

Sharing
Our
Vision...

Sourcing,
Agriculture
and Our
Supply Chain.



We believe the overall wellbeing of farmers, rural communities and suppliers is core to our ability to do business in the future.





If we don't have
sustainable
agriculture then
we don't have
food products
to sell.

CASE STUDY

Understanding the water impacts of our products

Water management is a key global priority for our business. It is an issue which has strategic implications for our business and it is an area where we are uniquely positioned, as a food and beverage company, to have an impact.

Put simply, our business relies on the availability of clean water on two fundamental fronts: for food production and to manufacture our thousands of various products each and every day.

And, given our unique place in the food value chain – positioned between an agricultural supply base and millions of consumers who enjoy our products every day – we are well placed to play a leading role.

Given agriculture is responsible for most of the world's water consumption – or some 65 per cent in Australia – our supply chain has been a natural focus for us globally.

To put this into perspective, an average of 3,000 litres is needed to produce one kilogram of agricultural raw material, compared to less than 4 litres per kilogram of finished goods for processing those materials into food and beverage products.

As part of our activities here in this region, we co-founded the Australian chapter of the globally-co-ordinated Sustainable Agriculture Initiative in 2007.

The SAI Platform Australia, bringing together agriculture bodies, food and beverage companies and research and government organisations, aims to address the sustainability challenges facing the agricultural sector.

The SAI Platform Australia and its members recently jointly funded a water footprinting study with the CSIRO into the amount of water used to grow Australia's three major grains – wheat, oats and barley.

The study, which focused on the major grain producing regions of NSW, went beyond a simple analysis of the volume of water used and looked at broader environmental sustainability factors, including the type of water used and the local water scarcity.

For NSW, the production of 1 kg of wheat, barley and oats was found to have an environmental impact comparable to 86.5, 80.7 and 65.4 litres of direct water consumption.

David McDowell, Safety, Health and Environment Manager, Nestlé Oceania, said the new water mapping methodology will be a valuable tool in helping manufacturers such as Nestlé report and measure the full lifecycle water impacts of our products, beyond just the manufacturing component.

"Globally, Nestlé has been vocal about environmental footprinting for a number of years and this research is a great starting point for us here in Oceania," he said.

"This sort of research is potentially groundbreaking because of the big impact water has on agriculture.

"If we don't have sustainable agriculture then we don't have food products to sell."

David said the next step would assess the impact of water on the entire supply chain within parts of the business.

The water footprint case study will also contribute to a wider international effort to develop a global water footprint standard by the International Organization for Standardization (ISO), which Nestlé is contributing to globally.



By Dr Selwyn Heilbron

Secretary, SAI (Sustainable Agriculture Initiative) Platform Australia and member of Nestlé Oceania Creating Shared Value Advisory Board

OPINION

Looking forward – our changing agricultural landscape and the implications for the food and beverage sector

Agriculture, food and beverage production in Oceania faces a series of significant economic, social and environmental challenges.

On the economic front, farmers face a long-term decline in their real terms of trade – the prices they receive for what they sell relative to the prices of what they purchased as inputs. Fundamentally this is because the real prices of farm outputs have been declining gradually on a trend basis for a long time. The only way for farmers to overcome this decline in farmers' power is by increasing productivity.

But in recent times productivity growth rates in key farming sectors have not grown as fast as in the past. It is not entirely clear why this has happened. Drought has been a factor, but longer-term developments like declining investment in research and development is also suggested as an explanation. This slowing in productivity growth poses a significant challenge which if not met will result in long-term declines in agricultural production. In turn this will mean food and beverage processors facing more difficulties in sourcing traditional volumes of high quality raw materials.

There is no shortage of environmental challenges facing agriculture in Oceania. These include restricted volumes and/or high prices for irrigation water; potential adjustment to climate variability and potentially carbon pricing; and environmental impacts of farm production. These challenges could have significant impacts on farmers' output. Reduced water availability and/or high prices can mean reduced supply of commodities that rely on irrigation – such as milk, grain and fruit from Northern Victoria/Southern NSW – unless there are dramatic increases in irrigation efficiency (such as through ultra-modern drip irrigation). Climate variability can mean increased volatility in supply and long-term shifts in the location of production as some areas become too hot or cold or wet or dry for certain crops or livestock.

