

Meeting the global water challenge



2011 performance summary

Creating Shared Value Key Performance Indicator	GRI	2010	2011
Economic			
Total Group sales (CHF million) ^(a)	EC1	93 015	83 642
Net profit (CHF million) ^(a)	EC1	34 233	9 487
Nutrition			
Nestlé Nutrition sales (CHF million) ^(a)	FP4	7 700	7 233
Products meeting or exceeding Nutritional Foundation profiling criteria (as % of total sales) ^{(b) (c)}	FP4	73.2	74.1
Renovated products for nutrition or health considerations ^(d)	FP7	6 502	5 066
Products with increase in nutritious ingredients or essential nutrients ^(d)	FP7	3 847	3 851
Products with reduction of sodium, sugars, trans-fatty acids, total fat or artificial colourings ^(d)	FP6	2 655	1 215
Products analysed and improved or confirmed via 60/40+ programme (sales, CHF million) ^{(b) (e)}	PR1	36 420	28 715
Products containing Branded Active Benefits (sales, CHF million) ^(a)	FP7	5 335	5 563
Products featuring <i>Nestlé Nutritional Compass</i> labelling (% of sales worldwide) ^{(b) (f)}	PR3	97.1	98.0
Products in EU with Guideline Daily Amounts (GDA) labelling on front of pack (% of sales) ^{(b) (g)}	PR3	98.7	98.9
Products with specific portion guidance (sales, CHF million) ^{(b) (h)}	PR3	21 305	21 894
Nestlé television advertising to children under 12 in compliance with policies on responsible marketing (%) ⁽ⁱ⁾	PR7	99.5	99.1
Nestlé contraventions of infant food marketing policy requiring remediation ⁽ⁱ⁾	PR7	7	19
Infant formula marketing staff in higher-risk countries trained in the WHO Code (% of staff) ^(k)	PR6	100	100
Popularly Positioned Product (PPP) SKUs	FP4	4 860	5 556
Popularly Positioned Products (sales, CHF million) ^(a)	FP4	9 848	10 610
Environmental Sustainability			
Production volume			
Total production volume (million tonnes)		43.74	45.21
Materials			
Raw materials used (million tonnes)	EN1	23.27	22.87
Materials for packaging purposes (million tonnes)	EN1	4.59	4.58
Packaging source optimisation (kilotonnes saved)		70.8	39.3
Energy			
Total on-site energy consumption (petajoules)		88.6	90.1
Total on-site energy consumption (gigajoules per tonne of product)		2.03	1.99
On-site energy generated from renewable sources (% of total)		12.3	11.6
Total direct energy consumption (petajoules)	EN3	63.0	64.3
Total indirect energy consumption (petajoules)	EN4	67.6	70.1
Water			
Total water withdrawal (million m ³)	EN8	144	143
Total water withdrawal (m ³ per tonne of product)	EN8	3.29	3.17
Biodiversity			
Total size of manufacturing sites located in protected areas (hectares) ^(l)	EN11		44.2

Creating Shared Value Key Performance Indicator

GRI 2010 2011

Emissions, effluents and waste

Direct GHG emissions (million tonnes CO ₂ eq)	EN16	3.98	3.81
Direct GHG emissions (kg CO ₂ eq per tonne of product)	EN16	91.0	84.2
Indirect GHG emissions (million tonnes CO ₂)	EN16	3.14	3.23
Indirect GHG emissions (kg CO ₂ per tonne of product)	EN16	71.9	71.5
Total water discharge (million m ³)	EN21	94	94
Total water discharge (million m ³ per tonne of product)	EN21	2.15	2.08
Quality of water discharged (average mg COD/l)	EN21	78	69
By-products (kg per tonne of product)	EN22	32.16	31.32
Waste for disposal (kg per tonne of product)	EN22	8.45	7.59

Environmental sustainability governance

Manufacturing sites certified against ISO 14001 (% of total manufacturing sites)		91	90
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Rural Development

Farmers trained through capacity-building programmes		144 900	200 751
Markets covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes		45	46
Direct procurement markets covered by SAIN programmes (%)		100	100
Percentage of suppliers, key vendors, and quality key suppliers compliant with company's sourcing policy ^(l)	FP1		96
Percentage of purchased volume compliant with the Nestlé Supplier Code ^(l)	FP1		75.2

Our People

Total workforce (number of employees) ^(m)	LA1	281 005	327 537
Total rate of new employee hires (%) ^{(l) (n)}	LA2		12.01
Total rate of employee turnover (%) ^{(l) (n)}			10.8
CARE gaps identified related to Business Integrity and HR		425	57
Of which: Minor		393	49
Major		32	8
Critical		0	0
Lost-time injuries among employees and on-site contractors (per million hours worked)	LA7	1.8	1.8
Total recordable injury rate among employees and on-site contractors (per million hours worked)	LA7	4.2	3.8
Fatalities of employees and on-site contractors	LA7	11	18
Average hours of training per year per employee per category ^(o)	LA10	0.58	2.02
Leadership positions held by women (%) ⁽ⁿ⁾	LA13	27.3	28.0
Local Management Committee members native to country in developing countries (%) ^(p)	EC7	48	53

(a) Sales recognition changed from 1 January 2011 (see Note 1 of the Group Financial Statements: Changes in presentation – Revenue). To provide a basis of comparison, 2010 figures have been accordingly restated.

(b) 2010 KPI not comparable to 2011 (see Note 1 of the Group Financial Statements: Changes in presentation – Revenue).

(c) 2011 assessment scope: 70% total Nestlé sales volume.

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

(e) This KPI reflects the dynamic nature of our 60/40+ programme. Assessment results are valid for a maximum of three years, only if all parameters remain equal.

(f) Excludes total petcare and, for US only, *Dreyer's*, *Haagen-Dazs* and pizza business.

(g) Across EU 27 plus Norway, Switzerland, Adriatic Region, Ukraine and Moldova. Excludes plain coffee, tea and water, products for Nestlé Professional, gifting chocolate, seasonings, petcare, Nestlé Health Science and Nestlé Nutrition.

(h) Products sold as single servings and meeting/exceeding Nutritional Foundation OR sold with/via a device or equipment delivering a serving meeting/exceeding Nutritional Foundation OR sold to caregivers with detailed instructions on adjusting servings to evolving nutritional needs. This currently represents only a subset of the portfolio with portion guidance.

(i) The Nestlé Marketing Communication to Children Policy was updated in 2011. Previously, a media channel or programme was defined as targeted to children if 50% or more of its audience were children between 6 and 12 years old. As of September 2011, the percentage has been redefined to 35%. The compliance percentage shown above has therefore been calculated to reflect the previous Policy of 50% audience threshold (January to August 2011) and the new 35% threshold (September to December 2011).

(j) Based on internal and external audits. Following a change in the criteria in July 2010 to differentiate higher- and lower-risk countries, more countries are now part of the "higher-risk" category where the Nestlé Policy and Instruction on Implementing the WHO Code applies as a minimum requirement.

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

(l) New KPI.

(m) Covers all Nestlé employees including Joint Ventures.

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

(o) Covers Nestlé employees whose training is tracked in the HR system (approximately 62% of all employees).

(p) Covers all Nestlé employees including Cereal Partners Worldwide.

This report summarises Nestlé's response to the water challenge, alongside our other Creating Shared Value key focus areas of nutrition and rural development. All are core to our value creation activities and vital for the sustainable development and well-being of communities we serve and the businesses we run.

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A full online report is available on our Creating Shared Value website at www.nestle.com/csv. For more detailed reporting on our bottled water division, please see the Nestlé Waters Creating Shared Value Report at www.nestle-waters.com.



Accompanying reports



Annual Report 2011



Corporate Governance Report 2011; 2011 Financial Statements

© Figures highlighted throughout the report with this symbol are tracked as Key Performance Indicators and summarised in the KPI table inside the front flap.

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Highlights of our water efforts 2011

–28%

Reduction in overall water withdrawals in our factories since 2001

11

Number of factories which have undergone our Water Resources Review process during 2011

301

Number of wastewater treatment plants in factories where municipal facilities are not available or efficient enough

–36%

Reduction of additional water used by Nestlé Waters since 2005, reaching a global average of 0.63 litres per litre of water produced

10

Number of Nestlé Sustainable Agriculture Initiative (SAIN) projects associated with water

2.25
million CHF

Investment in water and sanitation, food security and emergency relief initiatives in Côte d'Ivoire through a new three-year partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC) and the Red Cross Society of Côte d'Ivoire


2011

→ Recipient of the Stockholm Industry Water Award at World Water Week
→ Special Distinction from French environment ministries for watershed conservation and biodiversity protection in the Vosges region, around the *Vittel* water source

2012

→ In 2012 and beyond, we are committed to enhancing performance and reporting on water, by implementing our W.A.T.E.R. commitments, by tracking progress (see page 30) and by continuing to engage with our stakeholders (see page 40)

A message from our Chairman and CEO



By 2050 we will have to feed 9.3 billion people and food production has to double. The key is water, the scarcest natural resource on earth. At the current rate of overuse, we will run out of water long before we run out of oil. This is why we say: no food for fuel.

At the current rate, the overuse of freshwater will severely slow economic development. Worse, it will be the cause of massive food shortages within the next 15 to 20 years. Exacerbating the problem will be a further 2.3 billion people on the planet by 2050, adding to existing demand for food and energy, which both critically depend on freshwater.

As the world's leading Nutrition, Health and Wellness Company, Nestlé too, at every level, depends on reliable access to clean water, in order to maintain our ability to meet our consumers' needs. We therefore care deeply about water and remain committed to act. This year we have reviewed the five W.A.T.E.R. commitments we set out in our 2006 Water Report, ensuring that these continue to drive water performance through our operations, supply chain and with communities. We are now working on a set of performance indicators to monitor our progress.

Water is a local issue. But the effects of local shortages quickly become global issues in today's interlinked economies. While we can have an impact through our own operations, a truly sustainable solution can only come from a collaborative response from multiple stakeholders; so we are actively promoting global dialogue on water while also engaging in direct actions in our own right.

In recent years, water has moved to the top of the global agenda. In 2008, the World Economic Forum established the 2030 Water Resources Group, bringing together key players in addressing this issue, and highlighting the critical status of water availability.

This group, under the leadership of the Nestlé Chairman, has elaborated a landmark report *Charting Our Water Future*, whose key findings are now being transformed into concrete actions under the leadership of national governments, together with other stakeholders. This is an important first step to bring freshwater withdrawals back into balance with natural renewal.

Nestlé is also a founding signatory of the UN Global Compact CEO Water Mandate, whose reporting requirements are reflected in the structure of this report. We actively engage in the public policy debate around water and advocate for better understanding of the consequences of mistaken biofuels policies. We hope that the Rio+20 summit will deliver an unequivocal commitment to "no food for fuel". Food is for people; waste may be used for fuel.

It is our firm conviction that access to adequate, safe fresh water is a human right. Beyond the need for hydration and basic hygiene, sustainable water policies should adequately price water to cover costs and reflect its true value (and scarcity).

We strongly believe that for a company to be successful in the long term, it must create value for its shareholders and at the same time for the communities where it operates and for society at large. We call this Creating Shared Value. Analysing our entire value chain, we have identified three focus areas where Nestlé can optimise the creation of shared value: besides water, these are nutrition and rural development. So while water is the main theme of this report, you will also read about our other two priority areas, as well as our progress and challenges in Environmental Sustainability and in Compliance; the essential foundations of Creating Shared Value. As part of this, we also reiterate our continued strong support for the UN Global Compact and its Blueprint. Nestlé is a founding member of UN Global Compact LEAD.

In nutrition, through our support for the UN initiative Every Woman Every Child, Nestlé committed to continuing to address today's health challenges by expanding its global Healthy Kids Programme to teach children about the value of nutrition and physical activity. We are also creating more opportunities for women through income-generating activities and continuing to provide access to education,



Nestlé Chairman Peter Brabeck-Letmathe (left) visits a water facility at a farm that delivers milk to the East African Dairy Development project factory in Kariakoo, Kenya.



