

The Nestlé concept of corporate social responsibility

as implemented in Latin America





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Front, inside and back covers: Farmer Rufino Chindicué (front cover) and son Luis (inside back cover) supply milk to Nestlé. Three decades ago, Nestlé created a milk district in Caquetá, Colombia, to ensure a reliable, high quality supply and create

opportunity for area farmers. Within the district, Nestlé supported projects to breed hardier cows and promote grazing on the highly nutritious, native *brachiaria* grass (inside front cover). With better nutrition, cows now produce five times more milk.

Farmer incomes rose and the local infrastructure improved greatly. The Caquetá milk district, discussed on page 20, shows how Nestlé creates value for the company and society at large

An introductory discussion

With Peter Brabeck-Letmathe, Chairman and CEO, Nestlé and Mark Kramer, Senior Fellow, Centre for Business and Government, John F. Kennedy School of Government, Harvard University and Managing Director, Foundation Strategy Group (FSG)

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We believe that the true test of a business is whether it creates value for society over the long term

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Peter Brabeck-Letmathe,
Chairman and CEO, Nestlé

Mark Kramer: In this report, we focus on the idea of Creating Shared Value as the keystone of corporate social responsibility and sustainability. Why do you feel this is appropriate for Nestlé?

Peter Brabeck-Letmathe: To us, corporate social responsibility is not something that is imposed from the outside, but is an inherent part of the Nestlé business strategy and *Nestlé Business Principles*, which guide the way we operate.

As stewards of large amounts of shareholders' capital, it is my firm belief that, in order for a business to create value for its shareholders over the long term, it must also bring value to society. In the very first edition of the *Nestlé Management and Leadership Principles*, we stated clearly: "Our investments must be good for the countries where we operate, as well as good for the company." Therefore, while corporate social responsibility and sustainability represent a set of useful principles and practices, we believe that the true test of a business is whether it creates value for society over the long term. This is particularly true in developing countries, where we often need to improve business conditions, improve the capabilities of farmers, create a skilled workforce and develop improved standards in order to operate successfully. Nearly half our factories are in the developing world; they must meet the same standards for food quality, safety and business practices that we have in the developed world.

This is why Nestlé's future and success is inextricably linked to the future of the 100-plus countries where we operate, and why I think your work with Prof. Michael Porter from Harvard Business School on the interdependence between business development and social impacts gives us a robust basis from which to work.

MK: Latin America is a particularly important continent from a development perspective: what does it mean for Nestlé?

PB-L: Our previous report described our commitment to Africa. Latin America has also been a great opportunity and





challenge for us; it is a complex continent that deserves recognition for its development achievements and our engagement for its further progress.

We asked you to examine our work in Latin America because it is where, in 1921, we built our first factory in the developing world. It is also where, as a Nestlé manager, I lived and worked for 17 years (in Chile, Ecuador and Venezuela) and personally experienced how social progress and business are strongly related. Here is a continent that has experienced extraordinary progress, as well as vast economic upheavals and poverty. Despite these challenges, we have always maintained and expanded our operations in the region from that first factory to our 72 factories today. In the process, we invested in generations of talented employees, passed on our values and skills, and provided our people with a stable source of income and benefits for their families. They, in turn, built the basis for our growth in the region and for spreading these benefits to new employees.

But first, we needed to work with the farmers, helping them to be productive and successful so that they could supply us with high quality milk, coffee and other raw materials. Today, our milk district in Brazil is larger than the country of Switzerland, and it has made a major difference in economic

development and improved standards of living for area farmers and their families.

We have invested heavily to strengthen our supply chain, and found many ways to tie local needs and opportunities to our business objectives. In the process, we tried to improve business standards and increase the value created at each stage of our business chain.

For example, look at the invention of *Nescafé*. In the 1930s, Brazil had a vast surplus of coffee. Entire crops were going to waste, and the government was helpless to deal with the situation. They asked for assistance, and we developed the method to process and preserve the excess supply. *Nescafé* kept numerous farmers from bankruptcy at the time, and now it is one of our most important products. Today, we have many sustainable coffee initiatives, which supply *Nescafé* and *Nespresso*.

We can look at more recent examples: when we recently created the Dairy Partners Americas (DPA: a joint venture with Fonterra), it built on Nestlé's 80 years' experience in improving agricultural practices and milk collection facilities throughout the region. Our investments in wastewater treatment set the standard for our industry and raised the bar for other companies in Latin America. Our nutrition experts

worked with health ministries to combat malnutrition by developing nationwide nutrition programmes in a number of countries, including Chile. These are just a few examples of our commitment to this region, expressed not in years, but decades of work. We are now seeing the fruits of our long-term investment in this growing region.

MK: How does this approach to business influence Nestlé's public perception?

PB-L: I think the degree to which this report develops and quantifies the concept of shared value creation will help distinguish us in the broader debate on corporate responsibility and stimulate further discussion in this particular area. We also believe that corporate responsibility must begin by affirming business' unique capacity to create wealth and benefit society through long-term value creation; and this report explores the concept to an extent that to my knowledge has not previously been undertaken. We have let Nestlé's results speak for themselves in this context, which we think add more value than taking a public position on partisan issues or advertising what a good company we are.

We need to continue to improve our understanding of how we can contribute to society in a way that reinforces our business model. We must also understand when others perceive we are harming society or the environment, investigate their claims objectively, and where they are grounded, work to correct them. There will always be concerns and objections raised by all parts of society, and we need to study them carefully, but the worst response is to jump immediately on a CSR bandwagon or cover the problems over with a public relations campaign. We must learn to handle genuine concerns in a positive, forward-looking way that is consistent with our core business principles.

We must also do a better job of informing people about Nestlé so that consumers understand the way that Shared Value Creation and corporate responsibility are embedded in our brands. Our consumers feel an emotional connection when they buy our products, and they will not feel good about their purchase if they think we are a company that behaves badly. We want our consumers to understand the large positive impact that Nestlé has on communities around the world, just as we describe in this report, so that they will feel even better about our brands and our products.

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Peter Brabeck-Letmathe,
Chairman and CEO, Nestlé

Nestlé Chairman and CEO Peter Brabeck-Letmathe and senior government leaders visit a coffee research centre in Veracruz, Mexico



After all, when consumers buy our products, they participate in the process of shared value creation, which enables us to provide safer food, better nutrition and a better quality of life for small rural farmers in developing countries around the world. We want them to understand the social benefits they are helping to create and feel proud of that when they choose a Nestlé product.

MK: What opportunities does the concept of Creating Shared Value open for Nestlé?

PB-L: In Latin America, there is still potential to advance sustainable agricultural practices and market new products that meet the needs of tomorrow's consumers. Much of our work in agriculture involves cross-sector partnerships, where we marry our technical expertise and research in crop optimisation with our partners' local community knowledge. In the process, we help farmers increase their productivity and help ensure access to high quality crops for our business. This includes the Sustainable Agriculture Initiative (SAI), which Nestlé helped to found, and many other efforts.

Poverty and malnutrition continue to exist in many parts of the region, and we can make a difference both through our operations and community programmes. We employ more than 38 000 people in Latin America, have created nearly 10 000 new jobs in the region in the last 20 years, and helped develop new businesses both upstream and downstream of our operations. We need to think about how to evolve our business models so we can reach further into disadvantaged segments of society with our products and help improve their quality of life. This includes nutritious products that reach more people at the "base of the pyramid". And we continue with nutrition education throughout the continent, where we have already been able to create a dialogue with hundreds of thousands of children, their families and communities.

Beyond Latin America, I would like Nestlé to become more systematic and structured in the way we create shared value for our business and for society around the world. Our strong business principles and the dedication of our employees has taken us very far, but we need to develop a methodology that guides us in maximising the shared value we create at every point in our value chain for every product we produce and in every region where we operate. It is my hope that this model, introduced in the following section and illustrated throughout this report, will ensure Nestlé creates greater value for all its stakeholders in the future.

A framework for Creating Shared Value

Mark Kramer's recent work with Professor Michael Porter of Harvard Business School looks at corporate social responsibility in terms of Creating Shared Value. "‘Creating Shared Value’ is a very different approach to CSR," he says, "because it is not focused on meeting a set of standard external criteria, or on philanthropy. Rather, we are talking about creating social and environmental benefit as a part of making a company competitive over the long term. The idea of winners and losers doesn't fit this model of CSR: business can help societies progress and all sectors can help business improve and flourish."

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‘Creating Shared Value’ is a very different approach to CSR, because it is not focused on meeting a set of standard external criteria, or on philanthropy. The idea of winners and losers doesn't fit this model of CSR

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Mark Kramer, Senior Fellow, Center for Business and Government, John F. Kennedy School of Government, Harvard University and Managing Director, Foundation Strategy Group (FSG)

No business can long survive in a failed society, and no society can long survive without a strong economy. Business is the sole creator of wealth, and the origin of all income and tax revenues, as well as charitable contributions. In a sound economy, people can afford both the necessities and the pleasures of life.

At the same time, businesses depend on healthy and educated employees, a stable and transparent government and access to sustainable natural resources. These social and environmental dynamics form the context in which businesses derive their financial success and competitive advantage. This interdependence between business and society is the logical starting place to construct a framework for corporate responsibility.

Businesses create social and environmental impacts – both positive and negative – through the daily operations of their value chain. In addition, they have the opportunity to use their resources outside the ordinary course of business through social investments that strengthen the context in which they operate. These two dimensions, value chain impacts and contextual investments, are the fundamental tools of corporate responsibility. The more tightly they are linked to the core business strategy of a company, the more value can be created for both the business and society.

Developing a model for corporate responsibility, therefore, depends on studying a company's value chain to understand the social and environmental consequences of its activities and the external resources required to perform those activities well.

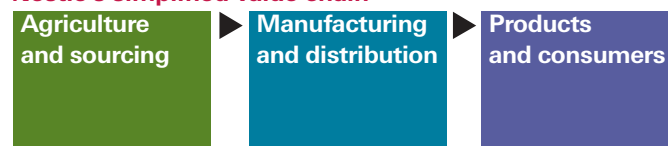
The perspective as it applies to Nestlé

Nestlé is a complex global corporation that every day sells millions of products under thousands of brands worldwide. It is one of the world's largest purchasers of basic foodstuffs such as coffee, cocoa and milk. Yet the value chain of this vast enterprise can be simplified to three basic steps: agriculture and sourcing, manufacturing and distribution, and products and consumers.

Nestlé's activities at each step of the value chain have the potential to produce social benefits. Through its purchasing practices, Nestlé helps improve the economic level of hundreds of thousands of small farmers around the world. Through its operations, the company raises standards for food safety and employment practices. Through the research and development of its products, it helps consumers meet their nutritional needs, contributing in enjoyable ways to their health and wellbeing.

Of course, every step in the value chain also has the potential for harmful consequences. Without sustainable growing practices, farms can deplete natural resources, and farmers can be marginalised. Operations can cause pollution, and consumer products can create health risks such as

Nestlé's simplified value chain



obesity. To fulfil its corporate responsibilities, Nestlé must not only produce social benefits, it must work assiduously to eliminate any possible harmful social or environmental impacts from its value chain.

Our study concludes that Nestlé has invested heavily in improving the economic and competitive context beyond its ordinary production activities in the regions where it operates. For example, in the Caquetá region in Colombia, Nestlé helped dairy farmers increase their milk production five-fold through nutritional supplements for their cows, while simultaneously improving the quality of their milk. This helped them earn above-market prices. Better agricultural practices strengthen Nestlé's core businesses; they also help farmers earn a better living by producing higher food outputs using fewer natural resources. This is a critical outcome for society at a time when global caloric consumption is set to double in the coming 25 years.

An external perspective of Nestlé's approach to Creating Shared Value

Nestlé retained our consulting firm, FSG, to study Nestlé's corporate responsibility practices and recommend ways in

which the company could better align those practices with its overall corporate strategy. In addition, Nestlé asked us to gather information about the social impact that the company has had over several decades of work in Latin America, and to document those efforts in this report as an example of the company's approach to Creating Shared Value worldwide.

In preparing this report, FSG was given access to significant internal information provided by Nestlé managers. We analysed Nestlé's business from a social and environmental impact point of view based primarily on company documents and testimonials with people both inside and outside the company. Our research clearly demonstrates that Nestlé has had a profound and positive impact on the people and environment in Latin America, and we are pleased to be able to tell this story.

Nestlé's approach to Creating Shared Value and its fit with the framework developed by Mark Kramer and Professor Michael Porter

Many companies treat corporate responsibility as a separate department isolated from the day-to-day operations of the

A framework for Creating Shared Value



Nestlé's philosophy:
a long-term
perspective
Mark Kramer



Nestlé adheres to a comprehensive set of business principles that reflects both the company's commitment to long-term successful business development and the necessity to improve short-term results. These principles build the foundation for Creating Shared Value. They link the ambition to meet the needs of consumers and shareholders with the commitment to respect people and the environment. They serve as a vital point of reference for all Nestlé employees, demanding constant awareness of society's evolving expectations. We applaud these principles, and have summarised them here.

The Nestlé Management and Leadership Principles, and the Nestlé Corporate Business Principles

Creating value for shareholders and consumers, employees and business partners, and the local communities and national economies in which Nestlé operates is central to *Nestlé Corporate Business Principles* and *Nestlé Management and Leadership Principles* (available at www.nestle.com). Creating value demands personal courage, curiosity, flexibility and the ability to develop people, to take initiative and adapt to evolving circumstances.

The wellbeing of consumers and employees is at the forefront of the *Principles*. People form the strength of the company: their knowledge and commitment leads to business innovation, high-quality products and brands, and improved living conditions in communities throughout the world. Nestlé relies on their strong work ethic, integrity, honesty, and quality. Developing and

respecting each other is a fundamental basic value at Nestlé.

Business principles

Nestlé leaders follow a set of core business principles. They must abide by them in harmony with local legislation as well as cultural and religious diversity. Important elements include:

- Meeting consumer needs for nutrition, enjoyment, and quality they can trust.
- Abiding by all local laws, and seeking additional guidance from voluntary business principles when local standards are insufficient.

The *Nestlé Corporate Business Principles* deal with the primary impacts of Nestlé's value chain activities and cover the following issues: relationship with suppliers and business partners including conflicts of interest, sourcing agricultural materials, human rights, human resources and the workplace, child labour, protection of the environment, the Nestlé water

policy, consumers and consumer safety, communication with consumers, infant health and nutrition, the infant formula marketing policy, competition and external relations, national legislation and international recommendations, compliance and guidelines for contributions.

Additionally, the document incorporates the *Corporate Governance Principles*, which cover four basic areas: the rights and responsibilities of shareholders, the equitable treatment of shareholders, the duties and responsibilities of the Board of Directors, and disclosure and transparency.

Auditing of business principles

Principles only make a difference when they are followed. As a result, Nestlé's corporate auditors not only audit the company's financial records, they also apply a checklist derived from the *Business Principles* to every Nestlé location in every country on a rotating basis. Reports are presented to the appropriate Nestlé managers and any significant finding is also reported to the Audit Committee. Nestlé has initiated an external audit programme called CARE, through which independent outside auditors verify the application of the company's standards in the area of human resources, workplace health & safety and environmental practices throughout its global manufacturing network. In addition, Nestlé commissions special audits by outside social auditors in particular areas of concern.

company. However, Nestlé's approach to Creating Shared Value means that the social impacts of every corporate activity must be considered. In this way, there is a very natural fit between Nestlé's approach and the value chain analysis at the root of our framework.

In fact, we used our framework to organise this report. Each step of the Nestlé value chain is described in sequence, using specific instances to illustrate both the impact of Nestlé's internal activities, and the depth of the company's social investment in its communities. The result is a view of a company that affects the well-being of millions of lives every day, operating with a long-term perspective that goes well beyond the conventional models of corporate responsibility. Nestlé still faces many challenges, of course, but the company clearly recognises the need for full alignment between the interests of the business and society, consistent with our framework, in order to create the greatest possible shared value.

