



NESPRESSO
ECOLABORATION™
MID-TERM REPORT
JUNE 2011



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ECOLABORATION™ MID-TERM REPORT, JUNE 2011

NESPRESSO ON TRACK WITH ITS ECOLABORATION™ SUSTAINABILITY COMMITMENTS

Lausanne, Switzerland, 4 July 2011 – Nestlé Nespresso SA today reported strong progress towards its 2013 commitments for Ecolaboration™, the company's sustainability development platform. Nespresso is honouring the commitment it made in 2009 to report back on progress when it launched Ecolaboration™ to incorporate sustainability across its entire value chain.

"Two years after launching Ecolaboration™, we have made concrete, measurable progress towards the commitments we had made for coffee production, capsule recycling and carbon reduction," said Richard Girardot, CEO of Nestlé Nespresso SA.

"Even more important than the progress we've achieved towards our targets is how embedded sustainability has truly become into the way we are doing business," said Mr Girardot. *"For Nespresso, creating sustainable business success means developing a sustainability approach that fits with our unique business model and supports our strategy to create sustainable business growth."*

TANGIBLE, MEASURABLE PROGRESS

- In 2010, Nespresso sourced 60% of its green coffee from its unique AAA Sustainable Quality™ Program. The company is on track with its commitment to source 80% of its coffee from the program, including Rainforest Alliance certification, by 2013.
- By the end of 2010, Nespresso had increased to 60% its capacity to recycle used capsules by putting in place collection systems. Therefore, Nespresso will reach its 2013 commitment of 75% capacity two years early.
- By the end of 2010, the company had reduced by 11% the carbon footprint required for producing each cup of Nespresso coffee, compared to 2009, and against a carbon reduction target of 20% by 2013.

"The progress we've made reflects the passion and commitment of our employees and our Ecolaboration™ partners," said Guillaume Le Cunff, International Marketing and Strategy Director at Nestlé Nespresso SA. *"We've learned that pursuing our targets enables us to be a catalyst for greater impact and better outcomes for everyone in the value chain, from the farmers to the consumers."*

CONTINUING JOURNEY

For Nespresso, the sustainability journey is never over. *"Our targets are milestones on our journey, not the destination itself. With the insights gained with our Ecolaboration™ partners, we will continue to work on improving quality and sustainability. Our progress so far confirms our conviction that sustainability is the foundation on which to build the future of our company,"* said Mr Girardot.

To provide an update on its sustainability journey, Nespresso today published its Ecolaboration™ Progress Report. This report is available in English, French and German as of 4 July 2011 on www.ecolaboration.com/mediacenter.

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PROGRESS TOWARD OUR 2013 ECOLABORATION™ COFFEE TARGET

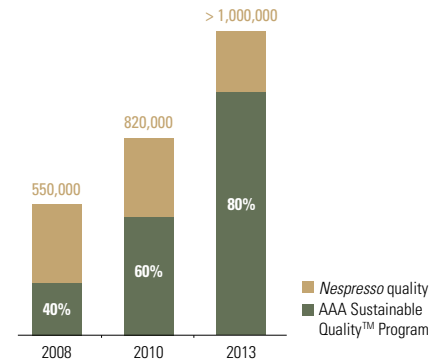


2013 COMMITMENT

- 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.

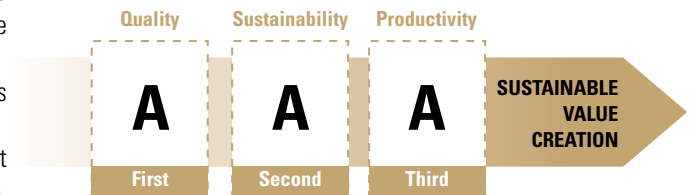


PROGRAM PROGRESS

- 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

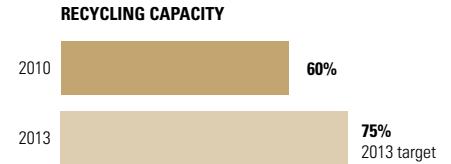


2013 COMMITMENT

- **Nespresso will put collection systems in place to increase our capacity to recycle used capsules to 75%.**

2010 UPDATE

- **By the end of 2010, the global collection capacity in place to collect used Nespresso capsules reached above 60%, with about 6,100 dedicated collection points around the world.**



PROGRAM PROGRESS

- At the end of 2010, 15 countries – from Australia to Austria and from the UK to the US – had systems in place to collect used capsules.
- In 2010, Sweden accepted the collection of used Nespresso capsules as part of its national used packaging recovery system (REPA).
- Nespresso is taking leadership responsibility by putting in place customised solutions that make it easier for its Club Members to return their used capsules. Nespresso has installed collection points in Nespresso boutiques, located collection points within the community and worked with courier companies to enable doorstep collection in select countries.
- In France, Nespresso was the creator and a founding member of Club du Recyclage des Emballages Légers en Aluminium et Acier (or CELAA – Club for Aluminium and Steel Light Packaging) in 2009. Its mission is simple: improve the collection and valorisation of small packaging materials made of aluminium by optimising selective sorting. Specifically, CELAA intends to work with stakeholders to ensure the recycling of light aluminium and steel waste packaging, as part of the national packaging recovery system, thus harmonising waste sorting for consumers.

