

PROGRESS REPORT PALM OIL

COMMITMENT TO TRACEABILITY

In 2010 Nestlé committed that its products will not be associated with deforestation.

To achieve this, Nestlé defined **Responsible Sourcing Guideline (RSG)** for palm oil that require compliance with all RSPO principles and criteria and, in addition, goes even beyond the RSPO standard with the protection of peat lands and high carbon stock forests (HCS), which are critical in ensuring no deforestation. It also puts a special focus on social issues surrounding land conflicts.

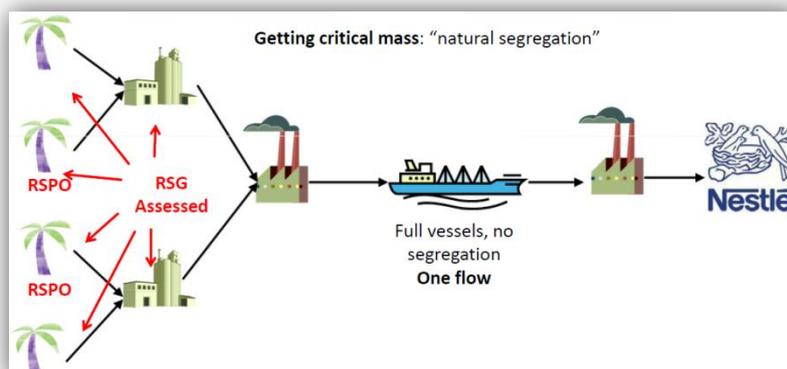


All Nestlé suppliers are required to meet the RSG requirements. However, suppliers who do not meet them today, but are willing and can show measurable progress to work towards them, receive support from Nestlé to help them make the relevant transformations:

- In 2010, Nestlé joined forces with TFT which led to the development of a new approach with a clear focus on transparency that has accelerated Nestlé’s implementation of its RSG.
- By having people in the field - in this case TFT – working with our suppliers, we build a greater depth of knowledge and transparency of the supply chains that supply palm oil to Nestlé.

Nestlé uses this information to innovate together with its suppliers and TFT in order to ensure that environmental and social practices are improved to comply with our RSG.

The first step to help the supply chain improve practices is achieving traceability. However this is challenging as the palm oil supply chain is complex and often purposefully opaque. While the Nestlé journey has not been easy, its determination to live by its principles and willingness to collaborate with others has delivered a number of key results.

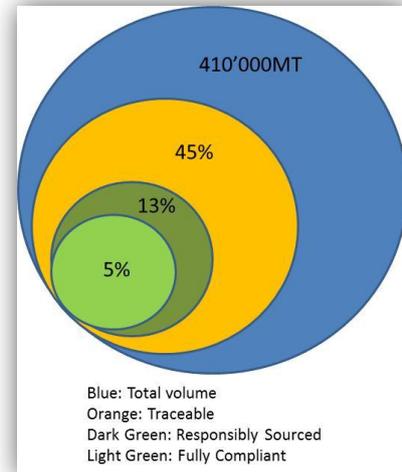


OUR RESULTS TO DATE

Since we began working on palm oil traceability in 2010, we have directly engaged with suppliers responsible for 80 % of our palm oil volume (410'000 Metric Tons).

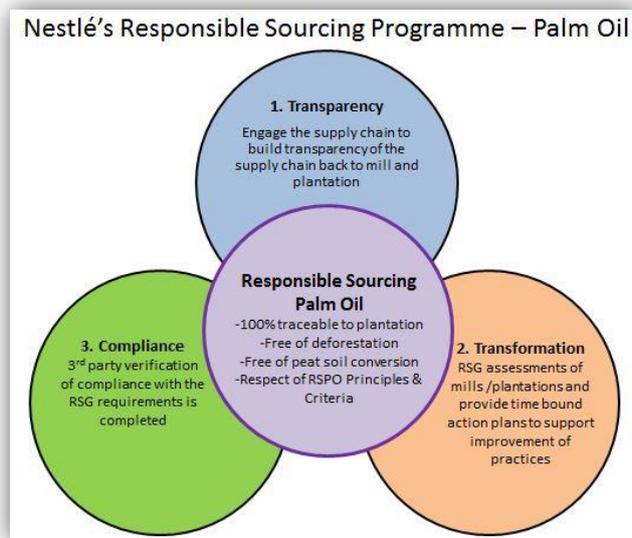
By September 2013:

- 45 % of our volume can be traced back at least to the mill in the country of origin.
- 13% of our volume is Responsibly Sourced, meaning traceable to plantation, RSG assessed, compliant or engaged in continuous improvement.
- 5% of our volume is fully compliant, meaning traceable to plantation level and fully compliant against our Responsible Sourcing Guideline requirements.
- By September 2013, 100% of our palm oil was RSPO certified (Including 16% RSPO segregated and an estimated 84% in the form of GreenPalm certificates).



