Material issues, key performance indicators and focus areas

For the first Creating Shared Value Report, published in 2008, we worked with SustainAbility, an independent corporate responsibility and sustainable development consultancy, to undertake a systematic process to prioritise the issues deemed most critical to the Company, drawing on the opinions of investors, civil society groups and the media, and assessing them with Nestlé executives.

For this report, we again asked SustainAbility to review this prioritisation. Firstly, they conducted a comprehensive identification of sustainability issue 'clusters' of relevance to our business, in collaboration with Nestlé executives. Then, for each issue cluster, SustainAbility assessed the degree of societal interest from investors, NGOs and the media, the potential impact of the issue on our business, and our ability to influence the issue. This resulted in a set of validated priority issues ranked according to relative impact on society and impact on our business.

We concluded that while the relative materiality has not changed, external interest has increased for all of Nestlé’s top issues, with Nutrition, Health and Wellness, and marketing and communication increasing in interest to the investor community in particular. It also became clear that, alongside water, climate change is a critical issue cutting across each stage of the value chain (see chart below).

The following areas were therefore prioritised for inclusion in this report:

- Nestlé’s strategy of using science and technology to create nutritionally superior products, and responsible communication about Nutrition, Health and Wellness to consumers (see Nutrition);
- how we manage our operations with respect to the environment, with particular focus on the availability and accessibility of water and the impact of climate change (see Water and environmental sustainability);
- Nestlé’s approach to agricultural sourcing and supplier development (see Rural development);
- operating as a responsible employer (see Our people).

As part of our commitment to more evidence-based reporting, we also asked SustainAbility to facilitate, in collaboration with Nestlé experts, the process of developing a select number of strategic Key Performance Indicators (KPIs). These KPIs are summarised here and highlighted throughout the report by means of the following icon. The goals and actions are listed at the start of each section. We welcome feedback on these KPIs, goals and actions, and how they may be improved to more effectively communicate and to drive progress against our CSV strategy.
Our focus areas
Nestlé is committed to reporting its performance openly; reflecting those areas with a significant current or potential impact on the Company. These include areas that are of significant concern to stakeholders over which we have a reasonable degree of control.

Given the nature of our business, we have identified nutrition, water and rural development as key global issues of concern to society. These three areas are core to our business strategy and competitive advantage, to driving growth in shareholder value and to meeting the needs of society, and were discussed at the first Creating Shared Value Global Forum in New York, in April 2009. Participants agreed on the urgency of the situation, in particular with regard to water and to the likelihood of a new food crisis in the coming years, and identified a range of causes, including under-investment in water systems, a lack of innovation, trade-distorting agricultural subsidies and ill-conceived government education programmes.

No one sector can be expected to solve those global issues. They require the close cooperation of business, local government, international institutions and NGOs, all of whom need a take a long-term view to make the necessary changes. Remedies are no longer about ideologies but practicalities, a holistic and integrated approach to addressing the issues and measuring results.

2009 initiatives
In April 2009, Nestlé announced three new Company initiatives to contribute to solutions in these three areas:

- **A Nestlé Prize in Creating Shared Value** will be awarded every two years, starting in May 2010. Financial support of up to CHF 500 000 will be offered to the winning individual, NGO, or small or medium enterprise to invest in an innovative solution for improving nutrition, water management and accessibility, or rural development. Visit [www.creatingsharedvalue.org](http://www.creatingsharedvalue.org)

- **The opening of the Abidjan Research and Development Centre** in Côte d’Ivoire will help to increase agricultural productivity and the safety of foods by developing and improving local crops, and build on Nestlé’s expertise in high-potential plantlet propagation supporting cocoa and coffee sustainability.

- **Through the Nestlé Healthy Kids Global Programme**, Nestlé intends to improve Nutrition, Health and Wellness awareness of school-age children around the world. Nestlé intends to implement the programme in all countries where it has meaningful presence by the end of 2011.
UN Global Compact Principles

Nestlé’s Corporate Business Principles guide our behaviour in relation to all relevant stakeholders. They reflect the basic concepts of fairness, honesty and respect for people and the environment in all our business actions, and incorporate the 10 UN Global Compact (UNGC) Principles on Human Rights, Labour, the Environment and Corruption. In 2009, Nestlé also became a member of GCLead, a leadership platform comprising a select group of leading UN Global Compact “champion” companies.

There are many examples of actions that indicate our support for them, a few of which are summarised in this report.

