



**NESTLÉ AUSTRALIA LIMITED
NATIONAL PACKAGING COVENANT
2008-2009 ANNUAL REPORT**

30 OCTOBER 2009



www.nestle.com.au

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CEO Welcome

I have great pleasure in submitting Nestlé Australia's 2009 National Packaging Covenant (NPC) Annual Report.

This Annual Report provides an overview of our performance and progress in the 2008-09 period, against the targets and goals set out in Nestlé's NPC Action Plan 2008-2010.

In this eighth reporting year, we continue to demonstrate how we are embedding packaging stewardship across each and every part of our business.

Environmental sustainability is a critical component of Nestlé's Creating Shared Value (CSV) approach, a basic principle of business strategy for our company.

For our business to be sustainable over the longer term, we believe that we must create value for our shareholders and value for society at the same time.

That's why we've set out to maximise and enhance shareholder value by also creating value for our employees, farmers, the environment, consumers and the communities where we operate.

Bolstering our CSV efforts, this year has seen the release of Nestlé's first sustainability report, taking our packaging, along with broader environmental and social performance, to all of our regional stakeholders. In addition to providing our stakeholders with an overview of our achievements and some of the challenges facing our business, we are also using the report to drive continuous improvement in our social, environmental and economic performance.

We have strengthened our sustainability governance this year, including through the development of an executive-led Sustainability Council which has oversight of environmental sustainability strategy and delivery across our business.

We also continue to embed PIQET, a critical component of Nestlé's compliance with the Environmental code of Practice for Packaging' (ECoPP) and NPC, into our regional and global business.

We look forward to providing further updates on our performance through future NPC Annual Reports and our sustainability reports.



Graham Campbell
CEO Nestlé Oceania

Executive Summary

This 2009 National Packaging Covenant (NPC) Annual Report marks the eighth reporting year of continuous improvement for Nestlé Australia and its environmental performance in terms of packaging.

The report covers the first year (Year 1) of our performance against Nestlé's NPC Action Plan 2008-2010, and documents the company's progress against all four Covenant goals.

Key achievements and highlights from the past 12 months include:

- Release of Nestlé Oceania Sustainability Report, providing our regional stakeholders with comprehensive overview of our social, economic and environmental – including packaging – performance.
- Establishment of an Executive-led Sustainability Council and operational Sustainability Secretariat, strengthening governance and oversight of environmental and packaging issues and performance.
- Developed “Our Path to a Sustainability Strategy” to progress the establishment of Nestlé Oceania's Environmental Sustainability Strategy. The framework establishes the current focus areas and key actions, which included Nestlé's environmental packaging reduction commitments.
- Instituted further improvements to Nestlé's packaging procedures, including more fully incorporating the 'Environmental code of Practice for Packaging' (ECoPP) and the inclusion of a new environmental escalation process.
- Further embedded PIQET into our regional global business.
- Worked extensively across our business, including with suppliers, to implement a range of sustainable packaging initiatives.
- Continued to engage widely with industry on a range of packaging issues, including recyclability, recovery and waste management.
- Achievement of 4 out of 5 stars for the 2008 Year 3 report from the NPC Council.

About this report

Scope of report and approach to boundary setting

This report covers Nestlé Australia's (“Nestlé”) operations for the financial year 2008-2009. In terms of establishing an appropriate ‘boundary’ methodology for this report, we have adopted the same approach to that of our Sustainability Reporting and other regulatory reporting requirements, including the National Greenhouse and Energy Reporting (NGER) Scheme. As such, all businesses, facilities and brands which we have ‘operational control’ over are included in the scope of this report. This includes major business units such as Beverages, Foods, Confectionery and Snacks, and Ice Cream as well as global businesses including our pet food business, Nestlé Purina, Nestlé Nutrition and our Uncle Tobys business.

In terms of our packaging consumption and statistics, this data relates to local Nestlé Australia packaging information only, which accounts for 68% of our products by weight on the Australian market. It covers limited imported packaging or local contract manufacture, due to and inability to accurately measure imported or contract manufactured product materials at this stage.

Comment about verification

As with previous Nestlé Annual Reports, this report has been independently verified. Again, to improve consistency between our various sustainability reporting activities, we are using a

similar verification methodology and approach. The verification function has also been brought under a single provider, SGS Australia Pty Ltd. Please see SGS Australia's verification statement on page 31 for further information.

About Nestlé

Overview of Nestlé

Headquartered in Vevey, Switzerland, Nestlé was founded in 1866 by Henri Nestlé and is today the world's leading nutrition, health and wellness company. We employ around 283,000 people and operate some 456 factories in 84 countries around the world.

Nestlé Australia forms part of a wider regional Oceania business, which also incorporates New Zealand, and the Pacific Islands, including Papua New Guinea, New Caledonia and Fiji.

Across Oceania, we employ approximately 5,600 people at more than 90 sites, including factories, distribution centres and business and sales offices. Our regional head office is at Rhodes in Sydney and our Australian manufacturing stretches from Gympie in Queensland, through New South Wales and down to Victoria.

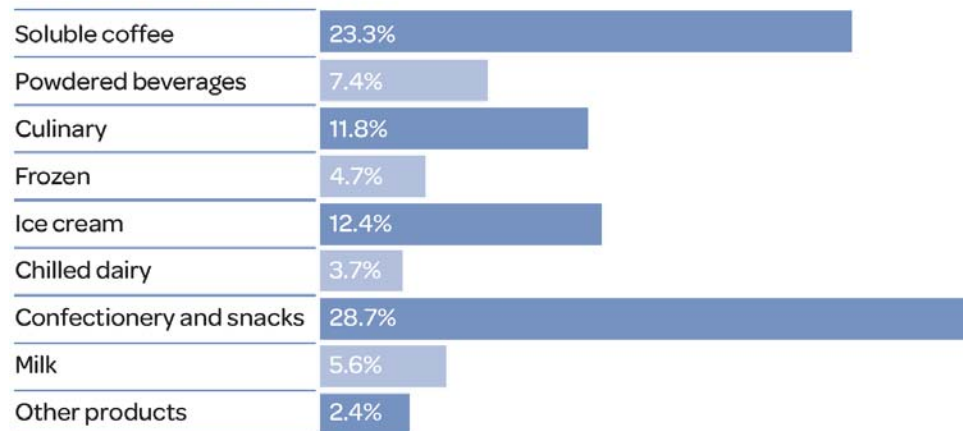
Nestlé Oceania at a Glance – 2008

- Oceania sales (AUD billion) – 2.462
- Total number of Full Time Equivalent (FTE) employees – 5,615
- Number of factories – 18
- Approximate number of product lines – 2,573

In Oceania, our businesses and brands sit under a number of key divisions, including Beverages, Foods, Confectionery and Snacks, and Ice Cream. Other business units operating in the region, such as Nestlé Waters, Nestlé Nutrition, Purina Pet Food, Nespresso and Nestlé Professional are managed on a global basis out of Switzerland. Our operations in Oceania incorporate our Uncle Tobys business. The Uncle Tobys business includes nutritious snacks, and a breakfast cereal business operated by Cereal Partners Worldwide (CPW), Nestlé's joint venture with US-based General Mills.

