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1. Welcome

Nestlé believes that long-term success is only possible if the company creates value both for its internal and external environment. This view pervades the operation of Nestlé starting from environmental protection measures through employee satisfaction and partner links to informing consumers and education for healthy conscious living. A responsible approach for social issues is present in almost all areas of operations, although so far only a part of it has been shared with the public. This is why I am so pleased, that this year in the CSV report we publically provide an account of our social and environmental performance.

Our aim is for Nestlé Hungária to become the leading company in the field of sustainability of its sector in Hungary and to develop into a knowledge centre within the Nestlé group. Therefore we have started conscious developments by developing and following a CSV strategy. We have created systems and institutes that ensure long-term and continuous development for the CSR field. Such are e.g., the establishment of the CSV (Creating Shared Value) Committee (page 14), the appointment of a CSV manager responsible for CSV (page 15), the GRI database (page 57), mapping the stakeholders (page 16).

One of the main areas of our effort is wellness as well as nutrition, as at Nestlé, since its foundation in 1866, a huge amount of experience and knowledge has accumulated in this area. We are committed to transfer as much from this as possible. This partly means the development of healthier and tastier products with more modern ingredients in accordance with the dietary requirements of the market. In addition, strengthening health consciousness in the population and providing information to the consumers to promote it, is equally important. We aim to help in developing a healthy lifestyle independently from fashion, in a professionally credible way.

Please allow me to express my gratitude to my colleagues, who participated in the preparation of this report: I appreciate their work and I am very proud of them. We seek to establish long-term cooperation with our partners and stakeholders based on mutual trust. We hope this report will also make a contribution in this regard. We are sincerely interested in your opinion and ideas, please contact us.

Andrea Zambelli
Managing Director

2. About the report

The reader holds the first sustainability report of Nestlé Hungária in their hands. The report and the information it contains are for the 2008 calendar year. We plan to publish our Creating Shared Value reports annually.

The content of the report

When assembling the content of the report, the GRI (Global Reporting Initiative, the most popular reporting standard on sustainability) guidelines and list of indicators were taken into consideration on the one hand, and on the other, all the important results and critical issues that the managers of our organisation consider important for Nestlé to detail within the framework of a sustainability report. We held several internal meetings and e-mail opinion polls for establishing a list of these latter issues. Several of our colleagues participated in collecting the data and information contained in the report (see last page). The B&P CSR Management Consultancy provided help in designing the process and wording the report.

The structure of the report is as follows:

Chapter 3 describes Nestlé Hungária and its activities.

Chapter 4 describes the institutes and procedures ensuring that sustainability and creating shared value performance of the company would have a strategic approach and the support of senior management, as well as develop according to plan.

In the remaining chapters of the report the most important stakeholders and issues associated with them are described.

Chapter 5 details consumer associated topics, such as quality, product labelling, informing consumers, product development and responsible marketing.

In chapter 6 we give an account on activities connected with our colleagues and the associated indicators.

Chapter 7 is on suppliers and chapter 8 describes our community links.

Chapter 9 details the environmental Indicators and performance of the company.

In chapter 10 a brief description is provided on our economic performance in 2008.

In chapter 11 the Nestlé Group is briefly described.

The scope of the report

Business units and production plants included in the report all belong to Nestlé Hungária Kft. with one exception, this being Cereal Partners Hungária Kft. (CPH Kft.), which is a joint venture of Nestlé and General Mills Int. Ltd. (see Figure 2). As CPH Kft. has no employees, the distribution of goods and all related activities are carried out by Nestlé Hungária Kft. The report also covers CPH Kft.

The Kákkút Ásványvíz Zrt. also belongs to Nestlé, however its operation is completely separate from other activities of Nestlé in Hungary, therefore the scope of this report does not extend to it. Nestlé Ice Cream Hungária Kft., which has been in liquidation since 1 October 2008, is not part of this report either.

Further affiliates, leased out facilities, outsourced activities which could considerably influence the temporal comparability of data and/or their comparability to other organizations do not exist.

This report was not audited by an independent organisation, however employing an independent audit for the report is planned for further reports.

In case of differing interpretation of the Hungarian and the English version of this report, the Hungarian is the definitive text.

All data applies to Nestlé Hungária Kft., except where it is indicated otherwise. The data source is the internal information system and database of Nestlé. See the appropriate topics for the method for calculating data (where relevant) and potential measuring as well as estimating methods.

The brand names contained within the report are registered trademarks of the Nestlé Group.

We would be happy to receive your questions, comments and suggestions in connection with the report. Please contact us on any of the contact points listed on the back cover.
3. About the company

Nestlé Hungária Kft. was formed in 1991. During the years since then the company has been continuously developing its product range. Currently the company is present in the Hungarian market with confectionery products, instant beverages, breakfast cereals, pet food, infant formulas, culinary and institutional culinary products, ice creams, coffee products as well as clinical nutrition products.

The factories in Szerencs and Diósgyőr

Manufacturing of chocolate and chocolate-based products began at Szerencs in 1923. Prior to World War II this was the largest chocolate factory in the country. The Diósgyőr plant began producing chocolate and wafers in 1962, later due to increased demand a different profile was required. This resulted in the establishment of a modernized factory in 1978 only producing chocolate. Nestlé acquired the Szerencs and Diósgyőr plants on 11 April 1991 and established Nestlé Hungária Kft. As a result of improvements, the Szerencs factory has become Nestlé’s regional powdered beverages manufacturing and filling plant, while the factory in Diósgyőr is the only plant of Nestlé in Europe specialised in the manufacturing of chocolate hollow figures.

The pet food plant in Bük

In 1998 we acquired the Jupiter Állateledelgyártó Kft. together with the right of use of the DARLING brand and also the factory in Bük. Following this, an additional pet food factory was established in Bük with a 6 billion HUF investment, which, the first in Hungary, is able to produce both dry and wet pet food. Over the years, the plant became the Central and Eastern European centre of pet food manufacturing. With further development to the factory, the village of Bük was enriched by a food manufacturing establishment providing considerable supplier opportunities for Hungarian farmers. In addition to this, the Bük factory also offers new employment prospects for local and nearby residents so far mostly involved in health tourism.

The Nestlé Hungária Kft.

Nestlé Hungária Kft. is a single member limited liability company. In 2008 its sole member was Nestlé Nederland B.V. which is owned by Nestlé S.A., a stock exchange listed company. (see Figure 1) Since June 2009, Nestlé Hungária Kft. is directly owned by Nestlé S.A.

Figure 1. The ownership structure of Nestlé Hungária Kft in 2008.
In the size and structure of the organisation a considerable change took place in 2008, when Nestlé Hungária Kft., the 100% owner of Nestlé Ice Cream Hungária Kft., made the decision on 15 September 2008, to terminate the company through liquidation without a legal successor with a starting date of 1 October 2008. The process of liquidation is still in progress in 2009. Nestlé did not withdraw from the ice cream business, its products remain on the market but their distribution is carried out by legal persons independent of Nestlé.

CSV is Nestlé’s way of doing business – imbedded in the DNA of the company. It means:
- we build a profitable business for our shareholders by benefiting society – enhancing the quality of life with good food and beverages everywhere
- our business investments must be good for the company and the communities where we operate
- we take a long-term view – we will not sacrifice long term business success for short-term gain
- CSV is not traditional corporate social responsibility or philanthropy; rather it is built into our basic business approach.

