

Corporate social responsibility

Our principles of doing business

The Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles govern our policies and strategies, explain the Nestlé way of doing business, affect all our 265 000 employees and impact everyone with whom we work.

They include sections on Infant Health and Nutrition, Human Rights, Child Labour, the Protection of the Environment, the International WHO Code of Marketing of Breast-milk substitutes, and a set of Consumer Communication Principles.

Nestlé Corporate Business Principles

The Nestlé Corporate Business Principles are built on key beliefs:

- > Nestlé's objective is to manufacture and market its products in a way that creates sustainable value for shareholders, employees, consumers, business partners and the national economies in which it operates.
- > Nestlé does not favour short-term profit at the expense of successful long-term business development.
- > Nestlé recognises that its consumers have a sincere and legitimate interest in the behaviour, beliefs and actions of the Company behind the brands in which they place their trust.
- > Nestlé embraces cultural and social diversity and does not discriminate on the basis of origin, nationality, religion, race, gender or age.

The United Nations Global Compact

The UN Global Compact's 10 Principles on human rights, labour, the environment and corruption, are specifically incorporated in the Nestlé Corporate Business Principles, and are fundamental in guiding our business actions. We are committed to all 10 Principles in all our business activities. In summary, they are:

Human Rights

1. Support and respect protection of internationally proclaimed human rights

2. Non-complicit in human rights abuses

Labour

3. Uphold freedom of association and collective bargaining

4. Eliminate forced and compulsory labour

5. Effective abolition of child labour

6. Elimination of discrimination

Environment

7. Support a precautionary approach

8. Undertake environmental initiatives

9. Encourage environmentally friendly technologies

Anti-Corruption

10. Work against all forms of corruption, including extortion and bribery

In the following pages are examples of initiatives, supported with facts and figures, that illustrate our compliance and support for these Principles, and our respect for human rights, labour and the environment. In the case of anti-corruption, we have a zero tolerance policy. We insist on honesty, integrity and fairness in all aspects of our business. We expect the same in our relationships with business partners and suppliers.

Shared Value Creation

At Nestlé, Shared Value Creation combines our ambition to meet the needs of consumers and shareholders with our commitment to respect people and the environment. Shared Value Creation is the keystone of our corporate social responsibility and sustainability. We believe that to create value for our shareholders over the long term, we must also bring long-term value to society. Our investments must be good both for our shareholders and the people of the countries where we operate, as well as good for the Company. This is particularly true in developing countries where, to operate successfully, we often need to improve business conditions, increase farmers' capabilities, create skilled work-forces and develop better standards. Thus, Nestlé's future success is inextricably linked to the future of the people in the many countries where we operate.



Supporting UN Global Compact Environmental Principles: Conversion from coal to gas at Nestlé's Graneros plant in Chile



Shared Value Creation: dairy farmers in India receive free advice from Nestlé

Our specialist team of agronomists has pioneered the development of sustainable local fresh milk and coffee production. For example, coffee farmers in the Yunnan Province of China are improving yields and quality as a direct result of our advisers' expertise, as are farmers in Indonesia, Mexico, the Philippines and Thailand. Similarly, hundreds of thousands of milk farmers are benefiting from Nestlé's animal husbandry assistance and milk collection initiatives in countries as far afield as Chile, India, Mexico and Pakistan.

Our activities at each step of the supply chain create shared value – both for Nestlé and society. Purchasing raw materials generates high quality supplies for us, but also helps to raise incomes and living standards for hundreds of thousands of small farmers. Throughout our operations, we create jobs and train our people. Our Research and Development produces products that meet consumers' needs for nutrition, health and wellness. We work assiduously to improve our social and environmental performance.

Two top Harvard academics have recognised us for our Shared Value Creation business approach, in place already for many decades. Professors Michael Porter and Mark Kramer summed it up as putting "Nestlé in the front rank of companies who create real shared value for themselves and society at every step of their business process." Porter and Kramer argue that our approach has stood the test of time, and will continue to do so because there are winners all along the value chain.

Professor Porter went on to say in March 2006 that "Nestlé has for a very long time been a leader in corporate social responsibility. The shared value concept which Nestlé practiced without the nomenclature many years ago was that a business operator benefits both business and society."

Examples of Shared Value Creation throughout Nestlé's value chain are shown on the following pages.