Recommendations for the future

Nestlé must build on its legacy of shared value creation, moving beyond individual initiatives to encompass its entire global value chain of activities. The first step, we believe, is to set goals and to measure progress against them on a global basis in the areas of agricultural development, manufacturing impacts, and consumer benefit and education in order to tighten the link between Nestlé's strategy and its social

responsibility. The company has already developed best practices in different regions and at different points along its value chain, many of which we have captured in this report. Until more success stories are replicated across all of Nestlé's markets, it will not be clear whether they are merely excellent initiatives or if they truly represent a mode of operation that is embedded in corporate strategy.

Nestlé recognises that it cannot work alone, and is building partnerships to address specific social problems that arise in its value chain. For example, the company helped build an open platform – the Sustainable Agriculture Initiative – that now includes 20 food-related companies working to promote sustainable agriculture. This very promising development should be applied in other areas, such as consumer nutrition, where Nestlé is only one of many companies that affect the issue.

Finally, Nestlé should become more explicit and affirmative with respect to its desired social impacts. Publicly committing to deliver measurable results on key social issues can bring great credibility to a company and, at the same time, help focus internal resources on effective execution.

As this report demonstrates, Nestlé has already done a great deal to create shared value for the business and society at large, but there remain many opportunities to increase its focus and achieve even greater benefits for all of its stakeholders.

The United Nations Global Compact

Nestlé fully supports the United Nations Global Compact's 10 principles on human rights, labour, the environment and corruption. All principles are an integral part of the relevant sections of the latest edition of the *Nestlé Corporate Business Principles* and evidence of progress against each dimension can be found in the following examples in this report:

Human Rights

Nestlé aims to: "Support and respect the protection of international human rights within its sphere of influence" (principle 1) and "ensure that its own companies are not complicit in human rights abuses" (principle 2).

● In this report, we show how Nestlé agricultural projects – for example those shown on pages 16 and 20 with coffee and milk farmers – support basic human rights such as security and a fair income.

Labour

Nestlé upholds: "Freedom of association and the effective recognition of the right to collective bargaining" (principle 3); "the elimination of all forms of forced and compulsory labour" (principle 4); "the effective abolition of child labour" (principle 5) and "the elimination of discrimination in respect of employment occupation" (principle 6).

● In this report, sections of particular interest include the reference to our labour practices in Brazil and Colombia, pages 34 to 39.

Environment

Nestlé: "Supports a precautionary approach to environmental challenges" (principle 7); "undertakes initiatives to promote greater environmental responsibility" (principle 8) and "encourages the development and diffusion of environmentally friendly technologies" (principle 9).

● Quantified evidence of Nestlé's progress against these principles in Latin America can be found in the section on Nestlé and the environment, on pages 39 to 47. Of particular significance is the example of our Graneros factory on page 42.

Corruption

Nestlé "works against all forms of corruption, including extortion and bribery" (principle 10) in Latin America, just as it does worldwide, through its zero tolerance policy on corruption. Nestlé insists on honesty, integrity and fairness in all aspects of its business and we expect the same in our relationships with all business partners and suppliers of materials, goods and services.

Latin America: challenges and opportunities

Felipe Larraín, Pontificia Universidad Católica de Chile

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Continued economic growth is the clearest path to poverty alleviation

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Professor Felipe Larraín,
Pontificia Universidad Católica de Chile



Latin America's economic growth of 6.2% in 2004 was the best of the last quarter century. One must go back to 1980 to find a year of comparable growth. Nonetheless, 1980 was the prelude to the debt crisis, which compromised the region's development prospects for that whole decade. Now things look different. Prospective growth rates for 2005-2006 are not as spectacular, but still respectable at around 4%.

The current economic predicament of the region is partly a result of recovery from the depths of recession in some countries, most notably Argentina, Uruguay and Venezuela, which suffered heavy blows in the early 2000s. To a large extent, however, it stems from the strength of the world economy and the record levels of commodity prices. Special thanks go to China for this. Latin America is a region heavily dependent on commodity exports. A few countries, such as Mexico, have been able to diversify away from commodities, but much of the region's fortunes lie largely on the prices of a few commodities. Even Chile, arguably Latin America's star performer and the most open economy of the region, has about 70% of its exports concentrated on copper, forest products, fresh fruit, salmon and fish meal.

Latin America should use the current economic spur to make progress on several important fronts. Though lower than those of Sub-Saharan Africa, the region has very high levels of poverty: about 45% of the Latin American people live below the poverty line, while 19.4% are indigent. Of course, this proportion varies widely: in Haiti, Nicaragua and Bolivia more than 60% of the population lives in poverty, while in Chile this figure is below 19%. Continued economic growth is the clearest path to poverty alleviation. Yet, the existence of solid public institutions and an efficient social network is also essential. Most countries are lacking in quality institutions.

While Latin America is not the poorest region of the world, it has the most unequal income distribution. On average, the richest 20% of the population has about 20 times the income of the poorest quintile. In Brazil, the most unequal among the

large countries, this gap reaches 26 times. Comparable figures are 3.4 for Japan, 8.4 for the USA and 8 for Europe. Income inequalities are deeply rooted in unequal access to quality education, especially at the primary and secondary level. Latin America has been able to increase the coverage of basic education, but the quality is still very low.

Economic integration is also an important challenge for the region. On trade, many countries have signed bilateral and regional free trade agreements, but the whole continent has failed to make significant progress toward a free trade area. The recent Presidential Summit at Mar del Plata, Argentina, showed significant divisions on this issue. While a majority of countries are in favour of a free trade area in the Americas, a significant minority that includes Brazil, Argentina and Venezuela are against further negotiation until the USA reduces agricultural subsidies. The USA, in turn, argues that the issue of agricultural subsidies is better handled in the Doha Round of the World Trade Organisation, and has in fact made an offer to reduce domestic agricultural support if this is reciprocated by Europe and Japan. Further integration in the Americas will require concessions from all countries. In this particular respect, Europe teaches an important lesson of integration to the Americas.

In terms of information technology, many parts of Latin America are left behind the revolution that has transformed some countries in Northern Europe, Asia, and parts of India. This fact is evident in the 2005 competitiveness ranking of the World Economic Forum. According to the technology index, which measures the innovation and technological diffusion of the economy, Latin America shows sub par performance in relation to Asia or industrialised countries. There are three main challenges here.

First, countries need to increase their capacity to adapt, use and incorporate foreign technologies in productive processes. Foreign direct investment is key in this respect. How can FDI inflows be attracted to the region? The empirical evidence



shows that institutional factors such as the rule of law, together with variables such as trade openness, the quality of infrastructure and the quality of the human capital, are essential.

Second, there is an urgent need to increase innovation, which requires additional investment in research and development. Nowadays, Latin American economies spend on average less than 0.5% of GDP on R&D, while in successful innovator countries, such as Korea and Finland, R&D spending reaches 3% of GDP. A significantly higher R&D effort is necessary to increase productivity and competitiveness in Latin America.

A final, but no less daunting challenge for the region is political stability. This is an essential element of economic, social and environmental development. Yet, political instability casts a long shadow over a few countries in the Andean region, most notably Bolivia, Venezuela and Ecuador.

The trick is to use the current prosperity to make progress in economic, social and political institutions, so that Latin America as a whole will be on a sounder footing when the current world cycle slows down.

Above: Latin America is heavily dependent on commodities, such as coffee. Diversification is essential to building strong national economies.

Right: Foreign direct investment and new technologies, such as those used at Nestlé milk processing plants, will increase competitiveness



Overview: Nestlé in Latin America

Marc Pfitzer, Managing Director, FSG, Geneva



FSG's approach captures the perspectives of Nestlé stakeholders on the social benefit surrounding specific value chain improvements and innovations, and specific efforts by the company to strengthen its business environment through community investments. However, these initiatives live in the context of the company's overall socio-economic impact on the region. It is the sum of all Nestlé's activities that together add vitality to the region's economies and communities. The indicators below illustrate the core benefit of Nestlé's investment and business activities in Latin America: opportunities for local development through local procurement of goods and services, employment and training opportunities, and safe and nutritional products purchased by millions of people in the region each year.

Nestlé's purchasing from local suppliers in Latin America exceeds CHF 4 billion and indirectly supports an estimated 650 000 jobs. Nestlé operates 72 factories and additional offices on the continent, staffed by more than 38 000 employees who receive competitive remuneration. Nestlé reaches an estimated 400 million consumers. Sales, including food and other activities in the Latin American and Caribbean region, totalled CHF 11.1 billion in 2005.



It is the sum of all Nestlé's activities that adds vitality to the region's economies and communities



Marc Pfitzer, Managing Director,
Foundation Strategy Group, Geneva

Agriculture and sourcing	Manufacturing and distribution	Products and consumers
150 000 suppliers and indirect employment of 650 000 people	38 452 Nestlé employees	400 million consumers
CHF 4 billion in goods and services purchased	72 factories in operation	CHF 11.1 billion sales in 2005

Agriculture and sourcing



“Depletion of natural resources and problems faced by rural communities affect agricultural productivity. Ensuring sustainable agricultural practices is in the interest of the entire food chain, from producers to consumers. And it is of urgent concern as global caloric consumption is set to double in the coming 25 years, which will require producing two to three times more agricultural products on the same amount of cultivated land.”

Marc Pfitzer, Foundation Strategy Group

On the following pages are examples of Nestlé’s approach to sustainable agriculture and sourcing.

Nicaraguan coffee farmer Federico Elster Hawkings inspects the day’s pick before it ships out, eventually to a Nestlé coffee factory. Working with Nestlé’s Sustainable Agriculture Initiative (SAI) and

the coffee trader ECOM, Federico learned new management skills and sustainable farming approaches that improved his business. SAI in Nicaragua is described on page 24



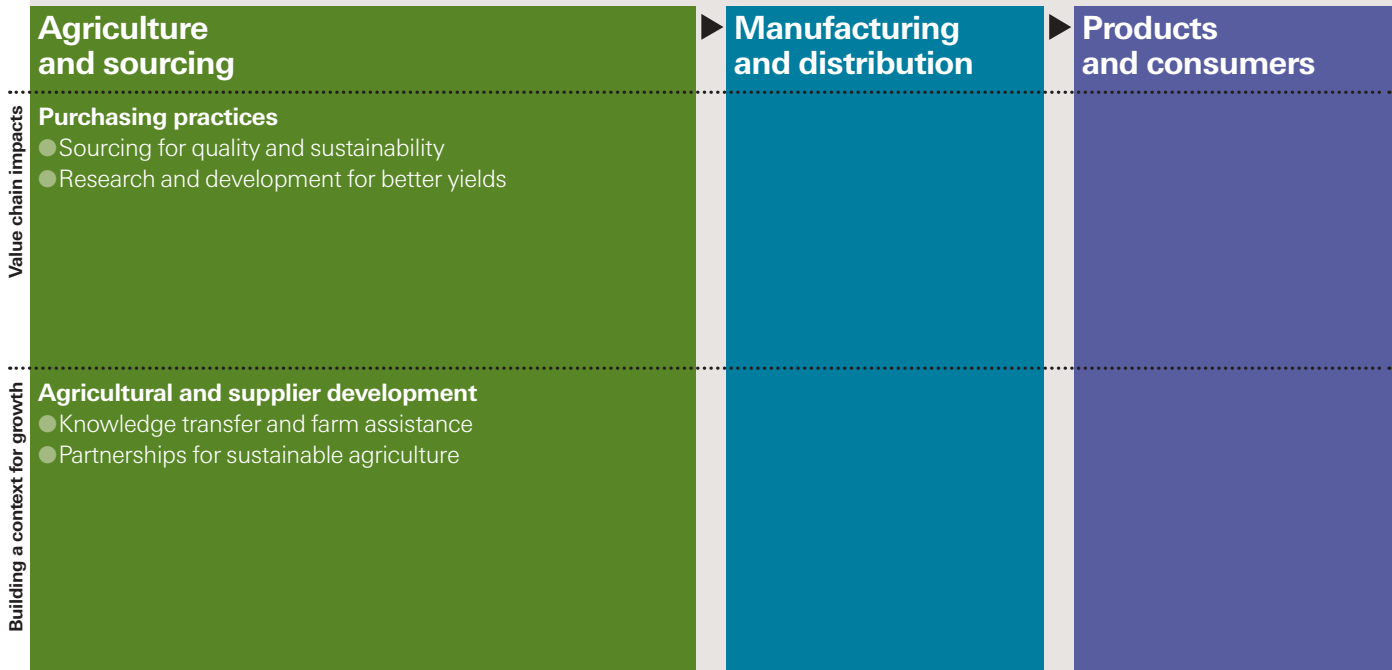


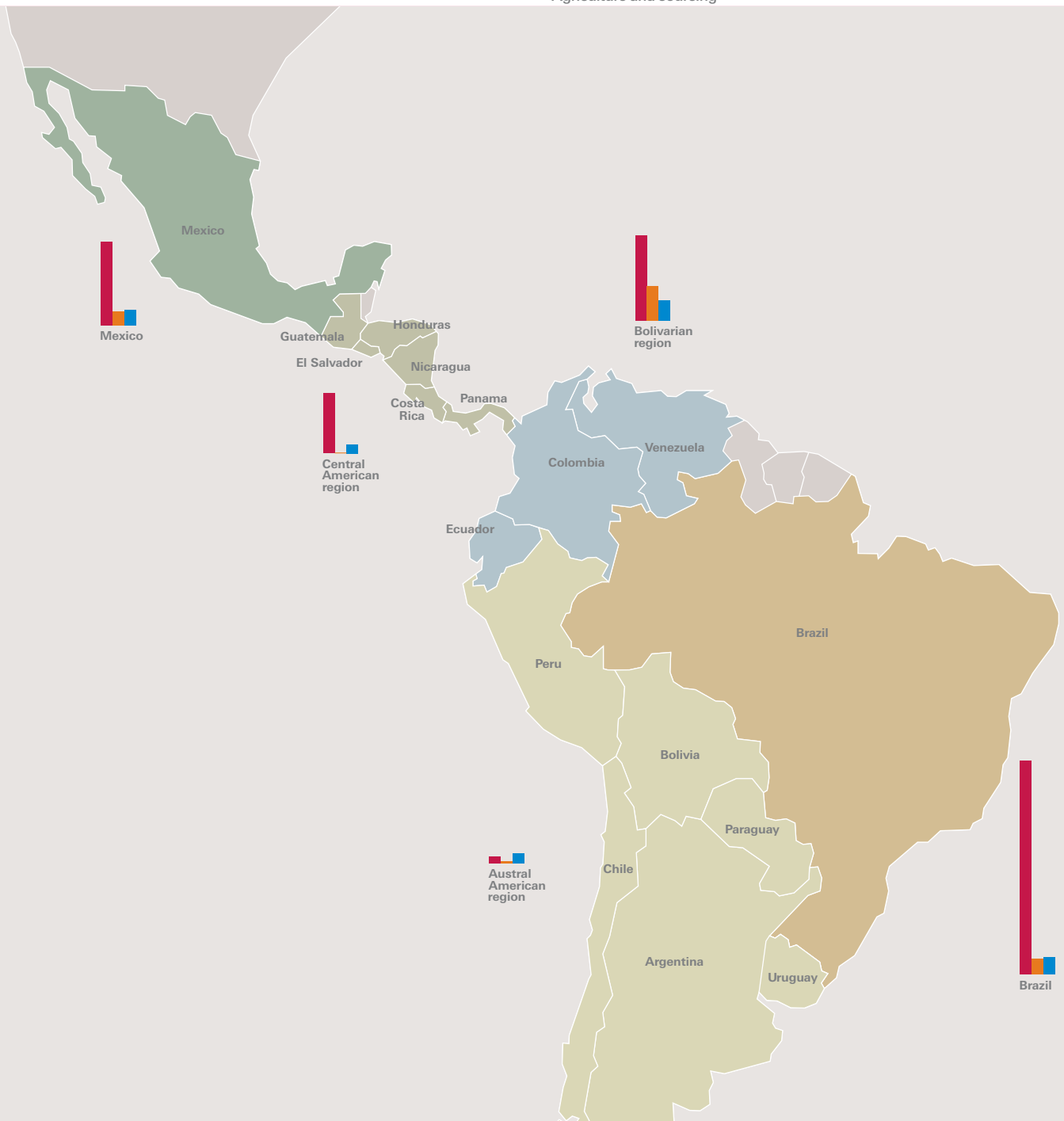
Creating Shared Value in agriculture and sourcing

Nestlé’s engagement in sustainable agriculture aims to minimise risks of contaminants in raw material sourcing, protect the company’s longer-term sourcing requirements for agricultural raw materials, ensure quality, availability and competitive prices for consumers, and appeal to consumers who give preferences to sustainable brands which contribute to social, environmental and economic progress.