The primary way we create value is by offering consumers tasty, nutritious products that contribute to their health and wellness. But we also create value for people and society across the Nestlé business value chain – e.g. for farmers who supply us raw ingredients, for communities where our factories are located, for suppliers who work with us, and for our trade partners. Creating Shared Value has been part of the essence of Nestlé since its foundation 140 years ago.

In fact, CSV is so basic to our company that it is captured as a central element in our roadmap for strategic performance. CSV:
- reflects our culture, values and principles
- supports our ambition to be the recognized NHW leader, to be a reference for financial performance, and to be trusted by all stakeholders
- helps us accelerate against performance areas such as innovation, emerging consumers and brand leadership
- reinforces our NHW positioning, acknowledging that consumers demand more of brands and companies today. Not only do they want tasty, nutritious food and beverages, they want products which are sourced, produced and packaged, and which they can prepare and dispose of in socially-responsible and environmentally-sustainable ways. For many consumers, our CSV activities complement our
Nestlé Hungária Sustainability and Creating Shared Value Report 2008

3.1. Mission and Values

The strategy of the company is guided by several core values. The main purpose of Nestlé is to provide the consumers with the best and most relevant products, wherever they might live and whatever needs they might have through their lives. Long-term opportunities are never sacrificed for short-term performance.

Nestlé is committed in every country to following business principles, with considerations to local legislation as well as cultural and religious customs:
- The business aim of Nestlé is to create values that are sustainable in the long-term for the shareholders, the employees, consumers and business partners.
- Nestlé does not favour short-term profit making over successful long-term business development.
- Nestlé recognises that its consumers, who are vital to its existence, are rightly and sincerely interested in the behaviour presented by and the convictions of the manufacturers of the products appreciated by them.
- Nestlé believes that legislation in general is the most effective way to ensure responsible management, although in certain areas further guidance that is based on voluntary business principles could be beneficial for the labour force in order to ensure the highest standards within the entire organisation.
- Nestlé is aware that the success of the company reflects the responsibility and professionalism as well as behaviour of the management and the employees. Therefore the selection and continuous training of appropriate individuals is important.
- Nestlé maintains its commitment to follow and comply with all relevant local laws and regulations.

3.2. Organisational structure and areas of responsibility

Management Boards

The NIM (Nestlé in the Market) Committee is the highest management board of the organisation. The NIM Committee holds its meetings every month and decides on group-wide strategic matters.

Nestlé Hungária Kft., which operates in the Hungarian market, entrusted with representing Nestlé to the outside world.

Remuneration of managers

An incentive scheme ensures the connection between the remuneration of senior managers and the performance of the organisation. There are two types of incentives at Nestlé. Within the framework of short-term incentives, the bonus received by managers depends on meeting the annual targets.

In compliance with Act IV of 2006 on Business Associations, there is a Supervisory Board responsible for overseeing the company’s management. The Supervisory Board has six members of which two are appointed by the Works Council. The highest authority of the business association may only bring resolutions on the financial statement required by the Act on Accounting after receiving the written report of the Supervisory Board.
The targets are usually made up of three parts: group or corporate level objectives, departmental objectives and personal objectives. The proportion of these vary dependent on jobs. Long-term incentives encourage senior executives to improve the company’s stock value. The amount of severance pay is included in the Collective Agreement and depends on the length of service at the company. After 10 years it is twice the amount prescribed by the Labour Code.

Conflict of interest
The company applies the following regulations and procedures for avoiding conflicts of interest: the determination of roles by GLOBE (integrated administrative system), management of role conflicts. The purpose of this is that the jobs of the employees are created in a way that decisions concerning financial matters would be realised subject to the approval of at least 2 employees. In addition, Declaration “A” or “B”, detailed in the section on the prevention of (SO2) corruption topic is completed by all employees. The management principles of Nestlé include the requirements from senior managers of the company worldwide in detail, which are consistent with the Nestlé Corporate Business Principles.
3.3. Brands and products

Nestlé Hungária Kft. is present in the Hungarian market with the following products:
- confectionery products (BOCI®, KIT KAT®, BALATON®, SMARTIES®, AFTER EIGHT®),
- beverages (NESCAFÉ®, NESQUIK®, CHOCAPIC®, CINI MINIS®, COOKE CRISP®),
- pet food (PRO PLAN®, DARLINGS®, FRISKIES®, GOURMET®, PURINA ONE®, DOG CHOW®, CAT CHOW®),
- infant formulas, baby food and drinks (BEBÉA®, SINLAC®, NESTLÉ),
- culinary products (MAGGI®),
- professional foodservice products (MAGGI®, CHEF®, BUTTON®),
- ice creams (MOVÉNPICK®),
- clinical nutrition products (OSOURCE®, RESOURCE®).

Further information on the brands and products are at the following websites (mostly in Hungarian):
- www.nestecafe.hu
- www.nesquik.hu
- www.maggi.hu
- www.boci.hu
- www.kitkat.hu
- www.chocapic.hu
- www.cini-minis.hu
- www.cooke-crisp.hu
- www.pro-plant.hu
- www.darlings.hu
- www.friskies.hu
- www.gourmet.hu
- www.purinaone.hu
- www.doog-chow.hu
- www.cat-chow.hu
- www.bebeca.hu
- www.sinlac.hu
- www.nestle-fitness.hu
- www.balatonzelet.hu
- www.nespresso.hu

3.4. Presence in the country

The products of Nestlé are available throughout Hungary. The head office of the company is in Budapest (H-1095 Budapest, Lechner Ödön fasor 7.). There are factories in Bük (pet food), in Szerencs (instant beverages) and Dőrség (chocolate hollow figures).

3.5. Awards received

We are proud that our activities have been recognized with several awards in 2008. These are:
- The Trade Partner of the Year Award: awarded based on the nominations of partners and the votes of a professional jury (organized by the commerce periodical Főgrésziszt Magazin and granted by KKH Bank),
- Silver EFFIE for NESCAFÉ Cappuccino “Sülőproba” campaign in the FMCG (beverages) category,
- The Nescafé Classic 3in1 Momentary promotion sachet was awarded the Special Award of ÖKO-Pannon Kht. at the HUNGARPACK 2008 Hungarian Packaging Competition.
- WorldStar Award for Packaging Excellence (one of the most widely recognized awards in packaging technology)
- According to the survey of AIESEC Magyarország, Nestlé came in as eighth in the ranking of the Most attractive companies in Hungary. This meant third place in the FMCG goods category.

The Hungarian mega-promotion of the Nestlé Nutritional Compass was awarded second place in an internal marketing communication competition (NESTLÉ HIT PARADE).

4. Sustainability institutes

The Creating Shared Value business principle followed by Nestlé is grounded on the belief that long-term business success is only possible if there is harmony between the interests of stakeholders and society.

Creating Shared Value, which is tightly connected with our business strategy and operation, means that in addition to sustainability we also create value for our stakeholders and for society.

We believe that we are able to carry out more than just an environmentally, socially and economically sustainable business: we can create value for society, while also creating value for our shareholders.

4.1. Sustainability policies, procedures

The values, behavioural norms and policies of Nestlé and its employees are regulated by corporate documents. These are:
- Nestlé Corporate Business Principles: http://www.nestle.com/CSV/Compliance and the Hungarian strategic plans for all business units,
- Local application of the Code of Business Conduct of the Nestlé Group,
- Immunity and Enforcement Principles: www.nestle.com/AllAbout/Governance,
- Nestlé Consumer Communication Principles: www.nestle.com/CSV/Compliance/MarketComm,

The senior management evaluate their own performance based on meeting the bonus objectives pursued, which include the individual, departmental and corporate level objectives, as well as the objectives of the MBS (Market Business Strategy). This includes economic, social and environmental objectives, which are mainly dependent on jobs and activities.