Nestlé CEO Paul Bulcke visits a school close to our new plant in Karnataka, India. Nestlé works with local government in the region to provide clean drinking water and sanitation facilities to village schools.

focusing on women and children. These efforts on behalf of women and children reflect our commitment to the UN Millennium Development Goals.

Responsible sourcing is intrinsic to our rural development goals and we have conducted 1910 audits in 2011, to ensure our suppliers' responsible workplace commitments are being implemented. Our traceability programme is also reaching milestones; we began in 2010 with palm oil and paper and pulp and by 2012 we will have extended it to ten further areas and main commodities. A particularly serious challenge is the occurrence of child labour. For a few years we have worked to further ensure it has no place in our supply chain, so we have become the first food company to work with the NGO Fair Labor Association to help us bring transparency into our specific cocoa supply chain and assist us in defining and implementing corrective measures, together with the other stakeholders involved.

This summary report, and the more extensive accompanying Creating Shared Value reporting available at www.nestle.com/csv, record our progress and challenges for 2011. We hope you find them engaging and informative, and welcome your input and views, which can be sent via the Contact button at www.nestle.com.

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

About this report

Through our Creating Shared Value reporting, we aim to share information transparently about our long-term impact on society and how this is intrinsically linked to the creation of our long-term business success.

Our reporting history

We have issued global Creating Shared Value (CSV) reports every two years since 2007, and have now migrated to full online CSV reporting on an annual basis. This shows our progress against key performance indicators (KPIs) across our value chain and outlines the actions we have taken to address the main challenges facing our business.

Our 2011 focus: water

We supplement our online reporting with topic-specific printed summary reports concentrating on one of our three focus areas: nutrition, rural development and, in the case of 2011, water.

Nestlé Waters, the global leader in bottled water, also reports in-depth on its own activities in its Creating Shared Value Report at www.nestle-waters.com.

The CEO Water Mandate – a building block of this report

The water-focused sections of this report mirror our efforts in five of the key elements of the UN Global Compact CEO Water Mandate. Five elements (Public policy, Collective action, Direct operations, Supply chain and Community engagement) each have a separate chapter and the sixth, Transparency, is fulfilled through the act of reporting.

Our wider communications

This summary, the full online Nestlé CSV report and the case studies, audio content, videos and downloads online (see www.nestle.com/csv), are companions to our 2011 Annual Report, which outlines our business and financial performance. Together, they form an integral part of our overall communication on CSV performance and cover the UN Global Compact Advanced/LEAD Communication on Progress requirements.

Future reporting

Our objective is to increasingly align our external reporting with good-practice guidelines, such as the Global Reporting Initiative (GRI) G3.1 guidelines and the GRI Food Processing Sector Supplement, the development of which we were involved in. Our Chief Financial Officer participated as a member of the International Integrated Reporting Committee (IIRC), which was set up by The Prince's Accounting for Sustainability Project (A4S) and the GRI in August 2010.

Report boundary, scope and assurance

The information contained in our latest online report and this summary covers Nestlé's global operations for the year ending 31 December 2011, unless otherwise stated.

Data is provided for Nestlé's wholly owned companies and subsidiaries, excluding joint ventures and suppliers, unless specifically stated. The environmental data refers to factories only (excluding some recent acquisitions), and safety and health figures cover approximately 290 000 Nestlé employees[©] (permanent and temporary), as well as approximately 80 000 contractors working on Nestlé sites.

Our CSV reporting is subject to independent third-party assurance by Bureau Veritas. Their assurance statement can be found at www.nestle.com/csv.

Material issues

For several years, Nestlé has worked with SustainAbility, an independent think tank and strategy consultancy, to undertake a systematic prioritisation of the issues deemed most critical and therefore material to our Company.

Based in part on a media and competitive scan, SustainAbility identified global megatrends, assessed their relevance to our CSV focus areas and economic, environmental and social issues, and prioritised issues on a materiality matrix based on level of stakeholder concern and level of potential impact on Nestlé. Following internal validation of this work, key topics were discussed with external stakeholders in Autumn 2011 as part of our regular engagement processes (see page 40 for an overview of our stakeholder engagement).

Megatrends

SustainAbility identified the following megatrends as particularly important for Nestlé: resource constraints, economic uncertainty, demographic shifts (including urbanisation, ageing and the rise of middle-class consumers), health and wellness, climate change, and continuing technological developments.

Materiality

SustainAbility's analysis, along with the stakeholder convenings in New Delhi and London, identified a number of issues that are new and/or rising in importance for Nestlé compared to previous years. The highest-priority issues are highlighted by SustainAbility as follows:

The growing number of product recalls means product safety continues to be a top concern for Nestlé and the food and beverage industry, with a specific focus on allergens in India. Water, the theme of this report, and its complex links to food, energy and a range of other social, environmental and economic issues, continues to rise on the agenda. While climate change mitigation remains a central concern, stakeholder interest in climate change adaptation is rising as the effects of climate change begin to make themselves felt, particularly in rural communities. Given rising obesity, unemployment and poverty in many regions, the affordability and accessibility of healthful foods are becoming specific targets for industry initiatives and stakeholder concern in Europe, the US and India, to name three regions. Ten years after the signing of the Harkin-Engel Protocol aimed at ending child labour in the production of cocoa, supplier human rights remains a key and growing area of stakeholder interest across a wide range of agricultural and other sectors. Finally, general resource availability is taking centre stage as raw material prices and commodity volatility reach unprecedented levels and supply appears to be becoming more inelastic. SustainAbility's analysis of issues, prioritised according to level of impact on Nestlé and level of stakeholder concern, is available in the materiality matrix at www.nestle.com/csv/materiality.

The text above is authored by SustainAbility.

Bottled water

In addition to SustainAbility's analysis opposite, we monitor and engage with a wide range of stakeholders, and recognise that some have been concerned about the perceived impact of the bottled water industry on the human right to water and on the environment.

Despite Nestlé Waters' status as the worldwide leader in bottled water, we are a small water user (our global operations amount to only 0.0009% of global estimated freshwater withdrawals). We use water not only in the bottle itself but also in industrial processes, including cleaning and cooling, and depend on a reliable supply of water in sufficient quantity and consistent quality to ensure the long-term success of our business. Our vision is to provide good quality products where consumers expect to find them and to play a leading role in promoting healthy hydration.

We are therefore deeply aware of how precious water is and are committed to responsible water management, which we base on three main approaches. First, we continuously monitor the status of each of the sources we operate. Second, we carry out risk assessments and put measures in place to safeguard sources against any potential risks. The third main approach is that we optimise the water used during production on a continuous basis. Going further, Nestlé Waters shares its expertise and best practices in water resource management with stakeholders in the local communities in which we operate. We are equally committed to educating children, the water stewards of the future, about the importance of water for the environment and the role of water in healthy hydration. Read more about Nestlé Waters' environmental stewardship on pages 36–37.



Edward Dawutey, Waste Water Treatment Plant Technician, tests treated water at our Tema factory in Ghana.

Water

Water has become the most pressing global environmental issue representing a serious long-term risk for our business and society as a whole. Nestlé is determined to play a leading role in tackling the water challenge.

The water crisis

Though we have enough fresh water across the world as a whole, a growing, more prosperous and increasingly urban population, combined with the impact of climate change, is making water scarcity a serious reality in many parts of the world.

By 2030, demand for water is forecast to be 50% higher than today, and withdrawals could exceed natural renewal by over 60%, resulting in water scarcity for a third of the world's population (source: 2030 Water Resources Group). With more than two thirds of all water being withdrawn by agriculture, food security is also at stake if we are not able to solve the world's water crisis.

Increasing supply and improving efficiency will only take us so far. Meeting the rest of the challenge will require policymakers, civil society, agriculture and industry to work together to significantly improve the way we value, use and manage this precious resource.

Online resources

- www.nestle.com/csv/Water
- www.unglobalcompact.org/ceo_water_mandate
- www.nestle.com/csv/Stories

Meeting the water challenge

Public policy

For Nestlé, as for all impacted by water-related challenges, solutions ultimately depend on governments and collaboration across sectors, so we are committed to action-oriented dialogue with all stakeholders, from farmers to policymakers, to help formulate strategies aimed at addressing the water "overdraft".
→ See pages 12–15

Direct operations

In order to maximise operational efficiency, we embed sustainable water management into our business and implement water-saving programmes that help us reduce water withdrawals, increase reuse, make use of alternative water sources and improve the water efficiency of our products. We return clean water to the environment.
→ See pages 20–23

Community engagement

Working with non-governmental organisations, we help fund, support and run sustainable water management schemes, so that people living in the communities where we have facilities have access to clean drinking water and better understand the importance of hygiene and sanitation. In many cases such engagement is directed at improving conditions of communities on whom we depend for raw material supply.
→ See pages 28–29

Collective action

Through organisations such as the local initiatives of the Water Resources Group, the UN Global Compact CEO Water Mandate, the Water Footprint Network and the Alliance for Water Stewardship, among others, we work with others to exchange ideas, foster new thinking and develop innovative solutions.
→ See pages 16–19

Supply chain

Because we need to secure our long-term access to raw materials, we support the millions of farmers who supply us with high-quality raw materials through direct investment and training in good water management practices, while engaging in water preservation activities with local stakeholders, and sharing best practices.
→ See pages 24–27

Expert opinion: the view from South Africa

In our country of about 50 million people, we face the challenge of freshwater scarcity which is exacerbated by its growing demand, pollution of its sources, unsustainable usage and wastage. Factors such as climate change and population growth also lead to an increase in water consumption.

By Edna Molewa

We admit that there are real and significant challenges with regard to water management in our country. In this regard, we have already begun to think creatively about different ways of preserving and protecting this precious resource, thus making more water available for economic growth and the creation of decent jobs.

South Africa is a water-scarce country with a low rainfall – about 50% of the world average – and one of the lowest run-offs in the world. Rainfall is also highly seasonal, with around 80% occurring within a span of five months. While this raises many concerns regarding water availability and security in the country, the South African government believes that if we manage our resources well and use water judiciously, there will be no imminent shortage of water. Current projections indicate that South Africa will, in all probability, exceed the limits of our economically useable land-based water resources by 2050. However, my department is working on innovative measures to ensure that there will be clean water for human consumption for future generations.

We have no option but to change our behaviour and attitudes towards water use, as part of our ongoing endeavours to build sustainable livelihoods for the people of our country. Indeed, if we do not change the way we use our water resources, challenges will be experienced in our initiatives to make more water available for economic growth and the creation of decent jobs. Water limitations will create constraints to meet the energy generation capacity we need for economic growth. It will also impact negatively on the agricultural sector's ability to create jobs and provide food security for our country. The mining and industrial sectors will also experience constraints in contributing to economic growth and employment creation.

We therefore have a collective responsibility to proactively protect our water resources. In this regard, the work that Nestlé's Mossel Bay factory in South Africa has done in reducing its water consumption by 50% in 2010 is to be applauded. It is encouraging to note there are companies that look internally into their processes to improve the efficient use of water, thereby encouraging other water users to do the same.

We also congratulate Nestlé as the winner of the 2011 Stockholm Industry Water Award for its leadership, performance and efforts to improve water management within its supply chain globally. The education of the general public on water conservation continues to be highly imperative. Thus, we have begun with campaigns aimed at raising awareness about water conservation and encouraging our communities to get involved in waging war against water wastage. We have also commenced a programme to desalinate sea water for domestic consumption in severely water-stressed areas.

Collectively, these interventions contribute towards making more water available to allow our country to pursue the strategic objective of growing the economy and creating more decent jobs. To improve the collaboration with business, we signed a Memorandum of Agreement with the Water Resources Group (WRG), an influential public-private global network on water, supported by the World Economic Forum and the International Finance Corporation. The intent is to forge a partnership with WRG through a public-private group, chaired by a Director-General of my department, to oversee the activities to address critical water issues in South Africa: water conservation, demand management and developing more sustainable management of groundwater resources.



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We have no option but to change our behaviour and attitudes towards water use, as part of our ongoing endeavours to build sustainable livelihoods for the people of our country.”

Edna Molewa
Mrs Edna Molewa, MP, is the Minister of Water and Environmental Affairs in South Africa.

