculture and rural development section). As a founding signatory of the UN Global Compact CEO Water Mandate in July 2007, Nestlé has also invited business leaders to address the global challenge of water access and scarcity.

[Read more at www.nestle.com/csv/water](http://www.nestle.com/csv/water)

Optimizing packaging

Packaging is essential for food safety and freshness, and it also provides consumers with nutritional and environmental information at point of purchase. Nestlé has adopted an integrated approach: reducing materials used where feasible; providing meaningful information to consumers about recycling and recovery; developing recyclable packaging from renewable resources; and supporting the development of public recycling schemes.

We have reduced the volume of packaging material used per litre of bottled water by 22% over the last 6 years, saving 257 000 tonnes of packaging material. We also continue to develop innovative packaging materials. We were the first company in Europe to introduce Plantic, a biodegradable alternative to plastic, made from renewable resources, for packaging manufactured food products.

CHF 583.7 million

Cost savings from optimized packaging volumes over 16 years



Communicating environmental information on our packaging

We provide our consumers and business partners with clear, accurate environmental information based on scientific evidence. Different means exist to communicate this information efficiently. One option is the packaging itself. For example, our new *NaturNes* baby food pot shows that it requires less energy and produces fewer CO₂ emissions than the previous version – over its life cycle from farm to

spoon and including recovery of packaging. This results from the weight reduction achieved by replacing a glass jar with a plastic pot, as well as energy savings from the new manufacturing process and the energy recovered from used plastic pots. It has been substantiated by a Life Cycle



Above left and above: *NaturNes* baby food being microwave-tested at the Nestlé technology centre in Singen, Germany, to confirm the optimum settings and methods for uniform heating of the product by consumers. Information on product use and packaging recycling is communicated clearly on-pack

Assessment, which follows the latest methods established in international standards (ISO 14040:2006 and ISO 14044:2006) and has been reviewed by a panel of four external experts.

For more information, please visit www.nestle.com/csv/packaging

Looking ahead

We will continue to develop our environmental management, with a focus on:

- Maintaining continuous improvements in our environmental performance;
- Encouraging our business partners to apply environmental management systems based on the ISO 14001 international standard in their own operations;
- Communicating reliable environmental information to consumers in a meaningful and straightforward way.

Look closer @ nestle.com

Watch a video on energy efficiency in 4C coffee production at www.nestle.com/csv/stories

Our people

Opposite: Workplace safety at Nestlé is non-negotiable. Whether working at the Nestlé Shuangcheng milk factory in China or at our other operations worldwide, the same universal standards of safety are applied

Long-term investments in training give people better job opportunities and increased income, and provide Nestlé with a skilled workforce to manufacture food products.

Our principle is that each employee should have the opportunity to develop his or her potential in a safe and fair workplace where they are listened to, respected and valued.

Creating Shared Value

Value for Nestlé

By maximizing the performance of our people and ensuring they have the motivation and skills to perform to their full potential, we achieve superior business results and future sustainable growth.

Value for society

Nestlé offers employment opportunities worldwide, providing the potential for a better standard of living and self-development.



276 050

Number of employees worldwide



The global context

Nestlé has a strong corporate culture which unites more than 275 000 people from over 100 countries. 34.5% of our workforce is in Europe, 38.3% in the Americas and 27.2% in Asia, Oceania and Africa. Around half of our employees work in developing countries, with a high proportion employed in their country of origin. In Africa, for example, only approximately 3% of our workforce is not originally from that continent.



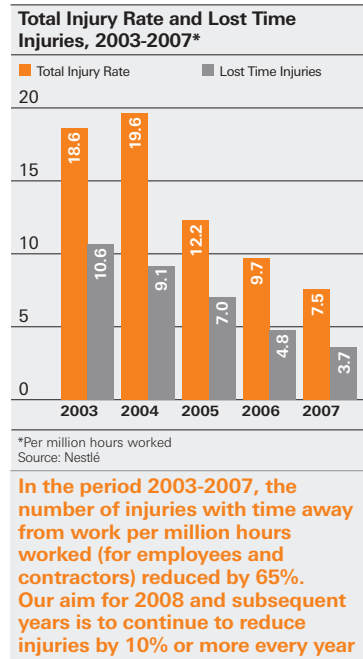
Nestlé depends on a skilled and motivated workforce for continued success. Mechanic Frank McClamma and machine operator Leconya Rhym at the Nestlé Waters factory in Madison, Florida, manufacture Aquapod, an innovative concept in encouraging children to drink water in preference to sweetened soft drinks

Health and safety at work

The Nestlé Occupational Health and Safety Management System (NSMS) was revised in line with the 2007 edition of the international standard OHSAS 18001 and reissued to all Nestlé operations, reinforcing our commitment that “Safety is non-negotiable”. We are also working towards external certification of our factories against OHSAS 18001. This will provide a common language around our health and safety management systems, and make it easier to demonstrate implementation of these standards to our stakeholders.

Despite our continuous efforts to prevent accidents and foster a culture of safety, we deeply regret that there were 15 fatalities in 2007 due to accidents while at work (11 employees, of which 8 were traffic accidents offsite – often in challenging rural areas with poor and limited infrastructure – and 4 contractors).

A key requirement of NSMS is to ensure that Behaviour-Based Safety (BBS) is in place in all our factories and distribution centres. Nestlé’s BBS programme concentrates on awareness-raising and personal and interpersonal responsibility for safety and is critical in reducing accidents. In addition and in recognition of the employee deaths due to traffic accidents, a major focus on road safety will commence in 2008 to help minimize vehicle-related accidents.



Also of high importance is the independent audit programme, CARE, which reviews Nestlé’s compliance with our Corporate Business Principles (available for download at www.nestle.com/csv/downloads) in the areas of human resources, safety, health and environment, including compliance with local laws.

A fair workplace

Nestlé has a strong management framework which guides employee relationships. Principles are laid down in the *Corporate Business Principles* and *Human Resources Policy*, with guidelines adapted to local laws and norms. It is our policy to abide by national laws in all countries in which we have operations and to comply with the ILO conventions on child labour and fair employment.



Nguyễn Thanh Tuấn and Nguyễn Văn Tuấn at the Dong Nai factory in Vietnam, keeping fit in their lunchbreak by playing table tennis. Nestlé runs wellness-at-work programmes worldwide

Key challenge

Empowering high-performing teams

Within diversified, decentralised operations in emerging as well as developed economies, our key challenge is to continuously build local capacity, expertise and leadership to raise standards across the board.

Our response

Nestlé continuously promotes a culture of engagement and performance and strives towards best practice. For example, we have introduced Mission Directed Teams (MDTs) in a number of our operations. Each MDT is a mini-business focused on delivering high-quality products and services to other internal MDTs. Early results from pilots in our manufacturing plants show value being delivered through efficiency gains, higher levels of engagement and service improvements. For example, MDT made a significant contribution in Blacktown, Australia, where past results have shown customer complaints falling by 33% on prior year (a key focus was product quality issues), and absenteeism reduced by 6.5% to below 3% of hours worked.

Nestlé's compliance with local laws and with our Corporate Business Principles is verified through CARE, our independent audit programme, which covers areas of human resources, occupational health & safety and environment. For environmental performance, see the Manufacturing and our environmental footprint section on pages 10-19; for occupational health & safety, see the graph on the opposite page.

Nestlé respects the right of employees to form representative organisations and to join (or not to join) trade unions, provided this right is freely exercised. It is our policy to govern the relationship with unions in accordance with national laws and the practices outlined in the *Nestlé Corporate Business Principles*. There are Collective Bargaining Agreements in 19 developing countries, covering 39 340 employees.

Listening and responding to employee views

Businesses throughout Nestlé listen and respond to employees. Nespresso globally conducted an independent survey, which provided constructive feedback from employees on a range of topics. A clear finding was that Nespresso employees wanted the business to take a fresh look at internal communication. Nespresso responded firstly by running structured workshops to help translate opinions into action. Various initiatives were implemented as a result. These range from new opportunities to meet and share ("mystery lunches" and monthly departmental

Developing future leaders

We need to maintain a global pipeline of talented people who can help us keep our competitive advantage and achieve sustainable growth. We have 917 global Key Business Positions and have, in 2007, identified around 3000 current employees who have the potential to fill these and other key positions.

Other key statistics:

- For every global Key Business Position, there are more than two successors on average;
- 24% of leadership positions (defined as having people management responsibilities) are occupied by women.

With manufacturing processes, headquarter operations and R&D capacity structured to build significant local presences, Nestlé relies on competent local workforces and leadership. 42% of Local Management Committee members in developing countries are native to that developing country.



Nestlé employees undergoing intensive training courses at the Rive-Reine International Training Centre, Switzerland

“

By investing in safe workplaces, and empowered, well-trained and professionally developed people, businesses at once create increased productivity and loyalty for themselves, but also enhance the local talent pool. This phenomenon is especially acute in developing countries and is evident in particular for large companies like Nestlé who are integrated into developing country societies

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Rob Goffee, Professor of Organisational Behaviour, London Business School

meetings) to improved information sources (intranet and publications library). In addition to business-specific surveys like Nespresso's, Nestlé is conducting a global employee survey. This is currently underway, and we will be able to report on it in future publications.