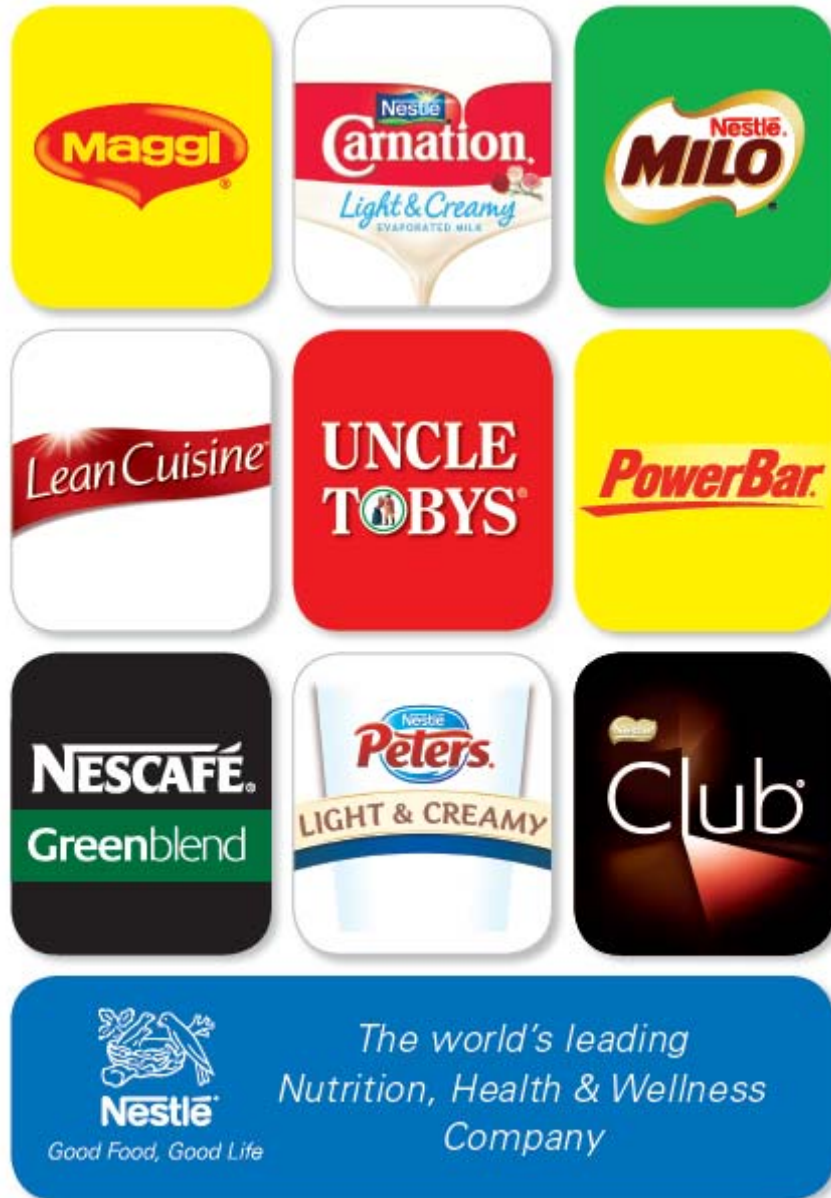
A breakdown of our Oceania sales in 2008, by business unit, is shown below.

AUD 2.462 BILLION SALES IN 2008



Our key brands

Some of our key brands are set out below.



Creating Shared Value at Nestlé

For our business to be sustainable over the longer term, we believe that we must create value for our shareholders and value for society at the same time.

This includes our consumers and customers, our employees, the farmers who are our suppliers, our environment and the communities in which we operate.

This fundamental business strategy is known across our business as Creating Shared Value.

Environmental sustainability forms a critical component of our Creating Shared Value approach. We believe our operations should be environmentally sustainable and efficient. This means reducing our direct impact on the environment, minimising the impacts of our packaging, and identifying and managing climate change and water risks across our business.

Our Priorities

Globally, our Creating Shared Value efforts come together around three priority areas. Not only are these key challenges facing our business, they are issues we genuinely believe, as a food and beverage company, we can positively contribute to.

- *Nutrition*: creating more nutritious, better tasting, affordable food and beverages for consumers at all income levels;
- *Water*: ensuring availability for our business, and safeguarding and improving people's access to fresh water, particularly in vulnerable regions;
- *Rural development*: investing in operations close to suppliers and consumers in emerging markets to build our market presence and improve the living standards of rural communities at large.

Nestlé Oceania Creating Shared Value Reporting: Taking packaging reporting to a broader audience

Nestlé Oceania released its first Creating Shared Value, or sustainability report, in April 2009. This report builds upon global Creating Shared Value Reports produced in 2008 and 2009. This Oceania report provides our regional stakeholders with a localised overview of our performance, our achievements and some of the challenges facing our business, in the areas of:

- Our employees
- Our environmental footprint
- Our community
- Sourcing, agriculture and our supply chain
- Products and consumers

The Oceania Creating Shared Value Report also includes detailed performance data and commentary on our packaging initiatives. The report can be found on our website:

www.nestle.com.au

Nestlé's packaging strategy

Packaging is of course essential for both Nestlé and for our consumers. It ensures the safety and quality of products, from manufacture through to storage, distribution and consumption. In addition, packaging contributes to product appeal, provides convenience, communicates

information (e.g. on nutrition and serving instructions), and may include safety and tamper-evidence features. Packaging can also help prevent or reduce product waste.

Types of packaging materials used

Nestlé's diverse product range means that our packaging – and the materials we use – is also diverse. We use a range of materials to ensure that our products are delivered to our customers and consumers in the same way they left the factory. Those material types are detailed below.

Packaging Type	Description	Typical Use
Carton Board	Folding cartons	Frozen Food, ice cream and confectionery
Coated Paper	Wax coated paper	Sugar confectionery wrappers
Composite Can	Containers with paper walls and metallic ends	Coffee substitute beverages
Corrugated Cases	Cases made of corrugated board	Transport containers for distribution purposes
Flexible Laminates	Monofilms & Composite flexible materials printed and laminated to form bags and wrappers.	Confectionery, Ice Cream & Pet Food, bags and wrappers. Powdered sauce and soup mixes. Frozen meals & Noodle meal wrappers. Single serve powdered products (coffee and Milo)
Glass	Clear glass containers	Sauce bottles and coffee jars
Metal	Steel containers & Aluminium	Steel cans for Milk products, coffee and Milo. Aluminium trays for frozen food, & foil for confectionery.
Paper	Paper labels & cups	Labels for cans, bottles and cartons. Paper cups.
Rigid Plastics Containers	Polyethylene Terephthalate (PET), Polypropylene, polystyrene, high density polyethylene	Confectionery trays, ice cream tubs, powdered foods and frozen food trays
Wood	Wooden sticks	Ice cream sticks

Sustainable packaging and product stewardship

Nestlé is focused on reducing the environmental impact of our packaging, whilst not compromising on these fundamentals of safety, quality and consumer acceptance.

We became a signatory to the National Packaging Covenant on September 28th 2000 and are committed to the key Covenant principles of product stewardship and shared responsibility. These commitments are consistent with those which are evident in Nestlé's worldwide and Oceania environment policies and in Nestlé's demonstrated efforts over the past decade to reduce packaging waste worldwide.

We integrate product stewardship into our business and report our performance and initiatives against the ten product stewardship areas each year through our National Packaging Covenant Annual Report and also through our sustainability report.

Our efforts are guided by the Nestlé Oceania Environmental Policy (available on our website: www.nestle.com.au/Community/Environment/Packaging) which commits us to "constantly strive to identify new ways to reduce packaging, to minimise waste, to prevent pollution, to save energy and to conserve natural resources" and "to address these concerns early in the design stage for new products and processes".

Building on the environmental policy is our Packaging Policy (available on our website: www.nestle.com.au/Community/Environment/Packaging) which brings together specific

environmental considerations relating to packaging, and applies to all of our products. The Packaging Policy reflects the goals of the strengthened NPC and the Environmental Code of Practice for Packaging (ECoPP).

Operationalising the principles of product stewardship and shared responsibility, our overarching packaging strategy comes together around three key components:

1. Working with our employees to develop the right procedures, the right behaviours and the right skills
2. Working with our consumers to encourage greater recycling and waste minimisation.
3. Working with our partners to ensure our suppliers are choosing the right materials.

Governance and oversight

Our recently formed executive-led Sustainability Council is the foundation of our sustainability governance structure. The Council includes representatives from Operations, Marketing, Corporate and External Relations and Human Resources. Supported by a Sustainability Secretariat, the Council drives the development of our regional sustainability strategy, improvements in our environmental, and, more specifically, packaging, performance, and provides oversight of operational issues and risks.

Packaging design

Packaging design remains a key focus of ours. We believe we can have the greatest impact in our overall packaging performance by fully incorporating environmental considerations in the design phase. In establishing new or revised packaging materials, we use the 'Environmental code of Practice for Packaging' (ECoPP). PIQET (Packaging Impact Quick Evaluation Tool) forms a critical component in driving improvements in packaging design also ensuring compliance with ECoPP.

PIQET is progressively being integrated into our processes and systems and, using the PIQET benchmarking capabilities, we are looking to establish appropriate targets and KPIs to drive measurable improvements in the full environmental performance of our packaging – from 'cradle to grave'.

Working with our employees

Working with our employees is a key component of our sustainable packaging strategy. This is consistent with our broader environmental sustainability strategy where our employees lead the identification and implementation of resource efficiency projects.

We start by establishing the right foundation, in terms of procedures and policies, to enable our employees to factor environmental considerations into their everyday activities.

Employee initiatives and leadership is celebrated and recognised through our awards platforms: the annual 'Gold Pack Packaging Awards' (which celebrates packaging innovation across our business) and the Nestlé Environment Awards (which recognises environmental sustainability initiatives at a factory level).

We are also facilitating innovation by embedding sustainable packaging into our major innovation initiative known as B3 ("Bigger opportunities, Better execution and Bolder initiatives"). This ensures environmental considerations are integrated into the innovation and product development process.