WHAT WE LEARNED

- Today, we consider aluminium the best material for protecting our highest quality coffee.
- Aluminium has the advantage of being infinitely recyclable. An estimated one-third of world aluminium demand is met by recycled sources and 75% of the aluminium ever produced is still in circulation¹.
- Recycling aluminium saves approximately 95% of the energy required for primary aluminium production and produces only 5% of the CO₂ emissions compared with primary production².
- To increase Club Member participation in recycling, we have to make it as easy as possible for our Club Members and consumers to return used capsules for recycling.
- For our consumers, the easiest way to recycle used capsules is to throw the used capsules into national or supranational packaging recovery schemes. That's why we are working with our partners to put forward the case that used capsules should be categorised as packaging (and not a product). That would allow them to be collected in national or supranational packaging recycling schemes.
- The complexities of the recycling process and logistics of capsule recovery around the world, coupled with varying levels of public engagement and legislation, make a standardized approach to collecting used capsules difficult.
- According to a life cycle assessment (LCA) conducted by Quantis, a leading global LCA consultancy, recycling used Nespresso capsules reduces the carbon footprint required to make a cup of Nespresso coffee. In fact, according to the LCA, a Nespresso capsule sent to recycling has a significantly lower environmental impact than the alternatives studied.

¹ European Aluminium Association

² "Global Aluminium Recycling: A Cornerstone of Sustainable Development", International Aluminium Institute, 2006

KEY METRICS

MARKETS

- Australia
- Austria
- Belgium
- Brazil
- Canada
- France
- Germany
- Luxembourg
- The Netherlands
- Portugal
- Spain
- Sweden
- Switzerland
- UK
- USA

USED CAPSULE COLLECTION SYSTEMS IN PLACE

Collection points in *Nespresso* boutiques since 2010

Nespresso collection system since 2009. Now around 600 collection points, located in *Nespresso* boutiques, at retail partners and within the community.

Collection in *Nespresso* boutiques. Doorstep collection and Club Members can take their used capsules to 550 Kiala points.

Collection points in *Nespresso* boutiques.

Collection points in *Nespresso* boutiques.

Nespresso collection system since 2008. Now around 2,500 collection points in boutiques in the community and at Mondial Relay points. Doorstep collection in Toulon and Marseille with delivery service *Nespresso* "Your Time" and in Paris with courier. Pilot with regional packaging recovery systems in three departments (06, 83 and 46).

National used packaging recovery system - Green Dot Duales System, since 1993.

Collection in *Nespresso* boutique. Doorstep collection and our Club Members can take their used capsules to 50 Kiala points.

Doorstep collection and collection points in *Nespresso* boutiques. Collection at Kiala points to be rolled out in 2011.

More than 230 collection points in *Nespresso* boutiques and retail partners.

More than 220 collection points in *Nespresso* boutiques and retail partners. Also Puntos Verdes in Barcelona, consisting of 100 collection points at fixed points across the city and on mobile trucks.

National used packaging recovery system - Green Dot (REPA), since 2010.

Nespresso collection system since 1991. Over 2,400 collection points in *Nespresso* boutiques, retail partners, offices and in the community.

Collection in *Nespresso* boutiques and doorstep collection in London, Bristol and Bath, to be rolled out throughout the UK in 2011.

Collection points in *Nespresso* boutiques and doorstep collection in NYC.

NEXT CHALLENGES

- Meeting our commitment means increasing the number of collection points for used capsules located in close proximity to our Club Members, so that we can offer the capacity to collect up to 75% of all capsules sold worldwide.
- The percentage of capsules recycled depends on the participation of our Club Members. That is why *Nespresso* will continue to actively engage with and encourage our Club Members to bring back their used capsules for recycling afterwards.
- One area of improvement for *Nespresso* is the recycling of capsules used by our business customers. These capsules are different in shape and composition (including the amount of aluminium used) to the capsules used by Club Members. We are currently exploring solutions to recover the aluminium from these capsules and we will report on our progress later in 2011.

WHAT ECOLABORATION™ PARTNERS SAY:

"The leadership of Nespresso has been instrumental in bringing various stakeholders together in France under the CELAA banner and in driving the implementation of the unique aluminium recovery technology that we have installed in Pizzorno packaging sorting centre. This solution is proving to be a valuable tool to increase the recycling rate of small aluminium materials."