Supporting employees through business changes

In March 2004, Nestlé Purina PetCare (NPCC) announced the intention to close their pet food canning factory in Barrhead, Scotland, due to the continuing downturn in the canned pet food industry. The age and layout of the factory ruled out any potential upgrade to dry or foil-sealed pet foods. 206 people were employed at the factory. NPCC formed a resettlement team made up of management and unions, which worked in close partnership with local job and training agencies. Employees were supported with job search services, CV preparation, careers and training advice, a jobs fair and pension advice. 197 of the former employees responded to a post-closure survey. 85% of respondents had used the services provided. 96% rated out of 10 (most positive) the services at 5 or above. 62% of respondents were in work approximately three months after exit from the plant, with only 7% still actively seeking employment at the time of the survey. Others specified "taking a break", "still with Company" and "Further/ Higher Education".

Building our capabilities

We need to build the capabilities required for short- and long-term success through on-the-job experience, coaching relationships and off-the-job learning. In 2007, 65 647 employees in 33 developing countries received formal classroom training.

Agriculture and rural development

Opposite: Mrs Asso Koffi, owner of a cassava plantation from which Nestlé purchases supplies, with Pondo Kouamé, head of Nestlé agricultural services in Côte d'Ivoire. Nestlé is supporting government and UN efforts in West Africa designed to increase the quantity and quality of production, as cassava plays a vital role in employment of African farmers and in feeding millions of people throughout the continent

Nestlé spends approximately CHF 13 billion a year on agricultural materials such as milk, coffee and cocoa. So, although we do not own any agricultural land or operate commercial farming activities, we seek to improve farmers' living standards, environmental practices and water usage. This gives Nestlé access to high quality raw materials.

Creating Shared Value

Value for Nestlé

By engaging closely with the communities that supply us with agricultural commodities, we benefit from a more secure supply of better quality raw materials, which lowers our procurement costs (due to fewer middlemen, fewer defects and reduced waste), and results in better end products, helping to ensure consumer preference and profitable growth for our brands.

Value for society

Thousands of farmers use our advice and technical assistance to produce greater yields of higher quality crops using fewer resources, which benefits the environment and increases their income. Rural communities also gain from wider employment and economic development opportunities. Consumers also know the products they buy are safe, of high quality and produced using sustainable agricultural practices.



The global context

The world currently faces three major issues that particularly influence the future of our business and our industry.

They are:

- The growing demand for food in countries like China and India because of improving family incomes;
- The growing scarcity of water globally;
- The continued poverty, ill health and lack of purchasing power of over 2 billion people in rural areas.

The problem of water scarcity must be addressed while increasing production of food, and at the same time, we must work to bring rural communities into the cash economy with adequate access to nutrition, water and sanitation.



Rural development

Nestlé has a long history of helping farmers to be better and more prosperous suppliers. This has a positive long-term impact on economic and environmental development and standards of living, sometimes helping entire regions to increase agricultural productivity and economic performance. This often begins by helping farmers through agricultural programmes that share good environmental and water management practices.

Our team of 675 agronomists and approximately 5000 extension workers and contractors currently offers support and training assistance to 111 800 farmers via 28 projects in 21 countries as well as maintaining ongoing dialogue with traders, governments and NGO partners. There are no conditions attached to the assistance we give and farmers are not obliged to sell their produce to Nestlé.

Such projects secure supplies of higher-grade raw materials, which ensure we can maintain production of high-quality end products. For example, Nestlé's Doi Tung Experimental and Demonstration Farm helps

hundreds of farmers in northern Thailand to grow Arabica coffee. They receive practical training on coffee fertilisation, irrigation and harvesting techniques, which helps their coffee to command a higher price. We have taken a similar approach in Yunnan Province, China, where Nestlé has set up a training centre, demonstration farm, nursery and buying station.

Zhengjun Wang, who owns nine cows and six calves, has been supplying milk to the Nestlé plant in Shuangcheng, North-East China, since 1990. A Nestlé project in the milk district now provides farmers with proper manure storage facilities, which reduces impact on water sources and also creates a biogas energy source for farmers' homes

United Nations Development Programme Partnership

A joint programme between the UNDP, Nestlé Pakistan and Engro Foods has trained 4000 women agricultural advisers, whose assistance and advice is helping to increase milk production among dairy farmers in rural Pakistan who supply fresh milk to Nestlé.

To build confidence in the milk trade, Nestlé India established well-equipped milk collection centres, and its field staff provide farmers with technical assistance and advice about animal health, breeding and fodder production. This has helped to raise the quality and value of the milk produced by 85 000 farmers, and, we believe, improved the health and economy of the local community. Nestlé is also working with schools and local associations to improve drinking water and toilet facilities in schools within the milk district serving the Moga factory, while another project helps to fund medicines for a local tuberculosis clinic.

Sourcing profile

Nestlé buys CHF 8 billion of agricultural commodities from emerging economies every year – around two-thirds of the Company's total expenditure on raw materials – and nearly 40% goes towards three key commodities: milk, coffee and cocoa. Over half a million farmers (610 000) supply Nestlé directly.



More than 4000 women in Pakistan are learning new agricultural skills, such as raising livestock and managing water resources, through training provided by Nestlé

Each of the key regions from which Nestlé sources its products has its own political, socio-economic and environmental conditions, but Nestlé works to protect the security of its supply, the quality of the resources available, and rural employment and development.

For example, soil erosion can be a challenge in mountainous countries with heavy rainfall like the Philippines. Nestlé's agricultural experts have worked with the Ministry of Agriculture and local coffee farmers to implement the SALT (Sloping Agricultural Land Technology) programme. By planting along contour lines and using vetiver grass to bind the soil, erosion has been reduced by up to 90%, soil fertility has improved and crop yields increased.

Key challenge

Biofuels

In addition to being a source of food, some crops such as maize and wheat can also be grown as a source of energy. Such "biofuels" are considered by some to be a long-term, low-carbon energy option.

Nestlé believes that decisions about energy sources must be based on cost-benefit and life-cycle analysis, and should consider their full social and environmental impact, including the effects on food prices and water. Current biofuel production has contributed to significant price increases and is likely to eventually create food shortages for millions of low-income consumers. Agriculture already withdraws 70% of available water sources, and with every litre of biofuel from irrigated maize or soybeans requiring up to 5000 litres of water to produce, any large-scale expansion will make water even more scarce. Furthermore, depending on crop type and location, greenhouse gas savings compared to fossil fuel can actually increase in some cases.

Nestlé sourcing profile, 2006

Milk	Coffee	Cocoa*
11 850 000 tonnes CHF 4000 million	750 000 tonnes CHF 1600 million	370 000 tonnes CHF 930 million
Other: fruit, vegetables and cereals partly sourced directly from farmers; sugar, oil, meat, spices and other ingredients sourced through trade		
<small>*Cocoa beans, powder, butter and liquor Source: Nestlé</small>		

Milk

Nestlé is the world’s largest milk company, sourcing 11.8 million tonnes of milk from more than 30 countries. But as rising disposable income levels in developing countries lead to greater demand, securing a plentiful supply of fresh, high-quality milk in economical and efficient ways remains a challenge.

Nestlé’s approach includes the development of milk districts, which involves regular purchasing of milk from local farmers, regardless of how much or how little they produce. It also requires adapting or installing collection, storage and chilling facilities, and arranging transportation to a local factory. Such investments demonstrate to local communities that we will be there for the long term.

Local communities also benefit from much more than just a market for their milk. Training is provided through Nestlé agronomists and field technicians, and sometimes in partnership with a local college or university. Quality control, traceability and food safety systems are also put in place, financial support is available,

and farmers are assured regular payment at a fair price.

Nestlé’s milk district model, introduced in Switzerland in the 1870s, has been replicated and adapted for use in Latin America, the Caribbean, Asia and Africa – and most recently in Inner Mongolia. On average, milk districts are growing by 2–5% annually, and some by as much as 10%, generating millions of dollars into rural economies every year.

Caquetá, a poor and sparsely populated region of Colombia with over 1 000 000 hectares of grazing land, is home to a Nestlé milk district. Over the last 30 years, Nestlé has installed three plants and 220 cooling stations, and regularly provided 2800 farmers with technical advice on animal nutrition, farm development and road construction to improve the quantity and quality of their milk.



Food businesses in particular have a significant interest in enhancing agricultural productivity and sustainability. World population is rising rapidly, and fortunately more and more people are emerging from poverty. They are demanding more and better food, creating great opportunities for farmers and the food industry. The challenge, though, is to make sure this demand can be met, not just today and tomorrow, but in the long run – in spite of the world’s limited resource base. And nowhere is this more evident than in the area of water security. Companies that actively engage in helping agriculture – as the biggest water user – enhance sustainable water use, are investing in their own supply chain security



*Professor Stefan Tangermann,
Director for Trade and Agriculture, OECD*

97500

Tonnes of coffee sourced directly from farmers

Coffee

Coffee is the second most traded commodity in the world after oil, and grows best within the “coffee belt” between the tropics of Cancer and Capricorn that spans Latin America, Africa and Asia. For many countries, coffee is a valuable export, and for some communities, its cultivation is the primary economic activity. The coffee supply chain is extremely complex, with 80% of farmers operating as smallholders with a few hectares of land or less. Around 25 million smallholders depend directly on coffee farming for their livelihoods, and a further 100 million people are involved in the industry as a whole.