Precautionary principle

Events that could have a negative impact on either Nestlé, the environment or society are continuously monitored by different groups, crisis committees both at international and local level. Their task is the prevention of crises and crisis management.

Within the framework of the Nestlé international crises management system, strict internal reporting systems and in-company regulations govern what actions to take. In addition, rapid response is enabled by international telephone conferences, information directly originating from international organisations, e.g. WHO of the UN, as well as from the Nestlé Research Centre.
Nestlé operates a product recall process, which extends to every detail, in all distribution centres, thus also in Hungary. This includes all necessary information for safe, in-time, precise and cost-effective product recall.

**Sustainability agreements, initiatives**

Nestlé is a member and contributor at an international level of the following conventions and initiatives containing economic, environmental or social norms:

- UN Global Compact
- UN Millennium Development Goals
- International Code of Marketing of Breast-milk Substitutes of the Health Organisation of the UN (WHO)
- OECD Guidelines for Multinational Enterprises
- OECD Principles on Corporate Governance
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
- OECD Convention on Combating Bribery in International Business Transactions
- UN Convention on the Rights of the Child
- International Labour Organisation
- International Chamber of Commerce
- International Labour Organisation
- International Labour Organisation

Nestlé Hungária Sustainability and Creating Shared Value

The aims of the Committee:

- employee representative
- Head of Procurement
- Corporate HR director
- Communication Director
- Financial Manager
- Corporate Affairs and Public Communication Manager
- Managing Director - the Chairman of the Committee
- Corporate Communication Manager
- Corporate Affairs and Public Communication Manager
- Financial Manager
- Communication Director
- Corporate HR director
- Head of Procurement
- employee representative

In 2008, the Committee held an inaugural meeting, where the operational procedures and the work plan for 2009 were approved. Furthermore the Committee discussed the ways of mapping the issues of greatest importance for the company, and the stakeholders.

### 4.3. Creating Shared Value Strategy

The aim of Nestlé Hungária is to become the leading company in the field of sustainability within its sector in Hungary and to develop into a knowledge centre within the Nestlé group.

In order to meet this aim, in spring of 2008 the B&P CSR management vetted the CSR activities of Nestlé and made proposals for the directions and schedule of the developments.

Based on the results a four-year development plan was drawn up, which does not simply involve the representatives of the external and internal environment of Nestlé, but also makes provisions for transparency and more accurate assessment.

The development of regular dialogue with the stakeholders, annual reports on environmental and social performance, the operation of the Creating Shared Value Committee, the use of GRI (Global Reporting Initiative) as the common international standard supporting the preparation of corporate reports on corporate social responsibility and sustainability and a tool for performance management and planning are amongst the key elements of the 2009-2012 plan.

In the field of Creating Shared Value, Nestlé operates with a four-year rolling plan, thus our four-year plan is reviewed and updated annually.

### 4.4. Creating Shared Value Management

The Corporate Communication Manager is responsible for the areas of sustainability and Creating Shared Value, as well as for the implementation of related projects, reporting directly to the managing director and the Creating Shared Value Committee.

In November 2008, based on internationally accepted standards, the colleagues of Nestlé started measuring the environmental and social performance of Nestlé in several areas. Consequently the responsible approach of Nestlé becomes measurable in all areas that can have importance for the stakeholders of the company. The indicators illustrating the operation of these areas are covered by the increasingly complete GRI database, which provides the basis for the Nestlé Sustainability Report to be published in 2009. Clear social and environmental aims can be set this way through the GRI, then at the end of a given period the responsible operation can be evaluated.

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Creating Shared Value Report 2008

Nestlé Hungária Sustainability and environmental issues most significant for its stakeholders and the social and environmental impact each unit has on quality and performance indicators. Therefore it is important to setting appropriate performance indicators in these fields. The document is available on the website in Hungarian under the World of Nestlé in the Restr. - section.)

Quality management system

The quality management system of Nestlé Hungária Kft. is continuously developed. In 2008, the introduction of the integrated quality (ISO 9001), food safety (ISO 22000), health and safety (OHSAS 18001) and environment protection (ISO 14001) control systems commenced. The integrated control system is the company’s own global quality management system, which operates within the framework of the Nestlé Quality Management System (NQMS). Introduction of the NQMS started with vetting the relevant operational processes of every corporate unit, in order for the company to understand what impact each unit has on quality and therefore to setting appropriate performance indicators.

The characteristics of the Nestlé Quality Management System (NQMS):

- Process-based: all departments and activities of every corporate unit, in order for the company to understand what impact each unit has on quality and therefore to setting appropriate performance indicators.

Nestlé has an extensive institutional and regulatory system in the field of food safety and quality. The elements of this are:

- Quality, occupational health and safety, environmental management policies, which briefly and comprehensively summarise the principles and commitments of Nestlé Hungária Kft. in these fields.

Within this responsibility, we are committed to the application of clear and user-friendly product labels. Our nutritional educational programme for children has been in operation for years, and we also support our employees in learning how to create a healthy lifestyle as well as in becoming our ambassadors of healthy living. Collaboration with national and other health organisations is also an integral part of our work.

In 2008, the proportion of Nestlé products with a nutrition, health and wellness focus comprised 73% of the total turnover of the main product categories. Nearly half of the net sales revenue comes from domestic commercial activities and sales to institutional clients. The other part is represented by revenue from commercial transactions with foreign Nestlé subsidiaries, which is made possible by the activity of factories operating in Hungary and serving the CEE region.

5. Consumers, products

Educating the consumers and society regarding health

It is clear for us how great a responsibility we have in respect of dependable communication with the consumer and especially for children. In addition to compliance with local legislation, all Nestlé companies, thus including Nestlé Hungária, follow the Nestlé Consumer Communication Principles (www.nestle.com/CSV/Compliance/MarkAndComm).

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5.1. Quality policies and quality control

Nestlé has an extensive institutional and regulatory system in the field of food safety and quality. The elements of this are:

- Quality, occupational health and safety, environmental management policies, which briefly and comprehensively summarise the principles and commitments of Nestlé Hungária Kft. in these fields. (The document is available on the www.nestle.hu website in Hungarian under the World of Nestlé in the Restr. company – Felelős vállalat – section.)

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Introduction of the NQMS started with vetting the relevant operational processes of every corporate unit, in order for the company to understand what impact each unit has on quality and therefore to setting appropriate performance indicators.

The characteristics of the Nestlé Quality Management System (NQMS):

- Process-based: all departments participating in the value creating processes are responsible for meeting their own quality targets.

- It is based on centrally defined expectations, product specific quality requirements and local requirements.

- Conformity is maintained by flawless execution, factual and transparent communication and with the help of independent audits.

- Continuous development - the benchmarks of the performance indicators are set higher and higher.

- The processes and their performance indicators are coordinated by the “Globe” IT system.

The Nestlé Quality management system includes:

- the quality policy, mandatory global requirements, principles and obligations,

- product specific quality standards, which cover all product and process standards, instructions, methods and tools for each product category,

- the Quality Manual, which serves as a collection of the mandatory global rules and requirements.

The manual contains or refers to the product specific quality standards and local controls.

4.5 Internal organisation for the support of the Nutrition, Health and Wellness strategy

Separate workgroups operate within the company on the implementation of Nestlé’s Nutrition, Health and Wellness strategy. The Wellness Committee, the Nutritional Compass Team and a full-time dietician.

