

PROGRESS REPORT on Responsible Sourcing of Palm Oil

In 2014 Nestlé continued its journey to implement the Responsible Sourcing Guideline (RSG) throughout its global supply chain. Although much is still to be achieved, 2014 saw Nestlé make good progress on achieving traceability to mill and plantation as well as increasing the volume of responsibly sourced palm oil in our supply chain by engaging suppliers to ensure continuous progress in meeting our RSG.

Our company is opposed to deforestation of rainforests and peatlands in all parts of the world, and our RSG explicitly covers deforestation. In 2010 we committed that our products will not be associated with this practice. Our Commitment on “No Deforestation” covers palm oil and all the raw materials which we use to make our products and packaging. In addition, we fully support important initiatives, such as the New York Declaration on Forests which was launched in September 2014.

Nestlé continues to report transparently on the implementation of its Responsible Sourcing Guideline requirements at mill and plantation level.



Click on the picture to watch the interview

“Through our responsible sourcing activities we’re trying to lead by example.

That’s the role we want to play: not only doing it ourselves but influencing others in the same direction. It’s part of Creating Shared Value for our business and for society, and we’re committed to continuing the journey.”

Marco Gonçalves, Senior Vice President and Chief Procurement Officer

2014 TARGETS

90%

Traceable by
December 2014

The ingredients we buy are identified back to at least palm oil mills by Nestlé or our suppliers.

40%

Responsibly Sourced by
December 2014

Origins (mills or plantations) which can be linked to refineries and selected mills are assessed against our Responsible Sourcing Guideline requirements and found to be compliant, or with ongoing improvement plans;

RESULTS TO DATE

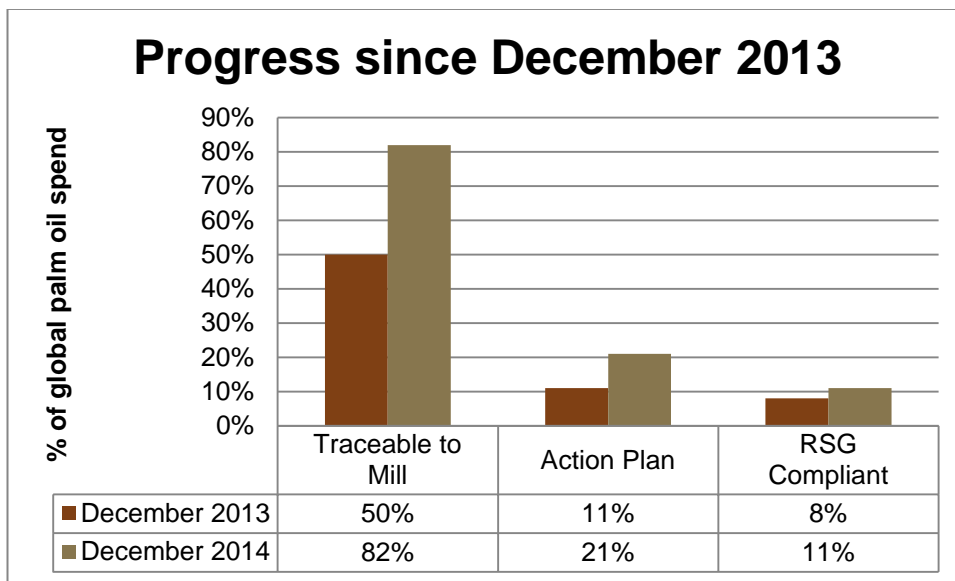
82%

Traceable back to mill

32%

Responsibly Sourced

- At least 82% of our volume can be traced back to the mill in the country of origin and 13% of this volume can be traced back to the plantation.
- The 32% that is Responsibly Sourced can be further broken down as follows:
 - 11% of our volume is “Compliant Oil.” This means that the mill where the palm is processed and the sources of fresh fruit bunches (FFB) comply with our RSG
 - Remaining 21% has action plans in place in order to achieve compliance.