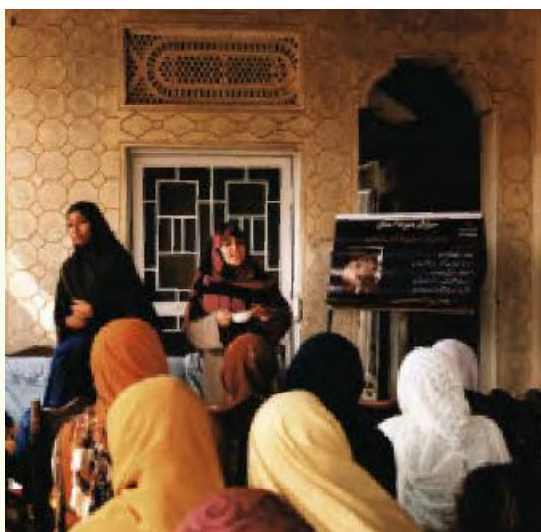
Working with farmers

We source our agricultural raw materials, such as milk, coffee, cocoa, cereals, vegetables, fruit, herbs, sugar and spices, either through trade channels or directly from farmers. Although we don't control the farms, our team of over 800 agronomists, technical advisers and field technicians encourages sustainability in the supply of



Coffee farmers worldwide, like this one in Thailand, benefit from Nestlé's agricultural support

In September 2006, the United Nations Development Programme, Nestlé Pakistan and Engro Foods launched a programme to empower female members of rural communities in Pakistan. The programme aims to train 5000 female agricultural workers in 500 villages, directly impacting poverty alleviation, gender development and small enterprise development for rural women. The project will bring economic prosperity through livestock development and also improve the participants' lives through better awareness of domestic health and hygiene, and development initiatives such as clean drinking water.



agricultural raw materials and promotes agricultural best practices. On a daily basis they provide free technical assistance to over 400 000 farmers through over 500 projects in as many as 40 countries including China, Pakistan, Ethiopia and Colombia.

Nestlé recognises that it cannot work alone, and is building partnerships such as the Sustainable Agriculture Initiative (SAI) that it co-founded in 2002. Twenty food-related companies have joined the SAI Platform, working together to improve sustainable agriculture (<http://www.saiplatform.org/>).

We are a major supporter of the World Cocoa Foundation's projects to improve cocoa farming, and a founding member of the International Cocoa Initiative to eliminate unacceptable child labour practices.

Job creation

As Nestlé develops around the world, local economies benefit, not only because we buy raw and packaging materials, but also because we create jobs in our factories, offices and sales forces. Nearly half of Nestlé's factories and of its 250 000 employees are in developing countries. Two thirds of employees undergo training each year, from basic literacy through apprenticeships to management training.

In South Africa, Nestlé joined with the Umsobomvu Youth Fund, created by the Government to help unemployed young people find jobs. This organisation contributes to their basic training, including driving lessons, life-style skills, such as how to open bank accounts, and elementary business skills. As a result, by mid-year 2007 we plan to have 2000 new Nestlé ice-cream vendors on local streets, and 5000 by the end of 2008. Job creation such as this makes a significant contribution to the growth of our business and also helps to reduce unemployment.



New vending jobs created through a partnership supported by Nestlé South Africa

In Brazil our door-to-door selling operation will employ 15000 women part-time by the end of 2007, bringing additional funds to low-income groups. Our new factory in Feira de Santana not only creates new jobs at Nestlé but, for every Nestlé job, also creates five indirect jobs amongst distributors, brokers, suppliers, etc.

Health and safety at work

Nestlé places the highest priority on protecting its people at work, and strives to create a safe and healthy working environment for all. In 2006, we further strengthened our health and safety management practices and improved our safety performance. The number of work-place injuries incurring lost time has decreased over the last five years from 12.2 to 4.8 injuries per million hours worked. 115 factories and 88 distribution centres have worked for a full year without a single lost time injury. However, in 2006, three employees died in road accidents and five contractors lost their lives during construction work. To minimise the risk of such tragic events, we are further expanding our safe-driver programmes and monitoring contractor companies to ensure that they apply the same high standards of occupational safety.

Our Dong Nai factory in Vietnam has worked for 8.5 million hours without a lost-time injury. Our Lipa factory in the Philippines has had no lost-time injuries for more than eight years. An increasing number of external bodies recognize the safety excellence in our operations. For example, our Navanakorn factory in Thailand received the National Safety Award for the third consecutive year and Nestlé Indonesia was named Indonesia's Most Caring Consumer Goods Company.