Socially, the challenges include the impact of an ageing farmer demographic; the impact on rural communities of rationalisation in agricultural production and the impact on agricultural production infrastructure of rural-urban migration. Agriculture needs a rural social infrastructure to expand and a vibrant social infrastructure benefits from an expanding agricultural sector.

Recent high volatility in agricultural product prices and falls in the output of some agricultural products; for example, rice and milk have focused the attention of food and beverage producers who have come to assume high volume and quality raw materials availability as a given. Food and beverage corporations

are looking to manage the risks, maintain the value of their brands and ensure they are able to meet consumers' needs for their products. These needs are essentially for quality food and beverages at prices consumers can afford, but consumers are also increasingly looking for assurance that the products they consume are produced in a sustainable manner. In turn, food and beverage processors are engaging with their supply chains to secure that assurance.

They are exploring the opportunities to achieve these aims by: becoming more aware of the challenges and risks; engaging more directly with their supply chain and other stakeholders in their industries; and developing practical initiatives that improve sustainability outcomes.

Food and beverage companies can work with farmers on sustainable agriculture, water efficiency and other initiatives, such as through the SAI Platform. Farmers, companies and governments can also form partnerships to ensure sustainability initiatives are broad-based, operate through and across supply chains and minimise transaction costs so consumers' needs are met in the most efficient possible manner. Companies and farmers can also work together in specific initiatives like developing methodologies and systems for water footprinting.

Food and beverage companies can thus transform the sustainability challenges facing agriculture into great opportunities to benefit people, profits and the planet simultaneously.

We understand that our responsibility extends well beyond the manufacturing and marketing of our products

We are only able to truly respond to key issues such as water, climate change and sustainable and ethical production by working right across our value chain. We also know that the overall wellbeing of farmers, rural communities and suppliers is core to our ability to do business in the future. That's why we are committed to continually improving our supply chain practices and performance, and that's why we have made rural development one of our key Creating Shared Value priorities globally.

OUR SUPPLY CHAIN PROFILE

Procurement

Our product range is diverse, which means our supply chain and procurement activities are also diverse. While we source raw materials from all around the world it is our preferred approach to manufacture, where possible, in those countries from which we source commodities. Bringing sourcing, manufacture and consumption closer together helps us secure high-quality raw materials, meet local consumer requirements and preferences, reduce distribution costs and produce reasonably priced products that meet Nestlé's highest quality requirements.

In Oceania, we source a range of commodities and raw materials from both within the region and abroad. All up, 79 per cent of our procurement spend is directed to Oceania-based suppliers.

Cereals and Grains	149,000 tonnes
Sugar	52,000 tonnes
Dairy Products	25,000 tonnes
Coffee	22,000 tonnes

Distribution

Our distribution channels stretch from our manufacturing sites through to our major customers and retail partners throughout the region.

We distribute some 2,200 individual product lines through some 15,600 retail outlets and customers, including major retailers such as Woolworths, Coles and Metcash. Our distribution centres are located across the region, including in Arndell Park, NSW; Altona, Victoria; Waygunyah, Victoria; and Auckland and Christchurch, New Zealand.

THE REGIONAL AGRICULTURAL CONTEXT

Our business fundamentally relies on thousands of agricultural producers, located all around the world, for the supply of raw materials. Performance – ours and theirs – is inextricably linked. The issues that affect our farmers and suppliers affect us as well.

It is our preference to purchase locally wherever possible and we purchase a range of commodities from farmers and suppliers based in the Oceania region. This agricultural region, especially Australia, continues to present a range of challenges for farming communities. This context is provided below and also in the Opinion Piece from Dr Selwyn Heilbron, Sustainable Agricultural Initiative (SAI).



Sean Joyce, Procurement Buyer, Ingredients.

“Procurement understands that our responsibility in terms of agriculture extends well beyond the manufacturing and marketing of products. By working right across the value chain we can target sustainable sourcing of grains now and in the future.”

Farming and rural development

Agriculture represents a vital part of both the Australian and New Zealand economies.