Finally, our entire workforce is kept informed of our packaging initiatives, policies and procedures through an extensive internal communications program.

Our challenges

Like many other businesses, Nestlé faces a number of packaging challenges across its business.

One of our challenges stems from a growing trend – reflecting smaller households in Australia and New Zealand in particular – toward smaller pack sizes and multi-packs. This in turn contributes to the use of more packaging per product.

Another challenge is the issue of Key Performance Indicators and the establishment of appropriate targets across our business. Consistent with our energy, water and waste targets, which we have had in place for a number of years, we would like to set specific quantitative targets to drive performance improvements in our packaging. The issue which we are grappling with is what these targets should look like, what issues they should cover, and where, in the packaging chain, they should target. Whilst we hoped to have these targets in place by June 2009, we did make some solid progress throughout the year.

Key to this was a PIQET audit, which was undertaken across some 65 Nestlé products. The audit explicitly aims to identify the key drivers which lead to negative/positive impacts. The results will be used to guide our efforts, and the establishment of targets, to ensure we are focusing on the material areas where we can make the greatest impact. Initial findings show that the most common driver of negative PIQET outcomes is New Product Development. This area will be a major focus when we finalise our performance targets.

Linked to the establishment of targets, the issue of data capture, coverage and reporting, in regards to our packaging performance, remains another challenge for our business. We rely on a high number of suppliers (representing around 80% of our packaging spend) for data on our packaging consumption. We had previously investigated an automated tracking tool, through our internal SAP system, however given some of the difficulties in integrating this we will continue to capture this information through supplier spreadsheets.

The involvement this year of our Safety Health and Environment and sustainability auditor, SGS Australia, has benefited this process in regards to data quality and coverage. We will work with SGS going forward to make further improvements in our processes and systems.

Reporting Against Action Plan Commitments

COVENANT GOAL 1: PACKAGING OPTIMISED TO INTEGRATE CONSIDERATIONS ABOUT RESOURCE EFFICIENCY, MAXIMUM RESOURCE RE-UTILISATION, PRODUCT PROTECTION, SAFETY AND HYGIENE.			
OBJECTIVE	ACTION	NESTLÉ PERFORMANCE MEASURE	08 /09 INITIATIVES
1 Ensure the <i>"Environmental Packaging Position"</i> for Nestlé Oceania and other relevant policies and procedures reflect the goals of the NPC and the Environmental Code of Practice for Packaging (ECoPP).	1.1 Continual review of the "Environmental Packaging Position" for Nestlé Oceania to ensure alignment with the goals of the NPC and ECoPP as well as the "Nestlé Environmental Policy"	<ul style="list-style-type: none"> Review Nestlé's Environmental Policy annually. 	<p>Nestlé will next undertake a review of its Environmental and Packaging Policy in 2010 to ensure it is still consistent with business and community expectations.</p> <p>As with previous years, Nestlé's Environmental and Packaging Policies (available on our website: www.nestle.com.au/Community/Environment/Packaging) were communicated widely throughout the year to Nestlé employees, including through email correspondence to employees and through notice boards in offices and factories.</p> <p>Further embedding NPC and the ECoPP within Nestlé's processes, we also made a number of developments regarding reporting and strategy:</p> <ul style="list-style-type: none"> Nestlé Oceania released its first Sustainability Report, the Oceania Creating Shared Value Report, in April 2009. Packaging forms an integral component of this report as a material environmental issue for Nestlé. Drawing on the ECoPP, the report articulated Nestlé's packaging performance, its approach to sustainable packaging and some broader challenges in reducing packaging consumption across our business. The report can be found on our website: www.nestle.com.au "Our Path to a Sustainability Strategy" was developed in September 2008 to progress the development of Nestlé Oceania's Environmental Sustainability Strategy. The group-wide document establishes the current focus areas and key actions, which included Nestlé's environmental packaging reduction commitments (under both the Australian National Packaging Covenant and New Zealand Packaging Accord).

	<p>1.2 Develop, implement and review procedures, which define the processes and approvals required for all packaging decisions across various divisions.</p>	<ul style="list-style-type: none"> ▪ Review Nestlé's Packaging policy and procedures including: <ul style="list-style-type: none"> ▪ Nestlé's Packaging Policy. ▪ Nestlé's Packaging Roadmap for Success. ▪ Nestlé's NPD procedures. 	<p>A number of developments were made regarding packaging policies and procedures throughout 2008/09.</p> <p>Strategy</p> <ul style="list-style-type: none"> • Nestlé's annual 'Packaging Roadmap for Success' establishes the overall strategy platform for the organisation across a number of areas including competitiveness, consumer, compliance and culture. <p>Governance and oversight</p> <ul style="list-style-type: none"> • Established a new Internal Sustainability Council and Sustainability Secretariat in March 2009. The Secretariat plays a specific role in overseeing environmental claims and packaging performance associated with new product development, including reviewing any poor performing PIQET assessments. Further details are included in the section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" below. <p>Policy</p> <ul style="list-style-type: none"> • As discussed under 1.1 Nestlé will undertake a review of its Packaging Policy in 2010 to ensure it is still consistent with business and community expectations. • Throughout the year, the Packaging Policy was communicated widely across the business. This ongoing communication ensures all employees are aware of the policy and Nestlé's commitments in regards to packaging. This included email communication, notice board alerts and through presentations at a number of internal forums, including a group-wide packaging conference; and foods division, operations and B3 (Nestlé's innovation process) meetings. <p>Procedures</p> <ul style="list-style-type: none"> • Nestlé's packaging procedures were updated in March 2009. Improvements which were made as part of this review include: <ul style="list-style-type: none"> ○ The 'Environmental Code of Practice for Packaging' (ECoPP) is explicitly referenced in regards to using the code in ensuring consideration of environmental impact in the design principles of any new or modified packaging component ○ Inclusion of a new negative environmental impact escalation process ○ Inclusion of the document <i>Determining PIQET Scenario Comparisons</i> to assist in identifying what comparisons should be considered as part of PIQET ○ Strengthening our requirements around environmental claims and in particular claims relating to 'sustainability' or 'green' claims in regards to our products and / or packaging
<p>2 Ensure that Nestlé's Package Development Procedure continues to incorporate the objectives of ECoPP.</p>	<p>2.1 Review, update and implement the New Package Development Procedure annually to incorporate the objectives of ECoPP.</p>	<ul style="list-style-type: none"> ▪ Review/update Packaging Development Procedure, annually. 	<p>A range of procedural improvements were made during 2008/09 to better incorporate the objectives of ECoPP. These include:</p> <ul style="list-style-type: none"> • Nestlé's packaging procedures were updated in March 2009. Improvements which were made as part of this review, including strengthening the inclusion of ECoPP, are discussed in the previous section. • Continued to integrate PIQET into our business, including through the development of a number of new tools and procedures. See 2.2 below and the section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" for more information. • While we made good progress in updating our recycling symbols procedure (which sets out how recycling symbols and environmental labelling can be used on our packaging) we unfortunately did not achieve this by June 2009. We will seek to ensure this review is completed in 09/10. • Sustainable packaging considerations have now been fully embedded in Nestlé's major innovation initiative known as "B3" or "Bigger opportunities, Better execution and Bolder initiatives". This has been a major initiative for Nestlé and means that environmental considerations regarding packaging are integrated into product development processes.