In coffee-producing countries where we have factories, our direct buying system allows farmers to deliver coffee directly to our buying stations. Nestlé’s seven buying stations in southern Thailand, for instance, receive coffee from about 20 000 farmers who, by avoiding intermediaries, receive a higher price.

Nestlé purchased 750 000 tonnes of green coffee in 2006, about 13% of it directly from farmers, making us the world’s largest direct purchaser.

Nestlé also offers coffees which are Fairtrade certified (or other certified coffees), where consumer or retail customer demand is sufficient. *Nescafé Partners’ Blend* is one example.



Nestlé agronomists and Colombian producers share best practice methods for coffee-drying, just one of the sustainable agriculture topics discussed as part of a week-long exchange of ideas and learning under the Nespresso AAA Sustainable Quality Programme

Nespresso AAA Sustainable Quality coffee

Only about 2% of the world’s speciality grade coffees meet the specific profile of Nespresso’s Grands Crus. So to ensure a consistent supply in the future, we encourage and reward farmers who grow such grades, developing lasting, mutually beneficial relationships and improving traceability in the supply chain.

“AA” has always stood for the highest-quality coffee, but in 2003, Nespresso incorporated an additional “A” for sustainability. The resulting Nespresso AAA Sustainable Quality Programme draws on our relationships with suppliers and partners to ensure our coffee is produced to the highest quality standards but also considers the social and economic value for farming communities and its environmental sustainability.

Working closely with the Rainforest Alliance, our commitment includes:

- Paying farmers a premium price for their AAA coffee;
- Setting out the practices required by the AAA standard;
- Analysing the data from the independent verification process conducted by Rainforest Alliance;
- Providing technical training and assistance to farmers;
- Investing in wider community projects.

In 2007, 35% of the total green coffee beans Nespresso purchased came from farms in the AAA Sustainable Quality Programme. This is an increase from 25% in 2006, and we have committed to increase this to 50% by 2010.

The AAA Sustainable Quality Programme has been rolled out in Mexico, Guatemala, Costa Rica, Colombia and Brazil.

([See www.nespresso.com](http://www.nespresso.com) for further information)

In November 2007, the second AAA Sustainable Quality Coffee Forum took place in Costa Rica. ([Read more at www.nestle.com/csv/AAAforum](http://www.nestle.com/csv/AAAforum))

In 2006, Nespresso and TechnoServe initiated a three-year sustainable development project in Caldas, Colombia, to help coffee farmers improve the quality of their coffee and their yields, and achieve higher prices as a consequence. The total investment of CHF 847 000 – including CHF 472 000 from Nespresso and TechnoServe – is being used to improve farm productivity, establish a pricing system and help build new laboratories. By 2011, the investment is expected to have generated an additional CHF 3.5 million GDP in the Caldas region – around 20% (CHF 880) extra per farmer – and enabled Nespresso to buy 25 000 bags (1500 tonnes) of AAA green coffee.



At this Nestlé-sponsored farmers' field school in Nobeckro, South-West Côte d'Ivoire, topics include responsible labour practices, the importance of schooling for children and sustainable farming methods. Cocoa from farms like this will be used in leading Nestlé chocolate brands manufactured at York in the UK



Cocoa

Although Nestlé does not own any cocoa farms or plantations, we are committed to contributing to more sustainable cocoa growing through programmes run with other members of industry, governments in the producer countries of West Africa, and other partner organisations.

Nestlé is:

- A founding participant in the International Cocoa Initiative (ICI), a joint industry – labour union and civil society initiative which works to eliminate child trafficking and abusive labour practices;

- Working closely with West African governments, labour experts and other industry partners to implement a system of certification for cocoa-growing regions, which will help to improve the lives of children and families on cocoa farms by identifying non-compliance with ILO convention 182 regarding child labour and taking corrective action where problems are identified;
- A member of the World Cocoa Foundation, which supports cocoa farmers and their families worldwide.

Nestlé is also funding a three-year sustainable cocoa project with three co-operatives of about 3000 farmers in Côte d'Ivoire.

This scheme, in conjunction with the International Cocoa Organization (ICCO), the ICI, cocoa exporter ECOM Agroindustrial and local non-governmental organisation FEMAD (Women, Action and Development) aims to improve cocoa farmers' incomes, protect the environment, combat child labour, improve school attendance and increase HIV awareness. Further projects in West Africa are under development.

Initiatives and partnerships

Nestlé actively participates in a number of international initiatives and cross-sector partnerships that promote sustainable agricultural practices. Of particular significance are:

Common Code for the Coffee Community (4C)

See page 34 for more details.

Sustainable Agriculture Initiative (SAI)

The Sustainable Agriculture Initiative of the Food Industry (SAI-Platform), co-founded in 2002 by Nestlé, Danone and Unilever, now involves 22 major food trading and producing companies. Its main objectives are to address:

- Quality and safety in the food supply chain;
- The growing global demand for food;
- The possible adverse effects of agriculture on natural resources and the environment.

Children in Kaleke, India, at a well built in their school as part of a Nestlé partnership to bring clean water to villages in the milk collection district around its Moga factory

Key challenge

Water management in agriculture

Agriculture uses nearly three-quarters of the world's available fresh water, so good water management is fundamental to the livelihoods of farmers and their communities. Many programmes around the world help to train agricultural workers to address issues such as irrigation, water scarcity and sanitation.

These include the UN Global Compact CEO Water Mandate, a public-private initiative between the United Nations Global Compact and a group of committed companies and organisations launched in July 2007.

Our response

As a founding signatory of the Mandate, Nestlé is a vocal public advocate for access to clean drinking water, and has made considerable efforts to share knowledge and best practice on agricultural water use and protection. These include:

- Providing 85 water wells in schools in villages within the Moga milk collection district in India;
- Working with milk producers in South Africa to use more efficient tillage practices, night-time irrigation and computerised irrigation systems;



- Teaching Vietnamese coffee farmers efficient irrigation techniques expected to reduce water use by 60%;
- Supporting a local government programme to help farmers in the Shuangcheng milk district, China, to store farm effluent correctly to avoid contaminating groundwater.

In 2000, the Sustainable Agriculture Initiative Nestlé (SAIN) was launched to promote sustainable agriculture and improve efficiency and risk management. To provide a systematic framework for Nestlé's many water-related projects, the Company has made water a key SAIN activity.

Common Code for the Coffee Community (4C)



The Common Code for the Coffee Community (4C) builds on a voluntary code of conduct adopted by the coffee producers, traders, civil society and other stakeholder organisations that form the not-for-profit 4C Association, who are committed to good farming and management methods to improve efficiency, profitability, transparency and sustainability in the production, processing and trading of coffee.

By December 2007, approximately 6 million 60 kg bags (360 000 tonnes) of coffee, 6% of the world's supply, was 4C-verified, and more than half of the global coffee producers, as well as the largest trading houses,



roasters and manufacturers, are now represented among the 72 members of the 4C Association. Nestlé will receive 4C coffee in 6 of our coffee factories by the end of the first quarter of 2008.

[Read more online at www.nestle.com/csv/stories](http://www.nestle.com/csv/stories) and www.sustainable-coffee.net

Top left: Mrs Vo Thi Think, a coffee farmer in Vietnam, delivers her first lot of coffee verified under the Common Code for the Coffee Community (4C) scheme, having taken part in 4C training and produced her coffee in line with the Code

Above left and right: Auditors visit a farm to verify that its farming and management principles adhere to the 4C Code, and check coffee quality. Top right: Coffee-drying on a Vietnamese farm

6%

Proportion of world coffee supply currently 4C-verified

Within the SAI framework, Nestlé has worked with farmers to develop best practices in milk production, and coffee, cereal, fruit and vegetable growing. It also plans to expand these activities to all main raw materials and to issues such as use of water in agriculture and biofuels. Through its coffee working group, Nestlé is involved in three sustainable coffee production pilot projects, each undertaken in collaboration with a major trade partner:

- ECOM in Nicaragua;
- Volcafé in Guatemala;
- NKG Partnerships in Vietnam.

📄 [Find out more at www.saiplatform.org](http://www.saiplatform.org)

Managing supplier relationships

In 2007, Nestlé conducted 3400 audits of suppliers' facilities to help ensure that they comply with Nestlé food safety standards. (📄 [See www.nestle.com/csv/downloads](http://www.nestle.com/csv/downloads))

Our objective is a global, supply-chain-wide system of quality, social and environmental audits, which will not only reduce the total burden and any duplication of work, but also help us to



replicate best practice across all key sourcing areas, continue building partnerships and deliver measurable results. Nestlé is also a member of AIM-PROGRESS Task Force. This is an initiative comprised of leading Fast-Moving Consumer Goods (FMCG) companies that supports the use of common evaluation methods to determine CSR supplier performance and help promote responsible sourcing practices within the supply chain.