It is also worth noting that by the end of 2014, 45% of our global spend on palm oil was linked to direct suppliers who have a no-deforestation policy and respect labour standards

INCREASING INDUSTRY SUPPORT FOR NO DEFORESTATION & NO EXPLOITATION PALM OIL

Traceability is central to Nestlé achieving its goal of no deforestation in its supply chain. Since we started our journey toward ensuring that the palm oil in our supply chain is responsibly sourced in 2010, many other companies and suppliers have followed with similar commitments and actions:

- **Cargill:** became a TFT member and launched a [policy on Sustainable Palm Oil](#). The policy includes a commitment to no deforestation of high conservation value (HCV) lands or high carbon stock (HCS) areas, no development on peat, and no exploitation of rights of indigenous peoples and local communities. Cargill aims for all palm products that it produces, trades or processes to be in line with these commitments.
- **Wilmar:** became a TFT member and launched a [No Deforestation, No Peat, and No Exploitation Policy](#). The scope of Wilmar's policy includes all Wilmar operations worldwide as well as all third-party suppliers from whom they purchase or have a trading relationship. They have also launched a dashboard providing unprecedented transparency of their supply chain including the mills they source from.
- **Mars:** became a TFT member and pledges to only source palm oil from companies whose operations comply with a sourcing charter which includes [no development on HCV, no development on HCS, and no development on peat lands](#).



TFT staff interviewing palm oil harvesters

Despite increased public attention and consumer demand for products made using sustainable palm oil, deforestation linked to oil palm development is still occurring and many NGOs still play active roles in campaigning against unsustainable practices.



CHALLENGES & SOLUTIONS

Nestlé is working with its suppliers to achieve plantation level traceability for our palm oil ingredients. A key challenge has been the lack of available upstream supply information across the supply chain.

In 2014, Nestlé attempted to electronically map out our supply chain with 3rd party software, however the results did not provide the level of detail we needed. In parallel, Nestlé created, piloted and then deployed its Traceability Declaration Document (TDD), which suppliers are required to complete each quarter to declare the supply chain linked to the production of the palm oil used in our products. While information gaps remain with respect to full visibility of our palm oil supply chain, the TDD does allow for unprecedented transparency and facilitates discussions with suppliers to address such gaps.

Information obtained from the TDD is incorporated into a prioritisation process which seeks to determine high priority supply situations in order for RSG assessments to be conducted. The prioritisation process draws on available environmental and social data to identify potential issues linked to the supply chain. The aim of these assessments is to engage mills and oil palm growers to understand their practices and provide practical inputs to allow growers to strengthen policies, systems, and practices against our RSG.

Explaining this new TDD format to all our suppliers, the completion of the document by suppliers, and the verification of the data has proven to be a significant undertaking. Although large amounts of human resources and time are required for these activities, this is a necessary first step in reaching our goal of ensuring our entire palm oil supply chain is compliant with our RSG.

The scale of our operations means that we are sourcing palm oil products for 70 countries around the world. A handful of specific markets, such as India and China (7% and 5% of our total market share, respectively) present challenges with respect to traceability. Examples of the challenges confronted are that palm oil is traded in a fragmented commodity market and suppliers'

understanding of sustainability issues in some markets is only now being developed.

The Challenges

- Very complex supply chains
- Lack of available traceability information
- 40% smallholders



Bio fertilization of the plantations with the empty fresh fruit bunches from the mill

EXAMPLE OF NESTLÉ RSG WORK (SUPPLIER ENGAGEMENT)



Wilmar - Nestlé strives to work with suppliers that adopt similar commitments to our RSG. In End of 2013 Wilmar International Limited ("Wilmar") publicly stated its commitment to a "No Deforestation, No Peat and No Exploitation" Policy. Nestlé congratulates Wilmar for making this commitment and is happy to see the increasing level of transparency Wilmar is providing about the progress being made to implement its policy with TFT. Nestlé will continue to engage with Wilmar and collaborate where possible to facilitate our respective journeys.

