

The Nestlé Sustainability Review



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Quality Food Products and Sustainable Development

At Nestlé, we define sustainable development as the process of increasing the world's access to higher quality food, while contributing to long term social and economic development, and preserving the environment for future generations.

In the 135-year life of Nestlé, our fundamental approach to business has been the creation of long term sustainable value for our consumers, customers, employees, shareholders, and society as a whole. The *Nestlé Corporate Business Principles* state openly that we favour long term business development over short term profit. While we are committed to making a healthy profit, we instruct managers not to do so at the expense of long term, sustainable development.



As we move ahead in the 21st century, we believe that a business strategy based on high-quality food and beverage products can only be maintained by business practices based on the principles of long term sustainable development.

In this report we attempt to describe how we practice and implement the principles of sustainable development where we have direct influence and impact on economies, societies and environments.

For everyone in our company, our responsibilities and values are reflected in our commitment to the *Nestlé Corporate Business Principles*. These set out the basic rules we follow to make sure we maintain the highest standards of conduct. This report presents some key performance measures and figures, and shows how we endeavour to put our Principles into practice.

In meeting our commitment to be a leader in sustainable development, we build on two of the essential pillars of our long term strategy: innovation-renovation and operational efficiency. We innovate in new products and technologies to meet the present and future needs of our consumers in an increasingly sustainable manner, and we improve or renovate existing products and technologies for the same reasons. We are dedicated to continuous improvement in the efficient use of resources, resulting not only in lower operating costs, but also in a lower impact on the environment. Managing our activities in accordance with the principles of sustainable development makes good business sense.

Given the company's focus on high quality, food safety, nutritional value, and consumer appeal, Nestlé needs to purchase high-quality agricultural goods

produced in a sustainable way. Even though we own no agricultural land, our approach has been, through technical assistance, to improve the farming methods and standard of living of millions of farmers.

This is Nestlé's initial effort to report on sustainable development, attempting to describe our impact on the well-being of people and the planet. As such, it is a step on a journey, as opposed to an end point in itself. In addition, we have produced more detailed reports, entitled *Environment Progress Report 2000* and *Nestlé in the Community*, and our annual *Management Report* provides details on financial performance. You will find information on these and other publications at the end of this report.

We are committed to being open and transparent, and to listening to the views of others as we move forward in sustainable development. For this reason, we invite you to use the enclosed card or to write to us (www.nestle.com) with any comments and suggestions you may have after reading this report.

A handwritten signature in blue ink, which appears to read 'P. Brabeck-Letmathe'. The signature is stylized and fluid.

Peter Brabeck-Letmathe
Chief Executive Officer

Our Principles, Values and Culture

Our values and principles are elaborated in the *Nestlé Corporate Business Principles*. These were issued in 1998 and updated in 2002 in order to integrate all existing business principles at Nestlé into one single document, now incorporating our Corporate Governance Principles. The updated version includes all nine principles of the UN Secretary-General's **Global Compact**, regarding labour standards, human rights, and the environment.

The Nestlé Corporate Business Principles

Some of the basic Nestlé values and principles are:

- Favours long term development over short term profit;
- Long term commitments and relationships;
- Respect for and integration with diverse cultures;
- Proper conduct and ethical values as basic requirements for our management and employees;
- Recognition that consumers deserve information about the products they buy and the company behind the brand.

These Principles have been translated into over forty languages and all Nestlé managers are required to know and abide by them. They are incorporated into our ongoing training programmes, particularly for new employees.

Topics covered in the *Nestlé Corporate Business Principles* include: national legislation and international recommendations; consumers; children as consumers; infant health and nutrition; human rights; human resources and the workplace; child labour; business partners; conflicts of interest; relationships with suppliers; competition; external relations; protection of the environment; water policy; agricultural raw materials; and compliance.

The Nestlé Corporate Governance Principles

The Principles incorporate our official Nestlé Corporate Governance Principles, which cover four essential 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.

Members of the Nestlé Board of Directors are nominated and carry out their duties according to Swiss law. The Board has a high degree of independence, as all are non-executive members, with the exception of the “administrateur délégué” (CEO), the Board member delegated to actively manage the company.

Regarding public disclosure, the *Financial Statements* of the *Nestlé Management Report 2001* include more detailed information on the remuneration of members of the Nestlé Board of Directors and the Nestlé Executive Management Group.

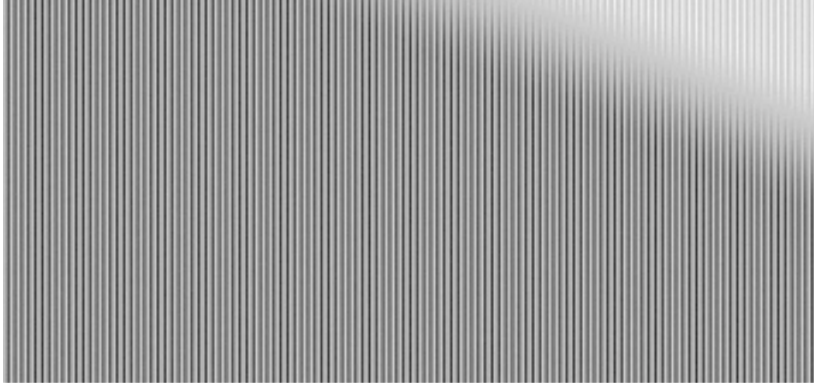
The Board is also ultimately responsible for overseeing and implementing all the *Nestlé Corporate Business Principles*. It is worth noting that Mr Stephan Schmidheiny, one of the members of the Nestlé Board, is also one of the founders of the **World Business Council for Sustainable Development**, a leading organisation in environmental matters.

Nestlé is registered in Switzerland and governed under Swiss company law. While shareholders of Swiss companies have to meet greater requirements for introducing shareholder resolutions than in some other countries, Nestlé shareholders exercise a number of additional rights in comparison with shareholders of companies registered in many other countries. For example:

- Shareholders decide on the appropriation of profits resulting from the balance sheet of Nestlé S.A. and, in particular, they determine the amount of the dividend;
- Shareholders adopt and amend the Articles of Association;
- Shareholders can place items on the agenda and ask questions at General Meetings in accordance with the Articles of Association.

Nestlé applies the principle of “one share – one vote” up to a maximum of 3% of the total shares (at the time of the publication of this review, no one shareholder owned more than 3% of the total amount of Nestlé shares). This helps to protect the large number of small Nestlé shareholders against potential pressure coming from a small number of large shareholders.

It also helps avoid hostile take-overs of the company, thereby maintaining and safeguarding a system of social values built up by our company over decades of business activity.



The Basic Nestlé Management and Leadership Principles

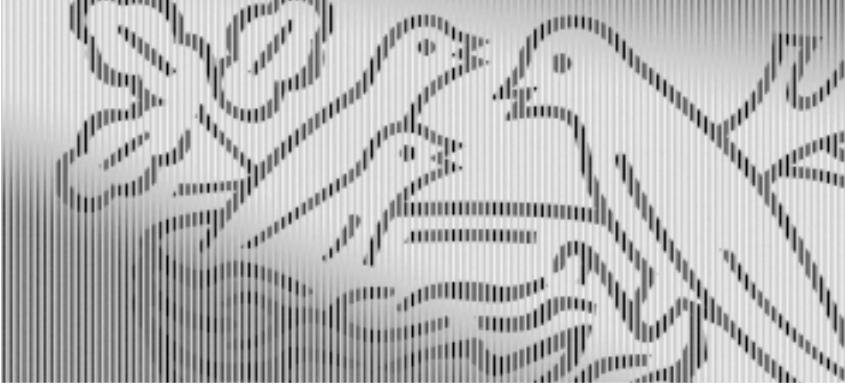
A companion document to the Principles is *The Basic Nestlé Management and Leadership Principles* document. Developed in 1997, this important document lays out the fundamental guiding principles for management behaviour, selection and promotion. This document summarises the essential basic elements of Nestlé culture.

Dow Jones Sustainability Index

Nestlé S.A. is included in the **Dow Jones Sustainability Index**. This Index includes about 200 companies that represent the top 10% of the leading sustainability companies

in 64 industry groups from 33 countries. The companies are selected by a systematic assessment of corporate sustainability practices. Companies included in the index actively lead their industries and set industry-wide best practices in: Strategy,

Innovation, Governance, and relationships with shareholders, employees and other stakeholders.