	<p>2.2 Continued Implementation of Packaging Impact Quick Evaluation Tool (PIQET) and review of the original PIQET to aid development of new PIQET applications in collaboration with Sustained Packaging Alliance (SPA).</p>	<ul style="list-style-type: none"> ▪ Implementation and review of PIQET to help evolve future PIQET applications for enhanced product assessment and improved processing for new package developments. 	<p>As an ongoing Project Partner, Nestlé continued its support and funding of PIQET. Nestlé globally also signed a sponsorship agreement in December 2008 for the continued development of PIQET abroad.</p> <p>A number of initiatives were undertaken throughout 2008/09 to further develop PIQET in both Australia and abroad:</p> <ul style="list-style-type: none"> • Commenced a comprehensive PIQET audit regarding how Nestlé is tracking in terms of implementation of PIQET, as well as to identify the key drivers which lead to negative/positive impacts. Further information can be found in the section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" below. • Launched new PIQET comparison guidelines in February 2009. These new guidelines provide a framework for considering all potential scenarios in which a new product may be compared with and benchmarked against. • Developed a results calculator to better communicate improvements in PIQET results internally across the business. As from April 2009, this calculator is also now being used globally. • Continued to work with the Sustainable Packaging Alliance (SPA) to progress a range of modifications and improvements to PIQET, based on user experience in both Australia and globally. • Participated in an industry survey and provided insight on how PIQET is being used at Nestlé for a paper which was presented by Dr Karli Verghese at the 6th Australian Conference on Life Cycle Assessment in February 2009. • Continued work on rolling out PIQET across our global operations. • Packaging Specialist, Jacky Nordsvan, presented Nestlé's packaging initiatives to UTS Year 3 Industrial Design Students. • A range of internal communication activities were completed throughout the year to improve awareness and understanding of PIQET across the business. This involved email alerts and communication of new developments, procedures, documents and processes in regards to the operational delivery of PIQET. <p>See the section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" for more information on how are integrating PIQET into our business.</p>
	<p>2.3 Deliver internal training on the environmental and packaging policies and procedures including, use of the Package Development Procedure for all Packaging Technologists, Brand Managers and Marketing staff.</p>	<ul style="list-style-type: none"> ▪ Ongoing training for current and new Packaging Technologists, Brand Managers and Marketing staff. ▪ Quantify staff trained and types of training annually. 	<p>A range of communication and training initiatives were undertaken throughout the year. This has included:</p> <ul style="list-style-type: none"> • Ongoing communications regarding the Nestlé Environmental and Packaging Policies to all employees through email alerts, notice boards and presentations • PIQET training provided for an additional six employees. As at 30 June 2009, a total of 23 employees have now been trained on PIQET. • Presentations at a number of internal meetings and forums, including the Oceania Packaging Technologists Conference, Purina and Musashi meetings, Sustainability Council, Business Application Managers Meetings, Operations Forum, Infant Nutrition meeting. • Presentation to stakeholders at the Swiss-based Nestlé Research Centre regarding Nestlé Australia's implementation of PIQET.

	<p>2.4 Continue to monitor packaging information to track and report annually each year on:</p> <ul style="list-style-type: none"> (i) Tonnes of packaging by material type by source (local or imported); (ii) Tonnes of packaged product sold; (iii) Ratio of product to packaging (by weight); (iv) Tonnage of "non-recyclable" packaging sold by material type and total; (v) Total "recyclable" packaging as a % of total packaging sold; (vi) Case studies showing quantified improvements in environmental packaging; and (vii) Examples of changes to protection, safety, hygiene, shelf life or supply chain to be identified and quantified. 	<ul style="list-style-type: none"> ▪ Packaging information to generate annual reports to July each year. 	<p>Nestlé monitors and reports its packaging performance each year, including through the NPC Annual Report process, our annual IDAS report and also, more broadly, through our Oceania Creating Shared Value Report. The establishment of the Creating Shared Value Report takes our packaging performance and key initiatives to a much broader group of stakeholders, for example employees, government, green groups, suppliers, customers and, importantly, our consumers.</p> <p>Nestlé has been investigating an automated tracking tool, through our internal SAP system, to capture data. Integrating packaging within this system is proving difficult and at this stage we will continue to capture this information manually through supplier spreadsheets.</p> <p>Our packaging statistics are set out in the section "Packaging Performance".</p> <p>See section 3.2 and also the section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" for information on how we have achieved quantified improvements in environmental packaging.</p>
	<p>2.5 Develop performance targets in line with Covenant Key Performance Indicators.</p>	<ul style="list-style-type: none"> ▪ Performance targets to be established ▪ Review and report against performance annually each year. 	<p>Whilst good progress has been made, Nestlé unfortunately did not meet its objective of establishing performance targets within this reporting period. To progress the development of such performance targets, Nestlé commenced a comprehensive audit, analysing the PIQET assessments of some 64 products.</p> <p>The PIQET audit explicitly aims to identify the key drivers which lead to negative/positive impacts. The results will be used to guide our efforts, and the establishment of targets, to ensure we are focusing on the material areas where we can make the greatest impact. Initial findings show that the most common driver of negative PIQET outcomes is New Product Development. This area will be a major focus when we finalise our performance targets.</p> <p>Based on these findings we are now engaging with key business units internally and we seek to finalise our performance targets in 2009/10. Resulting performance targets will be integrated into our strategy process, the 'Packaging Roadmap for Success'.</p>

<p>3 Establish a structured process for engaging with Nestlé's packaging suppliers and customers regarding the National Packaging Covenant commitments</p>	<p>3.1 Write to supplier and customers, annually, to communicate the Nestlé Oceania <i>"Environmental Packaging Policy and Strategy"</i> and the requirements of Nestlé's two year Action Plan.</p>	<ul style="list-style-type: none"> ▪ Annually quantify percentage of suppliers and customers contacted. 	<p>Nestlé contacts its suppliers each year regarding its commitments to environmental packaging. This comprehensive process helps Nestlé work with its suppliers in minimising the impact of packaging on the environment.</p> <p>In August 2008, Nestlé wrote to 46 (out of approximately 70 packaging suppliers) of its largest packaging suppliers (representing around 80% of our packaging spend). In addition to capturing performance data on Nestlé's packaging, this process also:</p> <ul style="list-style-type: none"> • Captures information on the initiatives that have been completed in conjunction with Nestlé Australia to reduce the environmental impact of packaging in our products • Reiterates our Packaging Policy • Sets out our current packaging strategy and key priorities • Identifies potential packaging improvement projects going forward • Keeps Nestlé up to date with new technologies and materials <p>Going forward, we will seek to better integrate customers within this process, alongside the current supplier engagement.</p>
	<p>3.2 Work with suppliers and customers to:</p> <ul style="list-style-type: none"> ▪ Improve; design, manufacture, marketing and distribution of packaging utilising ECoPP. ▪ Identify and report on changes to protection, safety, hygiene, shelf life or supply chain considerations affecting amount and type of packaging. 	<ul style="list-style-type: none"> ▪ Outline the number of packaging improvements identified. ▪ Effect of improvements made to packaging on environmental impacts quantified. ▪ Number of examples of changes to protection, safety and hygiene, shelf life or supply chain considerations identified. ▪ Effect of changes quantified. 	<p>Nestlé continued to work extensively with its suppliers on sustainable packaging initiatives. Six specific initiatives were implemented with suppliers in 2008/09:</p> <ul style="list-style-type: none"> • Reduced cardboard thickness for NESCAFÉ trayboards, resulting in an annual reduction of 35 tonnes of cardboard. • Reduced corrugated board across ice cream shippers at Nestle Mulgrave, reducing around 0.7 tonnes per annum. • Removed a top flap from display trays across the Quick-Eze Multi Pack Range. The new open-top display tray uses 25% less cardboard while carrying the same amount of products as the former design. • Reduced cardboard weight across multi-pack ice cream range, resulting in an annual reduction of around 18 tonnes • Progressively reduced the board thickness (from 500 micron to 465 micron) for the majority of our product range at our Pakenham facility. • Inclusion of 'economy flaps' across the majority of our Pakenham carton range. <p>See the below section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" for more information on the above – and other – environmental packaging initiatives.</p>

	<p>3.3 Utilise outcomes of supplier engagement as a basis for an annual environmental and Covenant performance assessment of existing suppliers and for all new suppliers under consideration.</p>	<ul style="list-style-type: none"> ▪ Number of assessments undertaken. ▪ Number of suppliers who meet performance requirements. 	<p>Nestlé continues to engage both existing and new suppliers to drive improvements in our sustainable packaging performance.</p> <p>Existing Suppliers</p> <p>Nestlé undertakes an annual performance review of its major packaging suppliers to discuss how we can jointly address environmental issues associated with our packaging and continue to meet our NPC commitments. Our formal Supplier Review Program, which incorporates a review of environmental performance, covered some 1/3 of our packaging spend in 2008/09. We also held formal business reviews with select Suppliers, which also incorporate environmental considerations, representing an additional 26% of packaging spend. In addition, we meet with suppliers on an ongoing, informal, basis to continually identify and discuss initiatives to improve our packaging performance.</p> <p>All packaging suppliers met Nestlé’s packaging requirements over the 2008/09 financial year.</p> <p>New suppliers</p> <p>As part of our Oceania Request for Proposal process, we formally assess all new packaging suppliers against a range of environmental sustainability factors. This forms part of our selection criteria and we look for suppliers to address a range of explicit environmental criteria, including:</p> <ul style="list-style-type: none"> • Environmental policies and management systems • Commitment to the National Packaging Covenant • Specific targets/objectives the company has in place to minimise packaging impacts • Actions/projects the company has taken/implemented to increase the recyclability of packaging products • Environmentally friendly packaging products offered by the company • Details of any environmental/sustainability opportunities identified for Nestlé with regards to packaging
<p>4 Seek to engage the reprocessing industry with a view to overcoming barriers to the recyclability of certain packaging.</p>	<p>4.1 Seek to build a structured engagement process with the reprocessing industry to identify, discuss and overcome barriers to recyclability of certain packaging, particularly with regards to the introduction of new products and packaging types or combinations.</p>	<ul style="list-style-type: none"> ▪ Outline improvements in recyclability of Nestlé’s products resulting from industry engagement. 	<p>Throughout 2008/09 Nestlé continued to engage with key industry players regarding how guidelines and closer partnerships can be established to improve the recyclability of our packaging. In particular, Nestlé has been advocating, through the Australian Council of Recyclers (ACOR), for the development of national recyclability design guidelines.</p> <p>See the section “Covenant Goal In Action: Case Studies, Initiatives And Challenges” below for more information on this initiative along with a case study on how Nestlé has worked with the reprocessing industry to improve the recyclability of our Nescafe range.</p>

