



ECOLABORATION™ MID-TERM REPORT, JUNE 2011

PROGRESS TOWARD OUR 2013 ECOLABORATION™ COFFEE TARGET

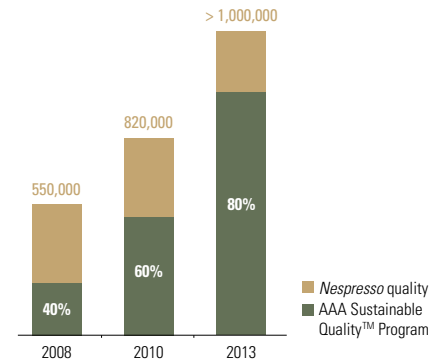


2013 COMMITMENT

- 80% of *Nespresso* green coffee will be sourced from its AAA Sustainable Quality™ Program, including Rainforest Alliance certification, by 2013.

2010 UPDATE

- In 2010, we sourced 60% of our coffee from the unique *Nespresso* AAA Sustainable Quality™ Program.

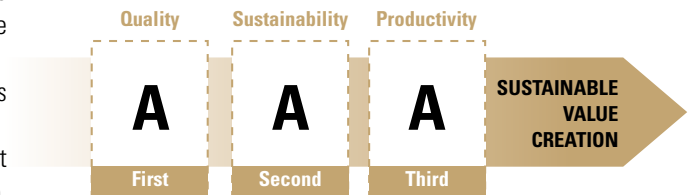


PROGRAM PROGRESS

- Out of the some 817,000 bags of coffee that *Nespresso* bought in 2010, more than 490,000 bags came from farms in the AAA Program.
- By the end of 2010, *Nespresso* had rolled out its AAA Program in six of the nine countries of origin.
- Last year, Nicaragua joined Brazil, Colombia, Mexico, Guatemala and Costa Rica as countries in the AAA Program.
- By the end of 2010, more than 40,000 farmers had joined our AAA Program, up from 33,000 farmers in 2009.
- Measurements of the impacts of the AAA Program in Central America show that on average, Real Farmer Income for farms in the AAA Program was 27% higher than for farms that were not part of the AAA Program.

QUALITY, SUSTAINABILITY AND PRODUCTIVITY

- Working together with our own network of agronomists and our partners to increase quality and yields, while reducing environmental impact.
- Providing training, technical assistance and better access to finance for investments directly to farmers.
- Investing in a number of locally managed projects that seek to help farmers improve the quality of their crop, increase Real Farmer Income and reduce waste.



WHAT WE LEARNED

ABOUT THE 1ST "A": QUALITY

- Working with farmers to protect the supply of highest quality coffee is the first essential step towards creating shared value for all stakeholders, from the farmers to the consumers.
- In general, only 1-2% of the world's coffee crop meets the stringent *Nespresso* requirements for taste, aroma and quality. At the farm level, some 30% of each harvest from farms that *Nespresso* works with meets those stringent requirements.
- The remainder of the crop provides farmers with a valuable supply for the wider sustainable coffee market.
- The introduction of sustainable practices helps improve the quality of the coffee grown and reduce waste during the post-harvesting process, thus raising the absolute volume of quality coffee we can buy from each farm.

ABOUT THE 2ND "A": SUSTAINABILITY

- By encouraging a growing number of farmers to achieve Rainforest Alliance certification, we have helped create a new supply of Rainforest Alliance Certified™ coffee which farmers can sell for a premium in the market.
- Since 2009, *Nespresso* has offered coffee farmers demonstrating progress in the AAA Program the opportunity to apply for Rainforest Alliance certification. This certification is beneficial for farmers as they have the opportunity to secure additional premiums for the coffee that they choose not to sell to *Nespresso*, thus increasing their incomes. To help groups of farmers take this step, *Nespresso* pays the first year of certification audits. By the end of 2010, more than 2,200 AAA Program farms had achieved Rainforest Alliance certification.
- Protecting the future of the highest quality coffee *Nespresso* requires also means protecting the environment that produces this coffee, as well as social conditions, to ensure a future for farmer families.
- Research suggests that coffee – like many other tropical crops – has a high potential for environmentally sustainable agriculture production.

ABOUT THE 3RD "A": PRODUCTIVITY

- At the outset, the focus was on integrating the *Nespresso* quality requirements and sustainability standards. Based on our field experience in recent years, we have learned that productivity is an essential ingredient for economically viable and sustainable coffee farming.
- Productive and efficient coffee farms, producing the highest-quality sustainable coffee will be more profitable and will lead directly to improvement in rural development.
- Productivity and sustainability go hand in hand with stable long term economics for farmers.
- The economic dimension includes price premiums of 30% plus access to on-going investment.
- The economic dimension, which is a fundamental part of the AAA Program, is vital to achieving lasting change.

ON THE GROUND – FOCUS ON COLOMBIA

- Colombia, representing 25% of *Nespresso* coffee sourcing, leads in terms of volume and high quality coffee.
- Since 2003, the AAA Program has been operative in five main regional districts: Cauca, Nariño, Caldas, Antioquia and Huila, working with smallholder farms, often of less than 1 ha, and impacting 130,000 people.
- Around 100 dedicated agronomists, financed by *Nespresso*, operate in the field to visit and train farmers, supporting them to make progress on the three challenges (quality, sustainability, productivity).
- We actively work with partners to co-fund and roll out key projects, including FNC (Federación Nacional de Cafeteros de Colombia) and Cafexport, as well as USAID, Acdi Voca, and Acción Social, among others.

PROJECTS FOR IMPROVING QUALITY, SUSTAINABILITY AND PRODUCTIVITY

- Operations in micro central mill started in municipality of Jardín (Antioquia) in December 2010.
 - Quality and volume of AAA coffee to be doubled thanks to process consistency.
 - Water use to be reduced by half and 100% treated, while the farms will reach compliance with the SAN standard.
 - Net farmer income to grow an estimated 30%.

NEXT CHALLENGES

- Expanding the farmer community:
 - Engage with the remaining 40,000 farmers from which *Nespresso* sources its coffee (bringing it to a total of 80,000 farms).
 - Expand the AAA Program in new countries (for example, India joined March 2011).
 - Develop new regions in current countries of origin.
 - Expand current clusters.
- Farm Performance Visibility:
 - Track the quality, sustainable agriculture practices and improvements in farm management.
- Continuous improvement:
 - Bring quality, yield and environmental standards to higher levels to enable farms to prepare for Rainforest Alliance certification.
- Investment:
 - Work with key partners to secure on-going investment to allow more farmers greater and faster access to the tools and means to achieve certification.

WHAT ECOLABORATION™ PARTNERS SAY:

"Nespresso has worked diligently to meet its ambitious goals, mobilising its own technical, creative and financial resources, as well as those of farmers, research organizations and local coffee associations. This far-flung coalition strives to meet the social, economic and environmental challenges to sustainability that are as diverse as the smallholder farms. The Rainforest Alliance and other members of the Sustainable Agriculture Network are carefully monitoring progress. Nespresso has developed state-of-the-art data-gathering technology."

Chris Wille,
Chief of Sustainable Agriculture for the Rainforest Alliance