In Australia, the sector generates some AUD 43 billion[†] in gross value each year. Some 366,000 people are employed in agriculture across some 130,000 commercial farms spread across around 55 per cent of the continent.*

In New Zealand, it is estimated that agriculture, horticulture and forestry, including associated processes and services, contribute a total of approximately 18 per cent to New Zealand's gross domestic product.[‡]

Seasonal conditions throughout 2009 were mixed across much of Australia. Overall, total winter crop (including wheat, barley and oats) production for 2009-10 is estimated at 35.2 million tonnes, 4 per cent higher than 2008-09 production. Production in New South Wales and Queensland was affected by a poor spring in 2009. Extreme heat followed by heavy rainfall also affected grain quality and yields of later planted crops in Victoria and South Australia.[▽]

Good rain fell across much of the Eastern states in late 2009.

Climate change, water scarcity and agriculture

As one of the hottest and driest continents on earth, Australia's economy and environment will be one of the hardest hit by climate change. Primary producers and industries relying on agricultural production are among the most vulnerable to climate change impacts.

Projections for Australia's climate point to a hotter and drier future. Changes in temperature, rainfall, and extreme events will affect water availability, water and soil quality, fire risk, and the incidence of pests, weeds and disease. The frequency and severity of drought is also expected to increase.

Water represents the nearest term impact of climate change and we are likely to see further water scarcity issues across much of Australia. For example, in the Murray Darling Basin, which is responsible for 39 per cent of the national income derived from agricultural production, there is likely to be less water available in the future. By 2030 the median decline in flows for the Basin is projected to be 11 per cent – 9 per cent in the north and 13 per cent in the south.[□]

PRIMARY PRODUCTION AND AGRICULTURE

Working with farmers

We seek to develop close relationships with local suppliers. This approach improves cost-efficiency, eliminates waste in transport, and allows us to work more closely on issues such as quality, safety and other sustainability challenges facing growers.

In the Oceania region, we source a range of local commodities including oats, wheat, barley, rice, sugar and corn for our various products.

Oats

Nestlé, through its Uncle Tobys business, is one of the largest buyers of oats in our region, with annual requirements of some 35,000 metric tonnes. In 2009, we put in place a new oats strategy, setting out our long-term approach to oat procurement.

Through the strategy we are actively encouraging greater oat production and establishing closer relationships with key growers (particularly in NSW and Victoria). Through this approach – and by offering more attractive pricing and contract terms and promoting our preferred varieties – we have seen a significant increase in the area planted to oats for Uncle Tobys in 2010. In fact, the region within a 100km radius of our Uncle Tobys factory in Victoria will deliver around seven times more volume of oats in 2010, as compared with 2008. Going forward, we expect to establish direct buying relationships with a small number of large oat growers, complimenting our partnership with key traders.

We are continuing our oat breeding work with farmers and the South Australian Research and Development Institute (SARDI) and since 2004 we have developed and commercialised new breeds of oats: Possum and Mitika. A third variety, Yallara, is currently being commercialised and throughout 2009 we undertook further mill trials on our first 100 metric tonne delivery. Initial results are promising.

These new varieties focus on improved crop yields, increased disease resistance, better appearance, and improved nutrient properties such as increased levels of beta glucan, a soluble fibre that is associated with lowering cholesterol reabsorption.

In a new initiative, we are also encouraging our growers to 'clean' – or test – their oats themselves, allowing them to only send to us what meets our specifications and utilising, for other purposes, any surplus volume which does not meet our requirements.

[†] Australian Farming in Brief (Australian Bureau of Statistics, 2009).

* Agricultural economies of Australia and New Zealand (ABARE and MAF, 2006).

[‡] Agricultural economies of Australia and New Zealand (ABARE and MAF, 2006).

[▽] Australian crop report (ABARE, 2010).

[□] Murray-Darling Basin Sustainable Yields Project (CSIRO, 2008).

Understanding the challenges

We participate in a range of agricultural forums and field days to better understand the challenges facing our farmers. For our oats, we also meet directly with farmers three times over the growing season (1st at sowing, 2nd at filling stage, 3rd at harvest). In 2009, we visited three main regions: Riverina, NSW; Western Victoria and the Wangaratta / Wahgunyah region of Victoria. A range of issues are discussed, including crop performance; weather and regional rainfall; yield; disease; and soil condition. We also discuss our broader oat requirements, preferred varieties, quality requirements and commercial arrangements.