The Wellness Committee supports the strategic objectives of the company; on this basis they make recommendations for product development and communication, monitor and apply the regulations and policies associated with the products, and participate in the training of employees and the development of the population’s health consciousness. The committee meets quarterly, and its members include the company’s dietician, a regulatory affairs specialist, 60/40+ manager, the corporate communication manager and a colleague responsible for public affairs.

The Nutritional Compass Team is involved with creating and continuously updating the messages of the Nutritional Compass messages (see page 18) on the products enabling a more conscious consumption of Nestlé’s Nutrition, Health and Wellness strategy: The Wellness Committee supports the responsible company – Felelős vállalat – section.)

Quality management system

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- product specific quality standards, which cover all product and process standards, instructions, methods and tools for each product category,

- the Quality Manual, which serves as a collection of the mandatory global rules and requirements.

The manual contains or refers to the product specific quality standards and local controls.

4.6. Stakeholders and key issues

In 2008, Nestlé systematically mapped its stakeholders and the social and environmental issues most significant for the company. This was carried out by document analysis, media analysis and the active involvement of the upper and middle-level management. The stakeholders and the most important issues were selected and the latter ranked based on those - which have a serious impact on the operation of the company, - that the company has a major impact on, - where Nestlé has competence in respect of resources and progress. The process resulted in a plan for getting a systematic dialogue started with the stakeholders. The 2008 sustainability report describes the implementation and results of this.

Nestlé’s most important stakeholders:

Internal stakeholders
- employees
- trade unions
- owner

External stakeholders
- consumers
  - including the special consumers, e.g. children, elderly, overweight people, hotels, restaurants
- local communities, especially around factories
- social organizations and NGOs
- media
- universities and research institutes (primarily food industry)
- experts, e.g. gastroenterologists, dieticians
- schools, teachers
- suppliers
- retailers (e.g. supermarket chains)
- wholesalers
- FMCG companies

In 2008, Nestlé Hungária Kft. conducted varying dialogues with the following organisations concerned: European Parliament, Ministry of Agriculture, Ministry of Environment, Central Agricultural Office, Hungarian Dietetic Association, National Association for Consumer Protection in Hungary, National Institute for Food and Nutrition Science, Ministry of Education, Hungarian National Assembly, National Institute for Health Development, Ministry of Local Government. Dialogue with the stakeholders referred to above was ad hoc, its frequency was determined by the joint activities (see chapter 8.1) as well as external circumstances.

5. Consumers, products

Educating the consumers and society regarding health

It is clear for us how great a responsibility we have in respect of dependable communication with the consumer and especially for children. In addition to compliance with local legislation, all Nestlé companies, thus including Nestlé Hungária, follow the Nestlé Consumer Communication Principles (www.nestle.com/CSV/Compliance/MarkAndComm).

Within this responsibility, we are committed to the application of clear and user-friendly product labels. Our nutritional educational programme for children has been in operation for years, and we also support our employees in learning how to create a healthy lifestyle as well as in becoming our ambassadors of healthy living. Collaboration with national and other health organisations is also an integral part of our work.

In 2008, the proportion of Nestlé products with a nutrition, health and wellness focus comprised 73% of the total turnover of the main product categories. Nearly half of the net sales revenue comes from domestic commercial activities and sales to institutional clients. The other part is represented by revenue from commercial transactions with foreign Nestlé subsidiaries, which is made possible by the activity of factories operating in Hungary and serving the CEE region.

5.1. Quality policies and quality control

Nestlé has an extensive institutional and regulatory system in the field of food safety and quality. The elements of this are:

- Quality, occupational health and safety, environmental management policies, which briefly and comprehensively summarise the principles and commitments of Nestlé Hungária Kft. in these fields. (The document is available on the www.nestle.hu website in Hungarian under the World of Nestlé in the Restr. company – Felelős vállalat – section.)

Quality management system

The quality management system of Nestlé Hungária Kft. is continuously developed. In 2008, the introduction of the integrated quality (ISO 9001), food safety (ISO 22000), health and safety (OHSAS 18001) and environment protection (ISO 14001) control systems commenced. The integrated control system is the company’s own global quality management system, which operates within the framework of the Nestlé Quality Management System (NQMS).

Introduction of the NQMS started with vetting the relevant operational processes of every corporate unit, in order for the company to understand what impact each unit has on quality and therefore to setting appropriate performance indicators.

The characteristics of the Nestlé Quality Management System (NQMS):

- Process-based: all departments participating in the value creating processes are responsible for meeting their own quality targets.

- It is based on centrally defined expectations, product specific quality requirements and local requirements.

- Conformity is maintained by flawless execution, factual and transparent communication and with the help of independent audits.

- Continuous development - the benchmarks of the performance indicators are set higher and higher.

- The processes and their performance indicators are coordinated by the “Globe” IT system.

The Nestlé Quality management system includes:

- the quality policy, mandatory global requirements, principles and obligations,

- product specific quality standards, which cover all product and process standards, instructions, methods and tools for each product category,

- the Quality Manual, which serves as a collection of the mandatory global rules and requirements.

The manual contains or refers to the product specific quality standards and local controls.
Department of Quality Assurance

Two persons carry out the tasks associated with the operation of the quality management system in the centre of Nestlé Hungária under the direction of a local manager, which include amongst others the operation of the laboratories, the quality tasks necessary for ensuring production, the in-process controls and the internal audits.

Quality performance objectives

The regional and specific local objectives are set in accordance with the quality policy, following the central directive of the company.

Management Review of Quality (MRQ)

This takes place at least annually.Within its framework any data associated with the quality assurance activities and originating from the entire organization (including the data of business partners) is analysed; any decisions, activities and training necessary for the development of the quality specifications are determined; short-term and strategic opportunities are identified and an action plan is prepared.

The management processes evaluating the health and safety effects of Nestlé products with an aim to improve them cover the following life-cycle stages:

- Developing the concept of a product
- Research and development
- Certification
- Manufacturing and production
- Marketing and communication
- Storage, distribution and stocking
- Consumption and customer service
- Waste management, reuse or recycling

With regards to the health and safety effects of the products, Nestlé was fined once in 2008; to a value of 300,000 HUF. In the case in question, it was not the quality of the Nestlé product that was substantial, but the seasonal product packaged with it. When examining the Santa hat, it was found that the jingle bell of the hat came off more readily than is acceptable for toys with no age restrictions.

5.2. Product labels

Nestlé Nutritional Compass – compass for creating a balanced diet

Numerous studies and professional recommendations emphasise that the key to a balanced diet is the smart and varied selection of the basic ingredients. One of the greatest aids in this is the nutritional information on the packaging of food products.

Nestlé believes that by displaying clear, honest, and extensive information on product packaging, it can provide great help to its consumers in the creation of balanced diet. This endeavour resulted in 2005 in the special food labelling system, the Nestlé Nutritional Compass, which was developed by the company’s Swiss experts.

The Nestlé Nutritional Compass provides easy to follow and clear information on the nutritional composition of the products.

According to the results of an internal survey conducted in 2007 and coordinated by the Swiss centre of Nestlé, 60% of the consumers interviewed considered the information provided by Nestlé more useful than that of rival food industry companies, primarily on account of clarity and detail. A Hungarian survey that was conducted in the beginning of 2008 was concluded with similarly positive results. Here, 70% of the Hungarian consumers interviewed stated that the information contained in the Nestlé Nutritional Compass was useful or very useful for them.

In 2008, Nestlé carried out a large-scale promotional campaign which also included the promotion of the Nutritional Compass. According to surveys, as a result, 37% of the Hungarian population is familiar with the Compass and thus receives help in the responsible selection of food.