COVENANT GOAL IN ACTION: CASE STUDIES, INITIATIVES AND CHALLENGES

Oversight and governance – internal sustainability council

Strengthening governance and oversight of environmental management across Nestlé’s business, we established a Nestlé Sustainability Council and Secretariat in March 2009. The Council is made up of senior executives from key operational areas including Marketing, Corporate and External Relations, Human Resources and Operations. The Council ensures sustainability is fully integrated into Nestlé’s business and operating model. The Secretariat also plays a specific role in overseeing environmental claims and packaging performance

associated with new product development, including reviewing any poor performing PIQET assessments. High risk, or significant packaging issues, are escalated by the Secretariat to the Sustainability Council for action.

The Council will also take the lead on strategic sustainability matters, including, for example, the establishment of performance targets and KPIs for Nestlé's packaging initiatives. The Council also signs off on external reporting, through both the National Packaging Covenant and also our broader sustainability reporting.

Embedding PIQET into our business

PIQET forms a critical component of Nestlé's compliance with the Environmental code of Practice for Packaging' (ECoPP). More broadly, PIQET is being used across the business to drive operational improvements in our packaging practices, in particular around New Product Development. Over the year, Nestlé has made some important developments in embedding PIQET into our systems and processes.

PIQET Comparison Guidelines

PIQET is a benchmarking tool and therefore requires comparisons to be made against current packaging or competitor packaging. To assist in identifying what comparisons should be considered, Nestlé developed new PIQET Comparison Guidelines in February 2009. Importantly the guidelines ensure the appropriate scenarios are used within PIQET, therefore providing a more accurate and comprehensive review process.

PIQET Results Calculator

Nestlé has designed and launched a new PIQET Results Calculator, which allows packaging technologists to clearly communicate the potential environmental outcomes that changes to packaging may bring about. This process is designed to engage and motivate project teams by clearly demonstrating the environmental performance of an existing product with a proposed, new, product. Environmental outcomes are presented in an easy to understand format, such as potential savings of the new product in terms of number of showers (water), wheelie bins of waste (waste) and household energy consumption (energy).

Global delivery

Nestlé continues to roll out PIQET across its global operations. A Nestlé Australia employee and PIQET "super user" visited Switzerland in November / December 2008 to complete an evaluation into the use of PIQET outside of Australia. This Australian Packaging specialist, who has since been seconded to Switzerland for two years to further progress the use of PIQET globally within Nestlé, also developed a "super user" procedural manual for local and global use.

The integration of PIQET in Nestlé's packaging strategy was reported to shareholders and investors globally through our Annual Management Report.

Developing performance targets

Following a comprehensive audit, PIQET is being used as the basis of our packaging performance targets which we are currently putting in place. The PIQET audit helped us identify the key drivers which lead to negative/positive impacts. Initial findings of the audit identified four key drivers which, most often, negatively impact PIQET outcomes. The most common drivers of negative outcomes include New Product Development (and changes in packaging) and supply chain factors. This major audit, which will be completed next year, ensures Nestlé, in developing future initiatives and performance targets, is targeting the areas which provide the greatest opportunity for improvement.

We have long believed that our focus, and subsequently our performance targets, should incorporate the 'full' environmental impact of our packaging, from how and where the materials are sourced, their transport and how they are eventually disposed. As such, PIQET will continue to be a critical tool for us going forward.

Improving our Packaging Performance – case studies

We work extensively with our suppliers and across our entire business to drive tangible improvements in our packaging performance. We recognise these innovations through our annual 'Gold Pack Packaging Awards', which celebrates packaging innovation across our business, and also more broadly through our Nestlé Environment Awards. Throughout the year, a number of innovative projects emerged across our business.

NESCAFÉ – improving recycling

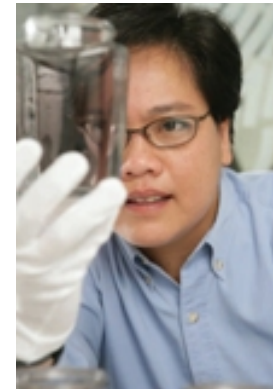
Over the past few years, we've been working to address a recycling issue for a NESCAFÉ product, Short Black, which is packaged in a tinted jar.

Initially, it was only partially acceptable at recycling sorting facilities. The degree of the jar's transparency and its level of tint meant that the recycling sorting technology couldn't identify the tinted components of the jar as glass and ended up rejecting much of the potentially recyclable material.

Nestlé felt that was unacceptable for a company that is committed to reducing waste. A recycling partner gave us some direction on how we could make the packaging easily identified for recycling while retaining our product branding. We then worked with our packaging supplier to modify the formulation of the tint for a more transparent shade.

Marketing reviewed the changes to ensure the aesthetics of the pack still met consumers' expectations and our factory in Gympie did trials to ensure the changes didn't adversely affect production.

A test of these lighter shade jars conducted by the recycling partner saw a 30% increase in acceptability for recycling and diverted some 10 tonnes of glass per annum from landfill. While we still have more to do on this product, including addressing further recycling issues related with the product's lid, this is a great result and ultimately makes for an improved product when it comes to the environment.



Shawnee Henson, Packaging Specialist, Manufacturing Services, Beverages has been part of the work that has helped us turn the corner in recycling

Packaging innovation at Pakenham

Nestlé's factory in Pakenham, where lasagnes, frozen meals (such as Lean Cuisine) and pizzas are made, continues to innovate in terms of sustainable packaging.

Spurred on by a change of supplier, Nestlé Pakenham set out to reduce packaging materials across its product range through two key initiatives.

- Reduction in the overall size of cartons – By reducing the height of internal flaps, Nestlé Pakenham was able to reduce the overall size of its cardboard carton.
- Reduced weight of carton board –By reviewing the board grade Nestlé Pakenham was also able to achieve a 7% reduction in board thickness.

Both initiatives combined to achieve a saving of 21.5 tonnes of carton board per annum.



New Friskies carton design reduces packaging

Purina, Nestlé's pet food business, has achieved significant reductions in carton board usage across its *Friskies* Dry Cat Food Range. The reductions were achieved through a redesign of the cartons' pour spout. Replacing a previous pour spout, which extruded from the carton, the new pour spout consists of a perforated opening, built into the carton itself.

As a result, Purina has achieved a 13.6% reduction in board usage or a saving of some 80,505 kg per annum.

The new pour spout, coupled with changes to the way the carton is folded and glued, has also resulted in reduced risk of infestation. The new pour spout is also easier to open and use compared to the old design.

Recognising this innovation in packaging design, Purina was awarded the overall winner at the 2009 Nestlé Oceania Gold Pack Packaging Awards.



A redesign of a pour spout has achieved significant reductions in carton board and reduced the risk of infestation across the *Friskies* range

National Recyclability Guidelines

Nestlé has been advocating, including through discussions with major recyclers and through the Australian Council of Recyclers (ACOR), for the development of national recyclability guidelines. Nestlé believes the establishment of such guidelines is crucial in assisting brand managers to design packaging in a way which maximises the recovery of our packaging.

A range of issues, including colour, material structure, size and shape, affect the recyclability of our packaging materials. Based on experiences abroad, we feel that user friendly guidelines, that addresses these issues from the outset, in the design phase, is the best way to overcome barriers and improve the recyclability of packaging. The earlier in the design phase we consider these issues, the more flexibility we have to change the outcome.

Unfortunately, like many companies, we have experienced the negative consequences of not getting this right early on in our process. The Short Black case study above is a prime example of this and we want to work with the industry to ensure we overcome these recycling barriers across all of our products.

We will continue our discussions with ACOR and with other specific industry players over the coming year.