Nestlé insists on honesty, integrity and fairness in all business relationships, and when instances of non-compliance are discovered, corrective measures are needed for the supplier to be retained. It is Nestlé's policy to apply sanctions in the event of misconduct or abuse of ethical standards and guidelines.

As part of the Nestlé Sustainable Agriculture Initiative, this project in Vietnam is passing on expertise in sustainable farming practices to coffee growers

Furthermore, we make clear our expectations with regard to the social conditions of the farmers we buy from, with child labour and employee health and safety all high priorities.

📄 [Detailed policies and guidelines concerning our position on these and other issues can be found at www.nestle.com/csv/downloads](http://www.nestle.com/csv/downloads) All measures taken to support environmentally sound business practices and improve environmental performance are set out in Nestlé's *Policy on the Environment*.

Direct Purchasing guidelines

Nestlé is aware of the strain agricultural processes can put on environmental resources and ecological habitats. In order to maximize the performance of our agricultural inputs and minimize potential negative impacts, Nestlé has issued purchasing guidelines recommending, wherever possible, sustainable farming practices in the case of direct procurement from farmers.

Look closer @ nestle.com

📄 [Watch videos on 4C-certified coffee and the International Cocoa Initiative at www.nestle.com/csv/stories](http://www.nestle.com/csv/stories)

Products and consumers

Opposite: Liz Ellis, former Australian national netball team captain, fronts a major television advertising campaign for a range of Nestlé products, emphasising how all of them combine taste and enjoyment while fitting into a healthy lifestyle

Nestlé's core business strategy is Nutrition, Health and Wellness – offering products of superior value to those of our competitors, which improves both consumer wellbeing and Nestlé sales results.

Creating Shared Value

Value for Nestlé

By responding to consumers' changing needs, integrating further into society and communicating clearly, our brands and customer loyalty are strengthened, bringing long-term enhanced growth, market share and profitability.

Value for society

Increasing numbers of consumers get access to safe, high-quality, nutritious food products. They also gain a greater knowledge of health issues, as well as a better understanding of how they and their families can use Nestlé products for a safe, healthy and enjoyable diet.



Nutrition, Health and Wellness

Nutrition, Health and Wellness profile

From the very origin of our Company, our strategy has been based on nutritious products that contribute to the health and wellbeing of consumers. In recent years, Nestlé has reinforced this strategy, becoming the world's leading Nutrition, Health and Wellness company, with total Group sales of CHF 107.6 billion.

Nestlé invests in continuous development and renovation of its products to enhance their quality and nutritional value. It also continually adapts them to meet consumers' changing preferences, as they evolve beyond taste, enjoyment and convenience towards the added benefits of nutrition and personal health.

Making nutrition the preferred choice: 60/40+

Nestlé's strategy is based on offering products that have proven superiority in consumer preference and nutritional value over the competition. This is based on a proprietary product testing process called 60/40+. Championed across all Nestlé businesses by the Corporate



Wellness Unit, the programme gets its name from its dual aim: gaining the approval of at least 60% of consumers in a taste test while bringing a nutritional "plus". The process helps to continually improve the taste and nutritional value of our products, contributing to market share gains and improved profitability.

To have the most impact, the programme focuses on our best-sellers. Products with a sales value of CHF 14.6 billion were tested in 2007, making 60/40+ the largest nutrition-focused programme in the Food and Beverages industry.

Exemplifying the 60/40+ programme, Nestlé India launched *Maggi Dal Atta Noodles*. This is not only one of the country's most popular snacks, but offers protein and dietary fibre in the form of *atta* (a whole wheat flour) and vegetables, with reduced salt content.



60/40+ product testing is implemented worldwide, resulting in products with added nutritional value, produced to suit local tastes. Maggi Dal Atta Noodles, for example, are formulated to meet the specific needs and preferences of consumers in India

“

As an increasing number of societies begin to move out of poverty, it's quite likely that over a period of years, the disease profile changes from infectious diseases as the main cause of death, especially among children, to an emphasis on chronic, mostly non-infectious, diseases, which primarily affect adults and the elderly. Safe, nutritious food, especially if it is fortified with key micronutrients that are present in the average diet in insufficient amounts, can have a significant impact on chronic diseases, precisely because there is a huge incentive for enlightened manufacturers to contribute to public health at the same time as they are growing their penetration. From my experience in Mexico, I believe that Nestlé has truly understood this dynamic and is delivering genuine shared value through its products in that society

”



Julio Frenk, former Secretary of Health of Mexico

CHF 11 billion

Approximate value of annualised sales of Nestlé Nutrition

Nestlé Nutrition

Nestlé Nutrition is a global, standalone business that focuses on delivering science-based nutrition products and services designed to address specific health and wellness needs. With a presence in more than 100 countries and with more than 20 000 employees, it operates in four key business areas:

- *Infant Nutrition* (infant formula, toddler and baby food): Helping infants and young children to grow and develop into healthy adults;
- *HealthCare Nutrition*: Products for the elderly, and for people recovering from, or managing, certain medical conditions;
- *Performance Nutrition*: Promoting peak mental and physical performance for athletes and highly active people;
- *Weight Management*: Offering personalised weight management programmes that help consumers to lose weight.



Gerber products being put through their paces at a tasting session. Gerber has developed "Start Healthy, Stay Healthy", an initiative using the latest nutrition research to help parents establish healthy eating habits for their children

Nestlé Nutrition, 2007

Business area	Position
Infant Nutrition*	1st
HealthCare Nutrition	2nd
Performance Nutrition	1st**
Weight Management	1st***

* Baby food and infant formula
** Position of performance bars in North America
*** Position of personalised weight management in North America
Source: Nestlé

With the acquisition of the Gerber Baby Food Company in September 2007, infant feeding solutions and baby food make up more than 70% of Nestlé Nutrition's business (Baby Food 44%, Infant Formula 29%). This now gives us the number one position in the largest single baby food market worldwide, the United States, and clearly establishes Nestlé Nutrition as the global leader in the sector.

This acquisition comes in the wake of two others – Novartis Medical Nutrition and Jenny Craig – transforming Nestlé Nutrition into a business with annualised sales of about CHF 11 billion.

📄 See www.nestlenutrition.com for more information.

CHF 1.88 billion

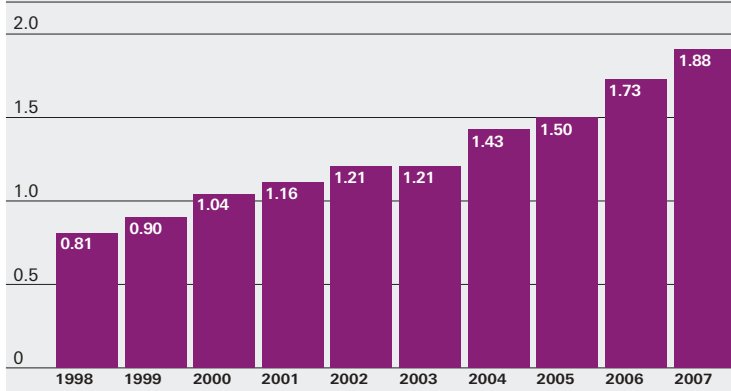
Value of Nestlé R&D expenses in 2007



Nutrition research underway at the Nestlé Research Center, part of the world's largest private nutrition research network

largest private facility for nutrition-related research, with a permanent staff of 700, including over 300 scientists, representing 48 nationalities. The NRC (www.research.nestle.com) is the hub of Nestlé's worldwide R&D community, combining global scale with local relevance. It engages in more than 200 external scientific partnerships and university collaborations each year, continuously building a knowledge base to meet changing consumer needs.

Research & Development expenses, 1998-2007*



*CHF billion
Source: Nestlé

Research and development

Nestlé's R&D network

Nestlé continues to be a global leader in R&D, with approximately 5000 people actively involved. In 2007, Nestlé spent CHF 1.88 billion on R&D, this figure having more than doubled in the past eight years.

Nestlé is committed to open innovation, through which we multiply our opportunities and leverage research into products and services. This includes partnerships with universities and start-ups, venture capital

investment and collaboration with our suppliers. For example, in February 2007 we formed an agreement with INMEGEN, Mexico's National Institute of Genomic Medicine, through which we fund a chair and two fellowships. And in November 2006 we formed a partnership with EPFL (Ecole Polytechnique Fédérale de Lausanne) to co-operate on scientific research into the role of nutrition in brain development.

The Nestlé Research Center (NRC), based in Lausanne, Switzerland, is the world's

Nestlé International Nutrition Symposium

At the NRC's annual International Nutrition Symposium, leading experts debate current issues in human health and physiology, identify future research directions and publish their conclusions in scientific literature. In October 2007, the fourth Symposium on Nutrition and Cancer explored the role of diet as a risk factor in the origins of cancer, as well as explaining how nutrition can provide preventative solutions.

Read more at www.nestle.com/csv/symposium

NRC research concepts are transformed into product innovations and processes through an international network comprising:

- Product Technology Centres (PTCs), each aligned with particular Nestlé businesses to provide expertise for specific product categories, and together forming a hub for global product and process development;

6445

Number of products renovated for nutrition or health considerations in 2007

● Research and Development Centres (R&D Centres), working in close collaboration with the PTCs to meet regional R&D requirements.