Nutrition, Health and Wellness in the work-place

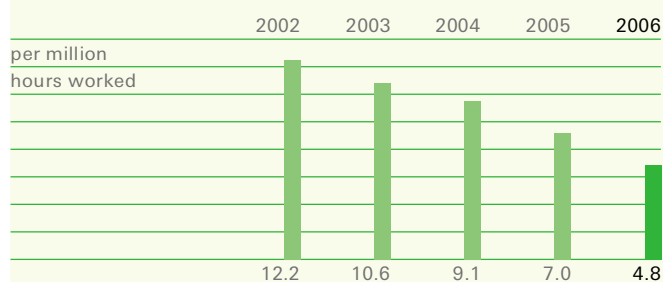
Across the world, we run Wellness Programmes which are not only beneficial for our employees, but also help to reduce absenteeism and improve productivity. Individual programmes vary from country to country but include practical and theoretical advice on issues such as nutrition and energy, fatigue and stress, and the importance of exercise, as well as physical check-ups, massage, and seminars on topics such as healthy cooking. Staff canteens ensure that healthy meals are readily available. Nutritional training is continuous so that Nutrition, Health and Wellness are embedded in our culture throughout the Company.

Ensuring food quality and safety

For every bite or sip of a Nestlé product, we have to ensure the highest levels of quality and safety. This responsibility affects the entire supply chain – from raw materials via manufacturing, packaging and distribution, to the point of consumption.

All our factories have a laboratory that systematically analyses raw materials and ingredients. Nestlé products are checked on the production line and in their finished state to ensure that they meet our standards, as well as national and international regulations.

Number of lost time injuries



The health and safety of our employees continue to be a major priority.



Work-place safety: a worker at Ocotlán, Mexico, wears a safety harness to inspect and clean a milk tanker

Several outstanding achievements have been recognised through official awards in 2006, including the Environmental “Tableau d’Honneur” for a new refrigeration plant at our factory in Lisieux (France) that replaced ozone depleting HCFC refrigerants; “The Environmental Guardian Award” in Manila (Philippines) for their water conservation programme; “Thailand and ASEAN Energy Award” in Chachoengsao (Thailand) for using coffee grounds as a renewable energy source to produce steam; “New South Wales Energy and Water Green Globe Awards” in Blayney (Australia) for their energy-smart business programme; and the “Most Environment Friendly Industry of the Year Award” in Agbara (Nigeria) for Nestlé’s sustainable use of water resources through its wastewater treatment plant, the first of its kind in the area.

Environmental stewardship

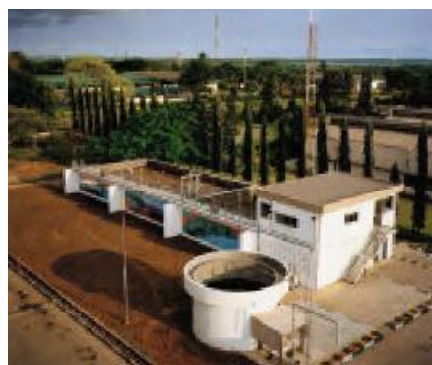
We are committed to environmentally sound business practices. In line with our Corporate Business Principles and the United Nations Global Compact, we support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies. In 2006, we again reduced water and energy consumption and greenhouse gas emissions. The process of tracking performance indicators has been reviewed and validated by an independent verification company, Intertek.

2006 marked the tenth anniversary of the Nestlé Environmental Management System (NEMS) which has served as a solid basis for continuously improving our environmental performance. We have reinforced our leadership position by seeking independent certification of all our factories to the internationally recognised standards. Currently, 49 factories hold an ISO 14001 (environment) certificate and 22 are OHSAS 18001 (occupational health and safety) certified.

We have initiated a programme called CARE, through which independent auditors verify the application of the company’s standards in the area of human resources, work-place health and safety and environmental practices throughout our global manufacturing network. 180 Nestlé factories were audited during 2006. While the auditors did not find any significant issues, the programme has reinforced the systematic application of our high standards and led to hundreds of enhancements as part of our continuous improvement approach.



Chachoengsao factory, Thailand



Nestlé Nigeria’s Agbara waste water treatment plant has won widespread acclaim

Water

Nestlé is achieving consistent, measurable reductions in its use of water, notably in manufacturing. We have initiated new efforts in the area of agriculture, the largest user of water. Water is now a priority in our farming assistance programmes. Initiatives range from new coffee processing technology in Ethiopia that's led to a 96% reduction in water use, to improving coffee irrigation in Vietnam that's estimated to generate water savings of 60%. You can read in detail about Nestlé and Water in the booklet accompanying this report.

Improved environmental performance in manufacturing

Nestlé's environmental performance indicators confirm our continuous improvement. The data show an impressive decoupling of volume growth from resource consumption and environmental impact. While our production volume increased by about 90% during the past decade, we reduced the amount of water and energy needed in the production process by 29% and 6%, respectively. Latest performance indicators are available at www.environment.nestle.com.