COVENANT GOAL 2:
EFFICIENT RESOURCE RECOVERY SYSTEMS FOR CONSUMER PACKAGING AND PAPER

OBJECTIVE	ACTION	NESTLÉ PERFORMANCE MEASURE	08 /09 INITIATIVES
<p>5 Maximise the recovery of post-consumer packaging generated by Nestlé staff.</p>	<p>5.1 Enhance collection facilities, beyond current coverage for the on-site collection of post-consumer packaging recycling generated by Nestlé factory and office staff in kitchen and café areas.</p>	<ul style="list-style-type: none"> ▪ Enhance on-site recycling facilities for collection of post-consumer packaging from factory and office staff. ▪ Reflect the enhanced collection facilities and other environmental initiatives across Nestlé's Environmental Management System and/or Corporate Social Responsibility Reporting frameworks. 	<p>Nestlé continues to maintain on-site recycling facilities for the collection of post-consumer packaging from factory and office staff. Recycling facilities are available at all factories and offices.</p> <p>Materials recycled include plastics, metals and cardboard. Where food safety regulations allow, organics and glass recycling are also provided at some sites.</p> <p>Effective waste management, including the provision of on site recycling facilities, forms an integral part of our ISO 14001-compliant 'Nestlé Safety, Health and Environment System'. Each of our factories is required to maintain a management system which meets the requirements of the corporate Safety, Health and Environment System and subsequently ISO 14001.</p> <p>To date, most of Nestlé factories and distribution centres have achieved ISO 14001 certification with the four remaining Australian sites (Notting Hill, Victoria; Pakenham, Victoria; Carole Park, Queensland; and Arndell Park, NSW) undertaking certification throughout 2009. Our Rhodes head office is also now certified under ISO 14001.</p>

COVENANT GOAL IN ACTION: CASE STUDIES, INITIATIVES AND CHALLENGES



Nestlé Broadford Leads Recycling Initiatives

Waste management and recycling is firmly on the operational agenda at Nestlé's factory in Broadford, Victoria. Broadford is where we make the ALLEN'S range of confectionery.

Recycling of plastic film

Upon completing a comprehensive waste audit, which highlighted the major sources of waste across the factory, Nestlé Broadford set out to find a solution to the large amounts of plastic film used at the factory.

Previously, the plastic film was categorised as 'secure dumping' and, along with organics and hazardous waste, was being sent to landfill. This amounted to some 18.6 tonnes of plastic film going to landfill each year, all at a significant cost to the business.

Working with a recycling company Nestlé Broadford began exploring some recycling options for the plastic film. Following some analysis, our recycling partner advised us that the film could be recycled if it was collected and baled correctly.

A baler was subsequently purchased and the plastic bales are collected monthly and sent for recycling.

Recycling facilities for employees

To bring better recycling facilities to employees, beginning in early 2009, Nestlé Broadford has also been working extensively with its local council on a recycling initiative for the staff canteen. Employees will now be able to recycle a range of post consumer items, including plastic bottles, milk cartons, tin foods, MILO and NESCAFE containers and glass bottles.



COVENANT GOAL 3:
CONSUMERS ABLE TO MAKE INFORMED DECISIONS ABOUT CONSUMPTION, USE AND DISPOSAL OF PACKAGING OF PRODUCTS

OBJECTIVE	ACTION	NESTLÉ PERFORMANCE MEASURE	08 /09 INITIATIVES
<p>6 Ensure Nestlé customers are aware of correct recovery and disposal options for Nestlé products.</p>	<p>6.1 Work with industry groups to improve the recovery of packaging from Nestlé products consumed both in the home and away-from-home, including recovery from public places.</p>	<ul style="list-style-type: none"> ▪ Identify industry groups. ▪ Percentage of industry group meetings attended. ▪ Number of projects resulting from collaborations. 	<p>Nestlé continues to work closely with industry groups to improve the recovery of our packaging. Throughout the year, five projects emerged from our collaborations with industry:</p> <ul style="list-style-type: none"> • Continued to actively participate in the Australian Food and Grocery Council's (AFGC) Sustainable Practices Committee. Key initiatives undertaken throughout the year to improve recovery and recyclability of our products include: <ul style="list-style-type: none"> ○ Contributed to the development of an industry fact sheet "The 4R's of Packaging". The fact sheet assists companies develop strategies to ensure its packaging is more sustainable ○ Contributed to initiatives on consumer engagement regarding litter and recycling, including the development of consistent environmental labelling on packaging. To improve knowledge sharing, Nestlé provided industry with a copy of its internal environmental labelling standard ○ Participated in the AFGC's submission to the Department of Environment, Heritage, Water and the Arts regarding its consultation paper on a national waste policy. As part of its submission, the AFGC stressed the importance of addressing packaging waste in the context of a broader national waste policy • Participated extensively in industry discussions regarding NPC's post 2010 development. As part of this, we presented at an AFGC workshop in October 2008, which looked at future strategies and policies for packaging waste management. The Nestlé presentation covered process issues regarding the current NPC and provided insight on the establishment of targets using a "origin" (where the material comes from), "footprint" (its actual impact) and "end of life" (recovery and recyclability) framework • Continued work with the Polystyrene Industry Recycling Group, including participating in a new report into the recycling of post-consumer rigid polystyrene packaging. The purpose of the study was to provide an overview of the current state of rigid polystyrene recycling and to define barriers, if any, to collection of rigid polystyrene in kerbside recycling systems. <p>It is not currently practical to quantify the percentage of industry group meetings attended or number of cooperative meetings held with industry groups. We will however look to amend this performance measure (along with 6.3) in future Action Plans to ensure it is focused on value-generating industry engagement and outcomes and not simply the number of meetings attended.</p>
	<p>6.2 Continue, through packaging reviews to review existing and new products every year to ensure disposal guidance is provided on all products and an identification number on all plastic rigid packaging by July each year.</p>	<ul style="list-style-type: none"> ▪ Percentage of products with correct disposal guidance. ▪ Percentage of plastic rigid packaging with identification number. 	<p>In 2008/09 Nestlé undertook an audit of disposal and recycling communications on our packaging. Of the 283 products reviewed, 43 (15%) had missing disposal/recycling symbols and of the 28 products made with rigid plastics, 1 (3.5%) had a missing symbol. See the below section "Covenant Goal In Action: Case Studies, Initiatives And Challenges" for information.</p>

	<p>6.3 Work with industry associations to promote recycling and to support the provision of information to consumers on packaging.</p>	<ul style="list-style-type: none"> ▪ Number of cooperative meetings held and/or initiatives undertaken in association with industry associations. 	<p>This is discussed in detail in section 6.1.</p>
	<p>6.4 Continue to expand the provision of environmental and packaging related information contained within the Nestlé Australia internal Intranet to assist in the education of Nestlé staff</p>	<ul style="list-style-type: none"> ▪ Intranet updated on an annual basis. ▪ Intranet usage monitored on an annual basis. ▪ Environment and packaging related policies and procedures made available. ▪ Nestlé Action Plans and Annual Reports published. 	<p>Working closely with our employees is a critical component of our overarching packaging strategy. We seek to fully engage our employees through a range of mechanisms, including our staff intranet site. This ensures all employees are aware of our processes and policies and more broadly, helps to create a culture of packaging stewardship across our business. Throughout 2008/09 a range of updates were made to our intranet, including:</p> <ul style="list-style-type: none"> • Regular updates of consumer packaging complaints and progress against complaints targets • Updates regarding certified paper – e.g. paper promoting responsible forestry and recycled fibre • Media articles and presentations • ACCC updates regarding ‘Green Marketing and the Trade Practices Act’ • PIQET updates and developments • Packaging and Safety Health and Environment events • New procedures, documentation and policies • Publishing of environmental and packaging policies along with National Packaging Covenant Action Plans and Annual Reports. <p>The environmental packaging intranet site registered 677 visits for the 08/09 year</p>