We invite all citizens of South Africa to support us in this quest to make our country a water-conscious country for the benefit of present and future generations. As we chart a new policy context, we shall continue to infuse in our approach the constitutional and human rights imperatives towards our service delivery model.

We trust that we can continue to rely on the support of various stakeholders, particularly companies like Nestlé, as we do our work to make more water available for economic growth and the creation of decent jobs.

The comments on this page are the author's independent opinions and are not necessarily shared by Nestlé.

Expert opinion: the business of water

Water insecurity looms as one of the great challenges of the 21st century, and it is one that policy makers and business leaders must face together.

By John Briscoe

Public sector leaders and non-governmental organisations have long dominated the debate on water policy but over the last decade, a growing number of private sector companies (with Nestlé playing a leading role) have also started to engage, on two tracks.

Track One is being defined by companies that are developing technologies that can enable society to get more product – more food, energy, income, employment – per drop of water. There are three broad segments. The first comprises companies that develop productivity-enhancing seeds and agricultural technologies. A second segment of companies is developing new technologies for treating water and wastewater. The third segment comprises companies that provide users with just-in-time and just-what's-needed information, such as on the probability of rainfall, on soil moisture, on water and on fertilizer requirements. Precision agriculture can produce much more crop per drop than traditional methods can, and industries and cities can use much less water too.

Track Two is motivated by the understanding that growing concerns of water scarcity and quality can become a threat to a company's social licence to operate. Companies have responded in several ways. Some have made large donations to activist groups in the hopes of buying peace; others have focused on the water standards that they can then meet in their plants. The most far-sighted of these companies, however – with Nestlé a leading example among them – recognise that while companies have to manage water and other resources efficiently behind their factory gate, society (along with companies and their suppliers) needs an equitable, efficiency-stimulating, and predictable legal and regulatory environment that governs all water uses in a watershed. These companies also believe that private businesses have useful and legitimate inputs to make into the policy formulation process.

I have seen, first-hand, two examples where companies are engaging on this big stage.

The first example was in Brazil, where improving the quality of public sector performance is, arguably, the biggest systemic challenge facing the country. Eight years ago, a newly elected Governor of one of the largest states realised this but did not have the people or tools to address the problem. The Governor approached executives from two of Brazil's most successful high-morale companies (InBev and Gerdau). Together, they laid down two basic ground rules: that they would assist only if the effort were led by the Governor, and there would be very careful avoidance of even the hint of a conflict of interest. The companies then provided human and financial resources, which the state used to execute a hugely successful "management shock", a process that is now being emulated in a dozen other Brazilian states.

The second example is in Pakistan, where the Chief Minister of the largest province is pulling together public and private expertise to address the existential challenges of water productivity and water security. The private effort has been led by the local private sector, with multinationals – led by Nestlé – playing a strong supporting role.

Nestlé engages for three reasons. First, its corporate philosophy of Creating Shared Value plays a major role, because Nestlé in Lahore is not just the milk factory, but includes the 190 000 farmers who provide milk to the factory. These farmers tell Nestlé that water is a major challenge – not only for their cattle, but for their crops and their families.

Second, Pakistan is an important and profitable market for Nestlé and the Company realises that its corporate well-being is dependent on a more prosperous and secure country.



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Dealing with the growing and changing threat of water insecurity is one of mankind’s great, existential challenges.”

John Briscoe

Professor John Briscoe was Senior Water Advisor and Brazil Country Director for the World Bank. He is now the Gordon McKay Professor of the Practice of Environmental Engineering at Harvard University.

And third, while Nestlé is, of course, a multinational, in any place (like Pakistan) it is at least as much local as international. One of Pakistan’s most far-sighted business leaders is a major shareholder, and Nestlé’s staff is almost exclusively Pakistani. And every Pakistani knows just how vulnerable his or her country is when it comes to water. And so Nestlé – like InBev and Gerdau in Brazil – is putting its management know-how at the service of reforming political leaders, and encouraging other domestic and international companies to do the same.

Dealing with the growing and changing threat of water insecurity is one of mankind’s great, existential challenges. The glass is certainly half empty. But it is also half full, as political leaders increasingly engage with the fundamentals of reform, and as business leaders understand that this is an issue where they can, in partnership with progressive political leaders, make a big, systemic difference.

The comments on this page are the author’s independent opinions and are not necessarily shared by Nestlé.

Public policy

The global issue of water “overdraft” cannot be solved by the private sector alone. To stimulate concrete action, we are heavily involved in the public policy debate, and are convinced that committed engagement with relevant stakeholders at watershed, government and international levels is the right way to develop effective strategies.

The global context

The ever-expanding demand for water by the world’s growing, more prosperous and increasingly urbanised population, combined with the impacts of climate change policies and responses, mean that water is of increasing strategic importance for business and economic prosperity. Yet water scarcity is a reality in many parts of the world and with it, livelihoods, human health and entire ecosystems are under threat.

In 20 years, demand for water will be 50% higher than today and a third of the world’s population will experience water scarcity, affecting the production of staple foods, while freshwater withdrawals are expected to exceed natural renewal by over 60% by 2030 (source: 2030 Water Resources Group). Expanding supply and improving efficiency will only fractionally reduce this gap, so policymakers, civil society and businesses need to work together to dramatically improve how water is valued and managed.

Our contribution to public policy debate

Water has been an issue of concern and action for us since the 1930s, when we built our first wastewater treatment plant. Today, we remain active and concerned, exemplified by the engagement of Nestlé Chairman

Peter Brabeck-Letmathe with the World Economic Forum (WEF) over many years, including its Annual Meeting in Davos, Switzerland, in January 2011 (see www.weforum.org).

Since 2008, we have also played a leading role in the 2030 Water Resources Group (WEF-WRG); formed with the International Finance Corporation of the World Bank Group, McKinsey & Company and a consortium of business partners. Under the leadership of Mr Brabeck-Letmathe, the WEF-WRG seeks new insights into water scarcity, explores the opportunities and costs of possible solutions, and fosters results-based stakeholder dialogue. Beyond the debate, we also want to be part of the solution with our own efforts within the context of a cost-effective, comprehensive strategy.

Charting Our Water Future

After a year-long collaboration, the WEF-WRG published its landmark report, *Charting Our Water Future*, in November 2009. As well as providing a clear insight into global challenges, the work also provides practical tools to help stakeholders compare the impact, scale, cost, trade-offs and effectiveness of different measures and technologies to reduce the water gap at a watershed level, enabling water management to be integrated into wider economic and social decisions.



Key challenges

- Engaging effectively with governments to demonstrate that water shortage can be overcome at an affordable cost.
- Although our pilot projects are encouraging, getting government buy-in and leadership remains crucial.

Goals

- Participate in the public policy debate on balancing water withdrawals with natural renewals.
- Contribute to action-oriented dialogue that will increase the efficiency of water use at a watershed level, to deliver a balanced regulatory framework.

Actions

- Engaging in public sector dialogue with national governments and inter-governmental fora.
- Chairing the 2030 Water Resources Group and leading the World Economic Forum water effort.

Performance

- Water cost curves tested in India, Pakistan, South Africa, Jordan, Mexico and Mongolia, with the Water Resources Group.
- Participation at high level in public-private sector dialogue in several fora including World Economic Forum, World Water Week and Chatham House.



Global

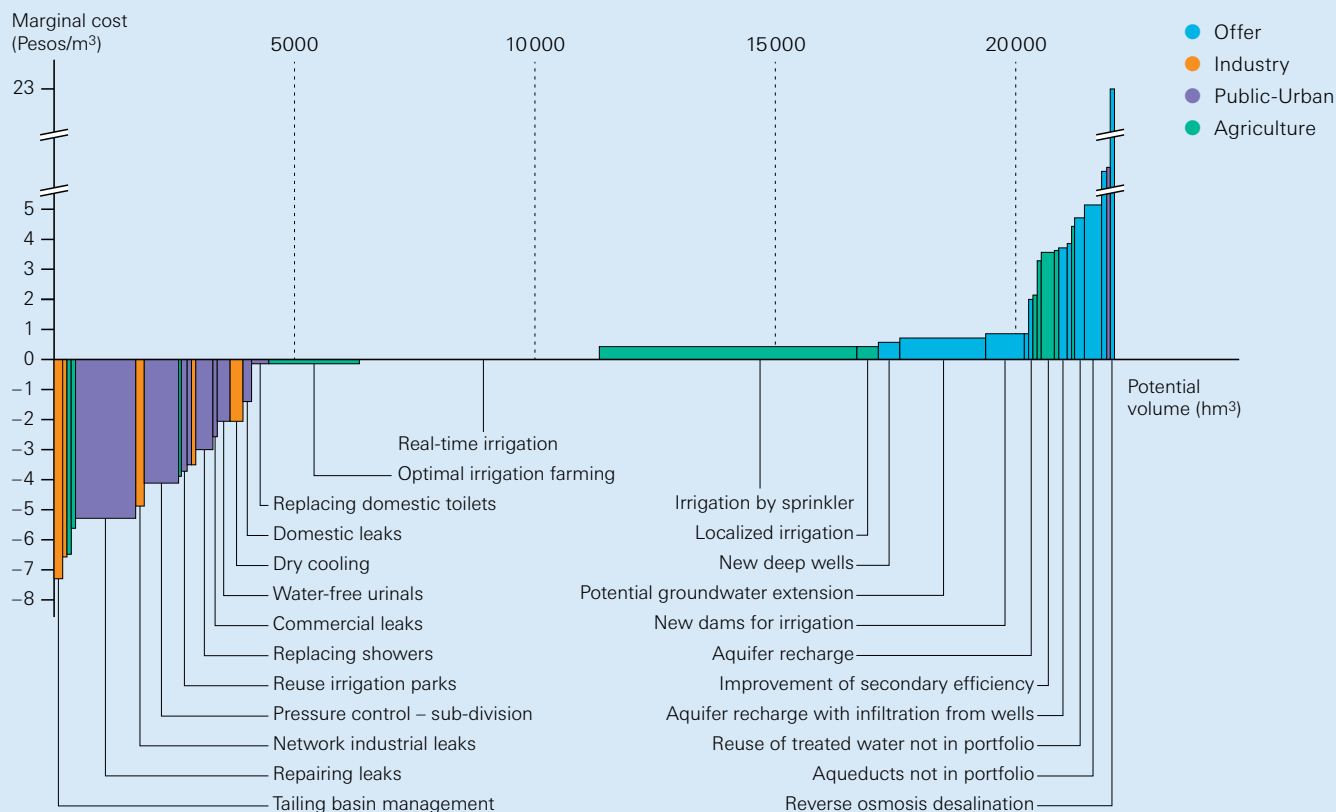
Major water challenges for us all

Long daily treks to collect and carry water (6 km on average by African women and children, according to the IFRC), no access to improved water sources, and no access to adequate sanitation are difficult realities for many. Better public policy and governance are important to Nestlé because they are on the critical path towards universal access to clean

water for every person – an ambition which we wholeheartedly support – and at the same time, in working towards solutions that tackle water security issues faced by millions of people we are also minimising the risks to our own business.

6
km

The 2030 Water Resources Group water cost curve: Mexico



Source: 2030 Water Agenda (National Water Commission of Mexico)

The water cost curve is a key tool, designed to add to stakeholder understanding by providing a comprehensive assessment of supply- and demand-side levers that can bring water withdrawals in individual watersheds back into line with natural renewal.

India, for example, has long invested heavily in large-scale water infrastructure but managing its water resources remains a key challenge. In *Charting Our Water Future*, the WEF-WRG analysed 140 measures and selected 37 that could help close India's projected supply/demand gap across 19 major catchment areas. If the cheapest options were selected for managing water resources, annual expenditure in 2030 would be USD 5.9 billion.

Testing the water cost curve

Ultimately, solutions are needed for watersheds, river basins and aquifers and the WEF-WRG already leads the way through several multi-stakeholder pilot projects to assist governments in setting priorities and developing strategies.