✎ For a full list of our 23 PTCs and R&D Centres, please see www.nestle.com/csv/researchcentres

Nestlé is further supported by the Nestlé Nutrition Council, established 30 years ago and composed of internationally renowned nutrition scientists. The Council aims to review current and developing nutrition issues, and advise senior management on their impact upon Nestlé's policies and strategy. Over the last decade, it has examined issues such as diabetes and childhood obesity, and reviewed Nestlé policies on the reduction of trans fatty acids, salt and sugar levels in food, as well as iron and other nutrient fortification.

Applying science and technology

We apply science and technology to formulate products that address health issues including intestinal health, healthy ageing and sports performance:

- We were among the first to use probiotics – beneficial bacteria that strengthen the immune system – in the early 1990s;
- We have developed technologies to replace partially hydrogenated fats with natural vegetable oils in Maggi bouillon cubes and seasonings, and fortify them with iodised salt to help prevent thyroid problems and impaired development of children;



- The *PowerBar* sports nutrition bar includes a supplement proven to provide endurance athletes with long-lasting mental alertness;
- A reduced fat cappuccino technology produces the creamy head for *Nescafé Cappucino*, while reducing the fat content.

Nestlé R&D staff worked for over a decade to perfect Low Temperature Freezing (LTF) technology, a process designed to destabilise the fat droplets in ice-cream so that it retains the taste and texture of conventional ice-cream, but with only half the fat and a third fewer calories. LTF technology is used in Nestlé brands such as *Dreyer's Slow Churned*, *La Laitière*, *La Lechera*, *Häagen-Dazs* and *Mövenpick*.



Staff at the Nestlé Product Technology Centre, Beauvais, France (left to right): Juliette Théry, Sigrid Lemonnier and Anthony Pizzagali. Nestlé's patented Low Temperature Freezing technology retains the taste and texture of conventional ice-cream, but with only half the fat and a third fewer calories. Originally developed in the USA, LTF has been rolled out to popular French brand *La Laitière*

Key challenge

Tackling obesity

Obesity occurs when energy consumption exceeds energy expenditure over time, and the excess is stored as body fat. One of the main causes is excessive consumption of energy, e.g. from fatty snacks and sugary drinks.

Our response

Nestlé's strategic response is characterised by the following approach:

- Recipe innovation and renovation, seeking to optimize nutrition, for example by removing trans fatty acids, or reducing fat, sugar or salt;
- The 60/40+ programme, delivering taste and nutritional superiority over competing products;
- Branded Active Benefits, providing additional nutritional benefits;
- The *Nestlé Nutritional Compass*, providing comprehensive nutritional information to allow consumers to make informed choices;
- Helplines, providing one-to-one advice on subjects including nutrition;
- Development of nutrition-oriented brands and technologies such as *Lean Cuisine*, *Jenny Craig* and Slow Churned ice-cream.

CHF 4.4 billion

Sales of products containing Branded Active Benefits



Cereal Partners Worldwide (CPW), a 50/50 joint venture with General Mills Inc., is improving its breakfast cereals with whole grains, which studies have shown to contribute to better heart health, blood sugar regulation and weight management. CPW has, since the start of 2004, added an extra 1.6 billion servings of whole grain to its European product range. Alongside this, CPW has also removed 3500 tonnes of sugar and 530 tonnes of salt.



Product testing of *Shredded Wheat* at Cereal Partners UK. Nestlé breakfast cereals contain whole grains

Optimizing the nutritional value of Nestlé products

Enhancing:

- Whole grains: 1.6 billion additional servings in Europe (2004–2007);
- Health benefits: Branded Active Benefits (see below);
- Micronutrients: vitamins, minerals and trace elements.

Reducing*:

- Trans fatty acids: 34 200 tonnes removed (Dec 2003 – Feb 2007);
- Sugar: 204 000 tonnes removed (Jan 2003 – Dec 2006);
- Salt: 5000 tonnes removed (Apr 2005 – Dec 2006).

* CPW not included in these figures
Source: Nestlé

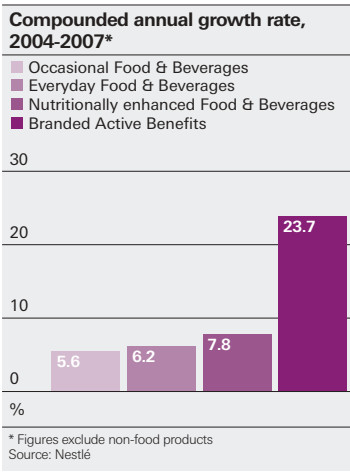
Product development

We continually review the nutritional content of our products, reducing public-health-sensitive components such as salt, sugar and trans fatty acids, and increasing others considered to be positive for health, such as calcium, iron, whole grains and fibre.

Branded Active Benefits

In addition to the general nutritional benefits of our products, we offer consumers a variety of products with Branded Active Benefits (BABs). This is a range of specific ingredients and formulas that provide additional, proven health benefits to our main food and beverages categories. In 2007, products with BABs achieved sales of CHF 4.4 billion, an increase of more than 16%. These include products containing *Actifibras* to aid digestion, *BL* for improved immunity and protection, and *ActiCol* to help lower blood cholesterol.

Even in developed countries, malnutrition affects up to 50% of residents in nursing homes and up to 70% of elderly patients in hospital, leading to increased illness and mortality. In response, Nestlé has developed fortified drinks, soups and prepared meals designed to suit the changing nutrition needs, and taste and texture preferences, of senior citizens. For example, Nestlé's *Nutren Optimum* range, available in Latin America, is enriched with calcium, phosphorus, Omega 3 and 6, and prebiotics, while the products from Davigel, a branch of Nestlé France Professional, include *Les Essentiels*, frozen vegetable or fruit purées enriched with protein, calcium and fibre for use in desserts and soups, and pre-cooked *Savoureux* meals, rich in protein and calcium, with the right texture for patients with swallowing problems.



Serving local tastes and demands

To ensure our products meet the local needs and preferences of consumers, many of them are produced with subtle variations. For example, we launched local variations of traditional products in Brazil two years ago, starting in the North-East. These include *Ideal* powdered milk, a variation of *Ninho/Nido* with a different combination of vitamins and ingredients.



Nutrition for family pets

Pets are an important source of companionship and psychological wellbeing to many people around the world. Concern over obesity and health is not restricted to humans, and much of our human nutrition knowledge can be adapted for cats and dogs. For example, intestinal bacteria in pets show many similarities to those in humans, so Nestlé scientists have formulated a range of balanced pet foods that promote a long and healthy life. This includes extending the use of prebiotics – non-digestible carbohydrates that selectively stimulate the growth of good bacteria to aid intestinal function – to pet food.

Nestlé is now an industry leader in the sector, starting with the purchase of Carnation in 1985, followed by the acquisition of Spillers and then Ralston-Purina to create Nestlé Purina PetCare. (www.purina.com)

Left: Branded Active Benefits are ingredients and formulas that provide additional, proven health benefits to our main food and beverages categories. In 2007 sales of products with BABs increased by more than 16%. Above: Nestlé makes nutritious foods to suit local tastes and pockets

Purina Pro Plan is addressing the changing nutrition and physiological needs of ageing cats with new dry cat food formulas specifically for two different senior life stages: mature (7–11) and senior (11 and over).

For further information, please visit www.nestle.com/csv/catfood

Look closer @ nestle.com

Watch videos and slide shows on Gerber and Low Temperature Freezing technology at www.nestle.com/csv/stories

Popularly Positioned Products: improved nutrition at the base of the pyramid



Nestlé has a responsibility to provide consumers with nutritious products regardless of where we sell them and the price point at which we sell them. To help to provide the 2.8 billion people around the world who earn less than USD 10 (CHF 11) per day with affordable food products, we have renewed our Popularly Positioned Products (PPPs) initiative. Our *Ideal* powdered milk, a PPP sold in Brazil, is just one example of how value is shared by both Nestlé and society.

Local job opportunities

In February 2007, Nestlé opened a factory in Feira de Santana, Brazil, for the packing of coffee and infant cereals, and the production of instant noodles. Backed by a CHF 60 million investment, the new site created 125 direct jobs and five times as many indirect employment opportunities for local distributors, brokers and suppliers, as well as reaching 50 million consumers in an economically deprived region.

Left and right above: The Feira de Santana factory in Brazil opened in 2007 with an investment of CHF 60 million, bringing 125 direct jobs and five times as many indirect employment opportunities to an economically challenged, rural region. Right below: Brazilian dairy farmers benefit from free technical advice in Nestlé milk districts which supply milk to the Araçatuba factory. The factory manufactures affordable *Ideal* powdered milk, which is enriched with iron, calcium and vitamins A, C and D



Value for Nestlé: Low-cost business model; committed workforce providing profitable access to a large consumer market

Value for society: Employment opportunities; local economic development

Local sourcing

Brazilian dairy farmers benefit from free technical advice in Nestlé milk districts which supply milk to the Araçatuba factory. The factory manufactures affordable *Ideal* powdered milk, which is enriched with iron, calcium and vitamins A, C and D.