	<p>6.5 Continue to promote staff awareness and participation in the National Packaging Covenant and Nestlé's action plan initiatives</p>	<ul style="list-style-type: none"> ▪ Number of internal & external articles/communications published 	<p>Nestlé continued to promote staff awareness across the business regarding our environmental packaging initiatives. We also promote our NPC commitments and packaging initiatives, externally, to our consumers and the community.</p> <p>A range of specific communication initiatives have been undertaken throughout the year, examples are set out below. In total nine internal and external articles were published.</p> <p><i>Awards and recognition</i></p> <p>We continued to promote innovation in sustainable packaging – and recognise those initiatives which assist Nestlé achieve its commitments under the NPC – through a range of internal awards platforms, including the Nestlé Oceania Gold Pack Packaging Awards and the Nestlé Environment Awards. See the below section “Covenant Goal In Action: Case Studies, Initiatives And Challenges” for information.</p> <p><i>Articles and newsletters – internal and external</i></p> <ul style="list-style-type: none"> • Several articles in the packaging newsletter, <i>Nestlé Oceania Packaging Year in Review 2008</i> on a range of sustainable packaging issues such as PIQET and NPC • Article on PIQET in our internal newsletter, <i>Nestlé Life</i> • Article on PIQET in our consumer magazine, <i>Nourish</i> • Article on Consumers and environmental sustainability in our internal nutrition magazine, <i>Nutrends</i> • Internal communications regarding Nestlé's Packaging Awards, <i>Oceania Gold Pack Awards</i> • Featured in a <i>Manufacturers Monthly</i> article regarding our nomination in the Endeavour Awards • Various internal and external communications, including through the staff newsletter, <i>Nestlé Life</i>, regarding the release of Nestlé's first sustainability report in April 2009.
	<p>6.6 Continue to expand the provision of environmental and packaging information contained within the Nestlé Australia <i>website</i> to assist in the education of the Australian community regarding packaging.</p>	<ul style="list-style-type: none"> ▪ Website updated on an annual basis ▪ Website usage monitored on an annual basis. ▪ The consumers can make enquiries through the website. ▪ Ensure Environment Policy and Packaging Policy for Nestlé Oceania are available. ▪ Ensure Action Plans and Annual Reports are available. ▪ Ensure Recycling and disposal information for post consumer packaging are available. 	<p>Through the Nestlé Australia website, we make a range of information available to our consumers and stakeholders on our packaging policies, procedures and our performance. We also provide information on how our consumers can best recycle and dispose of our products, including by directing consumers to Planet Ark information resources.</p> <p>To enable our consumers to track our performance and commitments, we make available our National Packaging Covenant Action Plans and Annual Reports.</p> <p>In a new initiative this year, we also promoted our 2008 sustainability report widely to our consumers through the website and directly to consumers. This report contained detailed information on our packaging performance and initiatives.</p> <p>The packaging section of the website (www.nestle.com.au/Community/Environment/Packaging) registered some 1,095 unique visits for the 08/09 year.</p>

COVENANT GOAL IN ACTION: CASE STUDIES, INITIATIVES AND CHALLENGES

Sustainability Reporting – engaging consumers and employees

In April 2008 Nestlé Oceania released its first sustainability – or “Creating Shared Value” – report. This report complemented Nestlé global reporting and more fully set out to regional stakeholders and consumers Nestlé’s social, environmental and economic performance. The Global Reporting Initiative was used as a foundation in determining the framework for this first report as well as ensuring the quality of the reported information.

Given packaging represents a ‘material’ environmental issue for Nestlé Oceania’s business, packaging formed a key component of our Creating Shared Value report. The report contained commentary on our packaging strategy, current challenges, case studies and initiatives, and set out our commitment to packaging initiatives such as the National Packaging Covenant. The report also included a range of packaging performance indicators, including:

- Net tonnes of product sold
- Net tonnes of packaging used
- Product to packaging ratio
- Total ‘recyclable’ packaging sold (tonnes)
- ‘Non-recyclable’ packaging sold (tonnes)
- Recycled content by weight (%)

Importantly, these performance areas will be reported against each year, giving our stakeholders the ability track our packaging performance over time. To drive continuous improvement as part of the reporting process, we are also establishing a range of targets and KPIs, including for our packaging activities.

The Creating Shared Value Report will continue to complement Nestlé’s NPC Annual Reporting, and extend our packaging reporting to key stakeholders such as our Oceania consumers and employees.

Recognising innovation in packaging

We celebrate and recognise innovation in packaging through a number of internal award platforms.

The *Nestlé Oceania Gold Pack Packaging Awards*, which celebrates packaging innovation across our business, includes a specific environmental category to recognise and reward leading environmental packaging initiatives. Other categories include: innovation, shelf ready, and easy open / functionality. These categories seek to recognise activities which are helping Nestlé deliver its packaging strategy and meet its commitments under the NPC and Environmental Code of Practice for Packaging (ECoPP). The overall 2009 winner was awarded to Nestlé Purina for its Infestation Resistant Carton. In addition to reducing the risk of infestation, the new packaging also reduces carton board usage by 14%.

The *Oceania Environmental Award* recognises environmental sustainability projects and initiatives across our sites and factories. The awards celebrate a range of initiatives including, energy and water conservation, environmental education programs and packaging initiatives. 2009 environmental project winners went to Nestlé Campbellfield (for its stirrer management program) and Nestlé Gympie (for reductions in greenhouse gas emissions through its new boiler project). The 2009 awards also attracted a number of packaging nominations from across the business.



Disposal and recycling communications

Recycling is an important component of our overarching sustainable packaging approach. First we need to ensure our products *can* be recycled and second we need to work with our consumers to ensure they *are* being recycled. As such, environmental labelling is a requirement on all of our products.

To review disposal and recycling communications on our packaging, Nestlé undertook an audit across 2008/09. The review covered some 284 products across our entire range including beverages, foods, confectionery and snacks, Purina Pet Food, Uncle Tobys and Nestlé Nutrition. The audit looked at whether the packaging contained a disposal or recycling symbol, what size the package was, what size the disposal communications / logo was and whether or not it was perceived to be easy to find/read.



A range of issues emerged from the audit. Some products unfortunately had no symbols at all, 2 had incorrect symbols, 8 had poor contrast (hard to see due choice of colours), 19 were too small (according to our revised procedure), and 43 had poor placement.

The audit was a valuable exercise in reviewing the effectiveness of our environmental labelling procedures. The key outcomes to emerge as a result of the audit include:

- Our environmental labelling procedures will be updated in 2009/10 to address some of the issues identified in the audit.
- Nutrabank – our product and marketing database – will be updated to more fully address recycling and disposal requirements at the outset in the graphic design process.

We are now communicating the findings of the audit outcomes widely to relevant employees.

COVENANT GOAL 4:

SUPPLY CHAIN MEMBERS AND OTHER SIGNATORIES ABLE TO DEMONSTRATE HOW THEIR ACTIONS CONTRIBUTE TO GOALS

Objective	Action	Nestlé Performance Measure	08 /09 Initiatives
<p>7 Maintain the Nestlé's No Waste at Work program (or equivalent) at all manufacturing sites and distribution centres in relation to solid waste minimisation and recovery.</p>	<p>7.1 Continue to implement a waste information management system to track and report annually on:</p> <ul style="list-style-type: none"> (i) Packaging, environmental and waste minimisation projects within each site including; (ii) The amount and type of packaging material recovered for recycling; (iii) The amount and type of packaging material sent to landfill; and (iv) Performance against established environmental and financial waste management targets. 	<ul style="list-style-type: none"> ▪ Report on the various environmental and waste minimisation projects at Nestlé sites. ▪ Amounts of packaging from site collections, which is sent for recycling. ▪ Amounts and types of packaging from site collections, which is sent to landfill. ▪ Determine whether performance targets are met annually and reported on. 	<p>Nestlé continues to focus on waste management across our business, including through its 'War on Waste Initiative'.</p> <p>Measurement, reporting and management</p> <ul style="list-style-type: none"> • The 'Nestlé Eco Reduction Program' is our key program and ensures we are closely measuring our performance and impacts and reducing our energy, water and waste consumption. • We report our waste management performance, along with our energy and water performance, annually through our sustainability report, the <i>Creating Shared Value Report</i>. <p>Driving operational improvements in our factories and facilities</p> <ul style="list-style-type: none"> • All Nestlé sites are required to develop annual Eco Reduction Plans to reduce energy and water usage and decrease waste generation, and to report on progress. From the period 2008 to May 2009, some 219 tangible waste management actions were identified across our Australian operations. Of this, around 83 actions have so far been implemented, covering a range of areas, including: <ul style="list-style-type: none"> ○ Introduction of various recycling initiatives ○ Installation of recycling bins in kitchens ○ Plastic recycling ○ Reduction of food waste ○ Review waste management procedures ○ Paper reduction within offices <p>Recycling and waste management performance</p> <p>Our performance, including recycling, is set out in the section 'Our packaging performance'. A snapshot of recycling performance is shown below:</p> <ul style="list-style-type: none"> • Packaging from site collections, which is sent for recycling = 4,819 tonnes (or 47.4%) • Packaging from site collections, which is sent to landfill = 5,355 tonnes (or 52.6%) <p>Note: these are total waste figures not just consumer packaging.</p>

COVENANT GOAL IN ACTION: CASE STUDIES, INITIATIVES AND CHALLENGES

Waste management at Nestlé – case studies and initiatives

The issue of waste management remains as a key priority for Nestlé.