Auditing Adherence to the Nestlé Corporate Business Principles

With some 200 local internal auditors in the markets, and a team of 25 corporate auditors reporting to the Head of Auditing at our international headquarters, we have a system in place which allows us to continuously monitor that the *Nestlé Corporate Business Principles* are being implemented in all the countries where we operate. The Principles are published on the Nestlé Intranet site so that all employees can read and understand the criteria used.

The corporate auditors travel continuously from country to country and visit all Nestlé factories, local head offices, distribution centres and sales offices on a systematic basis. Audit findings are reported to the Head of Corporate Auditing and the CEO of Nestlé S.A., as well as the person responsible for the Nestlé market or the respective country manager. The Audit Committee of the Nestlé Board of Directors is informed of all significant findings.

These internal auditing procedures for the Principles have been verified by our external auditors, **KPMG**.

NESTLÉ CARRIES OUT ITS GLOBAL RESPONSIBILITY
BY TAKING A LONG TERM APPROACH TO STRATEGIC
DECISION-MAKING THAT RECOGNISES THE INTERESTS
OF OUR CONSUMERS, SHAREHOLDERS, BUSINESS
PARTNERS, AND THE WORLD-WIDE ECONOMIES
IN WHICH IT OPERATES.

Extract from the Nestlé Corporate Business Principles

Sustainable Economic Performance and Development

A key feature of Nestlé's approach is to locate aspects of production in the developing world, rather than to simply source raw materials there. 45% of our factories are situated in such countries, and 48% of our employees are located in developing countries, even though these countries represent less than a third of our sales. Nestlé has publicly stated that a fundamental principle of its economic investments is that they should be "good for the country and good for the company". In this way Nestlé seeks to be a true partner in sustainable development.

Nestlé's fundamental purpose is to meet the needs of its customers and consumers for quality food products that offer value for money. By doing this successfully, we generate long term, sustainable economic results and development for all those with a stake in the business. With factories located in more than 80 countries, and with Nestlé companies in virtually every country in the world, the effects of our business development are felt by economies around the globe.

This occurs in different ways. For example, through technology transfer, through apprentice programmes and training local employees to international standards, as well as by paying taxes which help fund local infrastructure construction, Nestlé is contributing to sustainable economic development around the world and at the same time improving the quality of foods that are locally available.

Nestlé ranked in world's top 15 companies in the Wealth Added Index*

According to **Stern Stewart's Wealth Added Index (WAI)**, Nestlé is among the top 15 companies worldwide in creating shareholder wealth in a ranking of the 5069 largest quoted companies. **Stern Stewart** calculates that between June 1996 and June 2001 Nestlé's wealth added to shareholders amounted to USD 43.8 billion.

Central to the WAI rankings is the idea that companies create value for shareholders only if their returns to investors – from share price rises and dividends – exceed that of their "cost of equity", defined as the minimum return that investors require for putting their money in shares of stock, rather than in minimum-risk alternatives such as government bonds.

* For additional information see *The Economist*, December 1, 2001



Long Term Reliable Returns for Shareholders

At Nestlé, we are committed to the sustainable increase in the value of our shares, and our share price has experienced an eighteen-fold increase over the last 20 years. From 1970 to 2000 Nestlé shares outperformed the **Morgan Stanley Capital Index** of Swiss blue chip stock companies by over 250% and the **Morgan Stanley World Blue Chip Stock Index** in USD terms by 25%.

For decades, Nestlé has had consistent, stable and accelerated growth in overall turnover. In terms of current performance, the year 2001 was once again a record year for sales, net profits and dividends to shareholders, with CHF 84.7 billion in sales, CHF 6 681 million in net profit and 4.4 % real internal growth. Nestlé has had a remarkable record in that it has shown steady profits with no large, unstable swings. There has also been a noteworthy increase in profits in recent years due to a range of factors: effective brand management, streamlining the organisation and moving more quickly, in spite of the size of the company.

Nestlé shareholder ownership profile 2001

Private investors	44%
Institutional investors	56%
Total number of shareholders	>250.000
Shares held in Switzerland	45.2%

Company profile 2001

Sales	CHF 84.698 million
Net profit	CHF 6.681 million
Personnel*	229.765
Factories*	468

* Excludes Ralston Purina

Nestlé reinvestment – 2001

Reinvestment	[62.9%] of net profit
Dividend	[37.1%] of net profit

Nestlé factories, 2001

Industrialised countries	253
Emerging countries	215
Total	468

Investor Relations

Nestlé manages an on-going investor relations programme to ensure that all investors and potential investors are able to keep in touch with developments within the Nestlé Group of Companies.

Communications tools include presentations of key financial indicators, one-on-one meetings, an Investor Relations website and the annual Nestlé *Management Report*. Most important, however, is that anyone, regardless of their shareholding size, is able to telephone or e-mail the Investor Relations department for an immediate response to their enquiry.

Financial Times selects Nestlé as world's most respected food & beverage company

In a survey to name the companies "most respected" by CEOs, published in the *Financial Times* in December, 2001, Nestlé took first place in its industry category, was classified third among European

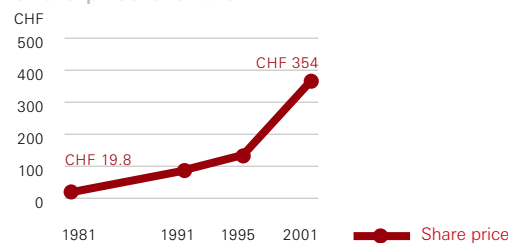
companies (after Nokia and Daimler-Chrysler), and 17th overall worldwide. The ranking was based on responses received from 914 CEOs from 65 countries and was carried out by the consultant firm **PriceWaterhouseCoopers**.

Impact on Food Production and National Economies

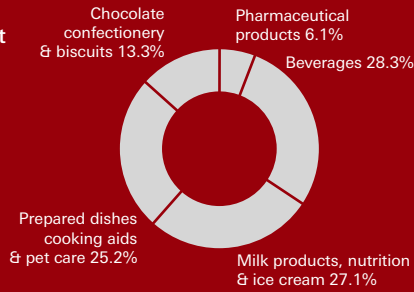
By the 1920s, Nestlé had production facilities in the majority of European countries and in 1921 the company built its first in a developing country, Brazil. Here, a model was created which has been replicated in countries throughout the developing world. Of the 468 Nestlé factories today, 215 are located in emerging markets. As indicated above, while about 30% of our business are in the developing world, over 45% of our factories are located in these regions, an indication of our commitment to local or regional production. This enables developing countries to move from being producers of raw materials to being producers of finished products. National governments across the world seek Nestlé investments, and we are continually investing in new operational facilities and evaluating new opportunities.

In some countries it has taken many years for Nestlé to receive a full return on investment, but we are committed to supporting our investments over the long term and under adverse local economic conditions. For example, in contrast to many companies, we sustained our operations in Russia during the domestic crisis in 1998 and continued to invest.

Share price evolution



Sales by product group 2001



Investment combined with the transfer of know-how and expertise has a significant impact on job creation, both through direct employment, and through the multiplier effect of creating jobs in the food production and distribution chain. It is estimated that in 2001, more than one million jobs were sustained by the business activities of the Nestlé Group of Companies. As a result, over 3.4 million workers and their family members are sustained by incomes generated as the result of Nestlé business activities.

Investment and Safety

In late 2001, the *International Herald Tribune* published an article entitled: "When Safety is Key, Some Companies are in a Class by Themselves".

This article listed the 12 companies in the world, including Nestlé, which possess an AAA debt rating from both

Moody's Investors Service and Standard's & Poors Corp. – the two largest international credit-rating agencies. The article stated: "We expected to find companies with pristine balance sheets whose stocks offered modest appreciation potential with virtually no chance that the issuer would find itself in the bankruptcy court.

We found the latter element but were surprised that the shares performed well over the past decade, beating the market average."



Assisting dairy farmers in India

Over 30 years ago in Moga, in northern India, support started with Nestlé providing loans at favourable rates to enable farmers to build their herds of cattle. We also worked with the local community to build confidence in the milk trade, without compromising religious considerations. A professional milk agent was established, along with well-equipped milk collection centres. Farmers are advised on good breeding and feeding practices, and on the health of dairy herds. Through this assistance Nestlé has helped

raise the quality, hygiene and value of the milk produced by some 85 000 farmers in this district, helping in turn to improve people's health, lifestyles and the region's economy.