Value for Nestlé: Secure source of high quality raw materials

Value for society: Reliable market and regular income for suppliers



Our Direct Store Delivery initiative has increased market penetration and product availability in countries with widespread populations. In Brazil, this has provided 4000 “Até Você” door-to-door distributors with income generation opportunities

Nutritional value

Some PPPs are fortified to ensure consumers get added nutritional benefits. In Latin America, for instance, *Ideal* powdered milk is enriched with iron, calcium and vitamins A, C and D, and *Maggi Sopa Crecimiento* in Central America, a chicken and noodle soup with a milk base, contains protein, vitamins and minerals needed for child development. Enriched products are successful in Africa too; *Maggi* bouillon, made with iodised salt (which helps prevent thyroid disease) is the fastest growing Nestlé product in Guinea, Cameroon and Côte d’Ivoire.

Value for Nestlé: Access/growth in new markets; greater product appeal and wider brand recognition; appropriate financial returns
Value for society: Access to affordable nutrition products

Affordability and availability

- **Affordability:** PPPs often come in smaller, more affordable pack sizes so that lower-income consumers can buy them regularly;
- **Availability:** Our Direct Store Delivery initiative has increased market penetration and product availability in countries with widespread populations. In Brazil, there are 4000 door-to-door distributors who supplement access to traditional trade outlets.

Similar schemes for ice-cream distribution have been established in South Africa and Thailand, as well as more than 3000 “coffee carts” across West Africa.

Value for Nestlé: New business opportunities; profitable brand-building; closer community relationships

Value for society: Income creation; skills transfer; microfinance; social inclusion

Look closer @ nestle.com

📺 [Watch a video about Popularly Positioned Products in Brazil at www.nestle.com/csv/stories](#)

95%

Proportion of products sold carrying the *Nestlé Nutritional Compass* on pack

Marketing and communication

Our communication commitments

We are very conscious of our role in communicating responsibly to consumers, and particularly to children, which is why all Nestlé companies are required to abide by the Nestlé Consumer Communication Principles.

As part of our overall responsibilities to consumers, we are committed to:

- Clear, user-friendly labelling and supporting materials to help consumers make well-informed food choices;
- Responsible communication about all products, especially those consumed by children, (see section on Advertising to children, page 49) in line with applicable laws and our Corporate Business Principles;
- Participation in and support for public nutrition education programmes;
- Collaboration with public health bodies to work towards healthier diets and lifestyles.

📄 The full Principles are available at www.nestle.com/csv/downloads

Responsible food labelling

While discussions continue about the best approach to food labelling, Nestlé has already introduced the *Nestlé Nutritional Compass* (launched in 2005). This is an on-pack information panel that provides consumers with relevant, easy-to-understand nutrition information. It is a global labelling scheme that translates into billions of clearer nutrition labels in the hands of consumers. The Compass already appears on products amounting to 95% of total sales globally, and continues to be rolled out across our product range.

Built around a nutrient content table, the Compass comprises:

- *Good to know*: Key nutrition information relating to ingredients or issues of public concern (for example, fat, sugar or salt content but also iron or fibre);
- *Good to remember*: Tips for healthy enjoyment of the product;
- *Good to talk*: Contact details and links to further information online.

📄 Please visit www.nestle.com/csv/compass for more information about the Compass.



The *Nestlé Nutritional Compass* system gives clear and comprehensive nutrition information on-pack. The Compass is shown above as it appears on the *Milo* brand as sold in Malaysia. *Milo* is popular in Malaysia and many other countries around the world

The on-pack contact details provide access to 96 Consumer Services teams around the world. Nearly three-quarters (73%) of the 10 million calls they receive each year are requests for product information, nutritional advice or recipes, and worldwide, over 40 million consumers choose to receive information and advice from Nestlé through e-mail or direct mail.

Nestlé nutritionists work with various stakeholders to develop the Compass and ensure its continued relevance. In Europe, for example, it is being adapted to feature a complete Guideline Daily Amount (GDA) table for the “big 8” (energy, carbohydrates, proteins, fats, sugars, saturated fats, sodium

Over 10 million

Total number of people reached by Nestlé education programmes and initiatives

and fibres). This is Nestlé policy and essential if a health or nutrition claim is made; only where there is a lack of space and no such claim is made can just the “big 4” (energy, carbohydrates, proteins and fats) be listed.

The GDA table will be complemented by at-a-glance information, on the front of packs, about energy content per serving and its contribution to recommended daily calorie consumption. An arrow will direct the consumer to the Compass for further information. The GDA nutrition labelling scheme is on 45% of our products in Europe (as of end 2007).



Education and engagement

Nestlé has developed or sponsored many community education programmes around the world to improve understanding of the importance of nutrition and physical activity to health. Good eating habits start at an early age, so much of our focus is on schools.

- *France and EU:* The Nestlé-sponsored programme “Together Let’s Prevent Childhood Obesity” started as a pilot project in 1992 in northern France. It has now been adopted by 10 other French cities and several other European countries, and has created the EU-funded Prevent Childhood Obesity Network of which Nestlé is a founding sponsor;

Nestlé sponsors the Healthy Thai Kids programme, reaching 5000 primary schools with nutrition education. Here, children discover in a fun way all about how food is digested

- *Switzerland and Hungary:*

The Nutrikid programme is a joint venture between the Swiss Society of Nutrition, Nestlé Alimentarium (food museum) and Nestlé Switzerland and Hungary, reaching 170 000 students with classroom kits offering nutrition education in the form of videos, game cards and books;

- *Brazil:* 800 000 children aged 5–14 have benefited from our Nutrir programme, which trains Nestlé volunteers to promote nutrition, hygiene and health through games and play;

- *Thailand:* 5000 primary schools have been reached through the Healthy Thai Kids wellness in school campaign.

📄 See www.nestle.com/csv/education for more details of these and other programmes.

Underscoring our belief of the importance of nutrition, we also empower our own colleagues with a global nutrition training programme called Nutrition Quotient (NQ). Using different modules suitable for all employees, from the Executive Board to plant level, NQ leverages the nutrition expertise of our Nestlé Research Center (NRC) scientists.

📄 Read more at www.nestle.com/csv/NQ

Look closer @ nestle.com

📄 Watch an animated example of the *Nutritional Compass* at www.nestle.com/csv/compass



Left: The Nestlé Nutrition Duchess Club is an informal association of women of all ages and from diverse backgrounds in Nigeria and Ghana. The club promotes healthy eating habits, good nutrition, home management, entrepreneurship and leadership, and has also embarked on community-based health initiatives, including food hygiene education for market traders and schoolchildren. Right: Members of the Nestlé Nutrition Duchess Club passing on practical food and hygiene knowledge in an open air market



The Nestlé Nutrition Duchess Club is an informal, all-female association in Nigeria with the aim of empowering women through knowledge and skills in nutrition, home management, entrepreneurship and leadership. The Duchess Club provides nutrition education workshops focusing on healthier eating habits, food safety and food management for mothers and homemakers. The Duchess Club has 530 members who have reached over half a million women.

Nestlé's *NIDO* Nutrition System, which has achieved sales of CHF 1.2 billion in just five years, lays the foundation for healthy development in early childhood. It now incorporates *Lactobacillus PROTECTUS* to strengthen the immune system against germs, as well as *Prebio* in pre-school milks for children under 5 years old, and *Calci-N* for continued healthy bone growth in children.

The *NIDO* Nutrition System was launched in the Philippines in 2000 repositioning *NIDO* fortified milk with added vitamins A and D. The

promotion concentrated on the "10 signs of good nutrition" for children, such as clear skin, good muscle development, sleeping well and being alert and cheerful, developed by the Nutritionist-Dietitians' Association of the Philippines Foundation. On-pack information was supported by a wide range of celebrity-endorsed communications, such as point-of-sale materials, print, radio and television advertising, and feature articles in magazines. In addition to increased consumer awareness of the benefits of good nutrition, the campaign resulted in 8% sales growth of the more nutritious product in the Philippines in 2006, and its roll out as a global campaign was started in 2007.

Marketing and advertising practices

Advertising

Nestlé Principles concerning appropriate communication with consumers have been a part of the *Nestlé Corporate Business Principles* since they were first published in 1999. These undergo periodic review, and a more complete and detailed set of Principles was released in 2002. They were further strengthened in regard to children in 2004 and 2007 (see opposite).

The Principles (available at www.nestle.com/csv/downloads) are required reference points for all marketing staff and advertising agencies globally, and must be used when developing our consumer communication. All marketing campaigns are reviewed and we have put an internal monitoring process in place in our markets to ensure compliance with the Principles. Additionally, Nestlé participates in industry initiatives aimed at furthering responsible advertising. This includes a Europe-wide initiative, started in 2005, which assesses companies' compliance with industry-wide Codes of Conduct for Food and Beverages Marketing Communications. This has provided a useful tool for Nestlé to receive feedback on its advertising and maintain high standards of compliance.