These improvements are a result of continuous significant investments of around CHF 100 million per year in cleaner and more efficient technologies, combined with voluntary programmes in our factories that generate enthusiasm and responsibility among our employees all over the world.

Packaging eco-design

We have persistently pursued our packaging source reduction programme. Without compromising product quality, packaging material savings from 1991 to 2006 amounted to 315 000 tonnes and a saving of CHF 560 million on a worldwide basis.

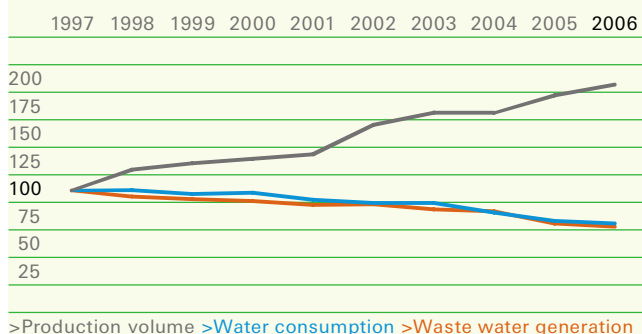
Our developments in innovative retail packaging use 30% less material and have a higher compressive strength, even under monsoon conditions. The new tray and cover for *Milo* pouches received the Malaysia Star Packaging Award from FMM Packaging Council of Malaysia for higher production efficiency, lower cost and less waste.

Food fortification

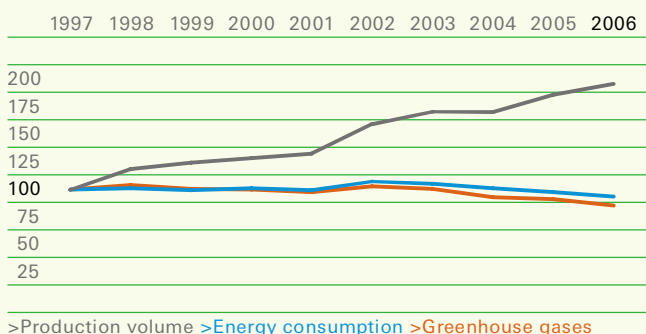
In all product categories, as you will see in this report, we are improving nutrition and health benefits by for example reducing salt, fat and sugar or including prebiotics and probiotics, additional vitamins, and calcium. One example is in South East Asia: Nestlé R&D developed a new process for malt extraction for *Milo* that enabled less sucrose and more complex carbohydrates. The new product, launched in Malaysia in July 2006, is being rolled out across Asia this year.

Our priority on nutrition, health and wellness isn't limited to mature markets but applies across the world, especially in developing markets where low incomes are prevalent. 62% of today's population live on USD 1500 or less a year. By providing good nutrition at the lowest price point, without compromising on taste or quality, our "Popularly Positioned Products" enable those with limited spending power to benefit from low-cost, nutritionally beneficial products. In West African countries, for example, our affordable nutritious products have accumulated profitable sales of over a billion Swiss francs.

Water consumption and waste water generation



Energy consumption and greenhouse gases



Our water consumption, waste water generation, energy consumption and creation of greenhouse gases have fallen over the last decade despite a near 90% increase in production volumes.

We investigate renewable resources, and our leadership has been widely recognised: the *Dairy Box* biodegradable tray made from renewable resources won the Silver Star and “Best in Category” as “Best Packaging Innovation leading to a significant reduction in household waste” by the British Institute of Packaging, and first place in the “Environmental” category of the UK Packaging Awards 2006.



Dairy Box: innovative eco-friendly packaging solution in the UK

Tackling obesity

The World Health Organisation estimates that by 2015 some 1.5 billion people will be obese or overweight, a 50% increase versus 2005. Brands like *Stouffer's Lean Cuisine* and *Jenny Craig* are specifically targeted at weight management. Both brands offer calorie and portion-controlled meals but also give information, advice and guidance on achieving a balanced diet and balanced life-style with appropriate exercise.

One of our most impressive success stories has been an anti-obesity programme called “Together Let's Prevent Childhood Obesity”. It started as a pilot project 14 years ago in northern France, sponsored by Nestlé, but due to its success in stopping the increase in childhood obesity, is now spreading across Europe, including Nestlé sponsorship in Spain.