Nestlé is also helping with the construction of facilities for drinking water and lavatories in village schools in the Moga factory milk district. This is a partnership with the schools, parent associations and village administrations. Another project involves funding medicines for a local tuberculosis clinic.





Food Business and Agricultural Development: Investment in Human Capacity

Nestlé typically starts operations in developing countries with dairy products and, as a result, operates as a kind of development agency to enable local farmers to create a modern dairy industry.

With over 800 agronomists and field technicians, Nestlé Agricultural Services has a key world-wide responsibility to develop and protect the source of the raw materials to meet our production needs. While its main activity is providing agricultural extension services to farmers, Nestlé Agricultural Services also maintains ongoing dialogue at international, national and local levels. Collaboration with partners in the food chain ranges from agricultural R&D to plant and animal breeding. We work with agricultural policy-makers and trade organisations, as well as with farmers and farmers’ organisations with the aim of improving agricultural production.

Sustainability in the supply of agricultural raw materials depends on many ecological, economic and social factors. Wherever possible, Nestlé supports activities that contribute to sustainability in the production of agricultural raw materials, including integrated farming techniques and the use of all technologies that may contribute to sustainability.

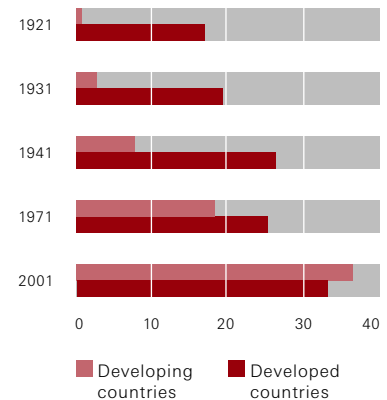
Beginning with Brazil in 1921, entire regions have been brought out of poverty in this way, and today we estimate we have given assistance to millions of farmers over the past century and presently advise and assist some 315 000 farmers. These farmers, however, are not in any way obliged to sell their milk to Nestlé. There are strictly no conditions attached to the technical assistance Nestlé gives to dairy farmers.

Assisting dairy farmers in Pakistan

In Pakistan sales of milk per farmer have doubled in the last three years as a result of support from Nestlé

Agricultural Services provided to more than 115 000 farmers. This led the Minister of **Industry and Agriculture** to cite Nestlé as an example of a successful development partner for Pakistan.

Nestlé dairy projects: 1921-2001



Assisting dairy farmers in Brazil

Eighty years after building its first dairy product factory in 1921, Nestlé Brazil now has eight. They manufacture dairy products based on fresh milk from milk-producing regions that have been developed with the help of Nestlé Agricultural Services. These regions cover an area approximately six times the size of Switzerland. Beginning with a small number of dairy farmers struggling to make a living, assistance and advice have been given to enable Brazilian dairy farmers to improve milk

yields through efficient pasture usage and soil-conservation techniques. Systematic vaccination and prophylactic campaigns have led to significant improvements in the health of the livestock. Nestlé also provides loans for farmers to purchase cattle and farm machinery. The infrastructure for collecting the milk down to the community level has been created, with 90 local receiving and cooling stations, and corresponding transportation and road systems. The result is that entire regions have been brought out of poverty with the creation of a strong dairy industry.



Nestlé milk collection point in China.

Purchase of Agricultural Raw Materials

Each year, Nestlé buys CHF 8 billion of agricultural raw materials in emerging economies – around two-thirds of Nestlé’s total expenditure for agricultural raw materials.

Consumers throughout the world are increasingly demanding assurance that food and beverage products are made from quality ingredients, produced through agricultural best practices. The most important ingredients for Nestlé are milk, coffee, sugar and cocoa. Together these account for some 40% of our total raw material expenditure.

While the price of coffee on the international market is out of Nestlé’s control, Nestlé works extensively with coffee farmers to raise the income they receive, through training and technical assistance to increase the quality of their coffee. This is actually the most effective way for a farmer to increase the prices he is paid. We are also the world’s largest direct purchaser of coffee from farmers.

A current concern shared by Nestlé is the low price of green coffee on the international market. Nestlé strongly supports long term stability in commodity prices that give an adequate return to the farmer, as low commodity prices inevitably lead to price volatility and high prices in the future. Although the price of coffee beans is a small part of the price of a jar of *Nescafé*, price swings penalise both the farmer and coffee product manufacturers.

Coffee development projects

Coffee is the world’s second-largest traded commodity (after oil) and the world’s most valuable agricultural commodity. Nestlé works closely with governments, coffee research institutes and other agencies to support growers, and has established a collection of 250 high-quality coffee varieties for plant-improvement programmes. The best varieties for their climate are supplied to farmers, encouraging efficient coffee cultivation in new areas, or improving the yield in existing growing regions.

China

As a result of expanding promotion and consumption of coffee in China, in 1992 Nestlé opened a *Nescafé* factory in Dongguan in the southern Guangdong Province. There were then virtually no locally grown Arabica coffee beans. Some were grown in the southwestern Yunnan Province, but on a very small scale. Nestlé Agricultural Services provided technical

assistance to growers, and suitable varieties were introduced, together with a training centre, demonstration farm, and nursery to provide young coffee plants. The company also established a buying station to provide the growers with the opportunity to sell their crops. As one result, in 1999 Nestlé purchased some 2000 tonnes of green coffee beans from thousands of small coffee growers in Yunnan Province.

Philippines

In the Philippines, new strains and improved farm management techniques are leading to higher-quality coffee, improving the price that growers can receive.



Direct coffee-purchasing in Mexico

Nestlé installed a direct coffee-purchasing scheme in Chiapas State, Mexico, over 20 years ago. All direct purchases are governed by formal contracts set up between Nestlé Mexico and each individual post-harvest treatment plant. The contract is different depending on whether the plant is run by a farmer co-operative or by private owners who buy all or part of the coffee they treat from small farmers. For the private owners, a clause states that the price they pay to the small farmers must be the same as

they receive from Nestlé. This helps maximise the revenue earned by the small farmer and farmers' co-operatives. Improvements in quality are also rewarded with improvements in price paid.

Nestlé provides on-site training and equipment to allow coffee farmers to better evaluate the quality of their crop, including roasting, grinding and tasting techniques. Nestlé agronomists also supply coffee seeds and seedlings as well as advice on cultivation techniques.





Sustainable Environmental Practices

Nestlé transforms perishable goods into safe, high-quality food products that meet the needs of consumers. In this process we take into account environmental considerations throughout the supply chain, from raw materials to the consumer.

Water usage is a key environmental priority. Systematic management of our environmental performance is an essential factor in Nestlé's sustainable development strategy.



Environment Progress Report 2000

We published in 2001 a comprehensive *Environment Progress Report 2000*. A summary of the major points on Nestlé and the Environment are described below in this review.

Integrated Approach Throughout the Supply Chain

Raw materials Agricultural raw materials provide the basis of Nestlé's finished products. They also represent a significant investment. It is important that the environment from which they come is safe and protected in a sustainable manner. Even though we do not own or operate farms, we support and encourage sustainable agricultural practices.

Manufacturing processes For Nestlé, manufacturing is an extremely important part of the supply chain. It is here that we have the highest potential to maximise eco-efficiency – that is, to maximise the production of goods while, at the same time, minimising consumption of resources and reducing waste and emissions.

There are many ways to improve eco-efficiency such as through conservation programmes, by improving capacity utilisation of factories and through other investments. Nestlé invests an average of CHF 100 million per year for the protection of the environment, amounting to 3% of total capital expenditure. This figure does not include regular capital-investment projects that incorporate environmental components, nor factory environmental operating costs.