We recognise that during an interim period, until traceability becomes feasible for all supply chains, including for complex blends of palm-based derivatives, GreenPalm certificates have a role to play in supporting producers of certified sustainable palm oil.

WORKING WITH SUPPLIERS



Since 2010, Nestlé has sought to establish traceability in the supply chain working with each supplier on tailored solutions.

Those solutions ensure that the oil Nestlé receives comes from defined origins. Whilst these oils are both RSPO and non-RSPO sources, establishing traceability is the first hurdle to cross to understand if any of the oil is linked or not to deforestation. Unfortunately, there are little economies of scale in the market place for traceable oils yet.

Nestlé's share of consumption of less than 1% of the global palm oil production will do

little to convince suppliers to switch their entire production in order to avoid segregation at the refinery level between conventional and traceable oil. It will take strong commitments from the plantation companies and Nestlé's suppliers to transform the industry. But some suppliers are actively moving and supporting our journey. Exemplary and noteworthy of mentioning are Sime

Darby, Cargill and the collaboration between GAR (Indonesia) and Oleofats (Philippines) in establishing traceable supply chains assessed against the Nestlé Responsible Sourcing Guideline. These companies have embarked on a journey with Nestlé and created a supply chain model ensuring that the origin of the oil is known. Beyond this the oil origin is subject to scrutiny to ensure that it is produced in compliance with our RSG.

Nestle will continue to support those suppliers willing to proactively present solutions that meet our requirements. Nestle expects its supplier to take responsibility and ensure traceable and sustainable supply chains. Meanwhile, we are committed to playing our part in transforming the industry (Jacob Nielsen, Head of Commodities Procurement, Nestlé Singapore).

EXAMPLES OF NESTLÉ RSG WORK



Plantation

Sime Darby Plantation: In early 2012, Sime Darby Plantation through its subsidiary Sime Darby Jomalina provided full traceability in its supply chain, and supplied Nestlé Malaysia with palm oil from its own RSPO certified plantations. The commitment from the management of Sime Darby Plantation to roll out further initiatives in supporting all its subsidiaries around the world, such as Sime Darby Unimills in Rotterdam, is a huge step forward. With this 100% traceable supply chain, Nestlé is now actively seeking to increase the amount of Sime Darby Plantation's palm oil in our supply chain.



One of Sime Darby Plantation's oil palm Estates which has been certified by RSPO.



Cargill: Cargill is an important supplier of palm kernel oil (PKO) to Nestlé. Palm Kernel cannot be stored for extended periods of time and thus it is not easy to amass volumes. Traceability to known mills and plantations also becomes difficult as the kernels are traded across country or borders before being crushed to oil. PKO production is significantly lower than palm, accounting only about 10% of palm oil annually. There are therefore proportionately less kernel crushing mills than there are palm oil mills and this is another challenge to maintain integrity of the supply chain. In Malaysia, Cargill has been working with TFT and Nestlé for more than a year to establish a credible source of supply to Nestlé Thailand. A thorough mapping exercise has been done to ensure that the supply comes from low risk regions and although the solution is not complete transparency of the supply chain has been achieved. Taking ownership of the supply chain is the responsibility of the supplier and in this case, Cargill is cooperating with other upstream industry players to make it happen.



Fresh Fruit Bunches being unloaded at a palm oil mill. Through our RSG assessments all suppliers of Fresh Fruit Bunches to supplying mills are identified & assessed. Assessments provide mills & Fresh Fruit Bunch growers with time bound corrective actions.



Oleo-Fats: Oleo-Fats (a subsidiary of publicly-listed D&L Industries), Golden Agri Resources (GAR) and Nestlé have been working together throughout 2013 to build solutions around Indonesia to supply traceable and RSG assessed palm oil products. In South Kalimantan, GAR has worked to provide traceable and RSG assessed oil to Oleo-Fats, a key Nestlé supplier in the Philippines. In the past Oleo-Fats typically had limited transparency in their supply chain for Nestlé products, however today through the collaboration between Oleo-Fats, GAR and Nestlé traceability has been achieved, measurable progress towards RSG compliance is being made, all of which is occurring without significantly increasing the cost of the oil.