Sustainable Agriculture Initiative

The Australian chapter of the Sustainable Agriculture Initiative – SAI Platform Australia – was co-founded by Nestlé Australia in 2007. From a foundational base of three members in 2007, SAI Platform Australia now boasts 13 member companies which bring together agriculture bodies, food and beverage companies and research and government organisations.

Nestlé, along with a number of other SAI Platform Members, participated in the Chapter's first joint pilot project undertaken with the research support of the CSIRO. This project, discussed further in a case study on page 57, measured the impact of water use on grain crops using an innovative 'water footprinting' methodology. Relevant commodities to Nestlé Oceania, including wheat, oats and barley, were studied as part of the research project.

SAI Platform Australia also conducted a two-day field trip to Wagga Wagga NSW and surrounding areas. The field trip, attended by a delegation of 26 executives and the Federal Minister for Agriculture, discussed agricultural sustainability issues and the future prospects for the food and beverage industry, with a focus on the issue of water. A number of farms were visited as part the field trip to see, first hand, the benefits of innovative technologies and water management practices and sustainable crop production.

Structured around a number of working groups, the SAI Platform Australia continued to focus on a number of key issues across 2009: water, climate change, customer demand, biofuels, livestock and horticulture.

RESPONSIBLE SOURCING – ALIGNING OUR VALUES

At the outset, we ensure that all of our suppliers are responsible and ethical. We specifically look for suppliers who share our vision and are prepared, like us, to meet rigorous ethical, environmental and social standards in their operations.

The Nestlé Supplier Code, which seeks to extend our own Nestlé Corporate Business Principles to our supply chain, sets out certain non-negotiable minimum standards and sets out what we expect from our suppliers. The code covers a range of key areas such as:

- Business integrity
- Sustainable production
- Labour standards, including child labour, discrimination, and working hours
- Safety and health, including the quality and safety of supplied products
- Environmental management

The code also extends to any farmers or primary producers which the particular supplier relies on.

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The Code forms part of our purchasing processes and procedures. All new suppliers are required to conform to the Code as part of any contract entered into with Nestlé. In 2009, we also sent the Code to all existing suppliers, reminding them of their responsibilities. Globally, we also amended and re-released the Code in 2009, incorporating a new 'audit and termination' section setting out how Nestlé deals with non-compliance.

Building on the Code, we also formally assess suppliers against a range of additional non-financial factors through our supplier selection process. This assessment covers broad requirements such as environmental sustainability, safety, risk management and compliance and specific requirements relevant to the project or the supplier. These requirements are assessed alongside more traditional elements such as price and service delivery.

Responsible Sourcing Program

The Responsible Sourcing Program puts the Nestlé Supplier Code into practice and seeks to identify and eliminate any social, ethical and environmental risks across our supply chain. The Program also provides a framework for Nestlé and its suppliers to work together to improve sustainability performance and address any non-compliance issues with our own Code and other social and environmental norms and legislation.

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In 2009, we were focused on more fully integrating the Responsible Sourcing Program into our procurement processes and procedures. Going forward, all ongoing and major suppliers will be now required to complete a self assessment questionnaire covering environmental, health and safety, ethical and social issues (examples of these issues are set out below). Based on the self assessment, 'high risk' suppliers will be required to undertake an external audit with a Nestlé approved auditing body.

In 2009, we also undertook a comprehensive assessment of our existing supplier base and identified 'high risk' suppliers which will be required to demonstrate their compliance with the Nestlé Supplier Code through a self assessment and a third party audit. A small number of suppliers were identified as 'high risk' and two suppliers completed a self assessment in 2009. In 2010, we are aiming for all high risk suppliers to be audited.

Suppliers which are required to participate in the self assessment exercise can utilise SEDEX ('Supplier Ethical Data Exchange'), a web-based data management and information sharing platform. SEDEX was developed by a number of manufacturing companies, including Nestlé, to manage 'survey fatigue', given our suppliers are increasingly being assessed on similar corporate responsibility grounds by many companies. Using SEDEX, suppliers can share responses, information and data with many of their customers.