Nestlé UK – an innovative application of natural refrigerants replaces HCFCs

Hayes coffee factory in the United Kingdom produces spray-dried and freeze-dried soluble coffees. The production of freeze-dried coffee requires temperatures below -50°C

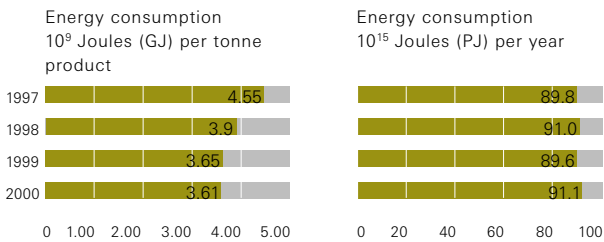
in order to achieve a high-quality and consistent finished product. The refrigeration needed to reach the low temperatures required was being achieved using HCFC – an ozone-depleting substance due for phase-out by 2015 under the **Montreal Protocol**. Long before the phase-out date, it was decided to seek

a more environmentally benign alternative. The chosen solution uses a cascade- refrigeration cycle with two natural refrigerants, ammonia and carbon dioxide. This type of two-phase refrigeration allows the use of a minimal amount of ammonia and isolates it from the process areas, thus greatly reducing the risk of

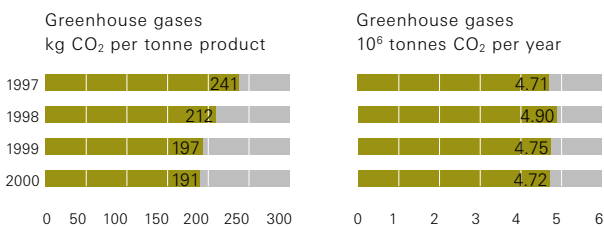
an accident. Using CO_2 in the production areas is better, as it is non-toxic, non-flammable and has little impact, should a leak occur from the closed system. This innovative system represents an investment of over GBP 10 million and is now being adopted in other Nestlé refrigeration applications worldwide.

Measurement Beginning in 1997, Nestlé developed a series of environmental performance indicators (EPIs) on a consolidated basis covering manufacturing operations. More information on the methodology and indicator definitions is presented in the Nestlé *Environment Progress Report 2000*. As part of the EPI system, both process inputs and outputs were measured, in line with ISO 14031. The results that follow cover the period 1997-2000 during which production volume increased by 28%.

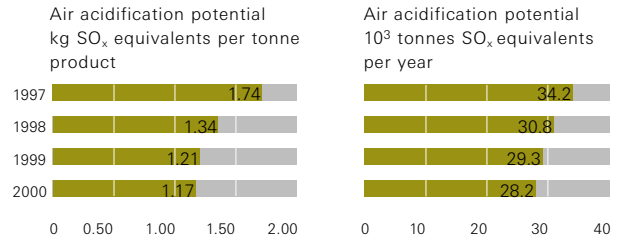
- Energy consumption: Global energy consumption per tonne of product was reduced and energy use efficiency improved by 21%. Even with the significant increase in manufacturing production, the total energy use company-wide remained stable.



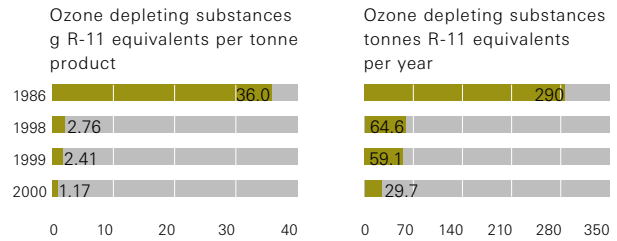
- Greenhouse gases: Emissions of CO₂ per tonne of product were reduced and eco-efficiency improved by 21%, while total emissions remained stable.



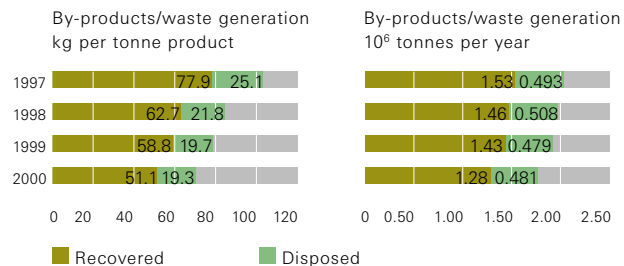
- Air acidification potential: Air acidification potential per tonne of product was reduced and its eco-efficiency improved by 33%. Total emissions were reduced by 18%.



- Ozone-depleting substances: From 1986, when measurement began, to 2000, ozone-depleting substance emissions per tonne of product were reduced and eco-efficiency improved by 97%. Total emissions were reduced by 90%.



- By-products/waste generation: By-products/waste generation per tonne of product was reduced and eco-efficiency improved by 32%. Against a background of overall production increase, the total amount of by-products/waste was reduced by 13%. The overall rate of recovery was 72.6 %.





Forest cover of the Poland Spring mineral water source, USA.



Packaging Packaging is essential both for Nestlé and for the consumer. It ensures the safety and quality of products – from manufacture through to storage, distribution and consumption. In addition, packaging contributes to product appeal, provides convenience and communicates information, e.g., on nutrition and serving instructions. In many cases, packaging includes tamper-evidence features. Packaging also helps prevent or reduce product waste.

Nestlé supports an integrated approach that favours source reduction, re-use, recycling and energy recovery to minimise the impact of packaging on the environment.

Environmental considerations are an important criterion in Nestlé’s renovation and innovation of packages and packaging materials. Reducing the amount of packaging material needed for a product, while safeguarding safety and quality, is a continuing key objective and priority.

Between 1991 and 2000 packaging materials savings amounted to 189 000 tonnes and CHF 340 million. As well as source reduction efforts, Nestlé also uses recyclable packaging materials wherever possible. In addition to packaging reduction and recyclability it is also necessary to have systems for the collection, separation and recovery of used packaging. Nestlé has participated actively in the establishment and management of national packaging waste recovery schemes in different countries.

Water as a Key Priority

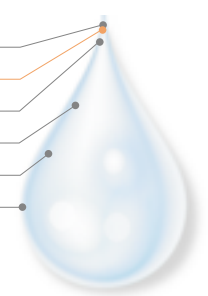
Nestlé recognises that the responsible management of world-wide water resources is an absolute necessity. Preserving both the quantity and the quality of water is not only an environmental challenge, but also one that spans economic, political, social, cultural and emotional fields.

Nestlé’s world-wide operations utilise just 0.006% per year of the total estimated fresh water withdrawal. Perrier Vittel, Nestlé’s bottled water division, uses only 10% of this amount, i.e. 0.0006%.

Nestlé’s long term commitment to the responsible management of water resources was confirmed in *The Nestlé Water Policy*, published in early 2000.

World-wide fresh water use

Perrier Vittel	0.0006%
Nestlé	0.006%
Food and drinks industry	0.18%
Domestic	9%
Total industry	20%
Agriculture and reservoirs	71%



Total fresh water used worldwide:
3800 trillion litres/year = 100%

Protecting natural mineral water sources through balanced eco-systems

To ensure the long term quality of our natural mineral water sources in Vittel and Contrexéville, France, we encourage zero use of pesticides and chemical fertilisers by farmers who cultivate the land above the sources. Nestlé created a separate organisation, Agrivair, to manage the preservation of both natural ecosystems and cultivation practices that are positive to the environment. Following advice from Agrivair experts, farmers generally grow Lucerne grass, rather than corn maize, to feed their dairy cattle. Lucerne contains nitrogen, essential for healthy cow growth and rich milk production. Agrivair provides services which include the regular “turning” of manure at the farm, naturally heating the bio-mass to around 80 degrees celsius. This stops the germinating capacity of weed seeds inside this natural fertiliser. Agrivair also provides financing for constructions to house natural fertiliser.

Ladybirds, a natural predator of crop pests, are bred in Agrivair laboratories and released into nature at strategic times during the year. Agrivair personnel work with farmers to encourage the healthy maintenance of hedgerows to keep a balanced population of foxes and birds of prey, natural predators of field mice that ravage crops.

Agrivair’s forest management programme maintains a balance of trees to maximise nitrate take-up from the ground. This means cutting and cropping to allow younger trees to develop. In addition, both river water and mineral water from the sources are tested daily, all year round, to check that the natural eco-system is correctly balanced and that the long term viability of the source is guaranteed.



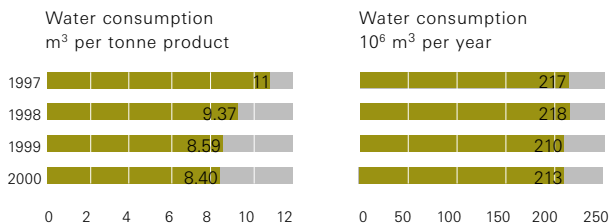




Nestlé waste water treatment plant in Shuangcheng, China.