GDA labelling provides scientifically grounded information for the consumer. Its objective is to provide help in choosing between products. In addition to the mandatory marking on the packaging of products, it also displays the most important nutritional information relating to the nutrient content of the given food or drink, thus supporting consumers in making even better informed decisions.

Compass and GDA on the product

We introduced the Nutritional Compass in 2006 and the GDA in the beginning of 2007. By the middle of 2008, the Compass could be found on 91% of the relevant product categories with the GDA on 60% of these (in proportion to the net turnover), by the end of 2008, 100% coverage was achieved in respect of both sorts of labelling.

The Compass is not displayed on the hollow figures (there is no room on the label) or on pet food (not relevant). The GDA is not included on the infant and clinical formulas, on baby food (the diverse requirements of the sick and non-sick children do not allow the development of a common reference), and the infants do not allow the designation of nutritional recommendations on the label) or on pet food (not relevant).

The Compass is not displayed on the infant and clinical formulas, on baby food (the diverse requirements of the sick and non-sick children do not allow the development of a common reference), and the infants do not allow the designation of nutritional recommendations on the label) or on pet food (not relevant).

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Fine or penalty with regard to the information providing and labelling compared to the products and services.

Methods of resolutions.
The penalty was imposed on Nestlé by the Veterinary Health and Food Control Station due to the format of the expiry date. This involved the impaired products and the problem did not concern food safety but it was a formatting issue.

5.3. Consumer Service

Getting to know the requirements of the consumers of Nestlé products or even staying ahead of their requirements is very important for the company. In addition, Nestlé considers it essential to provide opportunities for the consumers to express their opinions and ideas. The Consumer Service was established to fulfill this purpose.

The Consumer Service of Nestlé during the past years has become more and more popular, an increasing number of consumers utilise this service. We provide information for those interested regarding the latest brands of Nestlé, including their use and availability. With the help of dietetic experts we can also provide professional information on questions associated with nutrition. There is also strong interest from our consumers in the current prize draws of Nestlé. Our colleagues are happy to provide information about the conditions of participation, the draws and the list of the winners.

In 2006, our objective was to respond to 85% of all incoming e-mails within 48 hours.

The Consumer Service, in addition to providing advice and information, by utilising the comments and ideas received from the consumers, also makes proposals for product development, thus representing consumer interests within the company. The reasons for consumer complaints are thoroughly investigated in order to be able to make the necessary corrections as well as providing rapid and precise feedback to the consumer.

The Service keeps detailed statistics on all the incoming requests. We are precisely aware of and monitor the requests, in particular the number and subjects of the complaints, the number of resolved complaints and the methods of resolutions.

In 2008, Nestlé commissioned a research company to test the consumer services of nine companies by telephone and in writing (electronic). They have contacted nine different consumer services in total on 48 occasions with varying issues (e.g. complaints regarding the quality of the products, healthy diet and lifestyle, food allergies).

The research showed that in terms of their competence, there were differences between the companies. The telephone lines worked perfectly in all cases, the possibility of leaving a message outside of working hours, however, is not resolved in all consumer services. With regards to telephone responses, there were no significant differences between the Call Centres. The operators are generally competent, polite, and responded to the questions in a consumer friendly manner. The Nestlé operators provided immediate, professional and very polite answers in all cases.

Not all companies have responded to questions submitted electronically. Even those who replied took some time (with the exception of Nestlé). There were significant differences in the style of the responses. The Consumer Service of Nestlé stood out amongst the companies with quick responses in a consumer friendly manner and in a consistent format.

5.4. Nestlé Lifestyle Centre – “Showing the way in the labyrinth of dietary trends”

Nestlé is committed to providing its Consumers with the best food products and to support those striving for a healthy lifestyle with its century of experience in the field of dietetics. It is in the spirit of this tradition that the company launched the Nestlé Lifestyle Centre in September 2005.

The Nestlé Lifestyle Centre is a service centre accessible on the internet where the experts of various fields help those interested to receive answers to their questions related to diet, exercise and a healthy lifestyle. In addition to the advice of the experts, the website also offers useful articles, videos, tests, and calculators on numerous topics such as healthy living, diet, health prevention, beauty care, relationships, family, or child care.

The Nestlé Lifestyle Centre is the Hungarian Dietetic Association.

5.5. Research

The Nestlé Group operates the world’s largest privately owned food industry research and development network, employing approximately 5,000 people, the centre of which is the Nestlé Research Centre in Lausanne. Three hundred scientists of fifty nations work here on continuous developments and new research.
How far can we go?
Although our internal regulations specify the reduction of the products’ salt, sugar and trans fat content, these nutrients are natural components of food ingredients. Thus their total elimination is impossible. In addition to making every effort to reduce the quantity of the mentioned ingredients, it is important that the changes do not affect the safety of the products or the flavour cherished by the consumers. For certain product groups the amount of them has been reduced as much as it was possible. For example, we succeeded in significantly reducing the salt content of bouillons while preserving their taste. Further reductions would not entail additional dietary advantages, and the deteriorating flavour probably would lead to the consumers themselves adding excess salt to the product. Similarly, the total extraction of fats from the products is not desirable, not only due to the flavour, but also because a certain amount of dietary fat is necessary for metabolism and for the absorption of vitamins A, D, E and K. Therefore, we strive to make the products as tasty as well. Thus their total elimination is impossible. In addition to making every effort to reduce it to below 1% of the total energy content, we also managed to preserve the flavour preference. The significantly lower salt content represented a competitive edge compared to our competitor’s products. The reduction in the salt content was also displayed on the packaging of the product.

5.6. 60/40+ development
The 60/40+ concept is a special method developed by Nestlé, which is used during product development. The demand that lies in the background is that consumers would like food products that are healthy and tasty as well. Therefore, we strive to manufacture products which meet the approval of at least 60% of the consumers with their taste, in addition to also having ‘extra’ dietary advantages. In addition to assessing the taste, another important element of the process is assessing the nutritional composition of the Nestlé products. In the course of doing so, we examine the nutritional content and quality of the main ingredients of our products and compare them with Hungarian and international dietary recommendations, as well as with the data of competitors’ products. The evaluation sheds light on the strengths and shortcomings of the given product, and sets the direction for further improvement of the product.

In 2008, a total of six 60/40+ test projects were underway. The TOP50 (the 50 goods with the highest turnover) products participating in the 60/40+ development process comprised 53% of the turnover of this category. The success story of the year was the Magaggi Grízgombócleves (Soup with Giant Semolina Dumplings) which was tested for the first time in 2007, at the time it was introduced to the market. At this time, although consumers responded favourably to the flavour, its salt content proved high during the dietary assessment. Subsequent to further development of the product, a new test was conducted in 2008. This time, due to the 15% decrease in the salt content, the nutritional composition of the product complied with the dietary policies of Nestlé, and we also managed to preserve the flavour preference. The significantly lower salt content represented a competitive edge compared to our competitor’s products. The reduction in the salt content was also displayed on the packaging of the product.

5.7. Responsible marketing
The basis for our approach regarding responsible marketing and communication is the Nestlé Corporate Business Principles and the Nestlé Consumer Communication Principles (www.nestle.com/CSV/Compliance/MarkAndComm), with guidelines for compliance with them. In 2008, no cases of non-compliance with marketing communication:

- no advertising for children under 6 years of age and no marketing communication is carried out for them,
- for children between 6 and 12 years, only those products are advertised which contribute to developing a healthy diet, with clear sugar, salt, and fat content restrictions.