<table>
<thead>
<tr>
<th>The UN Global Compact Principles</th>
<th>Examples of Nestlé actions in 2009</th>
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<td>Human rights</td>
<td>Danish Institute of Human Rights analysis; The Cocoa Plan; UNGC Human Rights Working Group</td>
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<td>Labour</td>
<td>Labour relations; Gender balance; UNGC Labour Rights Working Group</td>
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<td>Environment</td>
<td>Nespresso Ecolaboration™ programme; Water Resources Review; International Water Management Institute study; Update of Nestlé Policy on Environmental Sustainability; Participation in the Carbon Disclosure Project</td>
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<td>Anti-corruption</td>
<td>Extension of CARE programme to include business integrity</td>
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CEO Water Mandate

In October 2008, the UN Global Compact Office officially established the Transparency Policy for the CEO Water Mandate, launched in July 2007 to advance best practice in sustainable water management in the private sector. In 2009, new workstreams on human rights, public policy engagement and water accounting were added to the Mandate, which held two working conferences in Istanbul and Stockholm involving signatories and external stakeholders.

The Mandate has also introduced an official Communication on Progress (COP) on water. As a founding signatory of the Mandate, Nestlé supports this approach and has structured its water reporting around the six core elements of the Mandate (see the Environmental sustainability section of this report and [www.nestle.com/CSV/Water/MissionsAndInitiatives/CEOWaterMandate.htm](http://www.nestle.com/CSV/Water/MissionsAndInitiatives/CEOWaterMandate.htm))
Water: the global context

In recent years, water has been increasingly recognised as equal to climate change as a pressing environmental issue. Even though we have enough fresh water at a global level, in many parts of the world – India, Pakistan, China, southern Europe and the south-western parts of the United States – more water is withdrawn than is being naturally replenished.

The key challenge is that more than two-thirds of all water is withdrawn by agriculture, so it is the future of agriculture and food security that is at stake if we are not able to solve the world’s water crisis.

“Global drying”

- 25% of the world’s population already lives under water stress (less than 1700 m³/person/year).
- If present trends continue, 5 billion people will live in water-scarce areas by 2025.
- By 2050, household water needs are predicted to rise by 61%, and agricultural needs by 140%.
- In parts of Gujarat, India, the water table is dropping up to six metres per year.

Everyone – policy makers, industry, agriculture and consumers – can help to improve the sustainability of our water resource, and Nestlé is a leader in this regard. Nestlé’s long-term success depends on the water resources that supply our everyday business operations and support the livelihoods of suppliers and consumers, making effective water resource management one of the three key focus areas of Creating Shared Value.

We rely on access to clean water to make quality products and we have adopted rigorous standards to reduce water consumption at our plants and facilities. However, water in the supply chain remains the greater challenge, so we invest in helping farmers become better stewards of water, support water resource awareness and education programmes and participate in global dialogue with leading experts and policymakers.

Public policy engagement and collective action

Nestlé is a committed leader in the public policy debate on restoring the balance between water withdrawals and the availability of naturally renewed water. In 2009, we led a joint project, which included the International Finance Corporation of the World Bank Group and McKinsey, producing Charting Our Water Future: A new economic framework to decision making in November 2009.

This cross-sector analysis measured actual abstraction for human use against existing accessible, reliable and sustainable supply in watersheds, leading to a comprehensive understanding of water overuse at national and global levels. The effectiveness and cost of various ways to reduce that overuse were then compared, so that decisions on water management can be integrated into wider economic decisions.
Nestlé will use these findings in our public policy dialogue, with the aim that they have a major impact, both on national and regional water policies and on our own efforts.

As a founding signatory of the CEO Water Mandate, an initiative led by the United Nations Global Compact, we are committed to improving and regularly reporting our efforts in these areas, and played an active role in the last three World Water Weeks in Stockholm, at which experts, practitioners, decision-makers and leaders from around the globe exchange ideas, foster new thinking and develop innovative solutions. Nestlé also works with the Swiss Development Agency and a consortium of Swiss companies in Colombia to assess their water footprints, has helped to put water high on the agenda of the World Economic Forum and is a member of the Water Footprint Network.

Closer to home, world-renowned water experts sit on our CSV Advisory Board and starting in 2010, the Nestlé Prize in Creating Shared Value will honour innovative solutions to improve rural development, nutrition, access to clean water or water management.