Nestlé value chain activities and voluntary investments support such sustainability objectives. Sourcing standards help mitigate safety risks. Research activities and direct farm assistance enable Nestlé to meet its quality and

brand requirements while contributing to better farm practices. Additional investments in cross-sector partnerships such as The Sustainable Agricultural Initiative Platform bring these efforts to a global scale. Entire regions have seen vast productivity increases with the support of Nestlé agronomists and scientists. Nestlé’s challenge moving forward will be to quantify how its activities translate into progress regarding the fundamental issues facing global agriculture: boosting farm income and economic development in general, improving labour conditions and achieving better environmental management throughout the raw materials supply chain.





Number of farmers supplying Nestlé*

	Coffee farmers	Cocoa farmers	Milk farmers
Austral American region	3339	721	4722
Bolivarian region	41310	17019	9875
Brazil	103614	7412	8556
Central American region	29057	141	4180
Mexico	40655	6705	7564
Total per crop	217975	31996	34897

*Nestlé operates a mixed purchasing system. The number of farmers is calculated by dividing the total number of tons acquired by the average production per farmer per crop
 Source: Nestlé

Sourcing practices for quality, safety and sustainability

Nestlé's purchasing guidelines and supplier contracts support specific quality parameters, production and delivery methods. For instance, they give preference to integrated farming methods that preserve soil, water, air, energy and genetic diversity, and minimise waste; focus on traceability of raw material through production, handling and transport; and encourage transparent pricing terms. About 850 company agronomists in the Nestlé Agricultural Services and 2200 Nestlé buyers help suppliers achieve these objectives by assisting the purchasing process and providing direct support to farmers.

Specific investments offer the opportunity to integrate sustainable agriculture as an attribute of specific consumer brands. The *Partners' Blend* programme, for example, helps farmers grow higher quality coffee, diversify their crops, improve their communities and achieve a higher standard of living. It also focuses on environmental protection by improving the post-harvest treatment of green coffee.

El Salvador

Nescafé Partners' Blend:
integrating sustainable
agriculture into
Nestlé brands

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The launch of the first Fairtrade product by Nestlé is a welcome step forward

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Ian Bretman, Deputy Director,
Fairtrade Foundation



With *Partners' Blend*, a Fairtrade certified coffee, Nestlé is extending its many existing sustainable coffee programmes, applying its sustainable approach to particularly poor producing communities in El Salvador and Ethiopia. In El Salvador, the project focuses on small farms of less than 10 hectares that face particular socio-economic challenges. The small holders constitute

four recently Fairtrade certified cooperatives, whose members are 20% female. In partnership with ECOM, a coffee trader, Nestlé provides technical support, agricultural material and plants to help the farmers cultivate a good quality coffee and diversify into several different activities including citrus fruit production, chicken breeding and tree planting for shade and timber.

Above: About 20% of the members of the cooperatives in El Salvador who supply coffee for *Nescafé Partners' Blend* are women

Research and development for better yields

Coffee and cocoa are important crops for Nestlé, and they count among the forgotten species of the seed industry. This is why Nestlé invested significantly in research at the Nestlé R&D Centre in Tours. Its purpose is to improve their agronomic traits, ensure better field yields and disease resistance, improve processing characteristics, and enhance the taste of products. Together with good farming practices, such progress can help farmers improve production and increase their income.

Cocoa – higher yield plants thanks to somatic embryogenesis

Identifying elite genotypes is essential to renew old cacao plantations in Latin America and other producing regions. However, highly performing plants can only be introduced if they can be made available in very large quantities. That is why the somatic embryogenesis technique, which enables plant derivation from a group of non-reproductive cells, is important. The technique is widely used for coffee and other crops. In 2000, Nestlé set out to test it with cocoa through a project in Ecuador and Brazil. Its goal is to assess the agronomic performance



Left: Farmers in the *Partners' Blend* cooperatives are given the right resources to grow better quality coffee more efficiently.

Below: To help improve day-to-day life, new houses have been provided for some workers working in the cooperatives, as well as a clinic and training centre



Ian Bretman, Deputy Director of the Fair Trade Foundation commented: "The scale of the global coffee crisis demands a serious response from the large coffee roasters. Fairtrade works with organisations of smallholder coffee growers, who are the most vulnerable to fluctuations of market prices, and guarantees them a stable price. The launch of

the first Fairtrade product by Nestlé is therefore a welcome step forward, recognising the value of independent certification to international Fairtrade standards, including the payment of Fairtrade minimum prices and social premiums to the farmers' organisations. It is still very early days but we hope that Nestlé will enlarge this approach to other coffee products."



and conformity of *Theobroma cocoa* trees produced via somatic embryogenesis, in comparison to other methods of cocoa tree propagation.

The results over the period 2000-2004 were presented at the last International Cocoa Conference (Kuala Lumpur, July 2005), and were extremely promising:

- These trees have the same architecture as seed-propagated trees and need approximately half the pruning work during the first three years compared to other vegetative propagation methods like grafting or cutting.

- The somatic embryo trees are more

vigorous (larger trunk diameter), bear pods sooner (first harvest four months earlier), and show strong plant uniformity and higher bean yield from the third year after field planting (139 vs. 33 pods/20 trees) with similar bean weight.

Coffee – better understanding for bean quality and sensory characteristics

Nestlé and Cornell University, in conjunction with the Indonesian Coffee and Cocoa Research Institute, launched a project in 2001 to sequence the genes of coffee. From the outset, the goal was to create a public knowledge

Costa Rica

“Grands Crus” coffee

deeply tied to small community farming:

Nespresso AAA programme

“

Day by day, I have worked to improve the quality of my coffee using the concepts learned

”

Evaristo Sánchez,
AAA coffee farmer



According to a World Bank survey, about 10% of global coffee production represents harvests of outstanding quality, the so-called “specialty or gourmet coffee”. Of this, no more than 10 to 20% satisfies *Nespresso*’s standards for its “Grands Crus” coffees. The company works closely with green coffee suppliers to locate the highest quality coffees in remote, mountainous regions where hundreds, if not thousands of smallholders operate. Farms suited for the “Grands

Crus” are assessed along a number of criteria developed with Rainforest Alliance, an NGO dedicated to improving the sustainability of agricultural production. These indicators cover:



Left: Evaristo Sánchez learned sustainable farming practices through the *Nespresso* AAA programme.

Below: Improving area schools is also a programme goal.

Opposite left: Chris Wille of Rainforest Alliance works with Nestlé and the farmers to improve coffee quality.

Opposite right: Red cherries are AAA; the others are a lower grade

- quality aspects such as plant strain, soil type, harvesting practices;
- environmental parameters such as use of fertilisers, bio-diversity and water conservation;
- social practices such as adequate housing, access to education and health care; and
- economic dimensions such as yields, productivity and pricing.

Eligible farms can become partners to the *Nespresso* AAA Sustainable Quality programme. The ensuing

base that would be immediately accessible to breeders to improve coffee varieties. As detailed in the scientific journal *Theoretical and Applied Genetics* and highlighted in *Nature* in 2005, the research culminated with the identification of 13 000 coffee genes. Half of these were linked to specific metabolic function that helped explain the various development stages of coffee cherries and beans and comparative quality. Steve Tanksley, professor of plant breeding and genomics at Cornell who co-led this project with Dr. Vincent Pétiard from Nestlé Plant Sciences, commented on the value of the research for developing countries:

“This research may help breeders and developers of coffee around the world improve quality and productivity.”



“

We know we have to support farmers in producing a superior quality crop

”

Chris Wille,
Rainforest Alliance, Costa Rica

collaboration with suppliers guarantees that beans can be traced back to individual farms, allowing for physical and economic traceability. Participating coffee growers, as a result, receive no less than 75% of the export value of the coffee.

Evaristo Sánchez, a farmer who grows AAA coffee in San Ramón, Costa Rica, reports: “Since I started selling my coffee to *Nespresso*, I began to understand the sustainability concepts. Day by day I have worked to improve

the quality of my coffee using the concepts I learned. I understand now the importance of being sustainable – economically, socially and environmentally – because in the future my sons should enjoy the benefits.”

Chris Wille, who heads Rainforest Alliance’s Sustainable Agriculture programme based in Costa Rica, adds: “*Nespresso*’s idea appealed to us. We know we have to support farmers in producing a superior quality crop. If we can encourage environmentally sound

approaches and at the same time improve farmers’ and workers’ living conditions, we will have achieved something remarkable. The combination of quality and sustainability in coffee cultivation is an exceptional and innovative concept.”

Knowledge transfer and farm assistance

Through collaborative work with local institutes, Nestlé transfers selection and reproduction technologies to producing regions. In Mexico, for example, the company funded INIFAP, an agency of the Mexican government specialised in agricultural development. INIFAP established a multiplication programme for the large-scale production of Robusta coffee plants.

Strong and well-adapted plants do not guarantee better harvests. This is why Nestlé agronomists train farmers in field care and picking techniques, as well as post-harvest practices such as green coffee processing, sorting, grading, storage and transport.

SAIN – the Sustainable Agriculture Initiative Nestlé – captures the company’s approach to farm assistance. For producers, SAIN means access to experts and the latest agro-technologies in order to help increase productivity, protect the environment, lower costs of production, and raise farm income. Improved field yields also allow for crop diversification, which can reduce farmers’ vulnerability to price fluctuations. Higher product quality, in turn, ensures greater product consistency for Nestlé.

Nestlé’s farm assistance in Latin America builds on decades of experience, notably

Colombia

Developing a source of supply and rural economies simultaneously, Caquetá

“

Our cows produce on average 9 or 10 litres of milk per day, whereas some 30 years ago we wouldn’t have expected more than 2 litres per animal

”

Rufino Chindicué,
Caquetá milk farmer
and Nestlé supplier

Improved animal nutrition

To ensure that cattle consume enough protein, Nestlé and the International Centre for Tropical Agriculture promoted the cultivation of 1.4 million hectares of grass. The introduction of *arachis pinto* helped enrich the soil in nitrogen and favoured the growth of the *brachiaria* native grass. To compensate for the grass’ mineral deficiencies, Nestlé developed a phosphorus-rich mineral salt, now used as supplementary feeding for cows. As a result, the average daily production per animal increased by four litres.



Improvements through genetics

Thanks to a thorough understanding of conditions on the ground, Nestlé was able to develop a breed of cows particularly adapted to the region’s climate. Well-known European milk cows,

such as Holstein or Swiss Brown, would not have done well under the strong sun and light exposure, with average temperatures of 25°C, eight months of rain per year and the tropical diseases endemic to the region. By crossing Brahman and Girolando breeds Nestlé created a new breed with high environmental adaptability and excellent milk production.

Developing farm infrastructure

Through loans, Nestlé supported the construction of electric fences, allowing for the subdivision of land into smaller plots called “potreros”. They ensure that the cattle eat all available forage, which helps increase land productivity. Nestlé also encouraged the construction of small dams, which constitute the only source of water in times of drought.

Rufino Chindicué, farmer and Nestlé supplier told us: “With all these changes, our cows produce on average 9 or 10 litres of milk per day, whereas some



in milk district development. Today, among three raw materials of particular importance to the company – coffee, cocoa and milk – it is estimated that sourcing and/or farmer assistance affects the work and income of more than 250 000 farming families throughout the continent.

Milk district development in Colombia

Caquetá is a poor region of Colombia near the Amazon basin, and a good example of Nestlé's global milk district development efforts. Little more than 1% of the Colombian population lives there (455 000 inhabitants out of 44 million).

They are mostly cattle farmers or producers of rice, maize, yucca or palms. They contribute just 0.6% of the national GDP (2004).

When Nestlé arrived in the region more than 30 years ago, several factors suggested the potential of the region for milk production: there were more than 1000 hectares of prairies ill-suited for commercial agriculture, native grass of good grazing quality, zebu cattle and locally available financing.

In 1978, the company built a precondensation plant in Florencia, followed by a cooling plant of larger capacity in 1986. Further enlarged in 1992, it again doubled capacity



Above: Milk containers are checked before they go to the Nestlé factory.

Right: Dairy cows cross the Caguán River in Caquetá.

Opposite top: Rafael Torrijos is president of the Caquetá Cattle Farming Committee.

Opposite bottom: Milk is transported by boat to a Nestlé collection point



30 years ago we wouldn't have expected more than 2 litres per animal, and these were used for cheap local cheese production. It has made a huge difference for us."

Rafael Torrijos, President of Caquetá Cattle Farming Committee further commented: "Thanks to an average growth of 7% per year, we are now producing some 400 000 litres of milk per day. This makes Nestlé the principal promoter and development engine of the region." This was echoed by the Governor of the Department who awarded Nestlé the highest decoration, "El Coreguaje de Oro" in March 2005, for its steady presence and continuous contribution to the development of the conflict-struck region.

just two years later. In order to keep up with the multiplication of collection points, several cooling tanks were installed across the region. By 1999, with the help of credit institutions such as Banco Agrario and FINAGRO, farmers owned 170 cooling tanks.

Today, Nestlé collects 51% of the milk production in the 15 communes of the department, and employs 28 technicians to assist milk farmers with technology transfer, cow genetics, animal nutrition, farm development and road reconstruction. After more than 30 years of collecting milk using all sorts of means, including animal-pulled wagons,

trucks and barges, some 2500 farmers have now consolidated one of the more promising milk districts in the south of Colombia. Though it represents little more than 2% of the total milk production in the country, it is an important source of income in the region.

Nestlé investments in the region continue: plans are to double the precondensation capacity of the Florencia plant to 400 000 litres/day by 2009, and to help farmers and cooperatives acquire another 300 tanks to enhance the capacity of the cooling chain.

Mexico

An interview with
Alfredo Zamarripa, INIFAP

“

I am a coffee farmer myself. I think it is important. If you are just a scientist, it's possible to lose track of the full picture of the coffee cycle

”

Alfredo Zamarripa,
scientist INIFAP



Alfredo Zamarripa is responsible for industrial crops at the INIFAP Institute in Chiapas, Mexico. “I carried out practical research for my PhD in France with the Nestlé Research Centre. It was my supervisor who suggested that we might start a project based on my research here in Mexico. We had a meeting and very quickly agreed on the different areas of research for this project. The result of those years of collaboration is that we obtained eight

selected clones that have a very high industrial quality, are resistant to disease, and have the ability to produce a yield four times in excess of normal production. It makes me very happy to be involved in this line of work. I know that this project is going to make an important contribution in helping the coffee farmers of Mexico overcome the current crisis. The techniques we have developed here will enable farmers to produce a higher

quality crop and earn more. I am a coffee farmer myself. I think this is important. If you are just a scientist, it is possible to lose track of the full picture of the coffee cycle. But when you are a farmer yourself, and you know the problems they experience, it's much, much easier to understand just what the farmer needs and how technology can support him.”

Partnerships for sustainable agriculture

Nestlé is sharing its agricultural development experience and results with others, understanding that no company can alone hope to meet the world's food production challenge. In 2000, Nestlé joined forces with Danone and Unilever to form the Sustainable Agriculture Initiative Platform: an industry initiative now involving 20 major food trading or producing companies. Their aim is to support the development of sustainable agriculture worldwide.

Within SAI, Nestlé is currently involved in three collaborative pilot projects with coffee trading organisations such as ECOM in Nicaragua, Volcafé in Guatemala and NKG

in Vietnam with the objective to develop a comprehensive model for sustainable coffee production for small-scale growers.