The above rules have been enforced in all countries, thus also in Hungary by the end of 2008.

Besides all this, our voluntary undertaking is that prior to release, based on the decision of the marketing brand groups, the adverts are sent to the Self-Regulating Advertisement Association for opinion.
6. Our colleagues

In addition to our values that we believe in and follow, our colleagues represent one of the most important business assets for the company. Our daily work is governed by thinking in the long-term, integrity, mutual respect, openness for diversity and the commitment to quality as well as to meeting consumers’ needs.

6.1. Main targets, projects, results

Change of culture

The largest human resources project of 2008 targeted the development of company culture. The change of culture project consisted of three main stages, from which two (design and survey, communication) were completed in 2008. The third stage (intervention) commenced in 2008 and carries on in 2009.

In the design and survey stage we prepared an overview with the involvement of 309 employees on the state of the culture. Based on this our strategic ambitions were defined, the elements of which are:

– Our corporate culture is based on authorisation by the management and the undertaking of responsibilities for new ventures and visions.
– Our colleagues are motivated and determined, and our managers are supportive and motivating.

In the communication stage within the framework of middle management workshops, the results were evaluated and the strategy refined, and in upper management workshops we defined the priorities then informed the employees regarding the results of the survey and the action plan.

The action plan includes for example the 360 degree evaluation of upper and middle managers, coaching, the development of the collaboration between managers and the departments, the evaluation of results at departmental level and skill development training.

The areas we are working on:

At individual level:
– Increasing the level of motivation
– Improvement of initiative skills
– Better personal relationships
– Greater confidence in the management
– Personal feedback

At departmental level:
– Development of a consistent terminology
– Identifying underperformers
– Better collaboration within and between departments

At organisational level:
– More teamwork
– Better working atmosphere

Indirect results:
– The establishment of the Junior Committee (40 employees)
– Sport clubs

Barbara Verő, Personal Development and Training Manager, Nestlé Hungária

- How was the overview established regarding the state of the corporate culture?

The Circumplex model, a worldwide used and recognised tool developed by Human Synergistics was selected for measuring corporate culture. The Circumplex model measures the state of operating culture in terms of three main styles of behaving and interacting: constructive, passive defensive and aggressive defensive.

- How was the given strategic ambition formulated?

In January 2008 within the framework of a two-day workshop, the management of Nestlé Hungária examined the local implementation level of the central human resources strategies and identified the areas where development is of key importance. This is how in section 4, in addition to the categories of “People” and “Performance”, the strategic ambition of culture was also defined.

- What is the pay off of a change of culture at an everyday level?

Change is clearly observable in everyday life: the atmosphere within the company, the style of communication, the employers’ attitude towards tasks, the management’s tools all changed positively during the past one and a half years.

- How was the programme received by colleagues, and is it possible to recollect a humorous event connected with the process that would demonstrate the atmosphere of the development?

The colleagues participate in any programme that is connected with cultural developments with great enthusiasm. We place great emphasis on trying to slip some humour into the mundane, not necessarily entertaining tasks (as e.g. performance appraisal). A good example for this is when last year in December we demonstrated in a film, how a performance appraisal would take place between Santa’s little helper and the Reindeer and between Santa himself and his little helper.

The sentences used in the short film by now have become common sayings, and the efficiency of the performance appraisals have clearly improved and thus resulted in an increase in the motivation of the employees.
6.2. Employment data

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<tr>
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<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>1,345</td>
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<td>402</td>
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<td>632</td>
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<tr>
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<td>101</td>
<td>97</td>
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<td>342</td>
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<tr>
<td>Non-manual</td>
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<td>Manual</td>
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<td>388</td>
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<td>Buk</td>
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<td>Buk</td>
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<td>Hired and agency contract</td>
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<tr>
<td>Szerencs and Diógyőr</td>
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</tr>
<tr>
<td>Buk</td>
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<td>10</td>
<td>8</td>
</tr>
</tbody>
</table>
Fluctuations

The distribution of the Management Committee by age 2007-2008

- < 30 years old: 0%
- 30-50 years old: 82%
- > 50 years old: 18%

Figure 14.

The proportion of local employees

Employees are considered local employees, if they live in the town of the given business location or in the given county. For Management Committee, local employees shall refer to employees who have not been seconded by Nestlé Centre.

- Management Committee: 77%
- Head Office and Purina Budapest: 65%
- Szerencs and Diósgyőr employees: 99%
- Bük employees: 91%

Figure 13.

The proportion of ages and gender

There were only men in the MANCOM in 2007 and 2008.

Figure 16.

Figure 15.
The distribution of the employees of Szerencs és Diósgyőr by gender 2007

- Women: 67%
- Men: 33%

The distribution of the employees of Szerencs és Diósgyőr by gender 2008

- Women: 68%
- Men: 34%

The distribution of the employees of Bük by gender 2007

- Women: 15%
- Men: 85%

The distribution of the employees of Bük by gender 2008

- Women: 16%
- Men: 84%
Trade union
At Nestlé, according to the Labour Code of Hungary, all employees, with the exception of the managing director, fall within the scope of the Collective Agreement.

Nestlé Hungária Kft. communicates to the employees and the employee representatives any operational changes and measures that have significant impacts on the employees in a manner and within the time limits specified in the Labour Code of Hungary. (The deadlines and rules of procedures are different for each case.)

In addition, the collective agreement of the company also includes specific rules for the case of reorganisation. According to this, if a measure concerns the employment of over ten employees, Nestlé is obliged to carry out certain actions as well as being obliged to request the opinion of the Works Council and the Trade Union Committee in respect of the draft measure.

We have a cooperation agreement with the Central Works Council, which contains more beneficial terms than those specified in the Labour Code of Hungary.

No case occurred in 2008 that caused potential violation to the right of association and to the collective agreement. Nestlé continuously informs the employees about questions that affect a larger group of the workers.

Employee dialogue
Besides continuous communication with the union, two information meetings per year serve the involvement of colleagues in addition to personal dialogues with them. In addition the intranet sites and the monthly published newsletter provides written information for colleagues.

Trainee programme
Our trainee programme, the COMEX (Commercial Executive Management Trainee) was explicitly established for fresh graduates. The participants during the 32 months of the programme gain experience in four different fields (sales, marketing, control and supply chains). The programme commenced in 2000 and since then 18 employees have completed it.

Job fairs
In 2008, Nestlé took part in the job fair of HVG magazine, as well as that of the University of Miskolc, and on two additional occasions at the BME Job Fair and at the event of the Corvinus University, the KarrierExpo.

6.3. Training
Nestlé places great emphasis on the principle of lifelong learning at both international and local levels. Thus the training and conferences (some of which are coordinated by the training centre in Switzerland) targeting specialist skills as well as the training promoting the development of individual competencies are equally accessible for the employees of Nestlé Hungária Kft.

The areas to develop and the associated action plans are established jointly by the employees and their manager at the annual coaching in the light of next year’s objectives and the potential career steps. Nestlé believes that it is the employee who has the greatest responsibility for their development and that the best way for them to gain experience is through their daily work or by getting involved in new tasks and projects. Instruction and mentoring support from the manager is next in line. Formal training and education contribute 10% to individual development. This concept is the basis for the design of the training plan as well as for the long-term individual development plan.

Increasing nutritional intelligence in the workplace
One of the key principles of Creating Shared Value is to care for our colleagues.

The health of our colleagues is essential for high level corporate operations, at the same time the rapid spread of non-contagious diseases (e.g., cardio vascular diseases, diabetes and obesity) attributed to bad eating habits, lack of exercise and smoking, damages productivity and generates additional costs.