"Wilmar is working hand in hand with our suppliers to transform our entire supply chain towards responsible practices for the benefit of people and the environment. Through this work we are also able to fulfil the demands of clients like Nestlé who is also one of the forerunners in leading the push for a palm oil industry free of deforestation." –Wilmar



Palmci – TFT recently assessed 2 palm oil mills and their associated oil palm plantations in the eastern part of Ivory Coast as part of their palm oil sustainability program. Palm oil produced by Palmci is directly linked to the Nestlé supply chain via the Sania palm oil refinery in Ivory Coast. Key deliverables from the assessment include an action plan with the aim of preserving identified carbon rich peat lands in a concession PALMCI is negotiating with local communities for palm plantation purpose. This area is boarded by an international wet land zone and PALMCI has already involved the local RAMSAR committee to guide them. Nestlé seeks to build long-term relations with its supply base and supports its suppliers with the implementation of best practices related to its no-deforestation policy.



Fuji – Nestlé has supported its direct supplier Fuji in understanding its supply chain all the way back to the smallholders involved. When TFT visited the Masai Palm Oil Mill of the Keck Seng group in Johor, Malaysia, they worked to identify the catchment areas for all fresh fruit bunches being transported to the mill. Through this exercise a comprehensive understanding of independent mills, 3rd party dealers, and smallholder farmers in this supply chain was formed. Through the dealers and by direct means, there is a large concentration of smallholders in this supply chain. As a result of the assessment, the company has committed to developing a mechanism which periodically checks the fresh fruit bunch catchment zones in order to monitor for risks of peat land fires and forest conversion.



TFT staff conducting an RSG assessment on a Wilmar 3rd party supplier plantation

SMALLHOLDERS

Smallholders play an important role in production – they represent 40% of the palm oil production in the world – but they are barely affected by the transformation yet as so far the focus was on the bigger players. Some of the issues affecting smallholders include:

Deforestation which continues at a high rate (fires and smoke haze in Sumatra are illustrative of this),

Land Tenure;

Productivity which remains very low. Helping smallholders become more productive would reduce the need for new land,

Social issues including forced labour and health and safety.

Smallholders cannot be easily certified as it is not cost effective for them.

As an example in northern Sumatra, Indonesia, a Nestlé palm oil supplier has a supply chain which includes thousands of smallholders who own farms ranging from less than one hectare to 40 hectares. Many use fresh fruit dealers to get the FFB to the mill. Nestlé's customised approach has been to work with such partnersto map the origin of the FFBs and to support smallholders to strengthen practices to meet Nestlé's RSG. Nevertheless, this is one of the several measures we have in place to support smallholders.

It is therefore critical for Nestlé to ensure that our responsible sourcing approach include and support smallholders.

As a first step we will partner with TFT's new initiative called Rurality (www.rurality.org). The aim of this programme is to promote the resilient development of rural communities while strengthening their ability to adapt to change. This will help us to identify opportunities for improvements and support the development of a model to better enable smallholders to take ownership of the challenges they are facing to meet the demands of a changing market. Moving beyond a "one size fits all model" will help facilitate innovation at the smallholder level and will allow for best practices sharing across countries and regions. Rurality will be launched in 2015 in 5 countries and results will be publicly reported in our 2015 palm oil progress report.

This will enable us to reallocate resources to partnership activities to support palm oil smallholders, who represent 40% of the global palm oil supply and are essential for long term sustainable production and supply (see above section on smallholders).

Find out more

Updates and more information on Nestlé's responsible sourcing activities can be found at

<http://www.nestle.com/csv/rural-development-responsible-sourcing/responsible-sourcing/palm-oil>



Rurality is TFT's innovative programme to develop scalable, adapted solutions with smallholders

GREENPALM CERTIFICATES

Since 2010 Nestlé has offset its purchases of palm oil by buying GreenPalm certificates. These certificates are endorsed by the Round Table on Sustainable Palm Oil (RSPO) as a means for companies to demonstrate commitment to sustainability. Nestlé always considered GreenPalm certificates a temporary solution while the company carried out detailed work with our suppliers and partner TFT (The Forest Trust) to assess palm oil origins, and identify and implement actions to tackle Deforestation, and to ensure labour our policies on labour conditions in our supply chain are respected.

From 1st January 2015, Nestlé will phase out offsetting purchases of palm oil and will no longer buy GreenPalm certificates.