The project started in March 2004 with ECOM involving 175 farmers of mainstream Arabica coffee spread over three communities in the Bosawas Biosphere reserve in northern Nicaragua. The area covers 1223 hectares situated at an altitude ranging from 600 m to 1200 m.

In the process, the project is developing sustainability criteria for small coffee producers along ten dimensions, with four focused on environmental standards, four on social

Worldwide

An interview with SAI
Platform manager
Didier Lebret

“

Our aim is to make sustainable agriculture mainstream

”

Didier Lebret,
SAI Platform manager



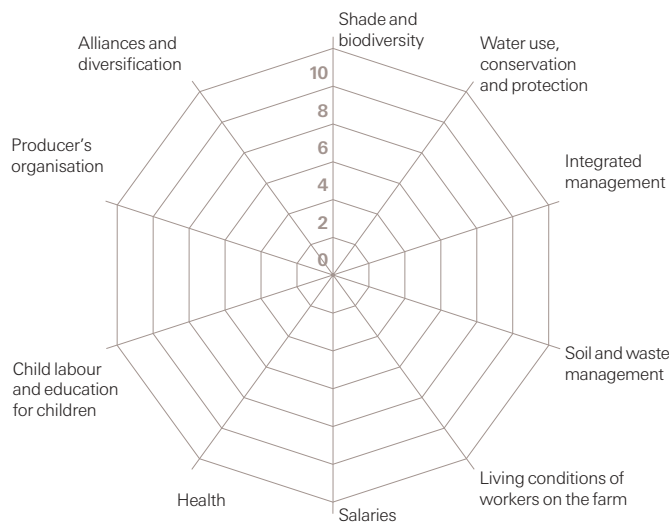
“Nestlé was one of the founders of the Sustainable Agriculture Initiative Platform, a food industry association to promote sustainable agriculture taking into account simultaneously the economic, environmental and social aspects of agricultural production. Like all food companies, Nestlé relies on the long-term supply of agricultural raw materials for their business and realised that agriculture is not always as productive

and efficient as it could be. In fact, some agricultural production methods contribute to the degradation of the natural resources, and the dysfunctional structure and imbalance of some food supply chains, as in coffee, have social and economic consequences in terms of farmers' livelihoods. One company alone cannot spread sustainable practices. This is why SAI Platform promotes sustainable agriculture in

a precompetitive way and facilitates dialogue with producers and other stakeholders in the food chain. Our aim is to make sustainable agriculture mainstream, working from a continuous improvement approach, building on existing initiatives and producing in a way that is economically viable. Nestlé's experience in coffee, in particular, has been very helpful to accelerate the process of developing 'Principles and Practices' for that crop and its related working group, though they are involved in a number of other working groups, dealing with dairy, cereals and fruit for example. Nestlé has started several coffee projects to test the SAI Platform practices in Latin America. Our next step is to learn from the results of all pilot projects, build on our working groups' recommendations, develop practical tools and engage with a broad range of stakeholders to spread sustainable practices widely.”

criteria and two referring to organisation and diversification. The project also supports farm infrastructure improvements, such as water treatment ponds and a new school for the children of these communities.

Similarly, Nestlé is part of the steering committee of 4Cs, the Common Code for the Coffee Community: a platform working on guidelines for sustainable coffee farming and trading. It includes participation in the Sustainable Coffee Partnership, a multi-stakeholder dialogue forum supported by UNCTAD and the International Institute for Sustainable Development.



Nicaragua
SAI project with the
coffee trader ECOM

“
 The project also supports infrastructure improvements such as water treatment ponds and a new school for local children
 ”



A comprehensive project, Nestlé’s engagement with green coffee trader ECOM and coffee farmers in Nicaragua has multiple objectives:

- fortify producer business and management skills;
- establish traceable and transparent producer-exporter links;
- promote and facilitate sustainable practices through technical assistance;
- improve on-farm

processing conditions, production cost and quality control;

- develop and validate a viable compliance monitoring system for SAI Platform’s guidelines.



Above: An ECOM technician shows farmer Silverio Hernández Chévez how to use a pheromone trap to catch pests, rather than insecticide.
 Left: Coffee farmer Federico Elster Hawkings discusses farm management with an ECOM engineer.
 Opposite: Gerardo Martínez Areas of Waslala, Nicaragua, checks the quality of his coffee

Regarding cocoa, Nestlé is a member of the World Cocoa Foundation. Nestlé also supports certification efforts together with industry partners, ILO, governments, and other labour experts.

Through their personal engagement in multi-stakeholder fora such as the Evian Group or the International Food and Agriculture Trade Policy Council, Nestlé professionals also contribute their experience and thinking on strategies to build a more efficient and open global food system. These platforms advocate for liberalisation of agriculture, reduction of trade-distorting subsidies and expansion of market

access as ways to boost economic growth in developing countries and, ultimately, to benefit Nestlé consumers.



Manufacturing and distribution



“The challenge at this stage of the value chain is to simultaneously guarantee food safety, develop and protect employees and reach sound environmental practices. Nestlé can influence the development of more demanding rules of operations and contribute to safer and more sustainable food production at large.”

Mark Kramer, Foundation Strategy Group

On the following pages are examples of Nestlé’s approach to its people, its manufacturing facilities and the environment.

A Nestlé employee moves *Sahne-Nuss* chocolate bars in the Nestlé factory in Maipú, Chile. On an August 2005 factory visit, former Chilean President Ricardo Lagos described Nestlé as a “model of corporate responsibility.”
Read more on page 33

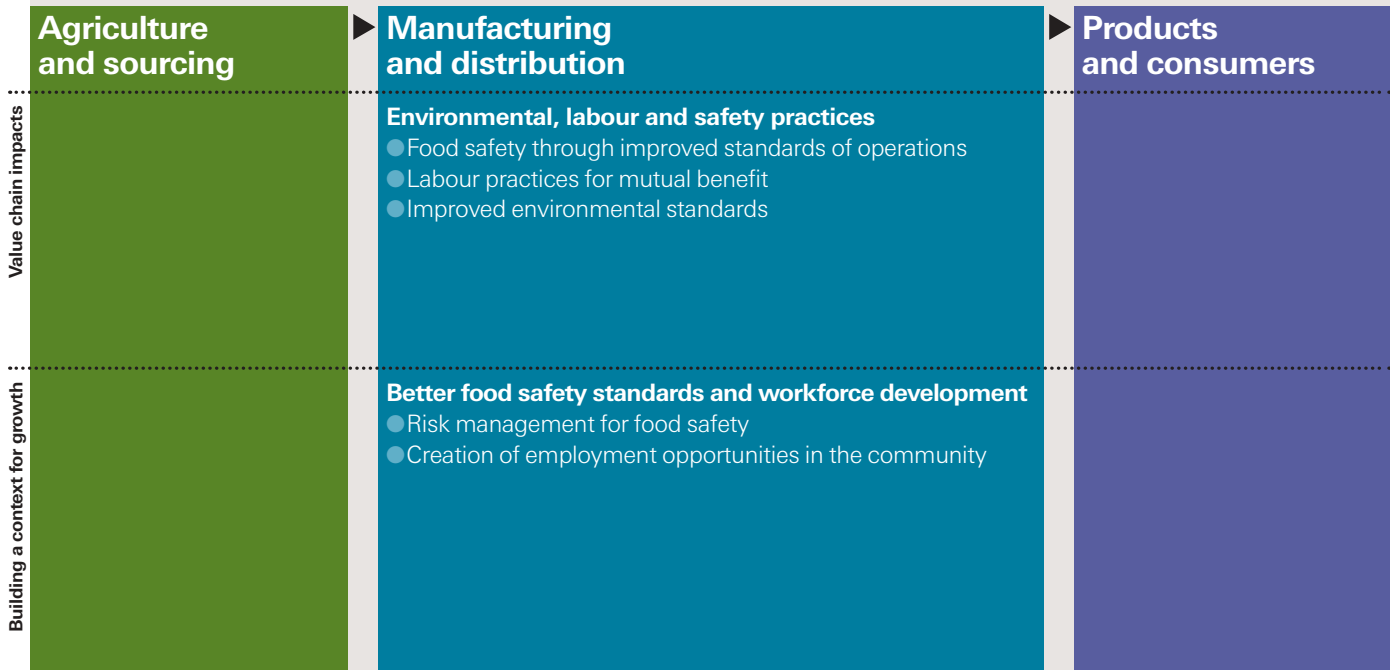




Creating Shared Value in manufacturing

About half of all Nestlé factories are in the developing world, and investment in local manufacturing for local consumption is the general company approach. Through its manufacturing and group-wide standards of operation, Nestlé places strong emphasis on food safety, development and protection of employees, and sound environmental practices. At 72 sites across Latin America, Nestlé creates opportunities for economic development and frequently influences the development of more demanding norms of operations in its host communities.

Nestlé’s continuous progress on safety, labour and environmental issues tackle the major impacts of food manufacturing on society. The good standards described below have been applied in several initiatives and experiments in Latin America. Environmental indicators, in particular, are rigorously tracked across Nestlé operations. The challenge for Nestlé moving forward is to demonstrate how well other achievements are replicated throughout its operations, and to move from incremental improvements to publicly committing to specific performance targets.





Food safety through improved standards of operations

Based on consumer surveys and analyst opinions, Nestlé has clearly built its business on the basis of product quality, rather than lowest price. A *Nestlé* brand name on a product is a promise to the customer that it is safe to consume, complies with all regulations and meets high standards of quality. The Nestlé business model relies on quality as a main driver of consumer preference and profitability. High quality standards result in fewer mistakes, less waste and higher productivity.

Along with regulatory compliance, food safety is non-negotiable for Nestlé. Fulfilling individual expectations comes next and includes

providing a positive sensory experience for consumers and meeting their expectations concerning nutritional value, convenience (e.g. ease of preparation), packaging (e.g. opening, closure), portion size, shelf-life and freshness.

Safety requirements are set for each product category according to the final consumer's specific needs. For infants, the requirements are the most stringent. Because they may be the sole source of food for infants, formulas must guarantee the provision of all necessary nutrients for each age group. Nestlé also puts clear labels and preparation instructions to ensure proper dosing and handling by caretakers.

Chile

Food safety starts at the farm

Right: Nestlé agronomist Mario Vásquez speaks to a Chilean farmer about milk quality.

Opposite above: Nestlé driver Roberto Rosas Santana helps manage the food safety tracking system by collecting samples and testing milk before he loads it onto his truck.

Opposite below: At Nestlé's Ocotlán plant in Mexico, when a delivery arrives trucks must be cleaned and checked before they enter the factory compound



Risk management for food safety — Early Warning System

Despite an increasing amount of knowledge on food safety issues, effective food safety management systems and safer and stricter regulatory frameworks, unexpected safety issues still emerge as the food production chain grows more complex. To identify any risks and threats that could emerge from this increased complexity, the company set up the Early Warning System for Food Safety.

The unit consists of a core team of eight scientific experts covering the main areas of food safety: agriculture and raw materials, chemical safety and contaminants, microbiology, authenticity, nutritional safety and packaging. This

team is connected to a larger network of about 150 key contacts around the world, within Nestlé and external laboratories and institutions. This network performs a surveillance role, collecting information and evidence on potential hazards and emerging issues. These are communicated across the network and scientifically evaluated at the Nestlé Research Center.

In case of an identified risk, Nestlé will proactively inform its peers in the food and beverage industry and, whenever necessary, alert the food authorities.

Nestlé also collaborates with local institutions to strengthen food-manufacturing practices

“

The Nestlé business model relies on quality as a main driver of consumer preference and profitability

”



and reduce potential food-borne health threats. Nestlé Brazil, for example, worked with the Federal University of São Paulo to establish a microbiology and bromatology lab dedicated to the science of food. The lab performs research, but also advises street food vendors and small Brazilian retail companies on proper food handling practices.

Whether working as an individual company or as part of an industry organisation, Nestlé values dialogue with national and international food-related authorities such as the World Health Organisation or the Food and Agriculture Organisation of the United Nations. This

cooperation contributes to the development of stricter and more precise food safety regulations and analysis techniques.

Mexico

Nestlé seal of guarantee standards: a factory example

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Audits are regularly performed to ensure compliance with the *Nestlé Manufacturing Principles*

”



The Ocotlán factory in Mexico is our biggest infant formula plant in all Latin America. It produces over 25 000 tons of *NAN* starter and follow-up formulas. Through successive enlargements since the factory's establishment in 1935, the layout was reviewed to minimise food safety risks. As in any other plant, production lines were analysed to identify specific hazards and risk factors. Then, control

measures and critical control points were defined and put in place. Training of employees, temporary workers and contractors is carried out throughout the year to ensure a collective commitment to the quality standards, and audits are regularly performed to verify compliance with the *Nestlé Manufacturing Principles*. Finally, before release, each product batch is analysed by the quality

assurance team to verify compliance with safety and other quality requirements. This includes a microbiological evaluation and a detailed analytical testing of micronutrients and vitamins. Only then can it leave the factory, with each consumer unit marked with an undeletable batch number to identify all process conditions and used ingredients.

Above: *NAN* infant formulas are checked by food safety experts at the Ocotlán factory

Developing people

A qualified workforce, trained by Nestlé or emerging from a strong educational and industrial context, strongly influences the company's ability to be globally competitive. The fair treatment and development of company staff and the strengthening of the local workforce are essential long-term investments. They reinforce the conditions for growth and sustained economic development in the locations where Nestlé operates.

Nestlé's ability to employ thousands of people each year is an important contribution the company makes towards future generations, providing income to families who

can enhance their chances at better education, healthcare and standard of living for entire families and communities.

Chile

Former President Lagos describes Nestlé as a "model of corporate social responsibility"

Former Chilean President Ricardo Lagos visited the Maipú factory in August 2005, and recognised Nestlé's good labour practices. In particular, he praised the company's job creation in the country and the high employee enrolment in a voluntary unemployment insurance programme.



Former President Lagos speaks at the Nestlé factory in Maipú

Colombia

President Alvaro Uribe Vélez recognises Nestlé's commitment to the region

"The decoration that I give today to Nestlé, in the name of all the Colombian people, is in recognition to its strong values, business ethics, the work done for the development and growth of our country and for improving the quality of life for its people." August 2004



President Alvaro Uribe Vélez (left) presents Nestlé Colombia market head Juan Carlos

Marroquín with the "Orden Nacional al Mérito" in August 2004

Labour policies for mutual benefit

Employee relationships are based on *The Nestlé Human Resources Policy*. The guidelines are adapted to the context of local laws and norms, and they rely on the sound judgement of each individual.

Mutual trust and respect, with no room for discrimination or harassment of any kind, is one of the fundamental principles. Managers are responsible for fair and competitive remuneration and continuous learning for their team members. Each employee is encouraged to set and take ownership for her or his development objectives.

Whenever a facility cannot be maintained at an

economically viable level, Nestlé commits to making reasonable efforts to reduce, as much as possible, the negative social impact of such a situation.

Supporting employee and human rights

Nestlé employees are free to belong to and form unions. The company believes that such freedom is consistent, even in times of discord, with its desire to sustain the long-term competitiveness of the company. Nestlé places a high value on direct and frequent communication with employees, whether they are union members or not. Relations with unions are established under strict observation

Colombia Managing a business in zones of conflict

Juan Carlos Marroquín, Bolivarian region Head of Market (Colombia, Venezuela and Ecuador), explains how Nestlé maintains a viable business in the context of ongoing civil strife in Colombia.

"Nestlé began operations in Colombia in 1944 with one factory in Bugalagrande. Today, we manage five industrial sites and sales activities in 12 cities. Some 1400 employees work for Nestlé in the country and collaborate with about 7500 suppliers, 3800 of whom are small milk farmers. Local investments totalled USD 17 million in the last three years, and we have earmarked another USD 20 million to improve the company's industrial capacity in the next two to three years.

"Despite the ongoing armed conflict in the country, we are committed to Colombia. We conduct our activities there based on dedication to our business and political neutrality. One of our major milk districts is located in a zone of conflict in the south of the country



(Caquetá). In the last 30 years, its activities were never interrupted or attacked by either the guerrilla groups or the paramilitary forces that are very active in the region.