In Mexico (see cost curve above), an intense effort has been made to carry out rigorous prospective scenarios in each of the country's 13 hydrological-administrative regions. In order to achieve balanced supply and demand for water, it will be necessary to concentrate on four lines of action: increasing the modernisation (relining primary and secondary channels) and the technification of irrigation districts and units; continuing with the construction of infrastructure

to supply areas of growth; boosting efficiency of drinking water and sanitation systems; and increasing the use of efficient technologies in homes, businesses and industry.

The WEF-WRG is also supporting co-ordinated action to deepen the Mongolian authorities' understanding of water resources, future demand and the full range of possible solutions, and develop a "Mongolian Water Initiative" implementation plan.

Online resources

- www.nestle.com/csv/Water
- www.weforum.org

Stockholm Industry Water Award

At World Water Week, the Stockholm Industry Water Award (see www.siwi.org/siwa) was presented to Nestlé in recognition of our improved management and efficiency of water use in our operations. Since 2001, we have reduced water withdrawals by 28%, from 7.6 litres of water per kilo of

product to 3.17 litres, and aim to reduce water use by a further 10% by 2015.

Below: Nestlé Chairman Peter Brabeck-Letmathe accepts the Stockholm Industry Water Award on behalf of the Company.



José Lopez, Nestlé Executive Vice President, Operations, meets the King and Queen of Sweden at the Stockholm Industry Water Award ceremony in August 2011.

“

We have identified water as the biggest challenge for future food security, and beyond that, for economic growth. This is probably the most prestigious award in this area for a company and it will strongly encourage us to continue with our efforts.”

Peter Brabeck-Letmathe
Chairman of the Board



Mongolia

Bringing local stakeholders together

The World Economic Forum-Water Resources Group is led by Nestlé Chairman Peter Brabeck-Letmathe and is actively seeking co-ordinated action involving all stakeholders at national and international levels.

Above: A World Economic Forum-Water Resources Group meeting in Mongolia, co-hosted by the Office of the President of Mongolia and the Water Resources Group in June 2011.

Collective action

Public policy

Collective action

Direct operations

Supply chain

Community engagement

The water challenge is a global issue that calls for joint action. Nestlé is committed to learning from others, as well as sharing our own learning – as a founding signatory of the UN Global Compact CEO Water Mandate, and as an active member of national and international networks.

Managing water issues

We have embedded responsibility for water into our business units, providing a solid cross-functional platform to manage water-related issues. Our Water Task Force, chaired by José Lopez, sets high-level strategy, while our Operations Water Task Force translates this into operational targets, objectives and KPIs, enabling us to face current and future challenges, and delivering competitive advantage through responsible water management.

The Nestlé Water Task Force also co-ordinates the Company's involvement in the various collective action initiatives, which translate our ambition to contribute to solutions to the global water crisis.

Engagement and disclosure

Nestlé is a founding signatory of the UN Global Compact CEO Water Mandate, a unique private-public initiative in which 87 companies including Nestlé are working with environmental organisations and other stakeholders to support water disclosure, public policy engagement and the human right to water. We actively participate in the Mandate's working groups on these areas of engagement, and publish a public Communication on Progress (COP) every year; this report forms our 2011 COP.

In 2011, the Mandate held two working conferences in Copenhagen and Stockholm. Initiatives underway through the working groups include:

- Water Disclosure Guidelines to advance a more standardised global approach to corporate water disclosure;
- the Water, Business and Human Rights report of the Institute for Human Rights and Business, to which we contributed. A specific guidebook on how companies should implement the right to water and sanitation is also underway;
- a Water Action Hub, bringing together companies, governments, NGOs and communities at a basin level. On the ground, collective action initiatives are ongoing in Southeast Asia and South Africa as well as continued engagement in the international water policy arena.

Stockholm International Water Institute

We also play an active role in Stockholm World Water Week in order to exchange ideas and innovations among experts, practitioners and decision-makers. This is an annual event hosted by the Stockholm International Water Institute and at the 2011 event, themed Water in an Urbanising World, the Stockholm Industry Water Award was presented



Key challenges

- Selecting appropriately from a multitude of risk and impact assessment tools, which are set to expand.
- Co-ordinating and harmonising across initiatives to deliver local, practical and multistakeholder solutions.

Goals

- Demonstrate leadership in voluntary multistakeholder initiatives, which recognise water issues as shared risks and responsibilities and promote water stewardship.
- Pursue collective action in watersheds relevant to our operations to balance water use.

Actions

- Acting in all workstreams of the CEO Water Mandate and being one of the first companies to contribute to the Water Carbon Disclosure Project (CDP).
- Advocating for common standards through ISO 14046, the Alliance for Water Stewardship (AWS) and the Water Footprint Network.
- Engaging in local water preservation and stewardship initiatives in countries including Colombia, India and France.

Performance

- Appointment to AWS International Standard Development Committee: first draft standard by Q1 2012.
- Harmonisation of CEO Water Mandate and Water CDP reporting requirements.
- “Ecological corridors” in the Nestlé Waters Switzerland ECO-Broye programme.



Switzerland

Nestlé Waters partnership approach

Since acquiring the *Henniez* brand in 2007, Nestlé Waters' ECO-Broye programme has fostered local partnerships to help preserve natural resources and maintain farmer income in this region of Switzerland. The initiatives, which will be extended by the stakeholders themselves, involve farmers establishing “ecological corridors” across 1500 hectares of farmland to preserve and stimulate local biodiversity; organic filtration in a tributary of the River Broye to improve surface water quality; and a biogas digester to turn organic farm waste into clean energy, to be controlled by Nestlé Waters.

1500
hectares

Left: Michel Marcuard, a Nestlé Waters Water Resource Champion, carries out sampling at the filtration area serving the Nestlé Waters plant in Henniez, Switzerland.

“

Nestlé continues to demonstrate how important water is to its long-term success by assigning board-level responsibility for its Company-wide water policy and taking local action to reduce its exposure to water-related risk.”

Marcus Norton
Head of CDP Water Disclosure

to Nestlé. As well as participating in World Water Weeks, we collaborate with the Institute’s experts on specific topics including the water impact of food waste.

CDP Water Disclosure Project

We believe that transparent disclosure is vital to aid financial and policy decision-making and therefore actively participate in the CDP Water Disclosure Project. We helped extend the Carbon Disclosure Project questionnaire beyond carbon to include water, and were among the first companies to contribute to the CDP’s Water Disclosure report in 2010, and again in 2011, detailing how we assess, manage and respond to water-related risks in our operations and supply chain. We have also been part of the CDP Supply Chain Leadership Collaboration initiative to assess our suppliers since its creation in 2007.

Water Footprint Network

We are a member of the Water Footprint Network, founded in 2008, and participate in a working group, providing response options from the private sector aligned with the work we conducted in the 2030 Water Resources Group. We have also

shared our water management experiences in Vietnam, India, the UK and Colombia.

Addressing key challenges: Developing standards for assessing water use impact

Due to the current lack of global standards, organisations around the world apply different methodologies to assess the impact of water use. We support internationally consistent measurement and management tools, processes and practices, and we are actively participating in the development of a new ISO 14046 Standard Water Footprint – Requirements and Guidelines. Based on a life cycle approach, the standard will deliver principles, requirements and guidelines for assessing the water impact of products, processes and organisations. It will also define how different water sources and releases, and local environmental and socio-economic conditions, can be considered. This standard is expected to be complete by 2014.

Alliance for Water Stewardship

As a participant in the recently formed Alliance for Water Stewardship (AWS), we are working with others towards establishing a voluntary certification programme over the next two years, allowing water managers and users to demonstrate compliance with, or support for, new International Water Stewardship Standards. This voluntary standard will help companies to measure, manage and engage with others, improve water stewardship practices beyond their own activities, and will complement regulatory efforts to reduce water-related impacts.

Online resources

- www.nestle.com/csv/Water
- www.cdproject.net/water
- www.allianceforwaterstewardship.org



France

Product environmental communications to consumers

Nestlé France, Nestlé Waters and Nestlé Nespresso are participating in a national experiment on environmental communication to consumers in France. The initiative, launched in July 2011 by the French Ministry of Ecology, Sustainable Development, Transport and Housing, communicates environmental performance (greenhouse gas emissions, water, biodiversity) of products from *Vittel*, *Nescafé* and *Nespresso*. The year-long project will explore what is required to introduce environmental labelling on products in France. A similar test on consumer goods assessment has been started by the European Commission, in which we participate with *Nespresso*, *Nescafé*, *Vittel*, *KitKat* and *Purina Gourmet*. We are also co-chairing the Steering Committee of the European Food Sustainable Consumption and Production Roundtable, together with the European Commission, to develop a harmonised methodology to assess the environmental performance of food products.

Above: A consumer in a Paris *Nespresso* boutique scans the barcode of a *Nespresso* product to learn about its environmental impact.

Improving water management

Through the SuizAgua project, we work with the Swiss Development Agency and a consortium of Swiss companies in Colombia to assess water use impact along the product life cycle. The project seeks to improve water management in dairy operations and the supply chain in Florencia and Bugalagrande, by estimating water use in traditional and silvopasture systems, helping farmers

with water stewardship and improving the environmental performance of our products.

Below: Nestlé's Leonardo Manrique (wearing blue cap) joins dairy farmers and their families in Montañita, Ecuador in planting new saplings following a workshop on water value and conservation.



A workshop for dairy farmers and their families in Montañita, Ecuador, explores local water challenges.



Direct operations

While acknowledging that we have made good progress over the years towards greater water efficiency, we know there is much more to do. We will continue to pursue rigorous water management standards and water-saving programmes throughout our operations.

Driving operational efficiency

As part of our commitment to drive operational efficiency, we are focused on reducing water withdrawal and increasing reuse, using alternative water sources such as rainwater harvesting and continually working to improve the water efficiency of our products. We aim to return clean water to the environment.

Determining water management action plans

Assessing the water-related risks facing our factories is crucial to identifying where to prioritise our water management efforts. The risk of reduced water quantity or quality – “physical risk” – is often linked to local competition among domestic, industrial and agricultural users.

Our factories are widespread in all continents and therefore share the same geographical distribution of water stress level faced by our suppliers, customers and consumers. From our Combined Water-Stress Index, which takes an average of two leading publicly available water-stress indicators (water withdrawals to availability ratio; estimated annual renewable water supply per person for 2025), we evaluate that 40% of our factories are located in water-stressed regions, and 10% are situated in areas of severe water scarcity. Especially in water stressed areas, we strive to be the most efficient water user. We conduct Water Resources Reviews in these

factories first – a process through which we evaluate the long-term availability of water resources around our factories, and through which we engage with stakeholders from academia, civil society and the public sector in order to address water management beyond our factory gates at a watershed level – to raise awareness, identify key issues and devise action plans.

The approach outlined above ensures that our operations not only respect the human right to water, but at the same time consider collective, long-term, local water sustainability.

We carried out Water Resources Reviews around 11 sites in 2011 and a total of 100 factories worldwide.

Improving water efficiency

We aim to be the most efficient water user among food manufacturers. We withdrew 143 million m³ of water in 2011[©], or 3.17 m³ per tonne of product[©]; this is 4% down from 2010.

Since 2001, water withdrawals have fallen by 28%[©], while our food and beverage production volume increased by 73%[©]. For example, our bottled water business, Nestlé Waters, which is a relatively small water user, needs water to fill the bottle, but also for additional uses such as cleaning and cooling. We have reduced our global average of this additional water to 0.63 litres per litre of bottled water produced through



Key challenges

- Developing and supporting collective action within watersheds from which our factories withdraw water, because most water stewardship challenges lie beyond our factory gates.
- Maintaining progress in water efficiency while delivering business growth.

Goals

- Be the most efficient water user among food manufacturers and lead in water resource management.
- Continuously improve water efficiency across our operations, further reduce water withdrawals and discharges, and return clean water to the environment.

Actions

- Embedding sustainable water management into business decisions by preserving water availability and quality, and by improving the environmental performance of our products, including their water efficiency.
- Implementing programmes to reduce water withdrawal and reuse water, use alternative water sources such as rainwater harvesting and invest in water-saving technologies.

Performance

- 254 water-saving projects run in our factories, Water Resources Review programme conducted at 100 Nestlé sites to date and CHF 28 million invested in water-saving and cleaning programmes during the year.
- 28% reduction in water withdrawals since 2001[©], while our food and beverage production volume increased by 73%[©].