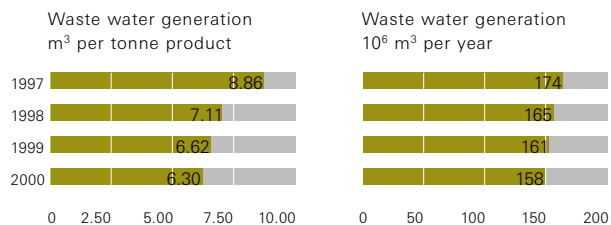
One of the objectives of *The Nestlé Water Policy* is to achieve optimal performance in manufacturing activities, including water management. The following highlights the progress in reducing water consumption and waste water generation.

- Water consumption: Between 1997 and 2000, total water consumption per tonne of product was reduced and water use efficiency improved by 24%. Even with very good growth in our bottled water business, overall water consumption was reduced by 2%.



We have put in place many innovative methods to reduce the use of water in manufacturing. Part of these efforts included finding ways to re-use water wherever possible, thus reducing the reliance on fresh water supplies. When water cannot be re-used we have a long history of providing waste water treatment systems.

- Waste water generation: Waste water discharge per tonne of product was reduced and eco-efficiency (the ability to manufacture more products with less waste water) improved by 29%. The overall waste water volume was reduced by 9%.



From 1993 to 1999 Nestlé built 38 new waste water treatment plants, and 120 waste water plants were upgraded. In addition, in many parts of the world, Nestlé has invested not only in its own infrastructure, but also in that of the community. The company also sponsors water education programmes for children and teachers and supports community initiatives to enable the development of sustainable and safe water supplies.



From Switzerland to China – pioneering efforts around the world

In 1932, Switzerland's first biological waste water treatment plant was built at the Maggi factory in Kempththal, near Zurich. Today, Nestlé continues to be a pioneer in waste water management. The story of our first factory in China is an example of our on-going and innovative efforts in this field.

Meeting the many challenges encountered in developing the Shuangcheng milk products factory in 1987 required careful navigation through political, cultural and technical issues.

Among the most significant challenges was the weather. The factory is located in one of the harshest regions of northeast China. During the deep winter, which lasts from the end of November to early March, temperatures can reach as low as -40° C. In the summer, the heat is extreme, with

temperatures consistently above 30° C. Weather was therefore a key factor that had to be addressed in ensuring the factory's milk supply and in treating its wastewater.

To build a wastewater treatment plant that would function under the extreme conditions found at Shuangcheng, Nestlé engineers decided to locate the waste water clarifier entirely indoors. By heating the building, sufficient temperature consistency could be maintained to ensure effective year-round waste water treatment.

The Shuangcheng factory opened its doors in 1990 and has successfully operated since that time. Nestlé now operates factories at 18 different locations in China, all with state-of-the-art waste water treatment facilities.

The Chinese authorities have recognised Nestlé factories as "Advanced Enterprises in Environmental Protection".

Systematic Management of Environmental Performance

In 1996 the Nestlé Environmental Management System (NEMS) was created to pull together all in-company environmental activities and measures. NEMS has since been implemented throughout the company.

The starting points for the NEMS continuous improvement process include the Nestlé Environmental Minimum Technical Requirements (EMTR). The EMTR, updated in 2001, set internal company environmental performance requirements in areas such as energy and water use efficiency, waste management, waste water treatment and air emissions to name but a few.

NEMS has led to:

- A systematic approach that ensures respect for company policy and legal requirements;
- The continuous improvement of environmental performance;
- The achievement of compatibility with international standards for environmental management systems such as ISO 14001 and the Eco-Management and Audit Scheme (EMAS) of the **European Union**;
- An expansion of mutual trust with consumers, government authorities, and business partners through open communication and an ongoing record of environmental improvements.

AS WE HAVE GROWN FROM HUMBLE BEGINNINGS INTO THE WORLD'S LARGEST FOOD COMPANY, WE HAVE ATTEMPTED TO TAKE THE FUNDAMENTAL CULTURAL VALUES OF ENVIRONMENTAL PRESERVATION AND CLEANLINESS INTO EVERY COUNTRY WHERE WE OPERATE.

Peter Brabeck-Letmathe, CEO, Nestlé S.A.,
Nestlé Environment Progress Report 2000

Sustainable Social Development

Nestlé's existence and future development is completely dependent on successfully serving consumers' needs. To accomplish this, we create companies in each country that can be close to the consumer and develop bonds of trust over many decades. Fundamental to this way of doing business is investing in the skills of people in each country, creating long term relationships of trust with employees, suppliers, business partners, governments, and society as a whole. The *Nestlé Corporate Business Principles* lay out for each Nestlé employee the guidelines to follow in successfully implementing this long term approach to business.



Relationships with our Employees

Long term relationships Worldwide, Nestlé has over 220 000 employees from nearly every country collaborating within a unifying corporate culture. We have relatively low employee turnover (approximately 5% annually), and the average length of service of Nestlé employees at retirement is 27 years in the 20 largest markets, representing over 80% of our business.

Training, transfer of technology and accumulated know-how

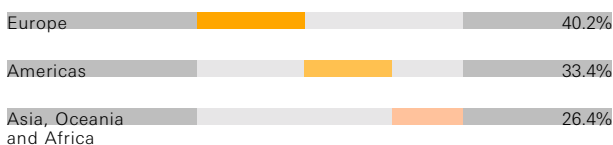
Long before “globalisation” became a topic of attention, Nestlé built factories and invested in training and development at the local level around the world. Our business model is based on transferring knowledge and skills to local nationals in each country where we operate, and retaining these employees over the long term. In both developed and developing countries this involves the creation of comprehensive apprenticeship programmes to develop the skills of a wide range of people working in our factories.

Through these apprenticeship programmes and through thousands of internal training courses, including basic literacy classes in some cases (as in Brazil), we invest substantially in improving the capabilities of our employees. Our International Training Centre, located near our global headquarters in Switzerland, conducted 85 seminars in the year 2001, with more than 1700 managers from around the world participating. The faculty of the International Training Centre is the senior management of Nestlé itself, which devotes hundreds of hours to imparting knowledge to our global management force, comprised of over 100 nationalities.

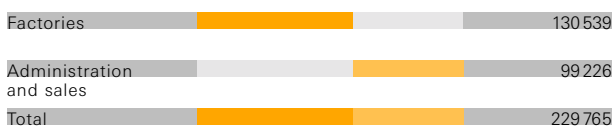
Using information technology, more and more Nestlé companies have appointed corporate training specialists in “distance e-learning”, allowing staff to tailor their learning to their specific needs and time constraints.

Technology transfer is also key to the Nestlé business model of developing production and marketing capabilities at the local level. Each Nestlé company

Employees by geographic area – 2001



Employees by activity – 2001





develops Nestlé brands using exclusive access to the technological expertise necessary for their manufacture, be it in vitamin-enriched noodles, milk products with immune-system enhancing ingredients, or *Nesquik* chocolate drinks. The technology to produce *Nescafé*, for example, is in constant evolution. Nestlé brands are therefore vehicles for the transfer of technology and know-how across our companies and across national boundaries in both developing and developed countries.

Safe work environments We emphasise the need for safe working environments, and regularly audit the safety of our work conditions, which must meet Nestlé corporate standards. Our companies' Safety and Health Committees typically meet at least once a month to develop and maintain a safe working environment. The company's global policy is detailed in the document *Nestlé Policy on Health and Safety at Work*. As part of this, the following elements are mandatory on all Nestlé sites.

What Job Seekers Think

For three consecutive years in the United States, Nestlé has been rated the Number One food company to work for in a reader survey of *Fortune* magazine.

In 2001 a European survey of recent business school graduates conducted

by **Universum Communications** ranked Nestlé number 13 in a list of the most desirable companies to work for. **L'Oréal**, partly owned by Nestlé, ranked 9th in the same survey. All other companies in the top 13 were either accounting/consulting or financial services firms.

Four largest Nestlé markets: women in middle and senior management

	% women in middle management	% women in senior management	% women of total workforce
USA	29.9	21.6	43.4
France	29.1	15.5	31.5
Germany	22.2	16.8	35.4
United Kingdom	25.1	12.9	37.5



- Strict compliance with local laws or internationally recognised standards;
- Clear accountability and active management leadership to promote a safe working environment and the professional management of hazards on our sites;
- Communication and participation of all stakeholders with an interest in the safety of the site, including outside authorities and the community;
- Behaviour-based safety management, including target setting, education and positive reinforcement by recognising progress and correct behaviour;
- Site safety organisation focuses on the promotion of safety measures and preventive practices to avoid problems before they can occur;
- Appropriate systematic hazard assessment to reduce to a manageable level the potential impact of hazards on human safety;
- Technical standards for design, construction, operation and maintenance;
- Emergency and contingency planning to minimise the impact of incidents;
- Security management to protect products, assets and intellectual property;
- Continuous improvement in managing operational health and safety.