Malaysia has one of Asia's highest rates of childhood obesity due to poor diet, insufficient physical exercise and, in particular, a result of low participation in sport. In this context, *Milo* has created the “Grow with Sports” public service initiative to promote a healthier lifestyle, and fight against childhood obesity, by informing parents about the values that sport can inculcate in children. The campaign includes over 200 grass-roots, youth-oriented sports events sponsored by *Milo*.



Maggi Sopa Crecimiento is an affordable soup, fortified with calcium and vitamins A and D, sold in Central America and Brazil

The Nestlé Nutrition Council

The Nestlé Nutrition Council was founded 29 years ago, in 1978. Its purpose is to review current and developing nutritional issues related to our business and to determine their impact on our policies and strategy. For example, the Council reviewed issues such as obesity in 1995, diabetes in 1997, childhood obesity in 1998 and personalising food for health in 2003. The council is composed of ten internationally renowned nutritional scientists with a spread of nationalities and specialities. One of their key roles is to review Nestlé policies prior to their approval by the Nestlé Board. These policies then become mandatory. Since 2000, policies have been implemented on the levels of trans fatty acids, sodium (salt) and sugar in foods, as well as iron fortification in foods and nutrient fortification.

Nutritional education

Good food habits start at an early age, and much of the focus of our education is in schools. In Russia we've reached well over a million school children since 1989 with a nutritional education programme based on characters from the popular children's television series, "Sesame Street". In Brazil, our "Nutrir" programme has covered 800 000 children and involves 1500 Nestlé employee volunteers. In Thailand we've covered 2000 primary schools. Similar programmes are running in countries across all five continents. For a complete review of our nutrition education programmes, see our website: www.community.nestle.com.

Nestlé in the community

Reaching out beyond our business, Nestlé has over 400 community projects running in 90 countries. They include the many research programmes of the Nestlé Foundation for the Study of Problems of Nutrition in the World.

Another important example of a community project is in Sri Lanka, where only one in ten households has tap water. To provide rural communities with access to drinking water, Nestlé is financing clean drinking water facilities in villages located near its manufacturing operations. Examples include the Sandalanka District Hospital and 3000 pupil Pannala National School, which are in the vicinity of the Nestlé Lanka Kurunegala factory. The hygienic facilities are built by drilling deep bore wells and installing water tanks to store the clean water.

You can read about our activities in our report "Nestlé, the Community, and the UN Millennium Development Goals". This outlines over 150 projects in 66 countries that support the UN goals aimed at addressing the most pressing needs of people, particularly in developing countries. They focus on poverty reduction, education, health for women and children, and impacting pandemics like HIV/AIDS and malaria.

Corporate donations and emergency relief

Over half the corporate donations made by Nestlé are directed to the nutrition, health and well-being of children and youth. Other donations are directed at education and skills-building in developing countries as well as humanitarian relief, especially following natural disasters. We encourage voluntary involvement by our staff.



Helping to combat obesity, *Milo*-sponsored youth-oriented sports events promote physical activity



This Nestlé-sponsored "Sesame Street" nutrition education programme has reached over a million Russian schoolchildren

Nestlé has signed a new partnership agreement with the International Federation of Red Cross and Red Crescent Societies to provide funding totalling CHF 1 500 000 over three years, mostly for projects related to the International Federation's Global Water and Sanitation Initiative (GWSI). Initial projects supported by Nestlé will include ensuring safe and sustainable water supply to villages in sub-Saharan Africa as well as community training and hygiene promotion. Nestlé's support for the Federation's water initiative is an integral part of its commitment to the UN Millennium Development Goals, four of which have significant water components. The first wells to provide clean drinking water in Mozambique were inaugurated in 2006.



Recognition

Nestlé improved its score in the SAM assessment on all dimensions (economic, environment and social) for the Dow Jones Sustainability Indexes, and is ranked in the top group of all food companies in the world. We have been recognised for consistently improving on transparency and reporting on sustainability issues. SAM, one of the leading independent groups specialised in sustainability investments, identifies companies that meet sustainability criteria and thus should lead their peers in shareholder value creation.

Nestlé has received high marks from the One World Trust in its 2006 Global Accountability Report. Nestlé received the 3rd highest overall score out of the ten major companies evaluated, including the highest score of any company on transparency and second highest on having systems that evaluate social and environmental impact and use them in future planning. The One World Trust is an NGO having official status with the Economic and Social Council of the United Nations and was founded in 1951 in the UK by the All-Party Parliamentary Group on World Government.

In Infant Nutrition, an independent body (GES Institute in Scandinavia) placed Nestlé at the top of all manufacturers regarding WHO Code compliance for Infant Formula – with no claims for violating the code.