Africa

Returning clean water to the environment

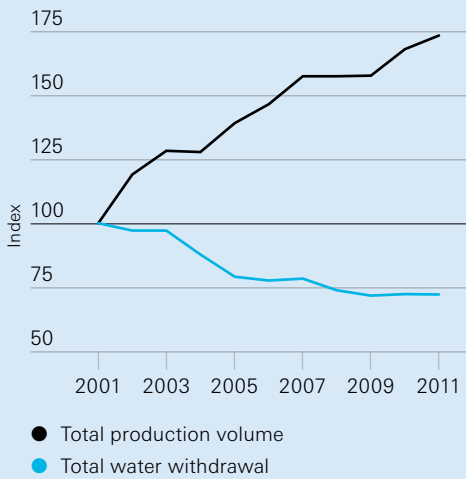
A USD 2.2 million investment at our factory in Tema, Ghana, provided a new wastewater treatment plant to improve on the local municipal facilities. The plant began operations in 2010 and treats the wastewater from the factory as well as the adjacent Nestlé Distribution Centre, in full compliance with local environmental legislation and our own standards.

Although legislation in the Democratic Republic of Congo requires nothing more than a septic tank, our newest water treatment plant – at the Maggi factory in Kinshasa – became operational in October 2011.

Left: Nestlé Factory Manager Luc Niesseron with Kwamina Quaison of the Ministry of Environment, Science and Technology at the Nestlé waste water treatment plant in Tema, Ghana.

2.2
million USD

Water withdrawal versus production volume, 2001–2011



a number of site-level initiatives, representing a 36% improvement between 2005 and 2011.

Water-saving projects

Between 2001 and 2011, the wastewater from our factories was reduced by 38%[©] by recovering water from production processes and reusing it for other applications, from cooling to landscape irrigation. In 2011, we recycled 7.8 million m³ of water, as we seek to reduce water discharge.

Treating wastewater effectively

We use municipal wastewater treatment facilities wherever possible, but where these are not efficient enough, we invest in our own facilities, returning treated water to the environment according to local legislation and internal standards, whichever is more stringent. We have 301 on-site treatment plants, and in 2011 invested CHF 6 million on new and improved facilities.

We discharged 93.9 million m³ of water[©] in 2011, with an average of 68.6 mg Chemical Oxygen Demand (COD) per litre[©].

Online resources

- www.nestle.com/csv/Water
- www.nestle.com/csv/Environment
- www.nestle-waters.com

Nigeria

Optimising water reuse and efficiency

The Agbara manufacturing complex is one of two Nestlé factories in Nigeria, producing a wide range of brands and products including *Maggi* cubes, *Milo* and *Cerelac*. The close proximity of our food manufacturing plant and the Nestlé Waters plant at Agbara has enabled us to install a connection so that all surplus water from the Nestlé Waters deep well is used by Nestlé Nigeria plants,

leading to a reduction in the water ratio (m³/tonne of finished product) and an annual water saving of 100 000 m³. The Agbara factory also has its own water treatment facility, which achieves the legal limits of COD 90 mg per litre and BOD (Biochemical Oxygen Demand) of 50 mg per litre for treated effluents returning to the environment.



Continuous improvement, driven by Nestlé Continuous Excellence, has resulted in a range of water-saving initiatives at many of our factories:

Location	Initiative	Annual water savings
LaVie, Vietnam	Frequency inverter adjusts water flow from wells according to production needs	150 000 m ³
San Pellegrino, Italy	Treated rinse water reused for washing glass bottles and pasteurisation	119 000 m ³
Agbara, Nigeria	Surplus water from bottled water production sent to nearby Nestlé Nigeria for reuse	100 000 m ³
Anderson, USA	Membrane Bioreactor system uses treated rinse water from production lines to cool the plant	86 000 m ³
Shuangcheng, China	Recycling of "cow water" condensate for boiler use	86 000 m ³
Guelph, Canada	Frequency inverters optimise water flow; capacity of water tanks increased	62 000 m ³
Lipa, Philippines	Rainwater collected from new <i>Coffee-Mate</i> warehouse roof used in cooling tower	9 600 m ³



Philippines

Recovering and reusing rainwater

Our Lipa factory has constructed a system that collects rainwater from catchment areas such as the *Coffee-Mate* warehouse roof, and supplies it to the cooling tower for use as make-up water. This is expected to enable the factory to reduce its overall water withdrawals by around 10 000 m³.



Nigeria

Providing free, clean drinking water to Nigerians

Local residents collect clean drinking water provided by the Nestlé factory in Agbara, Nigeria.



Italy

Using water twice

At the Nestlé Waters San Pellegrino plant, we have developed a "cascade" system enabling water to be used not once but twice, for rinsing and washing of the bottles, which saves water while still meeting all requirements in hygiene and product quality.

Supply chain

The answer to many water challenges is beyond the scope of Nestlé alone and we fully recognise the important role of our suppliers. Through our interaction with millions of farmers we are committed to join our efforts to theirs, to develop good water management practices and find effective solutions at watershed level.

Partnerships on water impacts in the supply chain

We are encouraging efficient water management practices at a watershed level – for example, through our leadership of the SAI water and agriculture working group, and by implementing and testing methods designed to increase water use efficiency on farms.

In India, for example, a new pilot project led by SAI and run by the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), uses a simple water impact calculator to determine the amount of water required under differing landform and irrigation conditions. Tests on rice, potatoes, tomatoes and fruit at five locations in Gujarat, Rajasthan and Andhra Pradesh revealed that water use could be reduced to around 30–40% by using the calculator, without affecting yields. ICRISAT will conduct further tests on maize and cotton during the monsoon period, and is also looking into the feasibility of farmers providing data via mobile phones.

Assessing water use in coffee production

Growing coffee, a major ingredient in many Nestlé products, uses a significant amount of water, and sometimes takes place in countries

where water is already scarce.

To better understand and quantify potential risks to key production inputs – such as water – and to coffee itself, we launched a study in 2011 in partnership with the Swiss Agency for Development and Cooperation (SDC), the International Water Management Institute and EDE Consulting. The initiative includes:

- a global assessment of the “consumptive water use” (water consumed in the production process without being returned) of coffee production at farm level;
- a two-year, site-specific study at Dak Lak in Vietnam.

In response to the rapid growth of Robusta coffee production in Vietnam, which has led to deforestation and land degradation, the study will promote the value of water among smallholders and recommend practical ways to optimise water use.

SAIN water projects

The Sustainable Agriculture Initiative at Nestlé (SAIN) is our initiative to support farmers and promote sustainable development worldwide, which celebrated its 10-year anniversary in 2011. SAIN focuses on a broad range of commodities including milk, coffee and cocoa, and enables us to address some key



Key challenges

- Implementing good water management practices across complex supply chains.
- Delivering the water stewardship message beyond those suppliers with whom we interact directly.
- Sensitising farmers to the value of water in the frequent absence of adequate pricing structures.

Goals

- Help ensure that water is managed effectively throughout the agricultural supply chain.
- Protect the livelihoods of 25 million people involved in Nestlé's entire upstream supply chain and secure reliable access to raw materials.

Actions

- Engaging in water preservation activities with local stakeholders.
- Sharing sustainable water use best practice and guidelines with other food companies.
- Promoting sustainable development in 46 countries through the Nestlé Sustainable Agriculture Initiative (SAIN).

Performance

- A new Sustainable Agriculture Initiative (SAI) pilot project in India suggests that water use could be reduced by around 30–40%.
- Implementation of Responsible Sourcing Guidelines for 12 of our key commodities and extension of our Water Guidelines for Suppliers of Agricultural Raw Materials.



Colombia

Investing in supply chain water management

In the new central coffee mill in Jardín, Antioquia, the water infrastructure is designed to reduce water consumption by half and treat 100% of the waste water.

The first *Nespresso* AAA coffee from the mill was produced in 2011, and included in the first AAA Limited Edition grand cru, Dhjana, launched in September.

50%
water saving

Left: The new community processing centre in Jardín, Colombia, co-funded by *Nespresso*, enables coffee farmers to mill and dry coffee more efficiently.

challenges in water management and irrigation. For example:

- three farms in El Piñal, Venezuela have planted trees to control soil erosion, provide shade for livestock and reduce water loss to evaporation and run-off;
- 90% of the wastewater processed at the *Gerber* baby food factory in Fremont, United States, is returned to the local aquifer by irrigating local crops;
- our chicory supplier in Gujarat, India, built a rainwater collection pond to mitigate the decline of the local water table;
- in China, water use at our coffee demonstration farm in Yunnan Province was reduced by 80% in 2010 through the introduction of new post-harvest equipment;
- a partnership with the Swiss College of Agriculture is using the updated RISE 2.0 (Response-Inducing Sustainability Evaluation) tool to improve the sustainability of water use in Mexico's dairy industry at 13 farms in the Torreon municipality.

Nespresso AAA programme

In Colombia, one of the most important coffee sourcing countries for *Nespresso* and the country with the highest number of individual AAA farmers, the two main priorities of the AAA programme are to join the efforts of the local coffee authorities to regain the declining productivity of recent years and to address water management, one of the main issues of the coffee industry in the region.

At the end of 2011, 37 000 farmers in Colombia have already joined the AAA Programme. *Nespresso* has been working closely with the Federación Nacional de Cafeteros de Colombia and other partners to create innovative and efficient solutions to address water conservation issues. The first of these has led to the installation of 17 000 water treatment units including 2700 in 2010–2011. The second initiative has been the co-financing and implementation of a central mill in Jardín, Antioquia (see page 25).

Local community partnerships in Greece

In Greece, a Nestlé Waters project is supporting local communities in reducing potential threats to the quantity and quality of regional water resources. The initiative, which began in 2007, has involved hydrogeological investigation, assessing the vulnerability of the local groundwater and the identification of potential drilling sites in less water-scarce areas. Our engagement with local stakeholders in the planning process has helped secure a win-win approach for the local authorities, the farmers and their communities, and Nestlé.

Guidelines on responsible sourcing and water

We have recently begun introducing guidelines on the responsible use of water in agriculture. The guidelines apply to all relevant agricultural and forest-based raw materials and complement our Supplier Code and the Responsible Sourcing Guidelines (RSGs) that we are developing and implementing for 12 major agricultural materials and packaging materials. The water guidelines contain general requirements on water management in agriculture as well as specific provisions for water-stressed areas.

We have also recently adapted the ten main principles of SAI's Water and Agriculture Programme, through which we engage with farmers on areas such as water efficiency, irrigation, pollution, drought-tolerant crops and preventing leaks. From these principles, we have introduced Nestlé's Water Guidelines for Suppliers of Agricultural Raw Materials to a series of commodities through our responsible sourcing guidelines. New materials have also been developed to inform, train and educate sourcing personnel, support staff and farmers.

Online resources

- www.nestle.com/csv/Water
- www.nestle.com/csv/RuralDevelopment
- www.nespresso.com/ecolaboration
- www.saiplatform.org



India

Partnerships and awareness-raising

A 2010 joint study by Nestlé and the International Water Management Institute into the water intensity of milk, wheat and rice production in the Punjab determined that groundwater levels are falling rapidly due to agricultural over-use. Nestlé India therefore designed a programme to raise awareness among Punjab dairy farmers, and another for school students, to highlight the effects of over-exploitation of groundwater and the remedial action possible.

In 2011, we also joined a Department of Agriculture project to learn about Systems of Rice Intensification (SRI): innovative paddy cultivation techniques promoted by NGOs in Southern India that increase yields using fewer seeds, pesticides and fertilizers, and less water. The study compared SRI and non-SRI yields for the summer harvest and if results are positive, we will extend the techniques to our milk suppliers.

Above: Nestlé's Aman Bajaj Sood (left) and farmer Harinder Kaur take part in a Farmer Water Awareness Programme provided near the Nestlé factory in Moga, India.