The workplace is an ideal place for taking preventive steps, due to both the number of people and the time spent there. Though there are no quick solutions, and everybody has to take responsibility for their own lifestyle, with the appropriate tools and motivation, the employer can play a significant role in raising awareness.

NQ Training
Healthy nutrition is everybody’s business at Nestlé and the continuous learning connected with it is essential for being a leading nutrition, health and wellness company.

In the past year at Nestlé the training associated with nutrition has become an integral part of the internal corporate culture. We are convinced that appropriate nutritional knowledge is essential for all employees in order for them to become ambassadors of a healthy lifestyle, irrespective of which field they are working in. This is why we introduced the global NQ training (NQ = Nutritional Quotient) programme.

The aim of the NQ training:
- colleagues are able to apply the acquired knowledge in their own and in their family’s lives,
- provide up-to-date and credible information to consumers: in the course of consumer communication, the consumer obtains concrete and valuable knowledge from Nestlé’s colleagues,
- colleagues are able to apply the acquired knowledge immediately, directly, and confidential in their everyday work, and through this, enhance the quality of their work.

NQ training modules
The key to the success of the training is the interactive and tailor-made modules, which encourage the participants to take practical action:

- Foundation module: an independent programme for the training of Nestlé employees who in the course of their work they do not have direct consumer contact;
- Specialist module: a further stepping stone for employees who regularly communicate with clients or consumers;
- Specialist module: we place special emphasis on understanding the consumers and on applying the dietary and lifestyle strategy of Nestlé in each of the product categories.

What does the training package consist of?
The internationally uniform training package of the NQ programme consists of several tools:
- The work of the trainers with dietetic qualifications is supported by presentations, interactive games, motivational videos and online quizzes. As a result of this, the participants’ progress and lifestyle-related knowledge gains can be measured.
- The internal communication of the NQ training is supported by posters, questionnaires, diplomas and workbooks.
- The training and communication material can be adapted for every country according to local market characteristics.

In Hungary during 2007 and 2008, over 670 colleagues took part in NQ trainings in the central office and in the factories in Szerencs or Dicsőgyőr, including colleagues working next to the conveyor belts.

I consider the NQ training especially important, as it provides concrete knowledge that can be used by our colleagues in their everyday life, thus immediately benefitting their health.

In addition, within the framework of the internal wellness programme, weight loss programmes and health screening tests are also organised for employees, measuring cholesterol level and body fat, assessing eating habits and providing consultation on creating a healthy lifestyle.

How was the introduction of the screening tests received by colleagues?

The feedback is favourable – especially as screening tests have become a tradition here since 2006 with 100 people taking part every year.
### The description of the programme

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<tr>
<th>Unit of measure</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
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<tr>
<td>NQ training (basic, advanced, specialist)</td>
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<td>155</td>
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<td>Health survey, diet programme, office massage</td>
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<td>285</td>
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<tr>
<td>Sporting opportunities with a contracted partner (fitness, swimming)</td>
<td>participants</td>
<td>305</td>
<td>337</td>
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<tr>
<td>Interesting and topical articles in the WellNess section of the monthly internal newsletter</td>
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<td>305</td>
<td>337</td>
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<td>Purina Budapest</td>
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<tr>
<td>Unlimited use of fitness facilities with a contracted partner</td>
<td>participants</td>
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<td>69</td>
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<tr>
<td>Health survey, massage</td>
<td>participants</td>
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<td>0</td>
</tr>
<tr>
<td>Health weeks (information by e-mail regarding healthy eating and lifestyle, poster campaign, alternative equipment, arm rest, screen guards, product packages)</td>
<td>participants</td>
<td>0</td>
<td>68</td>
</tr>
<tr>
<td>Szerencs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NQ training (basic)</td>
<td>participants</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Health weeks (information by e-mails regarding healthy eating and lifestyle, poster campaign)</td>
<td>participants</td>
<td>0</td>
<td>389</td>
</tr>
<tr>
<td>Diósgyőr</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NQ training (basic)</td>
<td>participants</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Health weeks (information by e-mails regarding healthy eating and lifestyle, poster campaign)</td>
<td>participants</td>
<td>0</td>
<td>270</td>
</tr>
<tr>
<td>Bük</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health weeks (information by e-mails regarding healthy eating and lifestyle, poster campaign)</td>
<td>participants</td>
<td>0</td>
<td>294</td>
</tr>
<tr>
<td>Unlimited use of fitness facilities with a contracted partner</td>
<td>participants</td>
<td>0</td>
<td>294</td>
</tr>
</tbody>
</table>

### Other than those listed in the table:
- The internal newsletter of Nestlé (and its Wellness section) is also distributed to the employees in Szerencs, Diósgyőr and Bük.
- The company also provides an opportunity for playing soccer in Bük.
- Also in Bük at the summer party, a first aid site is established for training purposes, with special consideration to safety at home (mainly for children).
- Free fruit and mineral water is available everyday for the employees in the Budapest office and in the factories.

The significant difference in the training hours in the factories is the result of the difference in the degree of complexity of the applied technology.
6.4. Benefits

The employees at Nestlé receive a wide range of benefits:

– Possibilities of part-time and teleworking
– Flexible working hours
– Cafeteria system
– Voluntary pension fund
– Infant formula gift pack for the employees’ babies
– Christmas and Easter presents for the employees
– Supporting sporting activities
– Group life and accident insurance
– Loyalty bonus

– Employer voluntary pension fund contribution
– Group term life and accident insurance
– Occupational health service
– Special glasses for computer use
– Retirement bonus
– School start benefit
– Other employee benefits at participating partners (travel, clothing allowances)

All Nestlé employees (either on a fixed-term or on a temporary basis, full or part-time) are entitled to the same benefits.

At Nestlé Hungária Kft., practically all employees regularly receive a performance evaluation, as well as an overview of their career building and individual development opportunities. The evaluation system for non-manual employees is more complex than that of manual workers, however the evaluation has an impact on the level of the salary increase in both cases.

### Table: Average starting salary compared with the local minimum wage at the more significant premises of the organisation

<table>
<thead>
<tr>
<th>Name of the premises</th>
<th>Position</th>
<th>Average starting salary in the position thousand HUF</th>
<th>Minimum wage thousand HUF</th>
<th>Ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Office</td>
<td>Sales Assistant</td>
<td>211</td>
<td>69</td>
<td>306%</td>
</tr>
<tr>
<td>Purina Budapest</td>
<td>Sales representative</td>
<td>200</td>
<td>69</td>
<td>290%</td>
</tr>
<tr>
<td>Szerencs</td>
<td>Operator</td>
<td>69</td>
<td>69</td>
<td>100%</td>
</tr>
<tr>
<td>Diósgyőr</td>
<td>Operator</td>
<td>69</td>
<td>69</td>
<td>100%</td>
</tr>
<tr>
<td>Bük</td>
<td>Packer</td>
<td>74</td>
<td>69</td>
<td>107%</td>
</tr>
</tbody>
</table>

Figure 30: Average starting salary compared with the local minimum wage at the more significant premises of the organisation

### Figure 31: Basic salary of men and women compared

### Figure 32: Basic salary of men and women of the management in the factories compared

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Nestlé Hungária Sustainability and Creating Shared Value Report 2008

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Our colleagues
6.5. Health and Safety

In 2008, Nestlé renewed the Works Council and Health Policy (www.nestle.com/people/safety) to confirm their commitment to the safety of the employees and to encourage the introduction of higher safety standards in the supply chain. Special attention is given to safe driving. Nestlé started a global programme for preventing traffic accidents involving employees and contractual partners, within the framework of which, driver training was organised for colleagues with a company vehicle.