Nestlé labour and employment practices

The Nestlé Basic Management and Leadership Principles emphasise that respect for the individual is non-negotiable. The aim is to apply a number of common rules, adapted as needed to suit local customs and traditions. Promotion is based on merit, irrespective of origin, religion, gender, nationality or physical attributes. In terms of diversity, Nestlé is one of the most international companies in the world, with nationals from over 100 countries working for the company worldwide. This diversity is also reflected by the fact that the nine-person Executive Committee at Nestlé headquarters in Switzerland contains seven different nationalities, and over 60 nationalities work at this centre.

While the percentage of female managers is generally in line with national norms, some Nestlé companies are well above the national average. For instance, in Nestlé Italy, more than 50% of middle management in Marketing, Human Resources and Finance and Control are women. The percentage of women in management is increasing each year at Nestlé.

In Nestlé USA, diversity initiatives include recruiting through such forums as the **National Black MBAs** and **National Society of Hispanic MBAs**. Nestlé Japan provides working mother programmes, such as shorter working hours, subsidies for childcare, and a system for future re-employment. Nestlé Brazil has signed an agreement with the main Brazilian institution for the disabled, **AACD**, to assist people with disabilities in finding successful employment.

Regarding wages and benefits, statistics on average salaries are meaningless in a business that operates factories in more than 80 countries. However, one reason that our employee- retention rate is high is that we pay highly competitive wages. For instance,



in the Philippines, our starting hourly wage is 2½ times the legal minimum. Where our auditors find that lower than average wages are being paid, or overtime limits are exceeded, corrective actions are taken.

We also make sure that working hours and overtime pay complies with local laws and conditions. We provide a wide range of additional benefits for employees, as appropriate for each country. In Mexico, for example, we support programmes to help our employees complete their basic and secondary studies. In Chile, we provide financial assistance to help workers acquire their own housing.

Right to association Nestlé subscribes to the **United Nations Global Compact**, including the Guiding Principles on Labour. The *Nestlé Human Resources Management Guidelines* outlines employees' rights within the Nestlé Group of Companies worldwide. The Industrial Relations chapter states that Nestlé respects the rights of its employees to form representative organisations and to join – or not to join – trade unions, provided this right is freely exercised. Through our relationships with unions we wish to sustain the long term development of our company by maintaining a level of competitiveness adapted to our economic environment.

In 2000 we dealt with 155 trade unions throughout the world, holding 748 consultations with trade unions in our major markets. In addition, since 1990, representatives of management and unions have held regular discussions at European level. In 1996 we signed an agreement with the IUF (International Union of Food and Related Associations) to form

the Nestlé European Council for Information and Consultation (NECIC), which meets annually with all the European trade union representatives. This consultation process was initiated by Nestlé in 1990, four years before Article 13 of the **Council Directive (European Union) 94/45/EC** made it mandatory.



Safeguarding employment during restructuring

Business restructuring is an evolving and sometimes painful process, and during 2000 restructuring activities took place in all 20 of our major markets. Nestlé takes a long term, rather than short term approach, and endeavours to avoid adverse impacts on employees. Wherever operations no longer fit our business strategy, we prefer not to close factories but to sell them as going concerns, which is usually more complex and time-consuming than closure, but gives a more positive final result. In the United States, for example, Nestlé divested its roast and ground coffee business without any loss of employment.

When we must close factories, we do all we can for our employees. We offer them the opportunity to transfer, we help them find new jobs, and we provide severance pay and early-retirement packages. In Canada, for example, when our Alexandria plant was closed, an action centre was set up off-site and equipped with computers, telephones and fax machines, and employees were provided with specialist counselling and training. In Mexico, we closed our Durango factory during 2000 to concentrate production at our Lagos de Moreno factory. We offered as many people as possible the option to transfer, and severance terms to others that were significantly better than the legal requirements.

Child labour

Nestlé is against all forms of exploitation of children. The company does not provide employment to young people before they would have completed their compulsory education and expects its business partners and industrial suppliers to apply the same standards. In all countries where we operate, the Head of Human Resources has confirmed that our practices comply with our Principles on human resources and the workplace and child labour. Nestlé abides by national laws in all countries where it operates, and Nestlé complies with the **United Nations Convention on the Rights of the Child** as well as **ILO Conventions 138 and 182**.

Even though we do not own agricultural land, and raw materials are primarily bought from processors or traders, we are currently working with the UK, US and Côte d'Ivoire governments, NGOs, process traders and other chocolate manufacturers to assess and eliminate forced child labour in cocoa farming where it may exist.

Nestlé offers its co-operation with the relevant **United Nations** agencies, governments and the business community in their efforts to deal with the problem of child labour. These efforts include the encouragement of universal primary education and all aspects of development.



Relationships with our Suppliers and Business Partners

Audits of industrial suppliers Nestlé aims to deal only with reputable industrial suppliers that are willing to apply Nestlé standards. Supplier relationships are benchmarked and evaluated to deliver continuous improvement in quality and service. The company audits major suppliers to ensure that they comply with the *Nestlé Corporate Business Principles*, or are working actively to achieve them, and all company market heads have confirmed that the application of our Principles has been discussed with major suppliers. In 2000, over 3000 supplier companies were involved in this kind of discussion, and more than 1000 audits of suppliers' manufacturing facilities were conducted. Whenever instances of non-compliance are discovered during audits, or are brought to our attention, Nestlé requires that corrective measures be taken if the supplier relationship is to be maintained. For example:

- In Nestlé Philippines, all our suppliers have been provided with copies of our Principles and these are now included in all new contracts;
- In Nestlé Brazil, our employees check for possible failures to meet our Principles during visits to suppliers, which has led to corrective action in specific cases.

This auditing also extends across national borders. For Nestlé France, regular audits are carried out by the ACTS company on suppliers in southeast Asia to ensure the application of our Principles, mainly with non-food suppliers.

Anti-corruption measures Nestlé insists on honesty, integrity and fairness in all relationships with business partners. Sanctions are applied in the event of misconduct or abuse of established ethical standards and guidelines. The company requires its management and employees to avoid personal activities and financial interests that could conflict, or appear to conflict, with their commitment to their jobs.

NESTLÉ REQUIRES ITS MANAGEMENT AND EMPLOYEES TO AVOID PERSONAL ACTIVITIES AND FINANCIAL INTERESTS WHICH COULD CONFLICT, OR APPEAR TO CONFLICT, WITH THEIR COMMITMENT TO THEIR JOBS.

Extract from the *Nestlé Corporate Business Principles*



Relationships with Consumers and Society

Quality, safety and nutritional value Our business success is totally dependent on the extent to which we fulfil our consumer's needs and requirements. The billions of people who buy our products daily are free to choose our competitors' products over ours, and quality is our basic approach to the consumer.

Nestlé's basic consumer value proposition is that people can trust the quality and safety of the food or drink when they open the wrapper or package. We have one unbending standard of food safety, and the *Nestlé Seal of Guarantee* cannot go on the package of food produced until newly built or acquired factories meet a standardised, detailed and very rigorous set of requirements. These are laid out in extensive, formalised procedures and standards that must be verified, and they typically exceed the legal requirements, as well as the prevailing practices, in the countries where we operate.

An essential part of continuous improvement involves learning from problems when they arise. Internal product recalls may occur where errors are identified in the factory before goods are distributed, and these are measured as part of the production process. Public recalls of goods, because of a mistake or a problem, are very small in number. There were 14 instances of product recalls worldwide in 2000, all non-critical, out of a total production volume running to millions of batches. Every public recall is reported centrally and all appropriate actions are taken to ensure consumer safety. We are not satisfied with any occurrence of product recall, and take each one seriously so as to learn and constantly improve.

We produce an annual *Quality Management Review*, for use within the business. This enables senior executives in Nestlé to be aware of trends and to consider potential future issues.