Joint industry initiatives on advertising to children

In December 2007, Nestlé joined voluntary responsible advertising initiatives by the Food and Beverages industry in Europe and Canada to children below 12 years of age. The aim is to support and promote good nutrition and a healthy lifestyle. The industry pledge, to be fully implemented by the end of 2008, will be subject to independent compliance monitoring.

For further information on our Consumer Communication Principles, our Policy on Marketing Communication to Children and other pledges and initiatives we support, please see www.nestle.com/csv

Communicating with health professionals

For more than 60 years, Nestlé has contributed to the continuing nutrition education of health professionals through scientific publications, workshops and scholarships. In 2007, the NRC published 200 peer-reviewed research publications, and some 4000 medical delegates communicate with healthcare professionals on a daily basis over the course of the year.

Key challenge

Advertising to children

Our Consumer Communication Principles (please see www.nestle.com/csv/downloads) include specific criteria for communication with children. They are aimed at encouraging moderation, healthy dietary habits and physical activity without undermining the authority of parents or creating unrealistic expectations of popularity or success. They also ensure that we do not create difficulty in distinguishing real from imaginary or create a sense of urgency.

In light of rising concerns about child obesity, Nestlé strengthened its Principles in 2007 by adding two important provisions:

- No advertising or marketing activity is to be directed at children under 6 years;
- Advertising for children from 6 to 12 years must be restricted to products with a nutritional profile that helps children achieve a healthy balanced diet, including clear limits for such ingredients as sugar, salt and fat.

These will be fully implemented in all countries by the end of 2008 and subject to monitoring.

The Nestlé Nutrition Institute (NNI) is an educational organisation providing a forum for health professionals to share information about the latest developments in paediatric, clinical and performance nutrition. The NNI has held more than 70 global Nestlé Nutrition Workshops and granted more than 500 postgraduate scholarships to young paediatricians, paramedics and scientists from developing regions.

Nestlé has also produced more than 3000 publications, including *Annales Nestlé* and *The Nest* for paediatric health professionals, and *Clinical Nutrition Highlights*, a scientific journal for clinical nutritionists. A range of other material in print, audio-visual and electronic formats is available in English, French and Spanish, and the NNI website (www.nestlenutrition-institute.org) provides access to an online medical and scientific library, educational tools, online workshops (webinars) and information on forthcoming events to young paediatricians, health professionals and scientists.



The Nestlé Nutrition Institute communicates with health professionals at congresses worldwide

Marketing of products for infants

Nutrition during the first three years of life

Globally, malnutrition actually becomes most serious among infants after six months of age, when nutritional “complementary foods” (cereals, milks, puréed vegetables and meats) become critical to health and survival. Nestlé is the world’s leader in producing and promoting these foods, which typically replace foods like corn starch or rice – or even soft drinks and French fries.

In addition, Nestlé is the only major company that markets complementary foods only after six months of age in developing countries.

Breast milk and breast milk substitutes

Nestlé began to meet the need for a nutritionally safe alternative to breast milk with the development of Henri Nestlé’s original infant cereal. In 1869 he declared in his *Memorial of the Nutrition of Infants* that breastfeeding was best for babies and that every mother able to breastfeed should do so. This original principle still forms the cornerstone of our Infant Formula Marketing Policy.

However, not all mothers breastfeed, and infant formula is the only product recognised by the World Health Organization (WHO) as an acceptable substitute for breast milk. Infant formula, with its specially adapted nutrition, has ensured the healthy development of many children around the world and replaces dangerous breast milk substitutes. We provide high-quality, safe and nutritious infant formula products and are committed to their responsible sale and marketing. On the pack, we inform consumers and health professionals of the benefits and superiority of breast milk; product labels and educational materials also carry preparation instructions as well as warnings about inappropriate use.

The WHO International Code of Marketing of Breast-milk Substitutes

The aim of the WHO Code is “to contribute to the provision of safe and adequate nutrition for infants, by the protection and promotion of breastfeeding, and by ensuring the proper use of breast milk substitutes, when these are necessary, on the basis of adequate information and through appropriate marketing and distribution”.

The Code was adopted by the World Health Assembly in 1981 as a recommendation to all its Member States, and Nestlé was the first company to announce (in 1982) that it would voluntarily implement the WHO Code in all developing countries. As a result, Nestlé accepts no advertising or marketing to the public of any kind, and no contact between infant milk marketing staff and the public in those countries.

Nestlé has repeatedly taken action in countries to promote adoption of the WHO Code by governments, and government-sponsored monitoring of the entire industry.

Assurance

Nestlé has a three-part method to assure compliance with the WHO Code:

- Nestlé has an extensive ISO-like internal monitoring system, the WHO Code Quality Assurance System, which is now active in all developing countries;
- Nestlé international auditors conduct an extensive audit of compliance with the WHO Code in 9–20 countries annually;
- Nestlé has a system of ongoing, independent audits by external social auditing companies.

📄 [Results of the most recent of these external audits, carried out in Sri Lanka, can be accessed from www.babymilk.nestle.com](#)

In addition, there is a Nestlé internal ombudsman system for any employee who wishes to confidentially report alleged WHO Code violations.

In 2006, the Malaysian government imposed sanctions on 8 out of the 12 infant food companies operating in the country for violations of the Malaysian Health Ministry’s Infant Formula Code of Ethics. Nestlé was the only non-Asian company not at fault.

📄 [Read more at www.nestle.com/csv/malaysia](#)

WHO Code implementation and assurance

Nestlé learned a great deal from its experience concerning infant formula marketing in Africa, recognising our responsibility to go beyond what were accepted marketing standards at the time. We integrated the WHO Code across our entire operations in developing countries in 1982, and continue to monitor its application, refining our instructions with experience. We work with governments, others in industry and members of civil society to develop the Code in countries where it is applied.

The Infant Food Industry and the WHO Code, published by analysts GES Investment Services, assessed infant food companies’ implementation of the Code and rated Nestlé as the top company in Code application, stating: “Nestlé has the most elaborate policies and mechanisms to address the Code, distinctly ahead of its peers”.

📄 [The full wording of our Infant Formula Policy is available online at www.babymilk.nestle.com, where we also answer the most commonly asked questions about infant feeding](#). We welcome feedback, and we continue to monitor our approach and communicate openly with all stakeholders.

Support of UN Global Compact Principles and Millennium Development Goals



Above: Contributing to UNGC Principles 7-9 and MDG 7: Reducing packaging weight at Nestlé Waters. 257 000 tonnes of packaging for bottled water have been saved in the past 6 years.
Above right: Contributing to UNGC Principles 1, 2, 4, 5 and MDGs 1 and 7: In Côte

d'Ivoire, a major cocoa-producing country, Nestlé works with three farming co-operatives to promote good labour practices, including those relating to child labour. We also support programmes with other partners that encourage sustainable methods in cocoa farming

Nestlé's *Corporate Business Principles* ([see www.nestle.com/csv/downloads](http://www.nestle.com/csv/downloads)) guide our behaviour in relation to all relevant stakeholders.

They reflect the basic ideas of fairness, honesty and respect for people and the environment in all our business actions. Their ongoing evolution has seen the inclusion of the 10 UN Global Compact (UNGC) Principles on human rights, labour, the environment and corruption in 2002. Examples that illustrate our compliance with, and support for, these Principles are contained in this report. Nestlé's further support for the UNGC was demonstrated in July 2007 through its patron sponsorship of the UN Global Compact Leaders' Summit in Geneva.

In the table opposite are just a few examples of our actions in 2007 that meet our commitments as a UNGC signatory.

Nestlé supports the UN Millennium Development Goals (MDGs), which we regard as highly important objectives that, through partnerships which respond to local needs and harness local knowledge and capabilities, can result in positive, sustainable change.

Nestlé's creation of shared value for itself and society brings specific contributions to the UN Millennium Development Goals. There are many examples in this report that demonstrate how our long-term growth strategy helps alleviate extreme poverty and hunger (goal 1) through initiatives like our PPP strategy (page 44); our capacity-building programmes in milk districts and through coffee initiatives like Nespresso AAA and 4C (pages 30, 31 and 34). Similarly, there are many examples of how we contribute to



The UN Global Compact Principles	Some examples of Nestlé actions	Described on pages
Human Rights Principles	Expansion of participation in International Cocoa Initiative and Nestlé-specific cocoa projects in West Africa	32
Labour Principles	CARE independent audit programme covers areas of human resources, occupational health and safety, and environment	22–23
Environment related Principles	Reduced water consumption and influencing supply chain to adopt good water management practices; higher energy efficiency and lower GHG emissions; optimized packaging volumes and sustainable packaging; founding signatory, UNGC CEO Water Mandate	10–19
Corruption related Principle	Establishment of Nestlé Code of Business Conduct	8

The UN Millennium Development Goals
1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

environmental sustainability (goal 7), such as reducing water consumption (page 16), packaging materials (page 18) or our carbon footprint (page 13), while the environmental aspects of our agricultural engagements such as managing water in agriculture (page 33), 4C coffee and Nespresso AAA also contribute to this goal.

Beyond the impacts outlined above, we support more than 120 projects and initiatives around the world that relate specifically to the eight Millennium Development Goals.