**Our performance: direct operations**

Nestlé aims to be the most efficient water user among food manufacturers. In 2009, the Company withdrew 143 million m³ of water — a decrease of more than 3.2% compared to 2008. This equates to 3.47 m³ per tonne of product, 3.5% down on the 2008 level or 3.8% when adjusted for constant production volume; the difference coming from changes in product mix evolving towards products with more added value, and from acquisitions and divestitures.

As shown in the graph below, Nestlé has reduced its water withdrawal by 33% since 2000, while our food and beverage production volume increased by 63%.

This reflects:

- water reduction initiatives at factory level, which form part of the continuous improvement efforts driven by Nestlé Continuous Excellence (NCE);
- changes in our product mix reflecting an overall strategy towards more value-added products;
- changes resulting from acquisitions and divestitures.

![Water withdrawal versus production volume, 2000-2009](image-url)
Our total water withdrawal rate has been improving over recent years as a result of both extensive efforts by Nestlé engineers, environmental professionals and our employees to reduce water consumption in our operations, and the changing product mix within Nestlé’s portfolio.

Our goal is to reduce consumption on a comparable basis by a further 10–15% over the next five years and we plan to develop more sophisticated and localised metrics for this important area.

In the face of growing concerns regarding water scarcity and its impact, especially on farmers, with estimates that the livelihoods of one-third of the world’s population will be affected by water scarcity by 2025, Nestlé’s focus has evolved from simply reducing our water withdrawal in our operations to prioritising our efforts and investments to where water is especially scarce. Most of the water we withdraw is returned back to nature, including the water treated in our wastewater treatment plants.

### Global freshwater consumption

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<tr>
<td>Agriculture</td>
<td>70%</td>
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<tr>
<td>Industry</td>
<td>20%</td>
</tr>
<tr>
<td>Domestic</td>
<td>10%</td>
</tr>
<tr>
<td>Nestlé</td>
<td>0.004%</td>
</tr>
<tr>
<td>Nestlé Waters</td>
<td>0.0009%</td>
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While being the world’s leading bottled water company, Nestlé Waters only uses 0.0009% of the world’s total withdrawn water (see table above). More than half of that total goes directly into our 64 bottled water brands – the rest is used for operational processes and cleaning – and the amount of additional water needed to produce a litre of bottled water is now 0.68 litres, 38% less than in 2004.

### Water Resources Review

The long-term supply of water with high quality and sufficient quantity is essential for our factories. To raise awareness at a local operational level, identify key issues and risks, and devise action plans for more sustainable water use, especially in water-stressed or water-scarce areas, our Water Resources Review (WRR) programme focuses on five areas: water quantity; water quality; regulatory compliance; site protection; and relationships with other stakeholders. Hydrogeological monitoring and possibly aquifer modelling are also used to assess the availability of surface and underground water. The impact of our operations linked to water transportation (pipelines and storage tanks), water treatment and wastewater processes are also analysed.

To date, the WRR has been conducted at 65 Nestlé Waters sites – more than half of its total bottled water facilities – and is now being rolled out to our food factories, where its deployment will enable the risks and key issues in local water resources management to be identified, and specific action plans towards sustainable water use to be established. Sites are being prioritised by their position in our Water Stress Index, which in turn is based on external indicators of water poverty, watershed stress and internal local indicators.
Community engagement and dialogue among water users – an increasingly important topic in water resource management globally – is a key component of the water resource strategy for Nestlé Waters North America (NWNA). Even though the sources that supply our regional spring water brands are scientifically monitored and meet requirements for local and state permits, in some cases the Company has sometimes faced controversy as part of its water-siting operations. NWNA understands the importance of this issue, and is working with a variety of local and national stakeholders to better understand their views, and to develop a more open and transparent framework for water resource siting and community engagement.

**Water treatment**

Because good water quality in the areas surrounding our plants has direct benefits for our business, society and the environment all our water is treated in wastewater treatment plants. Our preference is to use municipal wastewater plants to ensure we return only cleaned water back into the environment, but where these are insufficient, we invest in our own on-site facilities (approximately 292 to date, including our latest in Tema, Ghana). We remove 97% of the organic load of the water leaving our factories before it is returned to the environment. In 2009, we discharged 91.34 million m³ of water, a decrease of more than 5% on 2008, with an average level of organic load of 91 mg COD/l (Chemical Oxygen Demand per litre). During 2009, we have reviewed this KPI and have determined that figures for previous years were underreported.