Example issues covered in supplier self assessment and third party audit:

Labour standards	<ul style="list-style-type: none"> • Forced labour • Children and young workers • Freedom of association and collective bargaining • Working hours • Conditions • Discrimination
Health, safety and hygiene	<ul style="list-style-type: none"> • Health and safety training • Worker health
Business integrity	<ul style="list-style-type: none"> • Corruption • Anti-bribery
Environment	<ul style="list-style-type: none"> • Policy • Waste • Water • Greenhouse emissions • Pollution

Quality and food safety

We audit our suppliers regularly to ensure our food safety, quality and also environmental requirements are being adhered to. Based on the ISO 22000 standard we have established an active and ongoing supplier audit process on a range of food safety areas. High risk suppliers, particularly those that supply raw materials and product contact packaging, are audited every two years by Nestlé. Throughout 2009, 105 suppliers, representing some 16.5 per cent of our supply base, were audited in the Oceania region against our standards.

CERTIFICATION AND RESPONSIBLE PRODUCTION

The issues of certification and responsible production are emerging priorities for our business. Like us, our consumers are increasingly interested in where their food is coming from, how the ingredients are being produced and how this impacts communities and the environment. Terms such as 'fair trade' and 'certified' are, more and more, becoming part of consumer psyche.

We have long been focused on these issues as a matter of our core business practice. Like others in our industry, we are now looking at how we can continue to improve how we manage these issues throughout our supply chain, and importantly, how we can provide assurance to our consumers on our approach.

Specifically for our business, there are a number of priority areas on which we are focused and working through methodically.

Cocoa

Nestlé purchases 11 per cent of the global cocoa supply. Cocoa is the main ingredient of chocolate and is grown in small, family-run farms often in remote locations. Cocoa farming provides an income to more than 4.5 million farmers, a third of whom live in West Africa. However, cocoa supply is becoming increasingly critical. Low prices have caused a lack of investment in the sector, resulting in declining cocoa quality, worldwide supply deficits and small farms with ageing trees that are vulnerable to disease.

We are building on the work we have been doing ourselves and that we have supported, and rolling it out into our supply chain. We are calling this 'The Cocoa Plan' to help to explain this package of measures to consumers.

The Cocoa Plan

Our vision is to help professionalise cocoa farming, so that cocoa farmers run profitable farms, respect the environment, and have a good quality of life. The Cocoa Plan is Nestlé's way of helping to tackle key issues facing cocoa farmers, their families and communities to create a better future for cocoa farming.

The Cocoa Plan – already active in the world's largest cocoa origin, Côte d'Ivoire, and the world's largest fine cocoa origins, Ecuador and Venezuela – covers the following aspects:

- Overall investment: Nestlé intends to invest AUD 113 million on cocoa creating shared value initiatives over the next decade, almost twice as much as was spent over the past 15 years.
- Helping farmers: We are training farmers in Ecuador and Côte d'Ivoire to help them to increase yields, reduce disease, respect the environment and produce a better-quality crop which attracts higher prices.
- Plant expertise: As part of a wider remit, our new R&D Centre in Abidjan, Côte d'Ivoire (where more than 40 per cent of the world's cocoa originates) will provide farmers with 1 million high-potential cocoa trees each year from 2012. The Centre's programs will focus on improving the quality and quantity of locally sourced raw materials, developing products that meet the nutritional needs and tastes of West African consumers, and helping to increase both agricultural productivity and food safety. We are also training plant scientists in accelerated propagation techniques in other cocoa-producing countries.
- The supply chain: By working closely with farming co-operatives and paying a premium for quality, we aim to reduce the complexity of the supply chain, improve returns to farmers and improve the quality of cocoa for Nestlé.