📄 Please see the *Nestlé, the Community and the UN Millennium Development Goals* report, available at www.nestle.com/csv/downloads, for more information.

Contributing to UNGC principles 1, 7, 9 and MDGs 1, 4, 5, 7 and 8: Among the many Nestlé water-related projects that are still ongoing – providing access to clean water by constructing wells (India); working with farmers on water conservation measures (Vietnam); providing facilities

for proper storage of farm effluent (China); working in partnership on clean drinking water projects (Mozambique – see above – and Rwanda)

Engaging with our stakeholders

Nestlé commits to open dialogue with all stakeholders, including consumers, customers, employees, investors and others.

We communicate on an ongoing basis using a wide variety of channels. For example, through our 60/40+ product testing programme consumers can influence our product development, while our *Nutritional Compass* labelling gives access to 96 consumer service teams around the world, and many of our brands have dedicated websites.

In addition, we are engaging more widely to understand and respond to opinions on our strategy of *Creating Shared Value*. The objectives are to:

- Provide a formal mechanism for an exchange of views;
- Enable Nestlé to understand views from a wide variety of external stakeholders, providing a broad societal perspective;
- Identify future trends, risks and opportunities relevant to Nestlé and its stakeholders;
- Challenge Nestlé's internal perspectives gained from consultations with senior managers through which key issues were identified during 2007.

Stakeholder convenings

For the first time we invited external stakeholders to convene during 2007 specifically to provide feedback on our *Creating Shared Value* strategy, priority issues, communication and reporting, in order to inform future decisions by Nestlé and to validate the findings of earlier internal consultations to identify key issues.

Three full-day sessions were held during 2007, in Geneva, Washington DC and Kuala Lumpur. We intend to follow up these sessions and examine the potential to conduct further engagement and research in future years; to include Africa and Latin America.

The stakeholder convenings were designed, organised and facilitated by AccountAbility and were attended by a total of more than 50 external participants, expert in a wide range of social and environmental impact areas relevant to Nestlé's business activities and operations (see list of expert participants). The participants were invited by Nestlé to share their perspectives candidly.

Sessions were also attended by senior managers and decision-makers from Nestlé functional business areas and public affairs.

Expert participants*

Expert participants included: Conference of NGOs, Conservation International, Human Rights Commission of Malaysia, Institute of Corporate Responsibility, Malaysia, International Federation of the Red Cross and Red Crescent Societies, International Initiative against Child Labour, International Labour Organisation, Lutheran World Federation, Malaysian Association for the Study of Obesity, Malaysian Institute of Corporate Governance, Max Havelaar Foundation, The Methodist Church, Rainforest Alliance, Sustain, Transparency International, United Nations Development Programme, World Business Council on Sustainable Development, World Cocoa Foundation, World Economic Forum, World Wildlife Fund.

* This list records independent organisations who attended stakeholder convenings in 2007, and is not intended to imply that these organisations have commented on or verified the contents of our 2007 *Creating Shared Value Report*.

Key issues identified by convenings

A number of key issues emerged during the participants' discussions, and the question of compliance and verification emerged as a common theme in all convenings. Other key issues identified included:

- Nutrition, Health and Wellness, including promotion of healthy lifestyles and related information provision/communication;
- Human rights and sustainable production as part of the supply chain, including water and packaging issues;
- Community support and Enterprise development.

Insights and learning for Nestlé

The sessions enabled an effective dialogue resulting in valuable perspectives. Nestlé is grateful to all those who took part. In particular, these external opinions provided Nestlé with a valuable cross-comparison to issues already identified through the earlier internal consultation process (see page 6). They also gave Nestlé further insight into relative priorities in the context of individual, organisational and geographic perspectives of the participating stakeholders. For example, Nestlé's role in standards development/promotion – especially on *Halal* – was discussed during the Kuala Lumpur convening.

Nestlé has committed to report back to the expert groups on progress made in relation to recommendations by approximately May 2008. The feedback and recommendations will be more fully considered for Nestlé's next report on *Creating Shared Value* (to be published in 2010) while the website will make updates available as we progress work with our stakeholders to improve and respond to recommendations made.

Future reporting

External reporting also has a role to play in *Creating Shared Value*. We believe that external reporting of initiatives and key performance indicators can help drive improved performance internally, as has been demonstrated by our increased financial disclosure and improved financial performance. The key here is to report on those areas that are most material to the Group – where an improved performance can have the greatest possible impact.

Nestlé is committed to reporting its performance openly. We aim to continuously develop our reporting, to reflect issues of most relevance to Nestlé and its stakeholders, to engage all levels and areas of the business in the processes of *Creating Shared Value*, and to maintain progress towards our sustainability goals. Focus areas include:

Aligning reporting with external guidelines

Some Global Reporting Initiative (GRI) performance indicators are included where indicated. We also summarise performance in relation to Global Compact requirements. Our objective is to align with good practice external reporting guidelines for our next global print report, which we aim to publish in 2010.

Improving scope of performance data

For the first time in Nestlé's reporting history, this current report presents performance indicators in all critical areas of *Creating Shared Value*. While historical data is not available for some indicators, we are working towards greater coverage and depth by 2010.

Communicating with key audiences

Our reporting strategy is designed to ensure consistency, integration and topicality. This current print report, published in 2008, summarises 2007 performance for our shareholders and other global stakeholders, and is published with our 2007 *Management Report*. In the 2008 report (published 2009), we aim to provide appropriately targeted information relevant to specific audience groups, including customers, investors and regulators. Our 2009 report (to be published 2010), will be our next major publication on *Creating Shared Value*. We will continually update the information available on our website.

Independent assurance – Methodology & preliminary findings statement



To: the stakeholders of Nestlé S.A.

Introduction

Bureau Veritas has been engaged to provide external assurance to Nestlé S.A. (Nestlé) over its *Creating Shared Value (CSV) Report* (the Report) and reporting process. The preparation of the Report is the sole responsibility of Nestlé. Our aim is to provide assurance to stakeholders over the accuracy, reliability and objectivity of the information included in the Report.

Scope and methodology

The scope of the assurance included review of:

1. Activities undertaken by Nestlé over the reporting period January 2007 to December 2007 (unless otherwise stated);
2. Information relating to Nestlé's issues, responses, performance data, case studies and underlying systems to manage such information and data;
3. Information from external partners relating to materiality assessment and stakeholder convenings; and
4. An evaluation of safety, health and environmental (SHE) data and systems across a sample of global operational sites.

As part of its review, Bureau Veritas undertook the following:

- Interviews with key management at Nestlé's head office;
- Review of processes for identification and collation of relevant information, report content and performance data from Group operations;

- Verification of performance data and factual information within the Report;
- Visits to 18 operational sites in 13 countries to evaluate the SHE data management systems, and data reliability and accuracy;
- Pilot evaluation against the main principles of the AA1000 framework, entailing review of materiality analysis, stakeholder mapping and engagement, and Nestlé's governance arrangements.

Preliminary findings

Based on our work, it is our opinion that the Report:

- Includes information that is reliable, understandable and clearly presented and provides a reasonable account of relevant activities and performance over the reporting period;
- Addresses and responds to issues pre-selected by Nestlé for reporting that are of material importance to the organisation and its stakeholders; Nestlé should now consider how it could further provide transparency and context on its impacts, risks and positive initiatives;
- Reflects a reasonable level of completeness for a first comprehensive sustainability report, with disclosure of performance on a range of issues; Nestlé should now consider how to further develop meaningful indicators that will demonstrate implementation of its long-term CSV strategy;
- Provides adequate information through its position, data and case studies; Nestlé should now consider how to present its position and performance in the most balanced manner;
- Includes some information on the organisation's internal systems; Nestlé should provide greater detail in future reporting on the governance, accountability and management structures to enable greater understanding of the internal management and assurance of key issues.

Considerations and limitations

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

- Activities outside the defined reporting period;
- Statements of commitment to, or intention to, undertake action in the future;
- Statements of opinion, belief and/or aspiration;
- Information hyperlinked from the Social Report.

Our review was carried out to provide reasonable, rather than absolute assurance and we believe the scope above provides a reasonable basis for our conclusions. This independent statement should not be relied upon to detect all errors, omissions or misstatements.

More detail on assurance findings, key areas for improvements, considerations and limitations and Bureau Veritas' independence, impartiality and competence are reported in our full statement on www.nestle.com/csv

Bureau Veritas HS&E Ltd., London, January, 2008



Statement of independence, impartiality and competence

Bureau Veritas is an independent professional services company that specialises in quality, health, safety, social and environmental management advice and compliance with almost 180 years' history in providing independent assurance services and an annual turnover in 2006 of EUR 1.8 billion.

Bureau Veritas has implemented a code of ethics which is intended to ensure that all our staff maintain high standards in their business conduct and prevention of conflicts of interest.

We believe our assurance assignment does not raise any conflicts of interest.

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Mrs Maïmouna Touré trades in Belleville market in the Treichville district, south of Abidjan, Côte d'Ivoire. Affordable Nestlé products like Maggi cubes help generate income, and 90% of the stalls in Belleville offer Maggi for sale