At the heart of our efforts is a major initiative called 'War on Waste'. A central emphasis of the initiative is to operate our facilities on a leaner basis and avoid waste generation before it can occur.

We have also established a number of toolkits covering solid waste, energy and water to help our sites better understand and track their environmental performance. The waste management toolkit helps sites develop a Waste Minimisation Plan. Our NESCAFÉ factory in Gympie for example has used the toolkit during a team leaders training day to assist the group develop its waste management plan.

At a site level, our employees continue to drive improvements in our waste performance. Some recent case studies are included below.

Waste reduction at Campbellfield

Production and operations employees at Campbellfield, where chocolates such as KIT KAT's are made, have put in place a range of innovative measures to reduce the amount of waste produced from the factory. This effort has demonstrably reduced the amount of waste, both product and packaging waste, that is going to landfill and animal feed. The team first started by gaining a better understanding of how waste was being generated across the factory and how it could be reduced. From this analysis a range of initiatives have been put in place. This has included working with a recycling partner to recycle plastic film and one way plastic pallets, which in the past were sent to landfill.

Corporate Head Office – Paper Reduction Initiative

In April 2009, Nestlé's head office at Rhodes implemented a new paper saving initiative. The initiative requires all employees to swipe a security card at the printer to collect jobs. The initial reports for both April and May 2009 indicate a reduction in paper usage of over 40% or over 400,000 sheets of paper per month. This is a significant environmental as well as financial saving.

Smithtown – bucket to boxes

Nestlé Smithtown, where we make our Milo and NesQuik powders, has changed the way it sources its carmine powder, which is used to make NESQUIK Strawberry. Previously, the carmine powder was supplied in poly propylene buckets, containing 1x1kg bags of product. Working with its supplier, Nestlé Smithtown now sources the carmine powder in corrugated boxes containing 10x1kg bags of product.

This initiative has had a significant impact at Smithtown. Previously, around 22 buckets were used per shift, compared to just 2.2 boxes now. The product to packaging ratio has been halved and, according to a PIQET benchmark against the previous approach, an overall positive environmental impact has been achieved on solid waste, climate change and energy demand. In addition to environmental benefits, a number of other outcomes have been achieved:

- Improved safety – the previous 1kg bucket required a hazardous knife movement to remove a plastic tamper evident seal
- Reduced manual handling – one of the new boxes is equivalent to ten of the previous buckets
- Removed foreign matter risk by eliminating plastic tamper evident seal
- Improved pallet and storage space utilisation



Before



After

**COVENANT GOAL 5:
ALL SIGNATORIES DEMONSTRATE CONTINUOUS IMPROVEMENT IN THEIR MANAGEMENT OF PACKAGING THROUGH THEIR INDIVIDUAL ACTION PLANS AND ANNUAL REPORTS.**

Objective	Action	Nestlé Performance Measure	08 /09 Initiatives
8 Report on the performance against Nestlé's Action Plan demonstrating continuous improvement.	8.1 Contribute to Covenant Funding Arrangements as required each year.	<ul style="list-style-type: none"> ▪ Financial contribution made each year. 	Awaiting year 5 invoice
	8.2 Submit an annual report against the Action Plan.	<ul style="list-style-type: none"> ▪ Report lodged by 31 October each year. 	Complete
	8.3 Report annually against performance targets.	<ul style="list-style-type: none"> ▪ Report against performance targets and timelines demonstrates continuous improvement. 	Complete
	8.4 Undertake external verification of the achievement of Nestlé's Action Plan commitments for each annual report.	<ul style="list-style-type: none"> ▪ Verification complete and submitted with Annual Report, lodged by 31 October each year. 	See verification report on page 31 for 2008/2009 reporting period.

Our packaging performance

The following table provides a comparison of our performance in packaging management since 2006/07. We are providing historical data in this year's report to assist our stakeholders review our ongoing performance. Beginning in April 2009, we are also reporting our packaging data to a wider group of stakeholders through our annual Oceania Creating Shared Value report.

The below performance data, along with supporting data against all NPC KPIs, is also included in Nestlé's annual IDAS report.

Looking at our 2008/09 data, we were pleased to see a moderate improvement in our product to packaging ratio. We were also pleased to see recycled content by weight improve from last year. The overall amount of packaging used also dropped by some 14%.

Throughout the data collection process we identified some discrepancies with our glass data. The issue arose as a result of an incorrect reporting period used by our previous glass supplier. We now have a new glass supplier and will rectify this issue in future reports.

As discussed previously, Nestlé is in the final stages of establishing performance targets for its packaging. These targets will support Nestlé's commitments under the NPC as well as the Environmental Code of Practice for Packaging.

Using PIQET, our performance targets are seeking to address the 'full' environmental impact of our packaging, from how and where the materials are sourced, their transport and how they are eventually disposed.

Our Packaging Performance*	NPC KPI	2006/07	2007/08	2008/09
Packaging by material type	1A			
Paper		548	678	421
Cardboard		20431	22939	22,352
Plastics		6,583	6,240	4,499
Glass		10,506	14,871	10,112
Aluminium		34	22	20
Steel		7,050	5,907	6,253
Composites		2,914	2,303	2,337
Other		221	233	157
Net tonnes of packaging used	1A	48,490	53,585	46,152
Net tonnes of product sold	1B	323,511	272,697	244,738
Product to packaging ratio	1C	6.67:1	5.09:1	5.30:1
Total "recyclable" packaging sold (tonnes)	N/A	39,150	45,242	39,945
"Non-recyclable" packaging sold (tonnes)	6A	9120	8111	6,050
Recycled content by weight (%)	6B	68.8	65.5	74.6

* This data set relates to local Nestlé Australia packaging information only, which accounts for 68 % of our products sold by weight on the Australian market. It covers limited imported packaging or local contract manufacture, due to and inability to accurately measure imported & contract manufactured product materials at this stage. The data set covers 80% of supplier spend, representing our material packaging performance in terms of volume. Nestlé's Chalet Patisserie in Queensland is not included in the packaging data. The data is captured in the Nestlé IDAS report and other internal spreadsheets.

SGS AUSTRALIA PTY LTD'S INDEPENDENT ASSURANCE REPORT ON PACKAGING DATA AND TEXT IN THE NESTLÉ AUSTRALIA "NATIONAL PACKAGING COVENANT – ANNUAL REPORT 2008-2009"

NATURE AND SCOPE THE ASSURANCE

SGS Australia Pty Ltd was commissioned by Nestlé Australia to conduct an independent assurance of the Packaging data and text contained within their "National Packaging Covenant - Annual Report 2008-2009". The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the 2008-2009 data and text contained in the sections "Reporting Against Action Plan Commitments" and "Our packaging performance". The reporting period is from 1st July 2008 to 31st June 2009.

The information in the "National Packaging Covenant - Annual Report 2008-2009" of Nestlé Australia and its presentation are the responsibility of the directors or and the management of Nestlé Australia. SGS Australia Pty Ltd has not been involved in the preparation of any of the material included in this report. Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification set out below.

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Guidelines and the AA1000 Assurance Standard. These protocols follow differing levels of Assurance depending the reporting history and capabilities of the Reporting Organisation.

This report has been assured using our protocol for content veracity. The assurance comprised a combination of interviews with relevant employees in Nestlé Australia; evaluation of systems and processes for collection and collation of data; documentation and record review.

STATEMENT OF INDEPENDENCE AND COMPETENCE

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, occupational health & safety, social and ethical auditing and training; greenhouse gases emissions verification and sustainability report assurance. SGS Australia Pty Ltd affirms our independence from Nestlé Australia, being free from bias and conflicts of interest with the organisation, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised qualified Engineers who are Environmental & Forestry Chain of Custody Lead Auditors and are approved as Sustainability Report Assurors.

ASSURANCE OPINION

On the basis of the methodology described and the verification work performed, we are satisfied that the Packaging data and text contained within "National Packaging Covenant - Annual Report 2008-2009" verified is accurate, reliable and provides a fair and balanced representation of Nestlé Australia's packaging performance in 2008-2009. We believe that Nestlé Australia has chosen an appropriate level of assurance for this report.



Phil Hocking
General Manager – Auditing Division
SGS Australia
28th October, 2009

Further information

Please visit Nestlé Australia's website for further information on our company and our packaging initiatives. The website also contains information on our Creating Shared Value (CSV) approach, our Oceania CSV Report and up to date packaging and environmental policies.

- Nestle Australia – www.nestle.com.au
- Nestlé Australia & Packaging - www.nestle.com.au/Community/Environment/Packaging
- Nestle Global – www.nestle.com

Contact us

Please find below Nestlé's key contact for information regarding the National Packaging Covenant:

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