"Nonetheless, our employees have at times been caught in the crossfire, with both managers and workers subject to violence. Because of this, we have made significant efforts, in consultation with both the authorities and trade unions, to protect our union leaders, our workers and managers.

"Another key to maintaining our business is our positive

position regarding workers' right to organise. The *Nestlé Corporate Business Principles* uphold Freedom of Association and effective recognition of the right to collective bargaining. The percentage of Nestlé workers who are unionised in our factories in Colombia is close to 60%, compared to a national average of less than 5%.

"We have worked together as a valued partner with the union that represents our workers, and successfully reached agreements in the negotiation of collective bargaining processes in the

“

Despite the ongoing armed conflict in the country, we are committed to Colombia

”

Juan Carlos Marroquín, Bolivarian region Head of Market (Colombia, Venezuela and Ecuador)

Key figures average of 2003-2005 extrapolated for Latin America

Providing employment

Since 1986 employment in Latin America grew from 29 911 to 38 452 at the start of 2005. 29% of employees are women: a 3% increase from 2003. Women represented 24% of all promotions in 2005.



Providing continuous education



During 2005, Nestlé employees in Latin America spent over 115 000 days in formal training or roughly three days per employee.



Additionally, 1400 employees engaged in e-Learning of various types ranging from systems to English language training.

Providing fair and competitive remuneration

In most countries Nestlé is well above the national average in factory pay, or as a minimum at or near the national average for the industry.

of national law, local practices as well as those recommendations to which Nestlé has adhered to on a voluntary basis as stated in the *Nestlé Corporate Business Principles*.¹

Employee health and safety

A working environment that protects the health and welfare of employees and provides high standards of safety, hygiene and security is another important principle of the human resources policy.

The policy encourages each employee to not only take care of his or her own safety, but also that of colleagues. As elsewhere in the



Workers break to exercise and stretch at a Nestlé factory in Dos Quebradas, Colombia

factories in Bugalagrande and Dos Quebradas. These agreements helped provide the basis for the creation of 250 new factory jobs between September 2004 and October 2005. As part of the agreements, Nestlé provides a set of benefits worth USD 348 000 earmarked for union activities. These include nine remunerated mandates with permanent leave of absence, 3146 days of travel expenses, 363 national airplane tickets and financial aid paid in cash.

"We acknowledge that the

national food workers union is still displeased with the result of events surrounding our Valledupar factory, which we decided to restructure in 2003 to keep the factory economically viable. In the process, workers under an old contract were offered a severance package soon before the factory became part of Dairy Partners Americas, DPA (a joint venture with Fonterra, the New Zealand Dairy Cooperative). 191 of the 192 employees in the factory accepted the offer. The severance arrangement went far beyond National Labour Regulations, adding up to a total of USD 8 million for the 191 workers. As a result, the factory could be saved, and workers could be hired under a new pay scale that makes the factory viable. The case was submitted to the International Labour Organisation's Committee on Freedom of Association, and the issue was closed in 2003, with no violation found regarding Nestlé's actions.

"The average length of service of permanent

employees is 15 years, an unusual figure in Colombia, or in most other countries. We believe that one of the reasons employees stay with Nestlé Colombia is that we are committed to treating workers fairly. In a recent internal survey, over 90% of employees said they were happy to be working for us. This is due, in part, to the fact that the average salary paid by Nestlé is three times more than the minimum wage and about 40% more than competitors. It is also probably linked to the 65 000 hours of training given to our workforce in 2004, for example.

"Carlos Rodríguez, President of the Central Trade Union Federation of Colombia (Central Unitaria de Trabajadores, CUT), commented recently on Nestlé's attitude toward labour relations: 'As a result of the democratic attitude that is evidenced within the Company [i.e. Nestlé] unionisation level is directly proportional to the level of democracy present within a Government or company.'"

world, Nestlé has introduced a process in Latin America to track incidents and provide systematic feedback on safe behaviour. Once an employee identifies a problem, it is then discussed in teams so that others can learn and provide positive feedback to colleagues who engage in accident-prone behaviour.

Through Nestlé Brazil's Quality of Life programme, employees can count on fitness, gymnastics, recreational societies and various sports events. In an annual health week, employees undergo exams to test cholesterol levels, vision, blood pressure and other health factors. They also have access to free anti-flu

vaccination, specific actions on HIV/AIDS and nutrition education. In 2004, in the São Paulo headquarters, 1410 physiotherapy sessions were held, accounting for a reduction of over 4000 hours of unproductive leave of absence. The objective of the programme is to reach all employees in Brazil by 2006. Progress to date is already significant.

New skills development

Reaching new levels of industrial performance goes hand-in-hand with enhancing people's skills. In the last decade in Brazil, for example, Nestlé transformed its approach to operations

Colombia
Henrique Flavio Almeida,
Technical Manager for
Colombia, Venezuela
and Ecuador: educating
workers on quality
and safety

"Quality and safety are very important to us, and we have implemented good programmes in our operations during the past years to address these subjects. These programmes consist of well-defined Group policies and systems such as NQS (Nestlé Quality System) and OSHR (Operational Safety, Health and Risk). On safety, we have applied technical tools such as guidelines, risk assessments, technical trainings, job function analyses, permit work and so on. We have achieved good results but we want to do better. We realised we had to go deeper and really find a way to develop a consciousness of quality and safety. We had to change behaviours in a way that would be lived by managers and workers alike. We worked with external consultants, psychologists and occupational specialists at the individual and team levels, informing, sensitising people to the subject, and building confidence in people that they could help each other do the best job. We

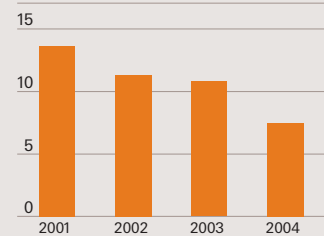


An employee checks his clothing before entering a sanitised area in the Dos Quebradas factory

had to encourage managers to stop production lines to allow people to do active pauses (oriented towards physical exercises) twice a day and give time to employees to meet, to think about their work, to analyse what risks were presented and provide suggestions for improvements. We had injured employees talking to their colleagues about the circumstances of their accident, and I can tell you, that is much more powerful

than having managers telling you how to do things differently. Now most people and teams work without intervention, they just go through this cycle on their own. Our safety records have dramatically improved: we have considerably reduced the number of incidents in the last two years in the Bolivarian region covering 3500 employees. In terms of quality, all factories in the Nestlé Bolivarian region have achieved a specified level of process mastering (Advanced Level). This progress allows us to execute controls directly on the lines with motivated, committed and well-trained employees, who are working to build a good and safe place to work."

Number of injuries in Latin America,* 2001-2004



*Lost time injuries per million hours worked
 Source: Nestlé

“
 Our safety records have dramatically improved: we have half as many incidents as we had two years ago
 ”

Henrique Flavio Almeida,
 Technical Manager for Colombia,
 Venezuela and Ecuador

and quality management by empowering employees to take ownership for production efficiency and results. Hierarchical levels were reduced and teams trained to oversee their specific activity areas. Instructions and results are displayed openly, and processes periodically certified according to strict internal standards. Training, over a five-year period, evolved from technical issues, to leadership, communication and business economics. Job satisfaction now reaches unprecedented levels. Circles of Quality, as it is called, is now influencing Nestlé employee empowerment programmes throughout the Americas.

In a leading business magazine in Brazil, Nestlé has been included in the list of best companies to work for during the last nine years.²

In Latin America, as elsewhere, Nestlé has rolled out the Develop People Initiative. This comprehensive programme targets management levels and helps employees set personal development objectives and adapt leadership behaviours in line with Nestlé’s culture and objectives, while acquiring skills to help others in their development objectives. In Latin America, over 2000 Nestlé managers are now trained annually as part of this initiative.

Brazil

Luiz Carlos Collino, retired Nestlé manager and Nestlé Brazil personnel development consultant

“The benefits that the Quality of Life programme brought me are very positive and they can be shown through numbers. I have lost nine kilograms and had a 13.8% reduction in body fat through increased physical activities and balanced nutrition. Being fit made me feel psychologically balanced, with less stress and better moods, and this can be seen all the time on my face.”



Top: Nestlé Brazil employees receive health and nutrition screenings. Bottom: Luiz Carlos Collino practises what he preaches

“

Being fit made me feel psychologically balanced, which can be seen all the time on my face

”

Luiz Carlos Collino, retired Nestlé manager and Nestlé Brazil personnel development consultant



Real efforts for better quality of life

- Number of employees involved: 67%
- Number of Nestlé sites: 11
- Decrease of absences caused by flu: from 504 to 57 days per year
- Decrease in high blood pressure cases: 61%
- Decrease in the number of smokers: 55%
- Decrease in the number of obese: 53%
- Decrease in the number of sedentary employees: 62%
- Decrease in absence caused by unproductive hours: 7203 hours

Creation of development and employment opportunities in the community

Creating a supportive context for long-term employment also means investment beyond Nestlé employees to strengthen local workforce conditions. In Brazil, for example, unemployment is a critical social problem. Almost 13% of the work force is currently unemployed, with high rates among young people aged 16 to 24 with little education.

By 2006, Nestlé will create about 2000 work positions for low income young people under 24 as part of the First Job programme, a federal government initiative to give young people their first opportunity to join the workforce. In a partnership with GR Food Services, the young

people will be trained to work with catering services. After a two-month intensive training programme, the trainees will be contracted as staff to join an important multinational company in the catering field. As of July 2005, 1500 young people were trained and 1299 were already working.

In Venezuela, Nestlé developed the Out-of-Home concept, which seeks to reach consumers through new technologies such as vending and distribution machines for convenience stores. This marketing initiative created a new source of employment as 18 new small businesses now service

Brazil
Nestlé managers from around the world replicate best practices established in Brazil



Pride in the job: Nestlé's Brazilian factories mix high performance with employee satisfaction

“
 Better communication and more access to the managers have made for a better informed and more satisfied worker
 ”

These remarks are from international Nestlé managers commenting on the situation in Brazilian factories:

“Factories, organised in three layers from worker to plant manager, are truly remarkable in what they have accomplished in plant performance. Factory appearance was enviable, with an apparent high degree of attention to cleanliness, hygiene and organisation of the workplace. Workers were highly engaged, daily

performance was visible at every line or process step, and there was obvious pride in work accomplishments at all levels.”

“Daily meetings were conducted by operators and mechanics to review operating results: line and output efficiency, production scheduling and planning, etc. In all plants, associates understood how their area was performing and the operator/mechanic relationship resulted in this group being highly engaged

in action and problem-solving.”

“Better communication and more access to the managers made for a better informed and more satisfied worker. The training and education the company provided raised the abilities and education level of the workers, giving them opportunities never available in the past. This is one source of their pride in their work and in the company.”

Improved environmental standards

600 *Nescafé* vending machines and 2300 store-based equipment systems. The *Nescafé* division worked closely with the operators to develop their business plans and marketing skills.

In Argentina, Nestlé is supporting a government programme called “Manos a la Obra”, which focuses on helping entrepreneurs increase the scale of their projects. Companies are contributing technical assistance in a number of areas.

As a company deeply dependent on the quality of natural resources, respect for the environment and environmentally sound business practices throughout the supply chain makes obvious business sense. It has also a direct impact on the bottom line: efforts to reduce the environmental footprint of factories, for example by using less water or emitting fewer greenhouse gases through reduced energy consumption, translate directly into cost reductions.

There are many occasions, around waste water treatment for example, where Nestlé standards exceed local legislation. Upgrading

Brazil

**Lusilene Farias, 20,
at First Job Brazil**

“

Now it's much easier for me to choose my career

”

Lusilene Farias

“I am very proud to tell everyone that my first job opportunity was given to me by Nestlé through NUTRIR. I am in the middle of a selection process to work at a telemarketing company. The experience I have had at Nestlé improved my resumé a lot. Before being part of “Primeira Emprego”, I thought I would either only be able to get a job as an ordinary assistant or have informal jobs. This is all a dream to me. I have always wanted to work in an office. I live with my mother-in-law, my husband and my three-year-old



daughter, and I know that I will always have to work and study. My mother is illiterate and my father studied only

until the 8th grade because he never had the opportunity to do better. Even though I face many difficulties, I do not see limits and I follow my bliss, whatever it costs me. The opportunity I had at Nestlé was really valuable and I will take it with me for my whole life. I thank the company for everything because it made me more responsible and gave me the chance to meet people who always had something to teach. Now it is much easier for me to choose my career. I want to be either an administrator or a secretary.”

Argentina

**Under-Minister of
Social Development,
Daniel Arroyo, on
“Manos a la Obra”**

“

Nestlé staff donate part of their time to help the entrepreneurs

”

“We are working on corporate volunteering. Companies such as Nestlé have staff donating part of their time to help the entrepreneurs. They provide a diagnosis of the project and the company appoints professionals to help the person responsible for the enterprise in the best possible way. In short, the aim is that “Manos a la Obra” entrepreneurs will receive advice from private companies on issues such



“Manos a la Obra” supports this bread factory in Buenos Aires

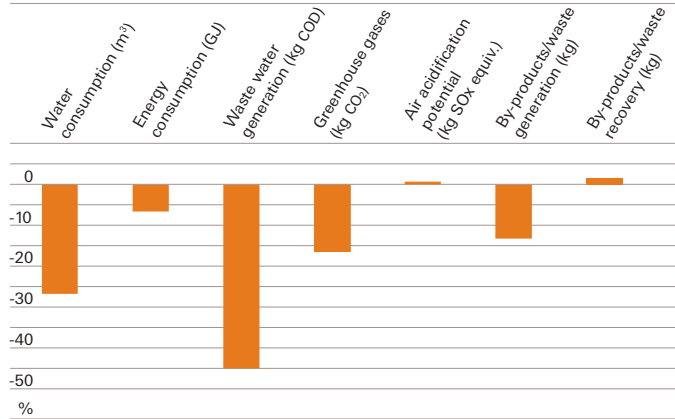
as improvement of quality, diffusion and marketing of products. In the specific case of Nestlé, we can highlight the support given to enterprises devoted to food production. Three projects were selected: two bread-making enterprises in the province of Buenos Aires, and a meat processing plant located in the Department of Lavalle, in the province of Mendoza.”

plants according to internal standards can put the company at a cost disadvantage in the short term compared to other local competitors. However, in the long term, management believes that standard setters benefit from their investment, not least of which is goodwill from the local community.

NEMS and environmental improvement

The *Nestlé Policy on the Environment* was first published in 1991 and updated in 1999. It is embodied in NEMS, the Nestlé Environmental Management System, which makes preserving natural resources and minimising waste an

Environmental performance indicators for Latin America,* 2001-2004



*Per tonne of product
Source: Nestlé

Worldwide Waste water treatment



Left: The water treatment plant in Bugalagrande, Colombia has won many awards.

Below: A technician checks the quality of water leaving the plant at Bugalagrande

“ Nestlé invested in waste water treatment plants long before it was required by national regulations ”

To live up to its internal standards, Nestlé invested in waste water treatment plants long before it was requested by national regulations:

- In 1963 in Brazil, it installed the first effluent treatment plant at the Araçatuba factory, State of São Paulo, 13 years before any environmental protection regulations were established in the country.
- In 1992, the Bugalagrande plant in Colombia received the Ecological Merit Prize from the environmental authorities of Valle del Cauca. The plant's residual water treatment facility is considered a benchmark for industry and used as a

guide in the environmental education management.

- In Colombia, brown coloured water, resulting from the coffee washing process, is being discharged into the Bugalagrande river. While this is biologically safe, Nestlé



Colombia is investing an additional USD 3 million to enhance its water treatment plant and remove the brown colouring in 2006.