Developing foods and drinks for senior citizens

As people grow older, appetite generally diminishes and taste and mouth-feel requirements change. Nestlé has therefore developed special, dedicated food and drink products to cater to these needs.

Clinutren, for example, is a line of products that includes milk-based flavoured drinks, soups, and prepared meals that are nutritiously balanced to suit the needs of senior citizens. We

develop and adapt *Clinutren* by working side-by-side with a panel of tasters and with chefs and residents of retirement homes.

A team of scientists and sensorial experts from the Nestlé Research Centre analyse both the nutritional balance of these products and the effects on body systems.

Nestlé also develops and manufactures liquid-based foods for bed-ridden and terminally ill patients.







The Nestlé Research Centre located near Lausanne, Switzerland.

Research and innovation for food safety, quality, and enhanced well-being Nestlé operates the world's largest food and nutrition research organisation through a network of 17 research facilities. We invest over EUR 400 million per year in fundamental and applied research.

At the central Nestlé Research Centre near Lausanne, Switzerland, about 150 of its 600 staff work in quality and safety assurance alone. Our laboratories (accredited by many external bodies) operate to the highest international standards, and our scientists have developed specific tests for a great number of products and processes. A number of Nestlé's procedures are officially recognised by governments, and our expertise in microbiological and toxicological food safety is recognised by the US Food and Drug Administration.

NESTLÉ RECOGNISES THAT CONSUMERS HAVE A LEGITIMATE INTEREST IN THE COMPANY BEHIND THE NESTLÉ BRANDS, AND IN THE WAY IN WHICH THE NESTLÉ COMPANY OPERATES.

Extract from the Nestlé Corporate Business Principles

Funding new research and development: the Nestlé Corporate Venture Capital Fund

In 2001 Nestlé launched a new Corporate Venture Capital Fund of up to CHF 200 million to further capitalise on innovative science and technology. The fund is run by an independent management team and specialises in areas related to food

and life sciences as well as packaging and other commercial applications. The fund broadens Nestlé's R&D potential and facilitates access to, and co-operation with, highly motivated and creative founders of start-up companies. The fund will finance acquisitions as well as investments in minority stakes, licensing agreements and joint ventures.



Listening to consumers Nestlé lists a telephone number (mostly toll-free) as well as local addresses on each product package, giving phone access to Nestlé Consumer Services in 80 markets. Their role is to deal with consumer requests, to answer questions and to engage in dialogue.

The Nestlé Consumer Services Worldwide Survey in 1998/1999 showed a trend of increasing dialogue, with some 5 million contacts from customers. Of these, 18% were asking for assistance with problems but the vast majority of requests (82%) were for information, such as nutritional advice or recipes.

Nestlé's position on gene technology

All genetically enhanced ingredients used by Nestlé have been deemed safe for human consumption by the **US Food and Drug Administration**, as well as by our own laboratories. These are primarily soya-based products. We will not put any ingredient in our foods which does not meet rigorous standards of food

safety. Nestlé agrees with the position of the **United Nations Development Programme** on the careful use of genetically modified foods:

“If the development community turns its back on the explosion of technological innovation in food, medicine and information, it risks marginalising itself and denying developing

countries opportunities that, if harnessed effectively, could transform the lives of poor people and offer breakthrough development opportunities to poor countries.”

Mark Malloch Brown,
Administrator, **United Nations Development Programme – UNDP**
Human Development Report 2001

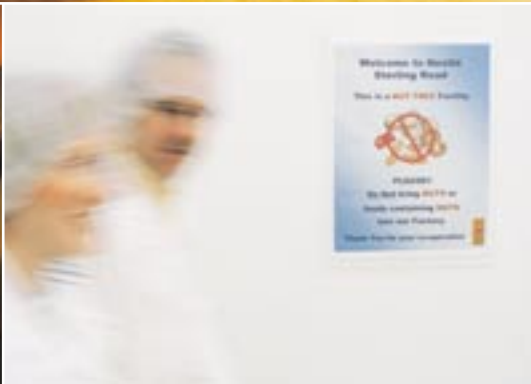


Responding to consumer desires – a Canadian case study

In April 2001, a study carried out by Nestlé Canada resulted in a decision, for economic reasons, that its Nestlé *Smarties*, *Aero*, *Kit Kat*, *Coffee Crisp* and *Mirage* products would no longer be manufactured in a peanut/nut-free environment. The measure was to be effective as from January 2002, and Nestlé initiated an allergy alert campaign targeted at consumers of these products to warn them of the change.

However, when consumers voiced concern about the planned change, Nestlé Canada listened to their views and reversed the decision. One of the thousands of letters sent to the company stated: "As the parents of a six-year old girl with a peanut allergy, we cannot begin to tell you what this means to us and our daughter, Kristen. You have truly set a standard that will be difficult for any of your competitors to match."







Advertising to consumers and children

Nestlé makes a determined effort to advertise in a responsible way, not misleading consumers regarding the benefits of a product, and not encouraging dangerous or irresponsible consumption. We also monitor to ensure that our advertising does not contain objectionable content and does not depict discriminating or offensive attitudes to religious, political, ethnic, cultural or social groups. Equally important, we avoid advertising on programmes that include such content.

Nestlé has firm principles on advertising to children, including events and sponsorships. Advertising should not be disguised as programming or editorial, and should not undermine the authority, responsibility or judgement of parents or care providers. In addition, advertising should not portray children in unsafe situations nor encourage them to accept invitations from people that they do not know.

Our guidelines on advertising have been distributed to marketing staff and advertising agencies globally, and all campaigns are reviewed and comply with our principles. Adhering to these internal standards inevitably results in higher advertising costs. For instance, in two markets (Germany and the USA) our total advertising expenditure in 2000 was an estimated USD 13 million higher as a result of avoiding programmes with objectionable content.



Marketing of breast-milk substitutes

In 1981, the World Health Organization (WHO) adopted the **International Code of Marketing of Breast-milk Substitutes** as a recommendation to all its member governments.

In all countries, Nestlé ensures that its marketing conforms to each country's implementation of the International Code as applied in legislation, regulations or other measures. In addition, in all developing countries (over 150), whether or not governments have taken action to implement the International Code, Nestlé voluntarily applies it in its entirety.

Infant formula marketing audits In addition to the internal control measures in each country, Nestlé regularly audits its companies around the world on a range of business practices and procedures. Acting independently from line management, our international auditors verify adherence to the International Code by each company in all developing countries where we have operations. All negative findings are brought to the personal attention of the CEO of Nestlé S.A. In 2000, four cases resulted in disciplinary measures being taken against the managers who violated our instructions. These standard measures include freezing of salary, withholding of bonuses, change of position, and termination. In addition, Nestlé is instituting a new ombudsman system that allows any employee to draw attention to potential violations of the International Code by the company, outside the chain of command of line management.

Infant formula marketing audit in Argentina

Nestlé Corporate Internal Auditors visit all developing countries where Nestlé sells infant formula to check that the marketing of the product strictly complies to the International Code of Marketing of Breast-milk Substitutes.

In Argentina, for example, auditors visit medical clinics and hospitals to discuss with doctors; they check retail outlets and warehouse stocks; and they audit Nestlé infant formula marketing practices directly with sales and marketing personnel.

Auditors check that:

- Infant formula is not advertised to the public;
- There is no direct contact with mothers;
- No incentives are based on infant formula sales;
- No free samples are distributed;
- Exclusive breast-feeding is supported in printed feeding instructions and in all educational material to mothers;
- A warning on the consequences of incorrect use is printed on all infant formula labels;
- Sustained breastfeeding is recommended on cereal food labels;
- No baby pictures are shown on infant formula labels;
- Infant formula labels are printed in appropriate language(s);
- A maximum of two cans of infant formula are given to health professionals for evaluation when a new product is launched;
- No financial or material incentives are given to health professionals;
- If agreed, support for scientific activities are confirmed in writing by the responsible officer of the association/institution;



- Complementary (weaning) foods are not marketed as breast-milk substitutes;
- Educational materials on the use of infant formula are not displayed publicly in clinics;
- All personnel responsible for infant formula marketing are familiar with the International Code and its implementation;
- Free infant formula donated over the past 12 months was only for social welfare cases.







Programa Nutrir – Brazil.



Kid's Club – United Kingdom.



Zakoura Foundation – Morocco.

Involvement in Communities

An important part of the way we do business is to be fully integrated into the communities in which we operate, on a long term basis.