Our Chachoengsao factory in Thailand, for example, was designed around a minimum water withdrawal and near zero discharge concept. This limits the discharge of cleaned wastewater to a small amount of saline water into the ocean (around 40m³ a month with approximately 20% salt content), and the remaining water is treated before being used to irrigate our own land.

**Supply chain and watershed management**

As previously noted, about 70% of the world’s available freshwater is withdrawn for agriculture, and an average of 3000 litres is needed to produce one kilogramme of agricultural raw material, compared to less than 4 litres per kilogramme of finished goods for processing those materials into food and beverage products.

Good water management is therefore fundamental to the livelihoods of the 2.6 million farmers who supply us both directly and indirectly through traders; it is also vital to us as a food company, for producing high-quality raw materials and in food processing, and also for the cooking and preparation of many food products by consumers.

Beyond strict monitoring and compliance, we engage in specific water preservation activities with local stakeholders, depending on the local situation and needs. In Nestlé Waters Henniez, Switzerland, for example, water has been used sustainably for bottling since 1905 and for 15 years work has been done with local stakeholders on the implementation of land use practices that respect the environment and local water resources. Water used for bottling operations is collected only from existing springs, where hydrogeological modelling and water resources monitoring are used to track groundwater stability. This is already implemented across three-quarters of the recharge area.

Under the framework of the Sustainable Agriculture Initiative (SAI), a collaborative, food industry-led group promoting the development of sustainable agriculture worldwide, the members of its Water and Agriculture Working Group, including

"There is currently no commonly agreed set of metrics to measure a water footprint. This makes it difficult to accurately measure the impact of industry on water, but we cannot ignore the fact that good global water management is critical to doing business in the long term."

José Lopez, Executive Vice President of Operations, Nestlé
Nestlé, are developing online resources through which to share best practice and helping to develop the methodology for water footprinting in agriculture.

These resources will be tested and refined through several projects, including a six-month pilot project with the International Water Management Institute (IWMI) to study the water footprint of milk and other local crops in Punjab, India. Largely due to local over-exploitation by agriculture, industry and domestic use, the local water table is dropping by up to a metre a year and could affect the supply of milk in our Moga milk district, from which we buy 1.25 million litres a day from 100 000 farmers. Measures already in place include the recent Punjab Preservation of Subsoil Water Act, which promotes water conservation by delaying rice paddy transplantation, changing crop rotation patterns and encouraging less water-intensive crop species.

Nestlé is currently working with the IWMI to identify key areas where local initiatives for better water management in agriculture could be developed.

**Community engagement in water projects**

As well as managing water consumption in our operations and supply chain, we increasingly contribute to sustainable community water management schemes. These help to raise awareness and promote an understanding of water and sanitation issues so that the spread of disease is controlled.

For instance:

- we have worked with Aquasure and the French Red Cross in a pilot programme to bring safe drinking water to villages in Senegal;
- in Cambodia, Nestlé Nordic and the Cambodian and Danish Red Cross organisations have helped locals to build eight wells, providing clean drinking water for 1000 people, and educated them about good hygiene and sanitation;
- in partnership with the International Federation of the Red Cross/Red Crescent and the Ivorian Red Cross, we have been active in the Participatory Hygiene and Sanitary Transformation (PHAST) project, helping to rehabilitate deep-well pumps and provide new toilet blocks for up to 50 000 people in Côte d'Ivoire;
- Nestlé Waters supports Project WET, an education programme that promotes water awareness among millions of children around the world.

**Optimising water use and productivity**

In the Piacenza and Parma region of Italy, in recent years, water has become scarcer, especially during the summer. Nestlé Italia decided to engage more closely with its tomato suppliers, to secure its supply of tomatoes and significantly reduce the amount of fresh water used for irrigation. The three-year project with Consorzio Interregionale Ortofrutticoli, a cooperative of tomato farmers, aims to maximise tomato production and optimise irrigation in 10 pilot farms with differing soil conditions, by using solar-powered CropSense Soil Moisture Monitoring technology. Data at root level is collected daily and used to provide the exact amount of water needed to optimise crop revenue and water use.

Data collection will continue into 2011, and additional farmers are already keen to join the project based on the initial results: yields have nearly doubled, the tomato quality (sugar content) increased by 15% and the water used to produce one tonne of tomatoes fell by 45%.