South Africa

Addressing long-term drought

The Western Cape region of South Africa has experienced lengthy droughts for years, leaving the Wolvedans dam, near Mossel Bay, only 10% full at times. In response, our Mossel Bay milk factory installed equipment that enables condensate from production lines to be reused, helping halve water usage between October 2009 and May 2010. Beyond our factory gates, a SAIN project

to optimise water use further up the value chain is engaging with 17 dairy farmers, five of whom work within the dam's catchment area, to increase milk production. Local experts, including Nestlé Agricultural Services, are providing training and financial assistance to help with soil moisture monitoring, soil fertility management, irrigation scheduling and the use of drought-resistant crops.



Farmer Anton Roets measures irrigation at Goue Akker Farm, which supplies milk to the Nestlé factory in Mossel Bay, South Africa.



Community engagement

Nestlé helps to address local water issues in communities where we operate because improved water availability and access is essential for rural development and quality of life in the communities we depend on for raw material supply. Working with others, we contribute funding, operational support and training for sustainable water management schemes around the world.

Water, hygiene and sanitation

Since 2007, we have worked with the International Federation of Red Cross and Red Crescent Societies (IFRC) and the Red Cross Society of Côte d'Ivoire to provide water and sanitation facilities and hygiene training in Côte d'Ivoire. More than 60 000 adults and children have already benefited, and the programme will be further extended in the next three years covering 55 schools, 65 communities and at least 53 000 beneficiaries in the cocoa-growing areas of Côte d'Ivoire.

Due to serious civil unrest and the displacement of thousands of people following the 2010 presidential elections, the IFRC's ability to implement the activities planned for 2011 was significantly restricted, but the Nestlé project's technical staff was temporarily refocused to assist 31 000 people in 50 communities in Côte d'Ivoire and neighbouring Liberia with safe drinking water and hygiene-awareness support. The Nestlé-IFRC programme in Côte d'Ivoire is part of the global 2010–2013 partnership of CHF 2.25 million on water and sanitation, food security and the IFRC World Disasters Report. In 2011, we also supported the emergency relief operations of the IFRC and its National Societies in Japan and the Horn of Africa with a total of over CHF 800 000.

Meanwhile, in India, our Water Awareness programme has been rolled out, promoting responsible water use among children in schools near our factories and installing 156 drinking fountains. These now provide 66 000 students with clean drinking water.

Project WET and World Water Day

Project WET (Water Education for Teachers) is an international NGO that uses educational tools to raise awareness of water issues among schoolchildren around the world. Nestlé Waters has been its main sponsor since 1992, helping Project WET to establish programmes in a dozen countries including Vietnam, China, the United Arab Emirates, Lebanon and, most recently, Egypt.

Every March, Nestlé Waters marks World Water Day in partnership with Project WET. Children and teachers participate in Together for Water festivals, to increase awareness of the importance of freshwater for nature, healthy hydration, good hygiene and disease prevention. In 2011, more than 10 000 children and 400 Nestlé Waters employees participated in events across 25 countries.

Nestlé Waters brings relief

When a natural disaster occurs, water sources and distribution systems are often polluted or damaged, resulting



Nestlé Waters North America donated 87 truckloads (more than 3.3 million bottles of water) to emergency provisions sent by the US government to earthquake-struck Haiti.

in an immediate need for safe drinking water. Nestlé Waters can play a vital role to provide affected communities with bottled water, financial donations and logistical support, in partnership with NGOs or local authorities. In 2011, we provided disaster relief in Japan, Turkey, Thailand and the United States, as well as some continued support in Haiti. In total we donated more than 3 million bottles of water in 2011.

Online resources

- www.nestle.com/csv/RuralDevelopment
- www.nestle.com/csv/Stories
- www.projectwet.org

Key challenges

- Helping to change the wholly unacceptable reality that 884 million people have no access to improved water sources, 2.6 billion people have no access to adequate sanitation, and the poorest pay up to ten times more for water than the rich.
- Supporting effective solutions, which are needed because these challenges can lead to serious public health problems and exacerbate potential conflicting demands for water connected to our operations.

Goals

- Contribute to the universal goal of translating the human right to water and sanitation into reality.
- Support this worldwide, in areas close to our operations, by fostering access to clean drinking water and sanitary installations, as well as water, health and hygiene education.

Actions

- Developing sustainable, technologically adapted community water management schemes, jointly with expert partners from non-governmental organisations.
- Sharing best practice with employees in all Nestlé sites.
- Delivering water, sanitation and hygiene projects in schools and villages near our operations around the world.

Performance

- Access to water and sanitation for over 100 000 people, through our work with the International Federation of Red Cross and Red Crescent Societies since 2007.
- 40 water and sanitation partnership projects worldwide in 2011, and 126 factories provided clean drinking water to communities in 2010.
- Water Education for Teachers programmes established in a dozen countries.



Côte d'Ivoire

Millennium Development Goals: Improved drinking water and sanitation facilities

Over 884 million people in the world still have to get their drinking water from unprotected sources or simply from the local swamp. The sanitation situation is even worse, with 2.6 billion people having no access to improved sanitation such as flush toilets, latrines and adequate waste disposal. While these are global issues that require concerted collective action, we are committed to acting wherever we can – for example, through our work with the IFRC and the Red Cross Society of Côte d'Ivoire.

884
million

Left: This borehole provides a community water source in Sérihio, Côte d'Ivoire. It is one of the results of a joint project between the IFRC, the Red Cross Society of Côte d'Ivoire and Nestlé, which has delivered improved water and sanitation facilities to more than 60 000 people since 2007.

The future for Nestlé and water

This report has documented our progress and some key challenges to date in the Creating Shared Value key focus area of water. To conclude, we examine the future for Nestlé in the water arena.

Our W.A.T.E.R. Commitments in water use and stewardship, first announced in 2006, are key to driving water performance through our operations, supply chain and with communities. Our commitments are being developed under continuous review, and we continue to gather feedback on them from our stakeholders. In 2011, they underwent an extensive internal review and at the same time we consulted externally with leading experts. The result is the five commitments outlined below, which will be further refined as we continue to gather feedback, including inviting comment from water experts attending our stakeholder convenings.

We are grateful to the following expert reviewers who have provided opinions to date, and whose comments will be taken into account as we move forward:

- Professor Asit K. Biswas, Founder of Third World Centre for Water Management;
- Professor John Briscoe, Gordon McKay Professor of the Practice of Environmental Engineering, Harvard University;
- Colin Chartres, Director General, International Water Management Institute;

- Professor Jan Lundqvist, Senior Scientific Advisor, Stockholm International Water Institute;
- Stuart Orr, Freshwater Manager, WWF International;
- Gavin Power, Deputy Director of the UN Global Compact and Head of the CEO Water Mandate;
- Professor Ismail Serageldin, Director, Library of Alexandria and Chair and Member of advisory committees for academic, research, scientific and international institutions.

Towards W.A.T.E.R. KPIs

We are developing a set of key performance indicators that will underpin our qualitative W.A.T.E.R. commitments and enable systematic measurement of performance. This is work in progress and requires wide consultation across the business and with experts to define comprehensive, robust measures that we can use to track performance over the next five years and beyond. We also recognise the need, and the challenge, to track performance in terms of impacts at the watershed level because this is the ultimate measure of progress towards meeting today's global water challenges.

Our W.A.T.E.R. commitments

Work to achieve water efficiency across our operations
Leading in water resource management and excelling in the direct reduction of the direct water use in all our facilities

Advocate for effective water policies and stewardship
Promoting public policies that place value on water at every level

Treat effectively the water we discharge
Setting strict targets for returning clean water to the environment

Engage with suppliers, especially those in agriculture
Helping to improve their water management with focus on impacts at watershed level

Raise awareness of water access and conservation
Engaging employees, communities and consumers in the water imperative

Creating Shared Value at Nestlé

It is our firm belief that, for a company to be successful over time and create value for its shareholders, it must also create value for society. We call this Creating Shared Value (CSV). Based on strong foundations of compliance and sustainable business practices, this is our basic way of doing business.

We have identified the most fertile opportunities for Creating Shared Value, in areas that are core to our business activities and vital for our value chain. These are nutrition, water and rural development.

Why Nutrition?

Because food and nutrition are the basis of health and of our business as the leading Nutrition, Health and Wellness company.

Why Water?

Because the ongoing quality and availability of this resource is critical to life, the production of food and to our operations.

Why Rural Development?

Because the overall well-being of farmers, rural communities, small entrepreneurs and suppliers is intrinsic to the long-term success of our business.

In preceding chapters, we have explored Creating Shared Value in relation to water, the key theme of this year's CSV Summary Report.

In the chapters that follow, we explore the other two focus areas of Creating Shared Value – nutrition and rural development – with an emphasis on their relationship to water. We also report on the key foundations of Creating Shared Value: Environmental Sustainability, Human Rights and Compliance, and on Stakeholder Engagement.

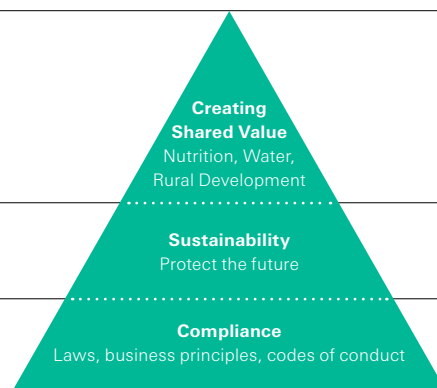
Online resources

- www.nestle.com/csv/Nestle
- www.nestle.com/csv/Stories

"... beyond sustainability, to create value for shareholders and society – integrally linked to our core business ..."

"... meet the needs of the present without compromising future generations ..."

Comply with the highest standards



Nutrition

Nestlé promotes the linkage between water, hydration and health. We also contribute nutritional research and support public health goals. However, there are many challenges confronting society across the spectrum, from obesity to nutritional deficiencies. On these and other topics we remain committed to play our part.

Micronutrient fortification and Nutritional Landscaping

We continue to improve the availability of affordable micronutrient-fortified foods, especially those targeting lower-income consumers most likely to suffer from micronutrient deficiencies. For example, micronutrient-fortified affordable milks were available in 80 countries at the end of 2011.

To tailor product development and communications ever closer to consumers' nutrition, health and wellness needs, we developed a *Nutritional Landscaping* protocol in several pilot markets in 2010. This focused on key consumer needs including data on micronutrient deficiencies obtained in collaboration with local health experts and authorities as well as detailed consumer research. The analysis gives us a clearer understanding of how our product portfolio and communications may increasingly contribute to addressing the distinct nutritional priorities of different segments of the population. The protocol will be further enriched and deployed in 2012.

Every Woman Every Child

Launched in September 2010 by the UN Secretary-General, Every Woman Every Child aims to encourage governments, civil society and the

private sector to improve the lives of vulnerable women and children.

In 2011, we became the first food and beverage company to pledge its commitment. Our commitment is anchored in creating more opportunities for women through income-generating activities such as dairy farming in Pakistan and product distribution in Brazil. In Morocco, we will continue to provide access to education for children and women and will also improve and create awareness about hygiene and sanitation in schools in Sri Lanka and Bangladesh. We committed to continuing to address today's health challenges by expanding our global Healthy Kids programme to teach children about the value of nutrition and physical activity. These efforts reflect our commitment to the Millennium Development Goals.

Water, hydration and health

Nestlé promotes water as the first choice for daily hydration. Water is the major constituent of the human body (75% in infants to 50% in the elderly) and a very active one. Adequate daily hydration is necessary to ensure a myriad of body functions, including nutrient transportation.

We are also committed to funding scientific research into water, hydration and health, which helps to drive the development of our bottled



FTSE4Good

Nestlé is the first infant formula manufacturer to be included in the FTSE4Good responsible investment index.

water business and supports public health goals. This includes funding clinical studies and meta-analyses, and communication at public health congresses. In 2010, two scientific reviews were published on water, hydration and human health, reporting on fluid needs for adequate hydration, the impact of dehydration, such as impairment of cognitive function and physical performance, and knowledge gaps requiring further study.

Water: the first choice to quench thirst

Access to safe drinking water is often a major challenge, especially in developing countries. Even in developed countries, easy access to water is not guaranteed in workplaces and schools. While not a solution for



Nutrition education: Nigerian children using textbooks provided by the Nestlé Healthy Kids global programme. Launched in Nigeria in 2011 for 8 to 10 year olds, it promotes a healthy lifestyle, balanced diet and physical activity and reached 5000 pupils in the first six months.

everyone, bottled waters do provide safe, healthy hydration options for many consumers worldwide.