Award to Oleo-Fats for Outstanding Performance, partner on innovation, renovation and local sourcing development. From Left: Anton de los Santos (Product Manager Oleo-Fats), Vincent Lao (Managing Director Oleo-Fats), Jacob Nielsen (Head of Commodities Procurement, Nestlé Singapore), Reynaldo Diosdado Bongato (Head of Procurement, Nestlé Philippines), Yong Khing Siong (Oils and Fats Purchasing Manager Nestlé Singapore).

"To remain relevant in today's marketplace, stakeholders must take greater account of traceability and sustainability. As a key partner in the Philippines, we, in tandem with GAR, have fully embraced Nestlé's Responsible Sourcing Guideline, complying with progressively more stringent specifications and standards. Already at the forefront of infant nutrition oil mixes development, this adds another important dimension to our partnership (Oleo-Fats)"

Smallholders



Smallholders play an important role in production and Nestlé works to build solutions with the supply chain to ensure they are included and supported through the RSG process

In northern Sumatra **GAR** has implemented a supply chain that includes over 400 smallholders with exploration sizes ranging from less than 1 hectare to 40 hectares. Many use Fresh Fruit Bunch dealers to get the oil to the mill. GAR is currently working to review these smallholders with the support of the FFB dealers with the objective of supporting progress towards implementing the Nestlé RSG.

"Our supply chains are dependent on smallholders and we are proud to include them and support the improvement of practices. "Having customers like Nestlé prepared to support our journey with smallholders is extremely important" (GAR)

No Deforestation – Not Just Nestlé



Florin AG, based in Switzerland was part of Nestlé’s first engagement with suppliers after the announcement of the Responsible Sourcing Guideline approach in 2010. After the initial roll out of the RSG approach and supply chain mapping Florin seized the opportunity to establish its Palm Oil Sourcing Policy to ensure that all oil Florin AG purchased was traceable, no deforestation and RSPO certified. *“We were extremely pleased to see our supplier set a policy that aligned with our own” (Marco Goncalves, Nestlé Global Head of Procurement).* Since establishing its policy Florin and TFT have conducted RSG assessments of all suppliers to assess the level of compliance with the RSG and are close to 100 per cent compliance with their policy.

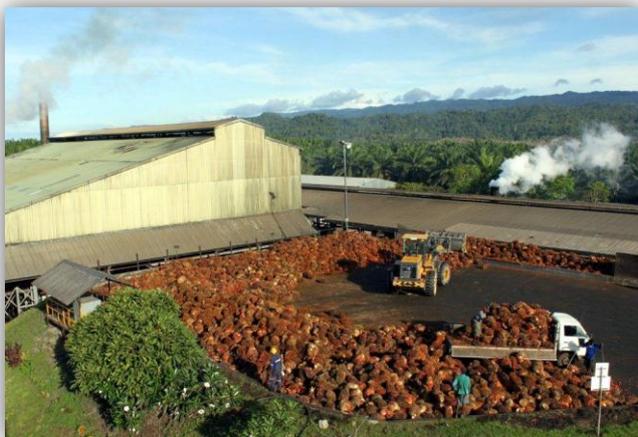
“The interesting element in this commitment is that Florin is supplying many other brands and retailers in Switzerland as it is one of two refiners in the country. Therefore the impact of their commitment is much wider than just Nestlé” (Rob McWilliam, palm oil Senior Project Manager, TFT).



TFT ROLE IN SUPPORTING OUR APPROACH

Nestlé has been working with TFT to improve its understanding of its entire palm oil (and now also its paper and pulp) supply chain from direct supplier back to plantation; finding out exactly what is happening in the field and working with suppliers to address any issues.

A key element of success of TFT’s support is the nature of the engagement that is developed with the supplier: trust is built between Nestlé buyers, the supplier and TFT teams to find solutions. It is a joint effort conducted in a constructive spirit and TFT helps making sure that there is a safe space for Nestlé buyer and its supplier to open up, face the issues and innovate to solve them. TFT also physically get out into the plantations and their surrounding communities to assess how suppliers are performing from an environmental and social point of view, formulate practical recommendations and monitor their implementation in the field.



This process is complemented by information from local NGOs (that constantly monitor activities and practices in the field), local authorities and other operators to give a full and balanced overview of what is effectively happening on the ground. This mix of information sharing, collaboration and field work is what allows Nestlé to progress towards its objective of deforestation-free palm oil.