We have published a separate report *Nestlé in the Community* that demonstrates our commitment to the health and well-being of these communities.

The nature of our commitment varies according to the needs of the country, but focuses on three areas: Nutrition, Health, and Socio-Economic Development. *Nestlé in the Community* gives brief descriptions of a large number of projects in 65 countries. Examples include:

- South Africa: a non-governmental organisation called **EcoLink** has been supported by Nestlé from its inception. Organisational development, communications, and funding, have helped to enable 150 000 people in local communities to establish sources of clean drinking water and improve their diet with vegetable gardens;
- Nestlé Australia supports a wide range of community activities through its Nestlé Community Fund, including the **Australian Theatre for Young People** and the **New Children's Hospital** in Sydney;
- Nestlé Bangladesh donates products to support the **Prime Minister's Relief Fund** that helps victims of floods and other natural disasters, and contributes to the **Floating Hospital Project** that provides medical assistance for the poorest people in this country;
- Nestlé Brazil has created a long term **Programa Nutrir** programme in which Nestlé employee volunteers use games and activities to teach good nutrition to marginalised families. The goal is to reach 500 000 children;
- Nestlé Russia has developed a programme, recommended by the **Russian Ministry of Education** and the **Russian Institute of Nutrition** for inclusion in the primary school curriculum, to teach young children the basics of good nutrition. Currently 100 000 children are enrolled;
- Nestlé UK has been a principal sponsor of **Kids' Clubs** network since 1996. This national charity provides safe, affordable "out-of-school" care for children while their parents are at work;
- Nestlé USA supports **Reading is Fundamental**, the USA's largest non-profit organisation committed to literacy, and **ALCON Laboratories** have provided free eye-surgery supplies for over 37 years in the **Medical Mission** programme around the world.



EcoLink – South Africa.



EcoLink – South Africa.



Polio drops – India.

Red Cross/Red Crescent Africa Health Initiative

In 2000, Nestlé provided technical assistance in communications and financial support for the launch of the continent-wide Africa Health Initiative of the International Federation of the Red Cross/Red Crescent Societies. Today, Nestlé is a founding Corporate Sponsor

of the Red Cross African Health Initiative, whose primary aim is to prevent the spread of HIV/AIDS. In Nigeria, a programme of 2640 peer counsellors has been started which will extend on a nation-wide basis to 1.2 million youths, with 800 volunteers providing home health care to 7000 people suffering from AIDS.

NESTLÉ MAKES AN EFFORT TO INTEGRATE ITSELF AS MUCH AS POSSIBLE INTO THE CULTURES AND TRADITIONS OF THE DIFFERENT COUNTRIES WHERE IT OPERATES. FURTHERMORE, NESTLÉ BELIEVES THAT ITS ACTIVITIES CAN ONLY BE OF LONG TERM BENEFIT TO THE COMPANY IF THESE ARE, AT THE SAME TIME, BENEFICIAL FOR THE COUNTRY IN QUESTION.

Extract from *The Basic Nestlé Management and Leadership Principles*

The Future

While we have developed a strong corporate culture and firm set of business principles during the 135 years of our company's existence, we are not complacent regarding our current performance, but are dedicated to continuous improvement in sustainability.

Also, as this is our first Sustainability Review, we aim to learn from the experience of this review in planning future efforts.



Developing measures of social sustainability

As this is our first effort in reporting on combined economic, environmental, and social sustainability, we are in the early stages of devising more quantitative measures of social sustainability to fit our own company. Creating valid, meaningful and comparable social measures across the many varying countries where we operate is not an easy task. Also, such measures are obviously much less precise than they are in economic or environmental areas, but we will address this measurement issue more fully as we prepare for future sustainability reporting.

Implementing the Nestlé Corporate Business Principles at all levels of management

A major goal moving forward is to communicate the newly revised Principles to all levels of management, so that they understand how to implement them in a way that is specific to their own job or function. A series of educational tools are being developed, including modular teaching materials, question-and-answer documents, articles for internal publications and e-mail based information. These are intended for use in ongoing management communication and training programmes with existing and new managers.

Processes to monitor adherence to the Nestlé Corporate Business Principles

We believe that we have a robust internal monitoring of our Principles through our corporate auditors' processes. However, our quality assurance systems for areas such as food safety and the environment are naturally far more developed. While microbiological and environmental measures are much more quantitative in nature, we

are examining ways to further strengthen internal processes to monitor implementation of our Principles, based on our learning from quality assurance processes in other areas.

Sustainable Agriculture Initiative Together with two other major food companies, **Danone** and **Unilever**, Nestlé recently founded the **Sustainable Agriculture Initiative (SAI)** to promote sustainable agriculture in a comprehensive way.

Within the framework of SAI, Nestlé has worked with farmers to elaborate best practices in the areas of milk production and coffee and cocoa growing. We will expand these activities to all main raw materials.

The main objectives for SAI are to manage:

- Quality and safety problems in the food supply chain that may affect consumer confidence in everyday food products;
- The growing demand for quality food that will arise from population growth, increases in expendable income and expected changes in diet;
- Possible adverse effects and pressure of agriculture on natural resources and environment that may affect agricultural productivity.

Our hope is that SAI will act on a world-wide scale as a platform for industry collaboration in the development and implementation of sustainability in agriculture. It will also offer a platform for development in areas of public concern such as the quality and safety of produce, the well being of rural communities, animal welfare, and soil, water, air, energy and biodiversity aspects.



Consultation with external parties As indicated previously in this report, Nestlé has been an early leader in holding consultations with labour organisations, and continues these consultations. We have also taken part in recent UN-sponsored consultations on various topics.

Currently, Nestlé is participating in a process to examine potential problems of forced child labour on cocoa farms in West Africa. This is being done on an industry-wide basis, in consultation with governments, labour organisations, and NGOs, as well as other members of the cocoa and chocolate industry. We strictly monitor that no child labour is used in Nestlé facilities, reject industrial suppliers who do so. We hope that the constructive dialogue that has been started on this issue will continue, and that these discussions will result in pragmatic approaches to doing what is best for workers in Western Africa. If successful, this effort may lead to collaborative processes that can be used with other issues.

In the area of infant formula marketing, we have carried on a dialogue with major international organisations and we are in favour of such dialogue at both the country level, and at the level of the **World Health Organization**, including both food producers and NGOs as well as governments. We have also met with major environmental organisations and discussed progress on several topics including the elimination of ozone-depleting refrigerants from our operations.

We do not, of course, always agree with what is being said by dialogue partners, and do not abrogate business decision-making to others. But we are interested in communicating with external parties on topics of concern to hear different points of view and to search for practical solutions to problems where they may exist. Nestlé intends to increase focus on such external communication, while at the same time managing our own business and reporting on adherence to the Principles that we have so very consciously established.

A close-up photograph of a group of children, likely from a rural or developing region, wearing traditional, colorful headscarves. They are all smiling warmly at the camera. The lighting is bright, suggesting an outdoor setting. The text 'Good Food, Good Life' is overlaid in white on the left side of the image.

Good Food, Good Life

Other publications and how to contact Nestlé

The following publications are also available from Nestlé S.A. in Vevey, Switzerland. Should you wish to receive a copy of any of these or have any questions or comments arising from *The Nestlé Sustainability Review* please write to us at the following address:

Nestlé S.A.
Public Affairs
Avenue Nestlé 55
CH – 1800 Vevey
Switzerland
www.nestle.com

- Nestlé Management Report to Shareholders
- Nestlé Half-yearly Report
- Nestlé Corporate Business Principles
- The Basic Nestlé Management and Leadership Principles
- Environment – Progress Report 2000
- The Nestlé Water Policy
- Nestlé in the Community
- Nestlé Research and Development at the dawn of the 21st Century
- Nestlé in China, Nestlé Technical Assistance in Agriculture and the Development of Coffee Growing
- Nestlé in India 1962-1992
- Nestlé – Hundred and Twenty Five Years



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Data source

The main quantitative and qualitative information in the report is based on answers to questionnaires that were sent to the heads of our 20 most important markets. These represent over 80% of total sales for the Nestlé Group of Companies. Unless stated otherwise, figures given relate to the year 2000.

Additional information was based on interviews with heads of various departments at the Nestlé headquarters in Human Resources, Environment, Public Affairs, Quality Management, Agricultural Services, Consumer Services, and on consolidated information where available.

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