- Better social conditions: Cocoa farming is the major employer, the main source of income and the focus of activity for millions of people. But many cocoa communities do not enjoy clean water or access to education, and as a result, labour practices on cocoa farms are not always what they should be. We will work to improve access to education, water and sanitation. As a founding participant in the International Cocoa Initiative (ICI), set up specifically to eradicate the worst forms of child labour, Nestlé and other industry players are improving access to education and addressing all forms of exploitation of children, forced labour and its underlying causes. We are partnering with the International Federation of The Red Cross/Red Crescent to fund a clean water and sanitation project in schools in the Gagnoa region of Côte d'Ivoire.
- Certification: We believe certification is a critical component to our overall approach. It provides the framework to reward farmers and their organisations for producing cocoa in a sustainable manner, and certification also gives our consumers added assurance that the cocoa was produced under proper conditions. Nestlé co-founded the UTZ Certified Cocoa program. UTZ is an independent international non-profit organisation which aims to achieve sustainable supply – with farmers implementing good practices and building their business, industry rewarding them for sustainably grown products, and consumers buying products that meet their standard for social and environmental responsibility. UTZ Certified Cocoa program involves the development of a mainstream certification and traceability system for sustainable cocoa. UTZ Certified is initially focusing on Côte d'Ivoire, but intends to expand to other cocoa producing countries. Nestlé is funding pilot projects in Côte d'Ivoire and is committed to buying UTZ Certified beans in the coming years.

Cocoa and our Oceania business

Cocoa, and the social and labour challenges facing the sector, has long been an area of concern to our Australian and New Zealand consumers. In Oceania, we purchase some 6,200 tonnes per annum of cocoa in its various forms across our business.

We are participating closely in The Cocoa Plan, alongside our global colleagues. We expect our first 'Cocoa Plan' / UTZ Certified cocoa to arrive at our Australian-based factories in 2010. Starting with the Kit Kat range, we are also commencing some on pack labelling and consumer communications, designed to inform our consumers of our new initiative and the associated certification program with UTZ.

In refining The Cocoa Plan, Nestlé Oceania will meet with a number of local stakeholders in 2010 to gain feedback and insight, including on our regional implementation program. This will be followed by a visit by the head of our Confectionery and Snacks business to cocoa-producing regions – including Côte d'Ivoire – to gain a first-hand understanding of the issues and how our approach will have an impact, on the ground. This visit will also seek to address any of the questions and feedback we received through our regional stakeholder engagement.

We are also working through the issues of certification and, from the multiple cocoa certification schemes operating throughout the world, looking closely at which scheme is most relevant to our Oceania business. A final decision is expected early in 2010.



Andrew McIver, Business Executive Manager, Confectionery and Snacks.

“The Cocoa Plan is about putting in place a sustainable cocoa tree program supported with education and training and that improves the lives of people in cocoa-farming communities for generations to come.”



We have committed to purchasing GreenPalm certificates to cover all the palm oil we use in our products in Oceania.

Palm oil

We share the concern about the serious environmental threat to rainforests globally and peat fields in South East Asia caused by the planting of palm oil plantations. While palm oil is not a major raw ingredient for us – Nestlé uses 320,000 metric tonnes, or 0.7 per cent, of the world's global production of 42 million metric tonnes – we want to work with the industry to find solutions to this complex problem.

We only buy processed palm oil and processed oil mixes, which often come from multiple sources. We do not use crude palm oil and we have no direct link to the plantations. This, however, can make traceability harder. In 2009, we undertook an in-depth review of our supply chain to establish the source of all our palm oil and have committed to using only Certified Sustainable Palm Oil (CSPO) by 2015, when sufficient quantities are expected to be available.

Nestlé has been closely associated with the Round Table on Sustainable Palm Oil (RSPO) through the Sustainable Agriculture Initiative Platform since its inception and now have full corporate membership.

Palm oil is also used as a material from which biofuels are produced, and Nestlé has repeatedly spoken out against the production of such materials for fuel rather than food.

In Oceania, we purchase some 7,000 tonnes of palm oil annually. Nestlé Oceania has committed to purchasing 100 per cent of corresponding 'GreenPalm' certificates from 2010 onwards. GreenPalm is an independently certified certificate trading

program whereby RSPO-certified palm oil producers receive GreenPalm certificates when they register an amount of their palm oil output. One GreenPalm certificate represents a metric tonne of palm oil produced in a sustainable manner.

Coffee

Nestlé is, as you would expect, a major buyer of coffee worldwide. In 2009, Nestlé purchased some 780,000 tonnes of coffee globally and some 22,000 tonnes for our Oceania operations.