Water is rapidly absorbed by the body and contains no calories, which makes it the first choice for daily hydration. Research has indicated that healthcare professional advice to replace caloric beverages with water could result in a significant reduction of overall energy intake in their patients.

Yet until recently, healthy hydration was not covered in most dietary recommendations issued by authorities to help consumers achieve overall balance. Raising awareness about the distinct roles of water, nutritious beverages and other fluids in a healthy diet is an important public health priority considering the incidence of overweight and obesity around the world, which can also co-exist with deficiencies in essential nutrients. Some mineral waters provide important quantities of essential minerals such as calcium and magnesium.

Promoting healthy hydration

Healthy habits, including water drinking, should ideally be acquired during childhood. Surveys have confirmed that mothers recognise good hydration as important and most often think their children are not sufficiently hydrated but do not know how much is needed.

To better help parents, we endeavour to make hydration recommendations engaging and educational. Information campaigns are being deployed in the public press and the *Nestlé Nutritional Compass* on product labels proposes practical tips. The taste of various bottled waters is also described on the labels to encourage awareness and enjoyment, and bottles for children's lunchboxes are made attractive and convenient for little hands.

Other key caregivers are also involved. Teachers, for example, are offered appealing healthy hydration toolkits within the WET initiative (see page 28) and, increasingly, within the Nestlé Healthy Kids curriculum. Our Healthy Kids Global Programme already reaches four million children and is active in more than 50 countries.

To equip communities further, the Nestlé Nutrition Institute (www.nestlenutrition-institute.org) provides healthcare professionals with the latest information on healthy hydration.

Addressing key challenges: Marketing of breast-milk substitutes and the WHO Code

Nestlé supports the World Health Organization (WHO) Global Public Health recommendation of exclusive breastfeeding for the first six months of life, followed by

continued breastfeeding along with the introduction of complementary foods as advised by a health professional. We seek to promote safe, adequate nutrition for infants by encouraging breastfeeding as the best start in life, and by manufacturing high-quality breast milk substitutes (BMS) when a safe alternative is needed.

We have developed a strong policy articulating our commitment to and implementation of the World Health Organization's International Code of Marketing of Breast-milk Substitutes (WHO Code), and apply a detailed global Management System, comprising explicit procedure manuals, an internal Ombudsman System, internal and external audits, training of staff and reporting on breast-milk substitute marketing and compliance. 22 countries were audited by corporate internal auditors in 2011 and Bureau Veritas conducted independent Code compliance audits in Laos, Cameroon and Jamaica.

In March 2011, we became the first infant formula manufacturer included in the Financial Times Stock Exchange responsible investment Index (FTSE4Good), the only index in the world that has criteria on the marketing of breast-milk substitutes in addition to several others. This index is designed to help investors identify companies that meet globally recognised corporate responsibility standards. After rigorous evaluation of our policies and procedures, PricewaterhouseCoopers conducted a verification assessment at our headquarters and business operations in India and Zambia and investigated on-the-ground evidence of our behaviour.

Online resources

- www.nestle.com/csv/Nutrition
- www.ftse.com/Indices/FTSE4Good_Index_Series/FTSE_BMS_Criteria.jsp
- www.everywomaneverychild.org

Rural development

Water is essential for agriculture and for the development of rural economies. We want to work with our stakeholders at farm level and community level on water challenges, and help develop thriving farms and thriving communities on which our operations depend.

Sourcing agricultural materials

Besides the rural development impacts generated by our factory presence (73% of our developing-country factories are located in rural areas), we source a number of raw materials, including milk, coffee, fruits and vegetables, directly from farmers, and purchase others through trade channels. In both cases, our sourcing activities drive sustainability and Creating Shared Value – through the application of best agricultural practices, encompassing environmental, social, economic dimensions, and through compliance with the Nestlé Supplier Code.

Through our short supply chain model, called Farmer Connect, we purchase directly from 680 000 farmers and engage in capacity building and training on sustainable business and water management practices. In 2011, we offered training to 200 000 farmers[®] and 45 651 farmers benefited from financial assistance. The overall funding available was USD 59.4 million of which USD 24.9 million came from Nestlé directly.

Responsible Sourcing

For raw and packaging materials that we source through more complex trade channels, we promote compliance and sustainable practices through a two-staged programme:

First, via our Responsible Sourcing Audit Programme, we assess key vendors against the Supplier Code and help improve their practices. By the end of 2011, we had conducted 1910 audits (all key suppliers), which exceeds our target of 1735. Our suppliers are also asked to self-assess their operations through registration with the Supplier Ethical Data Exchange (Sedex), the largest independent global database of ethical workplace practices.

Second, our new Responsible Sourcing Traceability Programme aims at establishing visibility and responsible practices in our extended supply chains back to farm or feedstock level. In 2010, we began mapping and assessing our palm oil and paper and pulp supply chains back to origin, and by the end of 2012, the programme will cover a total of 12 major raw and packaging materials, including our main commodities – coffee, cocoa and milk – and other priority materials such as soy, seafood, meat and poultry, vanilla, hazelnuts and shea. For each category, Responsible Sourcing Guidelines (RSGs) are developed that complement our Supplier Code. This programme implements our commitments on deforestation and forest stewardship and on child labour in agricultural supply chains, enacts our guidelines on the responsible use



Improving waste and water management: As part of a project with the UN Development Programme (UNDP) in China to promote rural development, Nestlé visited a government-funded methane gas production centre in Changyong village, Northeast China. UNDP project manager Zhang Weidong (right) is shown with the centre's manager.

of water in agriculture, and addresses other social and environmental aspects specific to individual supply chains.

Working with the Fair Labor Association

Nestlé has become the first food company to partner with the Fair Labor Association (FLA), a non-profit, multi-stakeholder association. The first supply chains we are working on are hazelnuts in Turkey and cocoa, focused on Côte d'Ivoire, where we buy most of our supplies. The cocoa supply chain is long and complex, making it difficult for food companies to establish exactly



Forest stewardship: We are partnering with The Forest Trust (TFT) to eliminate deforestation from our supply chain. TFT's Bobby Bayu Prakoso (left) carries out a Nestlé Responsible Sourcing Guidelines audit with a manager from our supplier PT SMART on a palm oil estate in Central Kalimantan, Indonesia.

a better future for cocoa farming. In 2011, we trained 19 115 farmers and distributed 824 000 higher-yielding, disease-resistant plantlets. In addition, ten of our partner co-operatives were certified, and we extended the Plan to Indonesia.

In 2012, 25% of our European cocoa and 11% of our global supply will be sourced through the Plan, and we will partner the World Cocoa Foundation's Echoes programme to build 40 schools and provide 140 scholarships in West Africa over the next four years.

UTZ CERTIFIED cocoa co-ops

Through the Cocoa Plan, many of the cocoa farms we work with have obtained certification from UTZ, an internationally recognised set of standards driving responsible practices and efficiencies among cocoa, tea and coffee farmers. In Côte d'Ivoire, for example, the Union des Coopératives de Gagnoa (UCDG) has delivered over 1200 tonnes of UTZ CERTIFIED cocoa beans since 2010 and we have provided 30 000 plantlets to renew its plantations.

Dairy farming and biogas

The growth in our milk districts provides income-earning opportunities for dairy farmers. By financing biogas digesters, we also help farmers avoid water contamination by storing their manure securely and recovering methane for home cooking, lighting, heating and even powering milking equipment. In 2011, at least 35% of the milk supplied to our factories in Mexico was sourced from farms with biogas plants.

Online resources

- www.nestle.com/csv/RuralDevelopment
- www.thecocoaplan.com
- www.nescafe.com/sustainability

where the cocoa comes from and conditions in which it was harvested. Building on our efforts under the Cocoa Plan, the FLA will send independent experts to Côte d'Ivoire and where evidence of child labour is found, the FLA will identify root causes and advise Nestlé how to address them in sustainable and lasting ways.

Local, sustainable grain production

We have introduced two new varieties of drought- and disease-resistant oats to farmers in Australia, avoiding the need to import oats from Canada for the *Uncle Toby's* range. Similarly, Nestlé Nutrition has worked with farmers and a miller in the Valladolid region of Spain to introduce millet production to the area, rather than source it from Africa and Asia, securing the quality of our raw materials and driving business development.

Creating Shared Value action plans

For our long-term success, the farmers who supply us must themselves have thriving, sustainable businesses in stable communities. That is a key focus of our dedicated action plans for coffee and cocoa.

The *Nescafé Plan* is our global initiative to optimise our coffee supply chain. This will invest CHF 500 million by 2020, distribute 220 million high-yield coffee plantlets, provide training and technical assistance to 30 000 farmers, and support social projects in coffee-growing communities. In August 2011, our commitment saw a CHF 230 million investment in a new coffee factory in Vietnam.

The *Nestlé Cocoa Plan* represents our 10-year, CHF 110 million investment that aims to tackle key issues facing cocoa farmers, their families and communities to create

Environmental sustainability

Nestlé depends on natural resources – not least, freshwater and biodiversity – and we are determined to play our part in tackling environmental challenges facing our business and our planet. We aim to continuously improve our environmental performance and produce tastier, nutritious food and beverages that are better for the environment.

Environmental stewardship

As the leading Nutrition, Health and Wellness company, we strive to delight consumers everywhere with tasty, nutritious and healthy food and beverages. We understand that this sense of well-being also requires our products to be made in a responsible way that preserves the environment for future generations. Our environmental stewardship is guided by three principles:

- our responsibility towards society, present and future;
- our desire to delight consumers;
- our dependence on a clean environment that can provide the high-quality resources we need to make high-quality food and beverages.

A product life cycle approach from farm to consumers

We apply a product life cycle approach, involving our partners from farmer to consumer, to improve the environmental impact of our products and activities. Our aims, at all stages of the cycle, are to use natural resources efficiently, in particular water, to promote the use of sustainably managed renewable resources and to target zero waste. We have conducted Life Cycle Assessments (LCA) for all our product categories.

The role of eco-design

We use the Packaging Impact Quick Evaluation Tool for the eco-design of our packaging and GEF (Global Environmental Footprint) Tool for bottled water, which is ISO 14064-1 and ISO 14040/44 certified. We have launched the development of an eco-design tool covering both product ingredients and packaging, partnering with recognised scientists and experts in the field to assess and optimise the environmental impact of all stages of the product life cycle.

Our environmental performance

As part of our Nestlé Environmental Management System we continue to implement projects to reduce our use of water, non-renewable energy and other natural resources, to reduce our greenhouse gas emissions, to eliminate waste and to improve the environmental performance of our products, including their packaging.

In addition to our long-standing focus on water and energy efficiency, we have defined for the first time specific objectives to reduce absolute greenhouse gas emissions and waste, at the same time as demand for our products continues to rise.

Approximately 12% of the energy we use in our factories is from renewable sources. An increasing number of factories achieved zero waste to



Nespresso, understanding environmental performance along the product life cycle: In 2011, Quantis conducted a new LCA study for Nespresso, which shows that among all options assessed to make an espresso coffee in a Nespresso machine, the Nespresso aluminium capsule that is recycled after use is the option with the best overall environmental impacts (see www.nespresso.com/ecolaboration). Above: Aluminium is separated from the coffee grounds of returned, used Nespresso capsules at a recycling centre.

landfill and in general, wherever it is not possible to further reduce waste, we reuse, recycle or recover energy. In 20 out of 32 Nescafé factories, for example, coffee grounds from manufacturing processes are used as a source of renewable energy.