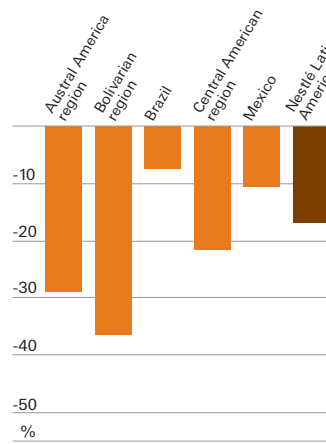
- In 1992 in the Macul factory in Chile, Nestlé built the first waste water treatment plant in the food industry, almost a decade before laws and regulations instructing industries to treat their waste water.
- A 2004 internal assessment of waste water equipment has led to the approval of CHF 10 million in new investments to upgrade or enlarge water treatment in Latin America for the period 2004-2006.

integral part of day-to-day activities. NEMS is based on the International Standard ISO 14001.

In sourcing agricultural raw materials, Nestlé gives preference to products farmed with environmentally sound methods and encourages farmers to apply sustainable farming methods (see SAI under Agriculture and sourcing section, page 23).

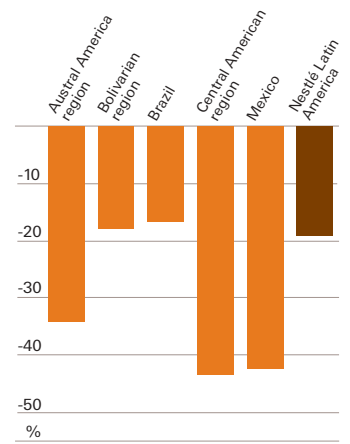
In manufacturing operations, emphasis is on the efficient use of raw materials, water and energy. Efforts are made to minimise the use of environmentally critical substances and reduce waste and emissions. Employees are trained to link specific behaviours with conservation

Greenhouse gases,* 2001-2004



*kg CO₂ per tonne of product
Source: Nestlé

Disposed waste,* 2001-2004



*kg per tonne of product
Source: Nestlé

Mexico

All Nestlé factories have received the Industria Limpia certification from the Ministry of the Environment

“The commitment of such companies to our programme gives credibility to the system

”
Ignacio Loyola Vera,
Federal Attorney General of Environmental Protection (PROFEPA)



“The Nestlé Group is one of the first companies achieving the Certification of Clean Industry for all of its factories. It has been at the forefront in developing environmental tools, participating in the development of norms and regulations, and developing state-of-the-art technology to avoid environmental deterioration. The commitment of

such companies to our environmental audit programme gives credibility to the system and helps us promote compliance with environmental legislation with other companies in our country and with society in general.”

Ignacio Loyola Vera,
Federal Attorney General of Environmental Protection (PROFEPA)

impact. Factories monitor their environmental performance on a continuous basis. Internal or external assessments are regularly performed, along with governmental audits.

Downstream, Nestlé is also working on distribution in order to optimise warehouse and distribution centre locations, vehicle-capacity utilisation and route planning for fuel conservation. Such a rationalisation scheme allowed Nestlé Waters Argentina to reduce diesel consumption by over 1 million litres and significantly reduce CO₂ emissions, road congestions and noise nuisance.

The company can always do better, for

instance by more systematically involving contract manufacturers and distributors. The company's aim is to better understand the total environmental performance of major product or process innovations. Continuously improving the environmental performance of products along their life cycle – from the sourcing of raw materials to processing, distribution and the end-life of the packaging material – is Nestlé's environmental challenge.

Greenhouse gases

Greenhouse gases encompass all on-site gas emissions from combustion processes used

Chile

Fuel substitution to reduce greenhouse gas emissions at Graneros factory

“

Nestlé was the first industrial sector company to make use of this tool in Chile

”

Hugo Lavados,
ProChile Director



to manufacture products. They are commonly accepted as contributing to global warming, as highlighted in the Kyoto Protocol. These greenhouse gas emissions can result from burning fuels in boilers, roasters, dryers and electric generators. Between 2001 and 2004, Nestlé reduced GHG emissions per tonne of product by 17% in Latin America.

Disposed waste

Disposed waste – defined as materials used or produced during manufacturing not included in the final product or recycled – was reduced by 19% per tonne of product. Nestlé found new

ways to recycle by-products in line with internal safety and quality requirements.

Packaging source reduction

Similarly, and without compromising product quality, Nestlé saved over 25 000 tonnes of packaging material and nearly CHF 60 million over the period 2001-2004 in Latin America alone.

Packaging source reduction in Latin America,* 2001-2004

2001	2002	2003	2004	Total
5 558	7 338	4 960	7 893	25 749

*In tonnes
Source: Nestlé

Established in 1936, the Graneros instant coffee and infant cereal factory used mainly coal (11 400 tonnes/year) and other fossil fuels to generate process heat and steam. In 2003, Nestlé switched to natural gas to achieve significant reductions in greenhouse gas emissions, including carbon dioxide, methane and nitrous oxide. The reduction in CO₂ emissions of close to 20 000 tonnes/year was validated in July 2005 by the United Nations, according to its Framework Convention on Climate Change Clean Development Mechanism. Through this convention, Nestlé was granted carbon credits that were subsequently sold to a Japanese electrical company. In addition, the baseline methodology developed for Nestlé Chile was officially approved by the UNFCCC for use by other industrial companies to apply for carbon credits. One-third of our factories in Latin America are already using natural gas, and increasing this ratio is a challenge, subject, in



Opposite: Using natural gas at Nestlé's Graneros factory means significantly reduced greenhouse gas emissions. Left: Hugo Lavados, Director of ProChile, said Nestlé helped set a new standard for cleaner technologies in manufacturing. Below: a technician inspects natural gas pipes in the Nestlé factory



particular, to gas availability. "Nestlé's sale of CO₂ Emission Reductions to the Japanese company, Electric Power Development, within the framework of the Kyoto Protocol and following the conversion to natural gas at its Graneros plant, reflects Nestlé's commitment to the environment and the community at large. It also shows the company's adherence to long-term sustainable economic development. Nestlé was

the first industrial-sector company to make use of this tool in Chile, which undoubtedly has become an incentive and example for other companies from various other sectors in adopting cleaner technologies. It also enabled our country to join the carbon trading market, with a new, but very promising, non-traditional export product." *Hugo Lavados, ProChile Director*

Managing water sustainably

Water is a natural resource indispensable to all life. Preserving both the quantity and quality of water is an absolute necessity. This is why Nestlé strictly controls water utilisation in all activities and seeks to improve its management of water resources.

Freshwater withdrawals in perspective

Roughly, 70% of freshwater withdrawn globally is used for agriculture. Industry accounts for 20% of the remaining withdrawals and domestic needs account for 10%. The food and beverage industry at large is using far less than 0.2% of the total water withdrawn. It is

estimated that the global beverage industry, including producers of beer, soft drinks and bottled water, is responsible for 0.041% of freshwater withdrawals. In this context, Nestlé's operations utilise less than 0.005%, and Nestlé Waters 0.0009%.

Whilst these proportions are minute, the food and beverage industry does have a unique opportunity to improve water efficiency, primarily through its own industrial processes, and through its supply chain of agricultural products.

Brazil

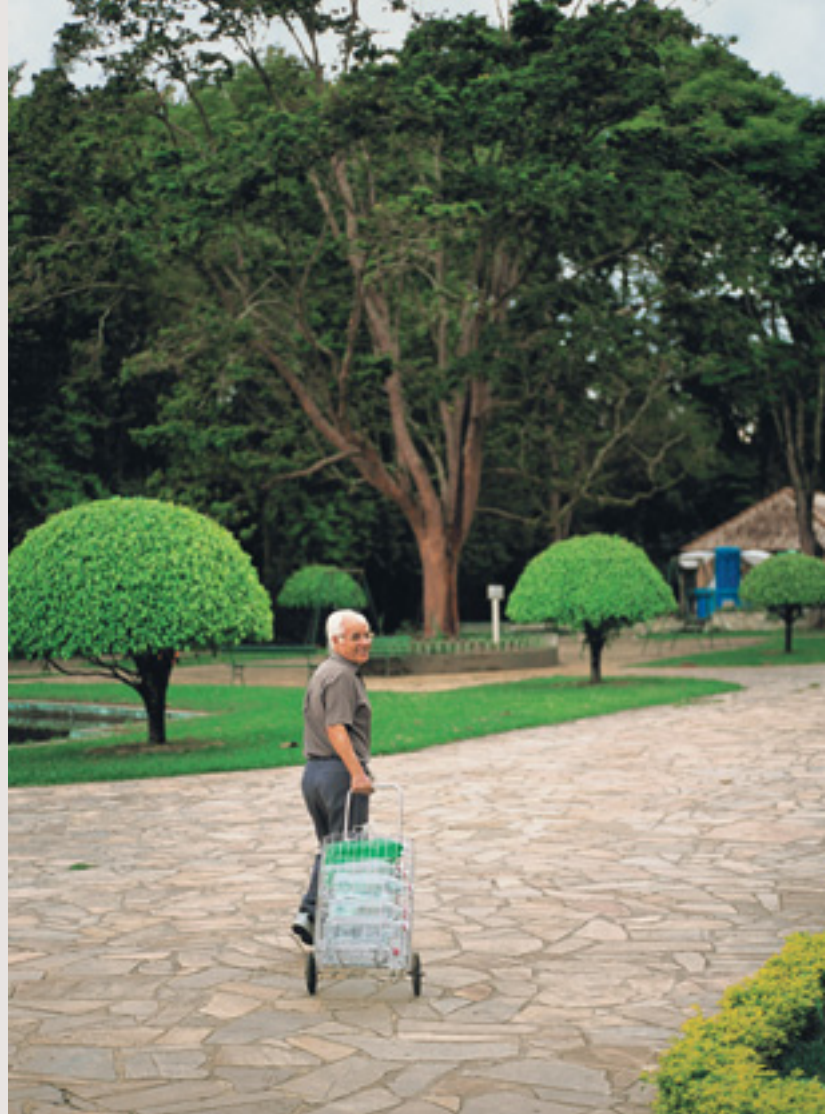
Bureau Veritas audit of the São Lourenço spring in Brazil

Nestlé investigates thoroughly any potential negative environmental impact of its operations. In the case of the Nestlé Waters São Lourenço spring and Spa Park in Brazil, concerns were raised about the potential negative impact of Nestlé Waters' operations there. As a result, an internationally known social and environmental auditing firm, Bureau Veritas,



assessed Nestlé Waters' impact on São Lourenço in 2005.

The audit found that pumping test evidence from 1999 and resultant regulatory approvals did not support allegations that exploitation of the Primavera well negatively impacts groundwater levels in the region, nor

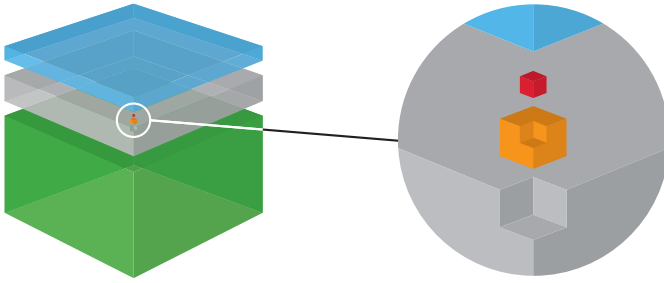


“

Nestlé Waters Brazil has acted in accordance with Brazilian legislation

”

Bureau Veritas



Total freshwater withdrawal worldwide, 2005

4 202 000 billion litres (4202 km³) = 100%

■ Domestic	10%
■ Industry	20%
■ Agriculture	70%
■ + ■ Nestlé	0.005%
■ Nestlé Waters	0.0009%

Source: Nestlé

Promoting environmentally sound farming methods

In its relationships with farmers, Nestlé encourages responsible use of local water resources. This is crucial as worldwide demand for food is expected to rise sharply under the combined effect of population growth and increasing prosperity resulting, for instance, in growing meat consumption. Whereas it takes on average one litre of water to produce one calorie of food; one calorie of meat requires 10 litres of water.

The Stockholm Environment Institute recently estimated that achieving the 2015



Opposite and above: Area residents visit the Spa Park to drink from the springs, fill up their bottles and even exercise. Right: The Bureau Veritas audit team reviewed Nestlé's operations in São Lourenço



that Nestlé Waters Brazil's extraction activities are on an unsustainable scale for the aquifer. This was supported by production testing carried out by the State regulatory body.

The Bureau Veritas audit "confirms that Nestlé Waters Brazil has acted in accordance with Brazilian legislation" and concludes that the company has "been in constant interaction with the Federal, State and municipal regulatory bodies over the construction of the well".

Despite early concerns, São Lourenço town officials have now expressed satisfaction with Nestlé's support of the local community. Engagement with local stakeholders will continue to be high on Nestlé's agenda, including ensuring free access to the spring's drinking water. Additionally, the municipal government and local community have joined Nestlé Waters on a consultative committee addressing the Spa Park's management issues.

Millennium Development Goal, to reduce by half the proportion of people who suffer from hunger, would trigger a 50% increase of fresh-water withdrawals for agricultural irrigation. This will cause severe social and ecological consequences unless agricultural practices change dramatically. Nestlé will continue to promote the adoption of environmentally sound farming methods, such as better irrigation and better timing of water utilisation.

Responsible industrial practices

In its industrial practice, water use is optimised as much as possible. All water consumption

is strictly monitored and emphasis is on water re-use and recycling, wherever feasible, and on returning treated water to the environment according to local legislation or internal standards – whichever are more stringent.

Through NEMS, the Nestlé Environmental Management System, and the involvement of all employees, Nestlé has been able to reduce the freshwater consumption per tonne of product in the Latin American operations by more than 25% over the last four years.

Mexico

Sustainable forest management to protect water sources

The spring water flows from the Santa Maria source located in the Izta-Popo National Park, Mexico. It is a region of highlands, with natural forest coverage of mostly pine and oak that was increasingly threatened by agricultural activities.

Aware of the critical role the forest cover plays on water catchments, Nestlé introduced a Sustainable Maintenance Plan to increase forest cover, prevent fires and ensure ground conservation. Since 1998, some 220 000 pine trees of four different species have been sowed, with a survival rate of 75%. As a result, 60 hectares of grass and agricultural lands have been turned into forest and a further 20 hectares of natural forest were restored. Simultaneously a forest fire brigade was established, roads were cleaned to prevent fire propagation and farmers were trained in fire management. With these measures, fires were avoided in the last three years. To avoid erosion and promote soil regeneration, farmers built terraces and planted grass.



Top: Nestlé provided funds to establish and train a fire brigade to protect forests around the Santa Maria spring in Mexico.

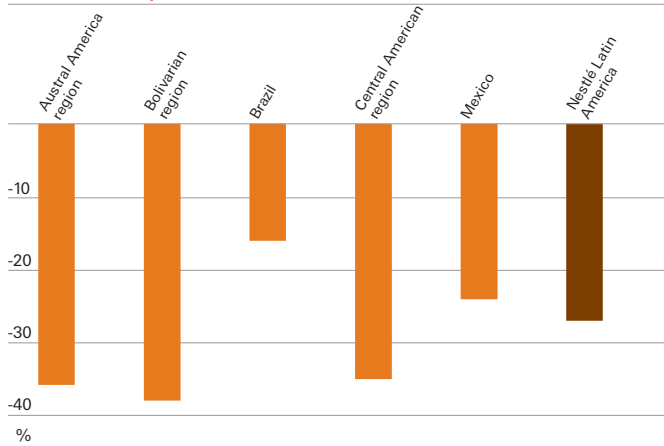
Above: Workers use sandbags to construct a fire barrier and prevent fires from spreading

In addition, to prevent any risk of soil contamination, only biological fertilisers and manure are allowed, and irrigation draws on freshwater.

This is compulsory policy for all terrains under company ownership. The challenge is to raise awareness for forest preservation, care in the neighbourhood, and promote the Sustainable Maintenance Plan to adjacent lands.