David Valour,
Pizzorno packaging sorting centre in France



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PROGRESS TOWARD OUR 2013 ECOLABORATION™ CARBON TARGET



2013 COMMITMENT

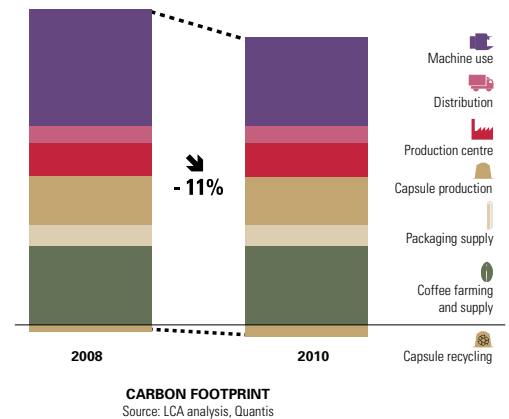
- Between 2009 and 2013, we will reduce the carbon footprint per cup of Nespresso coffee by 20%.

2010 UPDATE

- By the end of 2010, we had reduced the carbon footprint per cup of coffee by 11%.

PROGRAM PROGRESS

- This progress came mainly through the introduction of new Nespresso machine ranges equipped with an automatic stand-by mode (such as the CitiZ range) or an automatic power-off function (such as PIXIE).
- Since 2009, all new Nespresso machine ranges, such as CitiZ, have been equipped with an automatic stand-by mode or power-off.
- PIXIE, our latest innovation, automatically switches off after nine minutes of inactivity, consuming 40% less energy than a model rated as "A" according to FEA/CECED labelling.
- We have built environmental efficiencies into our production centre in Avenches, Switzerland, where an innovative energy recovery system reduces the amount of energy needed to roast green coffee by approximately 15%.
- We supported the launch of a Climate Friendly farming module in Guatemala, which helps farmers go above and beyond the Sustainable Agriculture Network (SAN) standards to further mitigate their own greenhouse gas emissions.



WHAT WE LEARNED

- Life cycle assessment (LCA) studies show that the biggest environmental impact comes from using the Nespresso machine and growing the coffee. The main focus for Nespresso is on reducing the carbon emissions from these areas.
- Going beyond carbon, we are taking action to improve the environmental impact of every aspect of our business, from the cherry to the cup, including: coffee cultivation, our operations, our machines and the disposal of capsules.
- Recycling aluminium produces only 5% of the CO₂ emissions compared with primary production¹. That's why Nespresso is continuing to actively engage with its Club Members and encourage them to bring back their used capsules for recycling.

ON THE GROUND – FOCUS ON THE COFFEE VALUE CHAIN

- In partnership with the Colombian Coffee Federation (FNC), we have invested in upgrading thousands of installations, including around 10,000 sun driers, 5,000 fermentation tanks and 8,000 water treatment units in Cauca and Nariño, Colombia, to improve environmental management of coffee farms in the region.
- Beyond this, our focus on reducing our carbon footprint has led us to support the recent launch of a Climate Friendly farming training module in Guatemala. This education program was created by our partners, including the Sustainable Agriculture Network (SAN), a local university, our sourcing partner EFICO and many others. The module includes voluntary guidelines to help farmers mitigate their own greenhouse gas emissions and better prepare for the new challenges that climate change is already bringing to coffee growing regions.
- The warehousing facilities of our sourcing partner, EFICO, are equipped with a highly efficient system to cool, warm, ventilate and sterilize the environment and onsite green energy production is provided by 4,600 solar photovoltaic cells.
- As well as reducing the carbon footprint of our operations, we are building additional environmental efficiencies into our production centres and logistics networks. For example, at Avenches, nearly 7,300 cubic metres of rain water, equivalent to two and a half Olympic swimming pools, are collected per year in a special collection tank on the roof. That water is used for various activities, including flushing the toilets and watering the green areas.

¹ "Global Aluminium Recycling: A Cornerstone of Sustainable Development", International Aluminium Institute, 2006

NEXT CHALLENGES

- Our efforts to improve our environmental sustainability can only be successful if we have a deeper understanding of our impacts across our entire business. While we have robust measuring and reporting systems in place for our own operations, the impacts of coffee growing are not as well understood. That is why we are investing in a solid, integrated and long-term measurement and reporting program for our sustainability performance, particularly in the countries from where we source our coffee. For example, we are working with Quantis, a leading global LCA consultancy, on a project to measure qualitative and quantitative effects of TASQ™, our sustainability self-assessment tool for coffee farmers. TASQ™ includes criteria such as wastewater management and coffee replanting.
- We are also launching our own AAA Sustainable Quality™ database to gather, analyse and share information about sustainability with coffee farmers, to help them plan for the future. It will allow us to tailor support in environmental management to farmers' individual needs, as well as providing a global overview of our program implementation and the adoption of sustainability best practice (Cluster monitoring & decision tool, traceability and geo-localisation).
- Furthermore, to ensure that we are helping to protect biodiversity in coffee growing regions, we need to measure the impacts we have on local ecosystems. We are developing a long-term project with IUCN to better understand the biodiversity impacts of our operations in coffee countries of origin, especially around coffee growing. A part of this work involves designing a robust eco-monitoring system to evaluate possible future initiatives.

WHAT ECOLABORATION™ PARTNERS SAY:

"The approach that Nespresso is taking to measure their carbon footprint and to set realistic and measureable targets to reduce it throughout the entire value chain is a commendable approach to addressing a serious issue."

Yves Loerincik,
CEO, Quantis