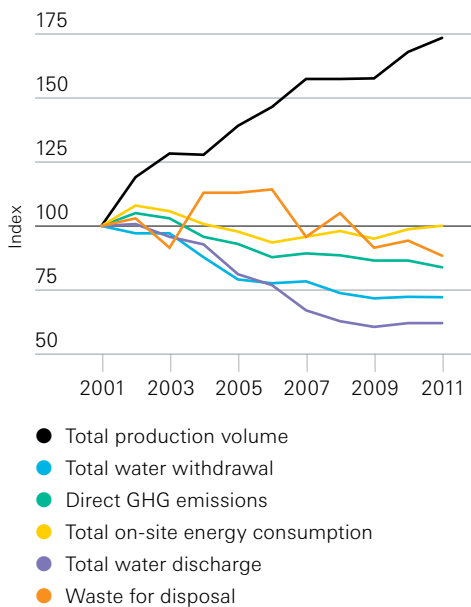
We continue to optimise the weight and volume of our packaging. In 2011, our source optimisation programme saved 39 000 tonnes of packaging material by weight[®], worth CHF 65 million. Our packaging uses materials from sustainably managed



Recycling in action: Students from Randolph High School, New Jersey, USA take part in the Recycle Bowl Competition, organised by Keep America Beautiful and sponsored by Nestlé Waters North America.

consumers when deciding what to purchase, and we also provide this information to help them improve their environmental impact when preparing and using our products, including minimising energy and water; and ensuring proper disposal, recovery and recycling of used packaging. For example, we launched the *Nescafé* LCA communication tool in France and a free mobile phone application to help consumers in Singapore to do so. We also participate in voluntary initiatives in Europe and Thailand to provide consumers with environmental information about our products.

Resource consumption and waste generation versus production volume, 2001–2011



renewable resources – for example, the *Ninho* cap in Brazil, the *Vittel* bottle in France, and *Purina ONE beyOnd* bags.

At the end of 2011, 413 out of 461 Nestlé factories are certified to ISO 14001®, the internationally recognised standard for environmental management, and we have extended the environmental certification programme to include our distribution facilities and R&D centres.

We also work with our suppliers to promote and help implement more sustainable practices in our supply chains.

Use of recycled materials

We increasingly use recycled materials, for example recycled PET in *Herta Le Bon Paris Sel Réduit* ham trays, *Levissima* bottles in Italy, *Resource* bottles in the United States and *Montclair* in Canada. Recycled PET saves both fossil resources, energy and greenhouse gas emissions. However, demand exceeds availability; globally, only one-third of PET bottles are recycled due to the challenges facing producers, bottlers, consumers and public authorities.

We also continue to support initiatives to recycle used packaging. For instance, Nestlé Waters China combined an online recycling campaign with in-store promotions and in the UK, *Buxton's* Recycle-on-the-Go programme has provided 41 local recycling points.

Addressing key challenges: Helping consumers to understand product environmental impacts

We continuously enhance the environmental information we provide to consumers about our products, based on scientific evidence. This increased transparency helps

Some recent external recognition

- 27th World Environment Center Gold Medal award for our commitment to environmental sustainability.
- Inclusion in the Dow Jones Sustainability Index; highest score in the environment section of the 2011 SAM-DJSI Indexes among food producers.
- Inclusion in the Global 500 Carbon Disclosure Leadership Index for our proactive approach to climate change; highest score among food producers.
- 2011 UN Development Programme Award “Recognition for Best Practices in Application of Solar Water Heating” in Mexico.

Online resources

- www.nestle.com/csv/Environment
- www.nestle.com/csv/Water
- www.nestle.com/csv/Stories

Human rights and compliance

The Nestlé Corporate Business Principles (NCBP) describe what we stand for as a Company and the high standards we set ourselves. Those standards are fully endorsed by the Chairman and CEO and communicated to all Nestlé employees.

Commitments and systems

Nestlé has direct influence over its own employees and indirect influence over the employees in its supply chain, and we continue to promote the principles of human and labour rights in both areas.

Our NCBP incorporates the ten UN Global Compact (UNGC) Principles (see below).

We recognise the “Corporate Responsibility to Respect Human Rights”, outlined in the UN Framework and Guiding Principles on business and human rights. We are committed to the Universal Bill of Rights, as well as to the core Conventions of the International Labour Organisation (ILO).

To further improve our performance, the Nestlé Employee Relations Policy adopted in 2010 was complemented by our new policy on Conditions of Work and Employment in November 2011, which covers areas such as temporary employment, outsourcing, working time or wages.

Additionally, the Nestlé Management and Leadership Principles were fully revised in Autumn 2011 to reflect the changes in the NCBP, as well as the new policies and practices.

Compliance with our NCBP is monitored through external audits under our CARE programme, and internally by our Group Audit function. In 2011, 110 sites underwent CARE

audits. No critical non-compliances were identified[®].

The CARE programme was reviewed in 2011 to ensure coverage of the entire human rights spectrum.

Furthermore, a new Integrity Reporting system was rolled out to employees in Q4 2011 to provide an independent, confidential mechanism to raise any concerns relating to our policies and procedures.

United Nations Global Compact (UNGC)

We embrace the ten principles of the UNGC, and we are one of the founding members of UN Global Compact LEAD. We participate in the UNGC’s Human Rights and Labour Working Groups and its Supply Chain Advisory Group. We encourage our markets to join local UNGC networks, and our annual Communication on Progress (see www.nestle.com/csv/Compliance) demonstrates our dedication and efforts in each of the four issue areas of the UNGC Principles: human rights, labour, environment and anti-corruption.

Human rights and labour practices

Since November 2008, we have worked with the Danish Institute for Human Rights (DIHR) to review our human rights policy, systems and procedures. This work fed into the new NCBP, the Employee Relations Policy,



Contributing to better social conditions: An overcrowded classroom is being replaced with new facilities in Mahounou, Côte d’Ivoire – part of our efforts to improve educational infrastructure in cocoa-growing areas.

continues to inform our efforts at the policy level and led to the identification of specific human rights indicators, which are assessed and reviewed on an annual basis as part of our overall Risk Management System.

In July 2010, we began a new two-year partnership with the DIHR on Human Rights Due Diligence, to help ensure our human rights responsibilities are implemented globally. Comprehensive impact assessments of our operations were conducted in Colombia (2010), Nigeria, Angola and Sri Lanka (all in 2011), and we have also rolled out a global online human rights training tool, which is mandatory for employees working in high-risk countries.

Labour rights: Nestlé Nigeria continues to take a proactive approach to embedding human rights principles within business operations. The bi-annual MD-Union Forum is an interactive approach to foster good workplace and industrial relations. Right: Nestlé management meets with union committee members at our newly opened Flowergate factory in Ogun State, Nigeria.



Our work with the DIHR will help us accelerate our journey to become one of the leading companies in the international business and human rights field.”

Jean-Marc Duvoisin
Deputy Executive Vice President Human Resources and Centre Administration

We continue to tackle child labour and improve access to education in cocoa-growing areas, in association with the International Cocoa Initiative, and work with the Fair Labor Association (FLA) – the first food company to do so – on working conditions and child labour in the hazelnut and cocoa supply chain (see page 34). We will apply for formal FLA membership in 2012.

In Colombia, we continue our dialogue with Alliance Sud, an advocacy group for six Swiss NGOs. After five years of engagement, Alliance Sud published their report on Nestlé’s human rights and development impact in June 2011. Globally, the International Union

of Food Workers (IUF) stopped its campaign against Nestlé in March 2011, when a solution to the labour conflict in Indonesia was found. Unfortunately, industrial relations in the Indonesian Panjang factory deteriorated again later in the year, which led to a resumption of the campaign.

Safety and health

Safety and health is a fundamental value and as part of developing new and better ways of engaging everyone in the organisation, in 2011 our Executive Board decided to include regular reviews of safety and health performance in all their meetings. This model is being followed in management meetings and daily team meetings across the Company.

While our overall safety performance has improved significantly in the past few years (see 2011 performance summary) particularly in operations, our goal is zero. A key area of concern for us remains the number of fatalities. Tragically, 18 individuals lost their lives while working at Nestlé in 2011©; 14 of these were employees (of whom eight died in traffic accidents) and four were contractors. We are determined to bring even greater focus to the management of fatality risks (in particular driving, construction, forklifts, and machinery) and are developing new programmes

based on extensive benchmarking and industry best practice. For full details of safety and health at Nestlé, see www.nestle.com/csv.

Anti-corruption

After our thorough anti-corruption assessment in 2010, we have developed and rolled out an interactive online training programme as part of our comprehensive anti-bribery programme to help employees avoid inappropriate behaviour.

Under our Code of Business Conduct, all employees are expected to report illegal or non-compliant behaviour through traditional reporting channels or confidential local reporting systems. To provide an additional channel, we set up a confidential Integrity Reporting System in 2011 that is now being rolled out Group wide (see above under NCBPs).

For details on Nestlé’s compliance with the World Health Organization’s International Code of Marketing of Breast-milk Substitutes, see page 33.

Online resources

- www.nestle.com/csv/Compliance
- www.nestle.com/csv/OurPeople
- www.humanrights.dk

Stakeholder engagement

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

Nestlé stakeholder convenings

In 2011 we held stakeholder convenings in London and New Delhi to discuss our CSV performance, understand stakeholder expectations and concerns, and discuss ideas for developing our CSV strategy particularly in the areas of water, nutrition and rural development. The convenings were facilitated by AccountAbility, and each was attended by more than 25 expert stakeholders including multi-lateral agencies, NGOs, industry associations, government representatives, academics, investors and social entrepreneurs.

These convenings followed on from those previously organised in Washington DC in 2008, and Geneva and Kuala Lumpur in 2009.

Stakeholders were supportive of the overall CSV approach and were highly complimentary about the spirit in which the convenings were conducted. There was a wide-ranging discussion of relevant issues and specific areas of concern were highlighted by stakeholders, including:

- the growing importance of climate change adaptation strategies;
- the increasing challenges of both obesity and under-nutrition;
- the depletion of soil health and biodiversity from poor land management;

- the loss of skills and knowledge in farming communities as low incomes drive people away from the sector;
- increasing water stress and water scarcity driven by climate change, over-consumption of water and poor water management;
- competition for agricultural land and for water resources from biofuels;
- the enduring problem of child labour and its connection to broader needs in respect of community development and access to education;
- insufficient attention given to supporting the vital role of women in agriculture.

In respect of the topic of infant formula marketing, stakeholders were impressed by the leadership Nestlé is showing in the industry, but felt that the Company still needs to do more to restore trust. Specifically, it was suggested that Nestlé build on FTSE4Good and look at establishing an ongoing system for the disclosure and independent, external auditing of infant formula marketing practices with the involvement of suitable, reputable international organisations.

Stakeholders also made a number of recommendations on improving the overall strategic CSV approach, including the following suggestions:

- extend the Company's collaboration with civil society and government players;



Dialogue and engagement: Leaders from the private sector, academia, government and non-governmental organisations meet at Nestlé's third annual Creating Shared Value Forum in Washington DC, in May 2011.

- provide greater disclosure in respect of forward-looking CSV targets;
- share learnings more actively;
- take a more active lead on public policy issues;
- undertake more community engagement;
- do more to positively influence consumer behaviour;
- provide more senior management participation in future convenings;
- integrate stakeholder engagement more widely across the businesses.

We value all suggestions and recommendations as part of developing our CSV approach for the future. For more information on how we interact with our stakeholders and act on their feedback, please see www.nestle.com/csv/Nestle.

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Nestlé S.A.
Avenue Nestlé 55
1800 Vevey
Switzerland
www.nestle.com/csv

In case of doubt or differences of interpretation,
the English version shall prevail over the French,
German and Spanish text.

Concept and writing

Nestlé S.A., Public Affairs,
with Flag Communication
and SustainAbility

Visual concept and design

Nestec Ltd., Corporate Identity & Design,
with Messi & Schmidt

Photography

Nana Kofi Acquah, Ralph Alswang,
Markus Bühler-Rasom, Frederic Courbet/
Panos Pictures, Lionel Deriaz,
Sam Faulkner/NB Pictures, Jijo de Guzman,
Robin Hammond/Panos Pictures,
Harmen Hoogland, Jim McClellan,
David Magnusson/Panos Pictures,
Manoj Masand, Cecilia Österberg,
Mikkel Ostergaard/Panos Pictures,
Qilai Shen, Jacob Silberberg/Panos Pictures,
Paul Smith/Panos Pictures, Daryl Visscher,
World Economic Forum

Production

Altavia Swiss

Paper

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