“
Since 1998, some 220 000 pine trees of four different species have been sowed
”

Water Consumption,* 2001-2004



*m³ per tonne of product
Source: Nestlé

Mexico

**José Luis Calderón,
Environment Educator,
State of Aguascalientes,
on “Encaucemos el Agua”**

“We estimate that 33 000 students have been exposed in a continuous way to water culture”

José Luis Calderón, Environment Educator, State of Aguascalientes

“Thanks to its methodology, ‘Encaucemos el Agua’ has triggered a profound involvement of teachers in the promotion of a water culture. It gives a structure to teaching plans without additional work burden. It has also enabled collaboration among state, municipal and federal authorities, which will lead to wide coverage and systematic programmes. With 1105 teachers, water administrators and other educators participating in ‘Encaucemos el Agua’ workshops in the State of Aguascalientes, we estimate that 33 000 students were exposed in a continuous way to a water culture. We are sure this will have an important influence

Sustainable water source management

Nestlé Waters promotes management and protection of springs it uses, including: respecting natural replenishment levels, striving to ensure healthy water catchment areas, and improving production processes to optimise water use and minimise water loss. Bottled water, while a growing beverage market segment, does not compete with tap water as the major drinking water source for any population. It provides a healthy alternative to other beverages, often making accessible water otherwise unsuitable for human consumption. Bottled water answers consumer demand for convenience and consistency in taste and quality.



in helping us achieve the stabilisation of our aquifer and guarantee water for everyone.”

Children learn about the importance of water as they paint landscapes and other designs

Mexico

Project WET: teaching children about water conservation

“Encaucemos el Agua” is the Mexican version of Project WET, Water Education for Teachers. Conceived in the USA in 1984 and first sponsored by Nestlé Waters in 1992, workshops and programmes have reached over 25 million youth and adults in 20 countries.

The significance of Project

WET is being recognised as part of the 4th World Water Forum in Mexico City, from 16 to 22 March 2006. A special Second Children’s World Water Forum event will gather children aged 11 to 15 years around the world to present local actions in water, environment and sanitation, and participate in

thematic workshops. It will introduce participatory tools and educational activities designed to enhance and support the local actions of children. These workshops will be conducted by Project WET and programme partners including UNICEF, the Japan Water Forum, UNEP, UNESCO and UN-Habitat.

Products and consumers



“Food products broadly contribute to sustenance, good nutrition, health and wellness only when they reach all segments of the population and are consumed within the context of a balanced diet. A food manufacturer’s competitiveness is thus deeply embedded in the benefit provided to consumers.”

Karin Jestin, Foundation Strategy Group

On the following pages are examples of Nestlé’s approach to its products and consumers.

With extreme poverty throughout Central America, food costs are a primary consumer consideration. With *Sopa Crecimiento*, Nestlé provides a tasty and

affordable chicken and noodle soup that also packs the nutrition of a fortified glass of milk. This young consumer is among the millions who enjoy *Sopa*

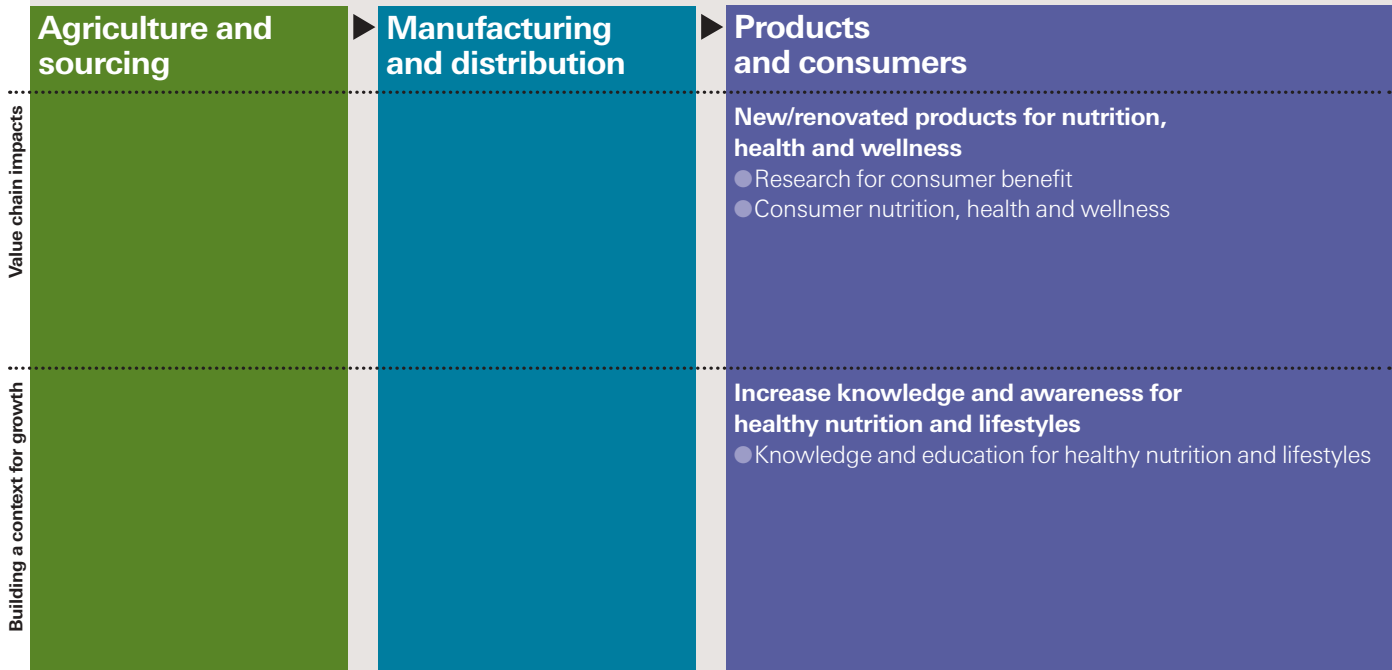


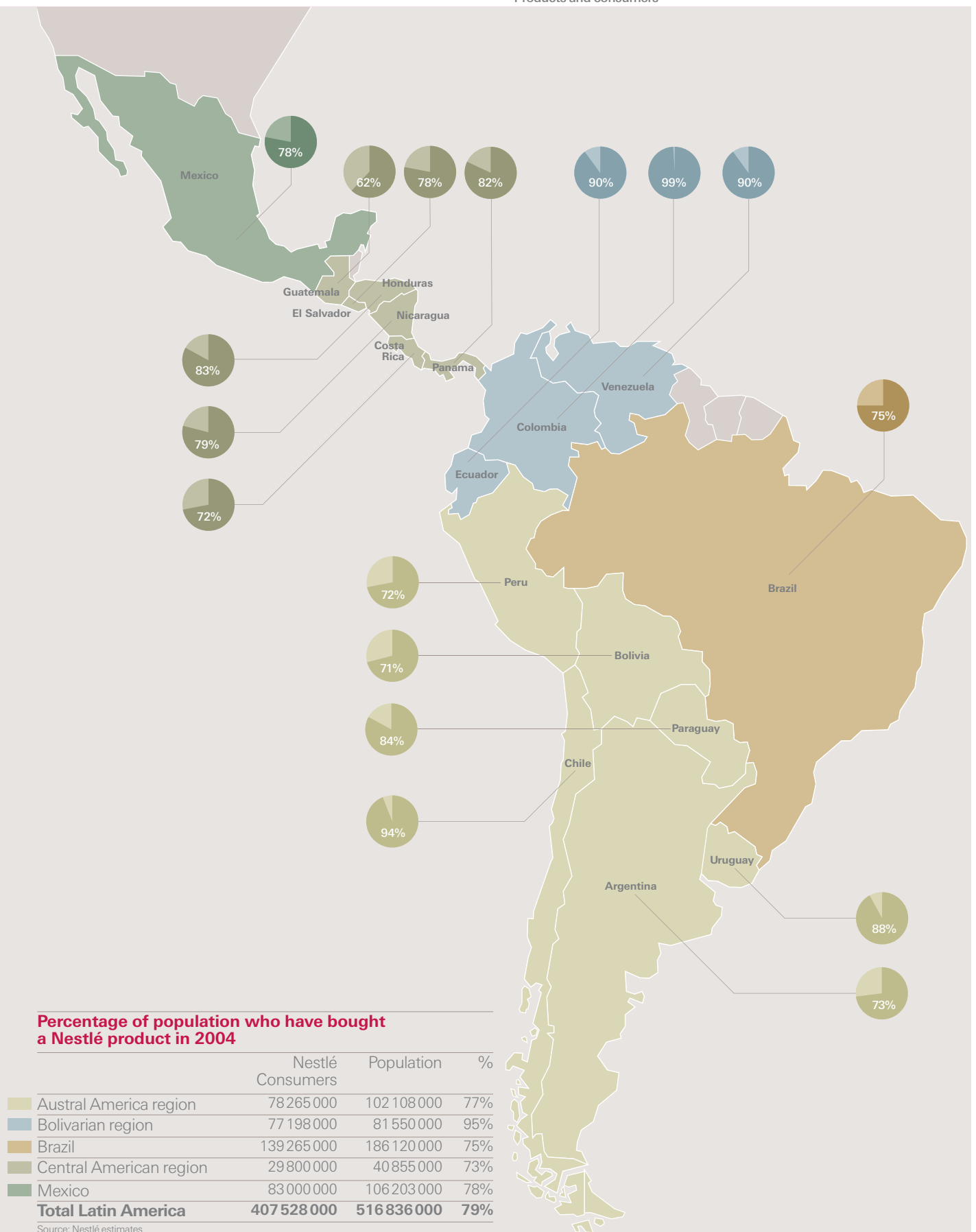
Creating Shared Value with consumers

Nutritious food is Nestlé’s business and main contribution to society. Nestlé’s competitiveness is deeply embedded in the benefit provided to consumers. Those who enjoy Nestlé products and recognise their nutritional and health benefits sustain the business and reinforce Nestlé’s ability to meet their future needs. Whether driven by cultural tastes or health concerns, emerging consumer needs provide an opportunity to reflect on the performance of current products and innovate for better solutions.

Nestlé’s nutrition and health awareness programmes reinforce the benefits delivered

through products as they increase consumers’ ability to integrate them into a well-balanced diet. The challenge for Nestlé is to find the right balance between nutrition programmes designed to reinforce the specific benefits of its product range or focus more broadly on the nutrition issues that affect the entire food industry. In the latter case, Nestlé can use its experience in nutrition education to scale up its efforts through more collaborative approaches. Additionally, Nestlé can always improve its reach into all segments of society, finding new ways, as it did with *Sopa Crecimiento* in Central America, to improve the nutrition of lower-income families.





Research for consumer benefit

Nestlé's long-standing commitment to research on food and nutrition has benefited consumers for over a century. Nestlé scientists published over 265 papers in 2004 and frequently interacted with external institutes in their research. Their work contributes significantly to the global knowledge base on nutrition and health and to ensuring Nestlé's competitiveness in this area.

Some 3500 people in a network of 15 R&D centres across three continents work on product renovation and innovation. The Nestlé Research Center and its 600 scientists, along with Nestlé Product Technology Centres, turn

scientific results into products that meet the taste, nutrition and physiological needs of consumers. Nestlé's new direction on nutrition, health and wellness means continued efforts on the safety and nutritional value of products. The scientific work focuses on technological innovations of foods and ingredients at the molecular level to improve the food/consumer interaction and nutrient delivery. One goal is to discover and develop new branded active ingredients with proven health benefits.

In this constellation, two broad directions are emerging for Nestlé: first, developing products that meet the ever-more personalised nutrition

Chile

Joint research with INTA at the University of Chile led to *Nutren Optimum*

“

Nestlé studies made it possible to determine the micro and macronutrient requirements of elderly people

”

Dr. Daniel Bunout, INTA



The development of the *Nutren Optimum* line of products was based on nutritional studies performed by the Nestlé Research Centres in close collaboration with the Unit of Ageing and Nutrition Chronic Disease of the Nutrition and Food Technology Institute of the University of Chile, INTA, and

Dr. Daniel Bunout. The team analysed the effects of prebiotics, probiotics and isoflavons on immunity and health.

“Besides clarifying the effects of these functional foods, the studies helped determine the micro and macronutrient requirements of elderly

people. This knowledge not only contributed to the modification of the Chilean Government Complementary Dietary Plan for Elderly People, but also to the development of the Nestlé *Nutren Optimum*,” explains Dr. Daniel Bunout, of INTA.

needs of the individual consumer. This approach requires deep understanding for local taste and colour, ways of cooking, even educational levels and use of income. Here, Nestlé's discoveries are translated into local product adaptations. The emphasis is on consumer preference and improved nutritional value, availability, convenience and, in some markets, affordability.

The second direction focuses on preventing or addressing health problems. This approach builds on a strong scientific base and clinical process to meet the same health need of any global consumer. The emphasis at this stage is on six consumer health-benefit areas: growth

and development, protection (allergies and immunity), gut health, performance and beauty, weight control, and healthy ageing.

Mexico
Nutrition knowledge
development

Dr. Julio Frenk, Mexico's Minister of Health, on nutrition knowledge development and the Founding of the Mexican Public Health Institute.

In Mexico, Nestlé supported the public authorities' efforts to reform the health system by helping set up a number of health and nutrition related institutions within the Mexican Health Foundation, FUNSALUD.

"Over a period of 30 years, the disease profile has drastically changed in Mexico. Infectious diseases used to be the dominant causes of death, especially among children. Today we are mostly confronted with chronic, non-communicable illnesses, which affect primarily adults and the elderly. We had to make serious adjustments to cope with this new reality. Nestlé contributed significantly to our efforts, in particular through the Nestlé Fund for Nutrition. Created in 1993 under the umbrella of FUNSALUD, this entity promotes nutrition improvements through scientifically based activities,



“Nestlé has influenced significantly our search for solutions to improve the health and nutrition of Mexican people

”

Dr. Julio Frenk,
Mexico's Minister of Health

the education of high level professionals and the dissemination of nutrition knowledge. In coordination with the Mexican Association of Schools of Medicine, it produced a Medical Nutriology book, which helped unify the training of teachers. It also helped integrate nutrition education as a compulsory subject in

all medical schools across the country. I would say that in its seven decades in Mexico, Nestlé has not only participated in our economic development, it has also influenced significantly our search for solutions to improve the health and nutrition of Mexican people.”

Consumer nutrition, health and wellness

In February 2005, at the request of the World Health Organisation, Nestlé submitted a report summarising its efforts in the previous five years to improve the nutritional value of products. The report included hundreds of product changes or innovations related to reductions in calories, sugars, fats and salts, smaller portion sizes, fortification with iron, iodine or vitamins and minerals, addition of fruits, and conversion from white flour to whole grain.

The report outlined extensive progress in Latin America. In Chile, Ecuador and Paraguay, for example, *Maggi* has been developed in low fat, no cholesterol ranges of mayonnaise and

salad dressings. Nestlé Peru innovated with a *D'FIT* sugar-free and fat-reduced vanilla ice cream cup, containing 42% fewer calories and 66% less fat than a regular vanilla ice cream. Nestlé Brazil developed a dairy drink with rice cereals: presented in a split pot, *Chamito 1+1* is small bowl of fibre-rich cereals next to yoghurt containing a prebiotic formula to support balanced intestinal flora. Mexico also launched a whole-grain breakfast cereal product, *Cheerios Multi-Grano*, made of corn, oats, rice and wheat and contributing more energy, vitamins and improved digestion. Chile, in turn, came out among others with a sugar-free almond

1



1: *Nutren Optimum* soup, Chile. A line of fortified products for elderly people
 2: *Nutren Optimum* semi-skimmed Milk, Chile
 3: *Sahne-Nuss* chocolate bar, Chile. 100% flavour with 0% added sugar
 4: *Chamito 1+1* milk drink with cereals, Brazil. With prebiotics to support intestinal flora
 5: *Galleta Infantil*, Colombia. Fortified cracker with iron and vitamin B

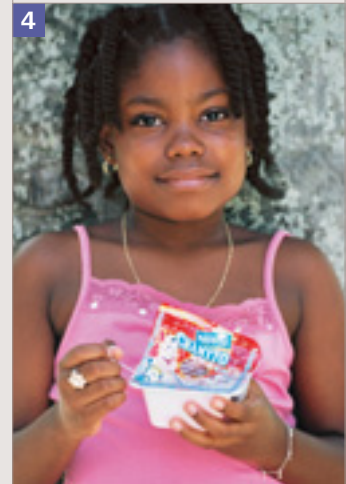
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3



4



5



chocolate, *Sahne-Nuss* 0% added sugar.