Globally, more than 93,700 tonnes was procured directly from farmers and small-scale intermediaries in Vietnam, Thailand, China, Indonesia, the Philippines, Côte d'Ivoire and Mexico; this represents an increase of 9 per cent from 2008, and makes us the world's largest direct purchaser.

Not too dissimilar from the cocoa market, the coffee supply chain is extremely complex. Eighty per cent of farmers operate as smallholders and around 25 million smallholders depend directly on coffee farming for their livelihoods.

Our approach

Our direct buying system allows tens of thousands of farmers and intermediaries to deliver coffee directly to our buying stations, giving them a higher price and access to free technical assistance. This helps them to improve the quality of their yields and to diversify their activities, giving them higher incomes and helping Nestlé to secure a sustainable supply.

Sustainable coffee platforms

Nestlé is a co-founder of two international sustainable coffee platforms to co-ordinate non-competitive, multi-stakeholder action:

- Through the Coffee Working Group of the Sustainable Agriculture Initiative of the Food Industry (SAI-Platform), Nestlé has been involved in three sustainable coffee pilot projects.
- As one of the founding members of The Common Code for the Coffee Community (4C) Association, we follow a voluntary code of conduct to improve efficiency, profitability, transparency and sustainability in the production, processing and trading of coffee through training and verification.

Genetic engineering

Globally, our approach regarding the use of Genetically Modified ingredients is based on national regulations, availability of raw materials and consumer attitudes and perceptions. Accordingly, Nestlé Oceania requires suppliers to demonstrate that only non-Genetically Modified ingredients are supplied. This is supported with Identity Preservation systems where appropriate. Nestlé conducts ongoing audits of our suppliers to ensure compliance with our requirements.

SAFETY IN DISTRIBUTION

Our products are transported from our factories – via our distribution centres – to some 21,000 delivery points across the region. Our sales force also travel widely as part of their activities. Like within our own factories, safety is paramount – no matter whether it is a Nestlé employee, contractor or freight provider. We have established an internal Safe Driving Committee to co-ordinate our activities. For our own people and our contractors we have established a Safe Driving Policy which sets out a range of requirements, including measures such as: safe driving behaviour; driver training; safety of vehicles; journey planning; and reporting of accidents and injuries.

For the broader freight and transportation industry, we have worked with major industry groups to establish the Retail Logistics Supply Chain (RLSC) Code of Conduct, a voluntary code which

prescribes minimum levels of operational behaviour to dramatically improve safety across the distribution and supply chain. This covers a range of issues such as scheduling and transit times, safe loading, driver fatigue, speed compliance, and vehicle safety.

Based on the RLSC Code of Conduct we have also recently established a training and audit program. The new program ensures all Nestlé sites and freight suppliers are adhering to the Code of Conduct and are actively managing their obligations under the 'Chain of Responsibility' (COR) laws. COR establishes clear road safety responsibilities for all parties in the transport chain – not just the driver.

Under the training and audit program, our factories and distribution centres – along with our freight providers and relevant suppliers – are required to complete a number of online training modules and participate in a self audit and, if required, a site audit.

ELIMINATING WASTE FROM OUR SUPPLY CHAIN

Eliminating waste from our business and from our supply chain has been a long-standing focus for us. As part of Nestlé Continuous Excellence (NCE), a global focus on operational efficiency, we have put in place a new initiative to eliminate waste and improve our customer outcomes. Known as LEAN, the initiative seeks to streamline all the processes from paddock to plate to eliminate wasteful activities, such as excess material movements, waiting time, excess space, travel or other actions that add no value to the consumer. In 2009, LEAN was piloted across our Milo business and identified over 30 business opportunities to eliminate waste, reduce processing times and ensure Milo is produced and distributed in the most efficient way possible.

On top of the obvious cost savings for Nestlé, LEAN brings about improved environmental outcomes and a reduction in waste and food waste.

Sourcing, agriculture and our supply chain – our performance

	GRI Reference	2008	2009
Procurement			
Proportion of spending on locally-based suppliers	EC6	–	79%
Number of suppliers screened against Responsible Sourcing Initiative *	HR2	–	2
Suppliers audited for safety, quality, environment standards	◇	115	105

* As this is a new initiative we are currently focused on high risk suppliers.

◇ Nestlé specific indicator.