As elsewhere in the world, Nestlé in Latin America is engaging on a comprehensive review of products along the 60/40+ guidelines. Such products are chosen in tests by 6 out of 10 people based on taste and pleasure, and include an added value component on nutritional quality. Globally, Nestlé has already renovated hundreds of products using this formula and over 100 tests took place in Latin America in 2005.

Affordable and balanced meals

The Central American Region, comprising six

countries, is home to nearly 15 million children under 14. About 50% of the population is considered poor, earning less than USD 4 a day. The *Maggi Sopa Crecimiento* introduces a simple and affordable meal. It is the first chicken noodle soup with the equivalent of one glass of fortified powdered milk. Nestlé has sold millions of servings, providing a tasty, warm meal with the vitamins, protein and calcium essential for child development.

Health benefit

Ninho, a growing-up milk product range in Brazil for children one year and older, known



6: *Ninho*, Brazil. A growing-up milk product range for children

7: *Maggi Sopa Crecimento*, Brazil. Chicken noodle soup fortified with *Ninho* powdered milk

8: *D'FIT* ice cream, Peru. Sugar-free and fat-reduced vanilla ice-cream cup

9: *Cheerios Multi-Grano* breakfast cereal, Mexico. Whole-grain cereal with corn, oats, rice and wheat

10: *Maggi Mayonesa Light*, Ecuador. Low-fat, no cholesterol range of mayonnaise



in other markets under the name *Nido*, has been developed to meet the specific nutritional needs of children at key development periods. Nestlé active ingredients, vitamins and minerals are staged to meet the needs of each age group. For children who turn one, *Ninho 1+* favours a healthy digestive system, growth and immune response against pathogens. *Ninho 3+*, for three-year olds, also addresses bone development and includes essential fatty acids, iodine and calcium. *Ninho 6+*, in turn, with *Calci-N*, natural calcium derived from milk, contributes to good bone density in this important growth period.

Reduced or unbalanced food intake is common among ageing people. Worldwide surveys have demonstrated that 15 to 60% of elderly people in hospitals or retirement homes are affected by malnutrition. To respond to this growing need, Nestlé developed a range of oral supplements that can be used to prevent and treat malnutrition. *Nutren* provides the calories, vitamins, minerals and proteins suited to older people.

In Chile, the elderly is the fastest growing segment in the population. Nestlé was the first company in the country to launch a food line especially for this age group. The *Nutren*

Brazil The NUTRIR programme

“
The pedagogic material is excellent and the recipes are very tasty

”
Cristiane Aparecida Gil Guimarães, coordinator of primary and secondary schools in Ubatuba, São Paulo



Cristiane Aparecida Gil Guimarães, coordinator of the primary and secondary schools in Ubatuba

“The enabling of the NUTRIR programme is fantastic because it involves the cooks and the teachers, giving the professionals the same importance in food education. The first phase was to sensitise the regional schools, which are

developing projects relating to feeding. The second phase enables the swap of information, clarifies doubts and directs the projects to awards. The pedagogic material is excellent and the recipes are very tasty.”



Above: Children in the NUTRIR programme learn to cultivate and harvest vegetables as they learn about nutrition. Opposite: Maria Benedity Rodrigues de Oliveira knows most of the children who eat lunch at the NUTRIR kitchen

Optimum line includes semi-skimmed milk, creamed corn with meat, asparagus soup and mashed potatoes with meat. These instant meals are enriched with 13 vitamins and nine mineral salts, as well as nutrients such as calcium and phosphorus to help strengthen bones and teeth. They also contain essential fatty acids, such as Omega 3 and 6, to prevent cardiovascular disease, prebiotics to regulate digestion, and low sodium content.

In Colombia, Nestlé worked together with the Colombian Institute for Family Welfare (ICBF) and the local government of the state of Antioquia to develop fortified crackers with

iron and vitamin B to enrich the breakfast of children. To date, 641 000 children in over 600 municipalities aged six months to six years receive the crackers. The goal is to reach one million children with this regular nutritional supplement.

“

Every day we cook for the children, and it's good to see them grow well-fed and strong

”

Maria Benedity Rodrigues de Oliveira, president of the Solidarity Community of Vila Paraiso



Maria Benedity Rodrigues de Oliveira, president of the Solidarity Community of Vila Paraiso

“I've been involved in this for over 30 years, but only in the last two years my work started to become known... and then NUTRIR came up. Every day we cook for the children, and it is good to see them grow well-fed and strong. Here we have literacy classes for adults, dance



lessons and we have an area for the children to play. We use the kitchen in the afternoon to make bread, jam and preserves, apart from the culinary courses. I am happy to see the kids and the people on the streets smiling. It is very rewarding. I usually say that every time a child on the street smiles at me, my day gets better.”

Knowledge and education for healthy nutrition and lifestyles

The science that accompanies product innovations contributes to public knowledge on nutrition. Nestlé actively invests in dialogue and education with the medical and nutritional science community and with consumers. Together with the communication associated with Nestlé products, these efforts build broad awareness for good nutrition. Awareness, again, is mutually beneficial. Consumers can improve their nutritional habits based on well-researched, accessible information.

Nestlé invests on many levels to stimulate demand for superior quality products. This includes active involvement in the building

of institutions capable of multiplying global knowledge on nutrition, reaching out to professional thinkers and influencers in the field, and most importantly, connecting directly with consumers – especially the young – through a variety of communications.

Publications

Annales Nestlé is a scientific journal linking nutrition and health issues. Three times a year, issues in Spanish and Portuguese are sent to 60 000 paediatricians in Latin America. *The Nest* is a regular publication for paramedics and paediatric students, with two issues of 100 000 copies per year.

Brazil

The NUTRIR programme

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Such activities cause a higher consumption of greens and vegetables that most of the kids only knew from the supermarket

”

Ana Paula Cazali da Silva,
director of Preparatory Municipal
School and Junior-High School



**Ana Paula Cazali da Silva,
director of Preparatory
Municipal School and
Junior-High School**

“The organic kitchen garden is used as a pedagogical tool with the kids of the primary and secondary schools. Every week, they visit the garden and get to know more about organic agriculture with hands-on activities. Such activities cause a higher

consumption of greens and vegetables that most of the kids only knew from the supermarket. Also, the parents have great interest in the garden.”



Nutrition information and education

NUTRIR is among the most significant initiatives in Latin America against malnutrition, a problem afflicting about eight million families in Brazil. Lack of food, mother and child relationships, disease incidence and lack of information all contribute to the problem. Besides fighting malnutrition, the initiative also aims to eradicate obesity. A recent study found that 40% of the population is overweight. The NUTRIR programme includes volunteer work involving hundreds of Nestlé employees, educators, nutritionists and culinary experts who either directly interact with mothers and

children on good nutrition, or qualify teaching coordinators, teachers and cooks who then go on to teach courses. Through the initiative, NUTRIR developed a publication on nutritional education distributed to nutrition and health professionals, government officials and opinion leaders. NUTRIR kits contain books, videotapes, games, recipes and suggestions for education activities. In 2004, NUTRIR qualified 1720 adults and reached 82 400 children. 315 institutions and 630 teachers in 19 cities participated in the programme. Additionally, the programme established community kitchens and bakeries in three locations. Volunteers and community

Opposite: The NUTRIR gardens are a place of both learning and fun.
Right: Women bring a sense of community to the NUTRIR programme



Rosângela Maria Dias dos Santos, teacher at the Natércio França Day Care Center

“Formerly, we used to see a number of severely anaemic children. Thanks to feeding education, we curbed that rate.”

members learned to cook nutritious meals and help feed children. They also follow courses to prepare low cost, highly nourishing recipes, to develop new income source opportunities. NUTRIR is now a national programme, present in nine states and the federal district, with 17 cities having one or two centres.

Similarly in Peru, many children suffer from chronic malnutrition, anaemia and vitamin A deficiency, while others are afflicted by overweight and obesity. Responding to these conditions, and Peru's successful introduction of mobile services in a number of areas, Nestlé launched the Nutrimovil: a mobile nutrition unit

that visits consumers near their homes and provides tailored information on good nutrition. About 11 000 contacts were made during 50 visits. The mobile unit targeted the outskirts of Lima, where typical consumers spend over half of their income on food but are keen on improving their children's future through education, work and good nutrition. Graduates from nutrition programmes in local universities were hired to run the project, trained on Nestlé products and nutrition analysis, and given the task to develop nutrition guides for specific sub-groups, such as infants, the elderly, pregnant mothers and teenagers. The project helped

Worldwide

**Nestlé Foundation:
advancing nutrition
science in Latin America**

“

Basic nutrition research is of central importance to reversing malnutrition

”

Dr. Paolo Suter,
Nestlé Foundation



The Nestlé Foundation for the Study of Problems of Nutrition in the World (www.nestlefoundation.org) was founded at the occasion of the centenary of the Nestlé Company in 1966. The Foundation operates with the support of an international Council of leading scientists independently from the company with offices in Lausanne, Switzerland. One of the Foundation's main aims is the transfer of

scientific and technological knowledge to low-income countries. Most Foundation-sponsored research projects are realised in collaboration with local scientists at universities and research institutes. In such countries, basic nutrition research is of central importance to reversing malnutrition. With the Foundation's enLINK digital library (www.enlink.org), partners can access ten of the most important and

prestigious nutrition journals.

In Latin America, studies recently addressed topics such as energy metabolism (stunting and obesity), micronutrient requirements, supplementary feeding and the interrelationship of nutrition and infection. For example, a study from "favelas" of São Paulo found that childhood nutritional stunting is associated with impaired fat oxidation, which favours fat deposition. This

Nestlé Peru better understand consumers' eating habits, nutritional beliefs and needs.

In Paraguay, Nestlé joined with the Tierranuestra Foundation to develop a game on nutrition for rural schools. Nestlé Marketing and a nutritionist worked with the foundation and a designer to create the game. Tierranuestra then distributed 1000 games to 200 schools and provided training to learn how to use the game.

In Chile, Nestlé is building on decades of work with public health authorities on good nutrition. In 1966, 60% of children under six suffered from some degree of malnutrition. Today, that figure does not exceed 1%. Starting in the early

might in part explain the increased prevalence of obesity among stunted adolescents and adults in low-income countries, where malnutrition and obesity often coexist in the same family.

Micronutrient deficiencies such as vitamin A or iron are the most prevalent deficiencies. Several studies from Chile and Peru underlined the crucial importance of preventing iron deficiency during infancy. An insufficient intake of iron during the critical phases of brain development during the first months and years of life will lead to irreversible brain damage and a life-long psycho-neurobehavioral handicap. Another study found that iron supplementation given to anaemic pregnant women in Lima impaired the intestinal absorption of zinc, which can have negative effects on pregnancy. This indicates that zinc should be added to iron to cover both deficiencies. Based on these studies, solid scientific evidence was provided for effective flour fortification in Peru and other regions of the world.

Chile Eradicating malnutrition

“Many issues had to be corrected. Nevertheless, little by little, the obstacles were overcome

”
Dr. Monckeberg,
paediatrician

1970s, Nestlé participated in a broad national programme called “a daily half-litre of milk for every child”. Nestlé delivered milk products and helped prepare and develop special prototype products such as *Fortified Purita Milk* and *Cereal Purita Milk*. Today, the company continues to promote healthy lifestyles through its *Vida Chile* programme, an initiative led by the Ministry of Health and supported by members from various universities and the World Health Organisation. Nestlé is contributing by funding the Nutritional Assessment Technical Standard for children from ages 6 to 18; and provides the Nutritional Labelling Manual for health professionals.



“The task was not easy. Many issues had to be corrected in the areas of primary health care, nutrition, education and sanitation. Nevertheless, little by little, the obstacles were overcome. The problem was included in the national agenda, resources were obtained and the Government and private sector got involved. Nestlé played a major role as the leading company of the dairy sector, ensuring the delivery

of powder milk, a vital food for the success of the programme.”
Dr. Monckeberg,
paediatrician

Nestlé's future in Latin America

Paul Bulcke, Executive Vice-President Nestlé for United States of America, Canada, Latin America, Caribbean



Creating Shared Value is a global concept for Nestlé, tightly linked to our core business, and a good roadmap for the future. People are at the centre of this framework: Nestlé people drive the value chain and community investments that improve lives and step-by-step, lower the environmental footprint of food production through increased agricultural and operational efficiency.

Shared value starts with every person in Nestlé offices and factories and spreads outwards. Our business provides stability and resources to employees and their families; they share our need for security and continuity in their lives. Our first requirement is therefore to make sure we maintain a successful business to provide this stability, even when hard times come around as they did in the past, in Peru and Chile for example, when Nestlé stayed while other companies left the countries. Our strategy has been proven successful, because Nestlé has just been recognised as Chile's "most respected corporation" for the second year in a row by a leading independent national survey.³

A basic requirement for the long-term permanence and stability of our business is to have good and motivated people working for the company. In this regard, Nestlé's labour relations in Latin America, as everywhere else we operate, are guided by strong principles and policies, guaranteeing the respect of basic rights in terms of remuneration, association and unionisation, training and career development according to everyone's capacities. In this way, we regard our employees as indispensable to our future growth in the region.

For me, there are four essential ingredients to empower Nestlé people to build stable and successful businesses: strong values that they can feel good about – and know are non-negotiable; presence in local communities; continuity; and focus on winning strategies.

“

Latin America and its people are infused with the idea that tomorrow is going to be better. Globalisation, the pursuit of free trade agreements and open borders are all reinforcing that spirit

”

Paul Bulcke, Executive Vice-President Nestlé for United States of America, Canada, Latin America, Caribbean

Opposite: Paul Bulcke checks on Nestlé products on a market visit in Brazil.

Right: A Nestlé agronomist and a coffee farmer discuss sustainability strategies in Nicaragua.

Below: A Nestlé employee works in the Ocotlán factory in Mexico



Our commitment to such ideas builds trust over time, and with trust, you can grow a business.

Latin America and its people are infused with the idea that tomorrow is going to be better. Globalisation, the pursuit of free trade agreements and open borders are all reinforcing that spirit. Incomes are growing, and people want to build a better future. Agriculture is the natural strength of the region: working with farmers to increase productivity through loans, technology and knowledge transfer, the support of agronomists, and improving and focusing our industrial capacity to produce higher value added food products locally helps the region's communities realise their growth potential.

Nestlé has tremendous opportunities to invest in regionalisation and distribution. In Brazil, for example, focusing our energy on the needs of consumers in specific regions is bringing excellent results. Moreover, in some regions, like the north east of Brazil, we are talking about 60 million

people. Low-income families form a large market and are very conscious of nutrition issues. We think we can reach them better by investing more in distribution, adding new dynamics in the retail sector, and raising awareness for good nutrition concepts. For this, we need people who know what it's like to live in poor communities and who can revisit and adapt our business models. We already have a large number of products going to the lower income population, but we can do more with soups, cereal-based and dairy products, and meals that can provide schoolchildren and families with essential nutrients. And there is no need for award-winning packaging to accomplish such objectives, just solidly conditioned products that deliver good nutrition.

Nutrition education and understanding is of course an important element of improving lives. In Latin America, as elsewhere in the world, there is too little education on nutrition: not enough courses on the subject at all school levels, even in medical schools. This is a health gap that society needs to fill, but where we can also help as a member of the greater food community: through publications to professionals, nutrition centres in retail shops animated with nutritionists who can engage directly with consumers, call centres, informative product labels, and through larger scale awareness programmes, like NUTRIR or Nutrimovil that are described in this report. We can help consumers understand basic nutrition concepts and terminology, so that they can benefit from the nutritional value in our products. At a fundamental level, it is about building awareness over the long term to build healthy societies, together with other food industry members and governments.

Latin America is a region rapidly moving towards development, and its strength lies in the people's positive mindset. Together with them, we can create even greater shared value.



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Footnotes

1 These include the UN Global Compact, relevant International Labour Organization (ILO) Conventions, and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

2 *Exame Magazine*, rankings include anonymous answers from employees.

3 Hill and Knowlton Captiva/La Tercera, Santiago de Chile, November 2005.





Good Food, Good Life