Based on Act 93 of 1993 on Labour Safety and its amendment, as well as Act 161 of 2007, health and safety officers were elected in the plants (jointly in Szerencs and Diósgyőr, separately in Bük).

In 2007 and 2008 in Szerencs there were 9 health and safety officers, this number was 5 in Diósgyőr and 4 in Bük. (There were no health and safety officers in the Head Office and in the Budapest office of Purina.)

In 2006, the factory in Bük started a global programme (abbreviated as BIBE in Hungarian).

The essence of this is that we listen to our working environment and colleagues through the involvement of every single employee. If we notice anything extraordinary, we warn the other, raising their attention to the danger. If they carry out their work incorrectly, we tell them, but we also point out if they do everything appropriately.

Several methods exist for developing a correct behavioural culture, the factory in Bük chose the method of “Safety Talks” (abbreviated as BIBE in Hungarian). By 2008, the BIBE programme operated with the participation of all employees, involving approximately 350 persons. Over 200 safety talks took place monthly, exceeding 2,500 annually.

The majority of the talks target correcting behaviour and tasks are increasingly about positive comments and appraisal of correct behaviour.

Since the start of the programme in 2006, the factory has achieved several milestones. Such results for example are: 445 accident free days in the entire factory, 3 accident free years of production in the cannery, 2 accident free years in the dry plant and finished goods storage.

Accidents

There was no accident causing death or permanent injury in 2006, 2007 and 2008.

There is no data on accidents at work requiring first aid measures.

6.6. Diversity

Employment of people with disabilities in the factory in Diósgyőr

The separate employer Prima-Soft has been cooperating with the Diósgyőr factory of Nestlé since the spring of 2007. (It has rented premises within the factory.)

The company is an employer of disabled people. Approximately 60-80 persons are employed at the premises of Nestlé, who usually work in two shifts dependent on work requirements. Nestlé has regrouped the manual packaging tasks for them, for which previously they used contingent labour force.

The cooperation of the employees of Prima-Soft and Nestlé in the Diósgyőr factory is trouble free. The factory carried out the preparations for receiving the workers of Prima-Soft in 2007, placing handrails next to stairs and entrances as well as ensuring accessibility on site.
6.7. Human rights and other social issues

Nestlé increasingly promotes more initiatives worldwide for the equal treatment and career opportunities of employees. Within the framework of this, more attention is given to the conditions for women, for example to the process of how women return to work after maternity leave.

In 2008, there was no case of discrimination at Nestlé Hungária Kft.

Human rights training for security personnel

In compliance with Hungarian legislation (based on Act 4 of 1998), the body and security guards shall take part in a National Qualifications Registered (OKJ) bodyguard and property protection course. Within this, they received 120 training hours in total on the legal information specified by law.

The legal training is made up of several phases; a security guard in order to perform their tasks shall have:
- basic legal knowledge (including basic human rights legislation)
- certain knowledge of criminal and prosecution law
- certain knowledge of civil law
- certain knowledge of administrative law
- certain knowledge of law

All security guards working in the Nestlé premises have completed this training.

Prevention of corruption

For prevention purposes in 2008, we had the Code of Ethics and Business Conduct published in the Hungarian market for local employees, with the addition of local applications. Moreover, all Nestlé employees completed declaration “A” which concerns any existing employment or any other type of working relationship in addition to the existing employment at Nestlé Hungária Kft. In declaration “B” it shall be stated, whether the employee wishes to have further employment or other type of working relationship (either free of charge or remunerated) in addition to the existing employment at Nestlé Hungária Kft. This is continuously monitored by the company.

Responses connected with corruption events

There was no corruption related event in 2008.

Public policy standpoint, participation in forming public policy and lobbying activities

Nestlé carries out lobbying activities in Hungary and in the European Union on three levels. First level: the office of Nestlé’s centre in Brussels directly gives its opinion to the EU on draft provisions, and also contacts and consults employees and officials of the EU Commission, or the representatives of the European Parliament and their assistants.

Second level: the company submits its opinion to or contacts the persons referred to above through European professional associations (CIAA: food products, Caobisco: confectionery, Fediaf: pet food industry, IDACE: formula manufacturers, Euroglaces: ice-cream, Cereal: cereals, EVA: vending etc.).

Third level: in Hungary, Nestlé submits its opinion and comments in connection with the draft provisions to representatives of the Hungarian government, of the National Assembly and the Hungarian representatives of the EP directly, or with the involvement of a lobbying agency or through professional associations (Federation of Hungarian Food Industries, Association of the Hungarian Confectionery Manufacturers, Hungarian Pet Food Association, Hungarian Mineral Water Association, Hungarian Vending Association etc.).

In addition to giving an opinion on the draft provisions, Nestlé Hungária Kft. takes part in the dialogue concerning society and the economy. The venue and the instruments for this are as follows: Nestlé Hungária Kft. is directly or indirectly a member of the European Brands Association (AIM) and PROGRESS workgroup of the Association of Food, Beverage and Consumer Products Companies (GMA), the aim of which is to improve the efficiency and effectiveness of the assessment procedure in the supply chain.

Supplier audit

Before a raw material or packaging supplier, a contract manufacturer or a contract packer enters into any business relationship with Nestlé, they must undergo an audit process. The outcome of this process will determine whether the supplier, the given company may do work for Nestlé in the future.
Manufacturers
A requirement from manufacturers is to have the same standards (ISO 9001, ISO 22000, OHSAS 18001 and ISO 14001) as Nestlé. New manufacturers employed by the company are subject to having these standards. Half of the current manufacturers are required to obtain the certifications by the end of 2009 with 100% of them by the end of 2010. The Hungarian manufacturers of Nestlé (e.g. Pacific, Izsáki pasta) have already started the introduction of these systems. Nestlé also specifies which certification organizations can certify the systems at the manufacturing companies.

Local supplier is a company, which has premises in Hungary and employs a Hungarian labour force.

International outlook: coffee and cocoa
We purchase raw materials for the production of the wide range of coffee and cocoa products from over 60 countries in the value of approximately 22.5 billion CHF annually. Two-thirds of these raw materials are purchased directly on raw materials purchased directly from the producers (e.g. milk, coffee, fruit, vegetables, cereals and potatoes). Our expert groups made up of agronomists and agricultural technicians work together with the producers on developing quality and quantity, increasing yield and eliminating pathogens. Improving quality and sustainable agriculture is our pledge for long-term raw material supply, and at the same time these improvements contribute to increasing the income and quality of life of farmers.

Nestlé globally works together with tens of thousands of coffee growers in order to support them in improving the quantity and quality of the produce, in more efficient protection of the environment and in creating better living conditions. For example the Nescafé Partners’ Blend and the Nespresso AAA programme is certified by the Rainforest Alliance as an independent party. The programme contributes to the economic development, environmental sustainability and social justice of the coffee farms.

More information on the Nespresso AAA Programme: www.ecolaboration.com

We contributed to the practice which enables coffee growers in Ethiopia, El Salvador, Mexico and in Nicaragua to save up to 90% of the water necessary for washing and de-husking the coffee beans.

Nestlé is an active participant in the development programmes for the cocoa supply chain. We work together with the International Cocoa Initiative (ICI) and the World Cocoa Foundation on improving the income of small producers, on eliminating unacceptable child labour and ensuring a higher standard of education for children.

In Ivory Coast (where 40% of the world’s cocoa production originates from) the yields and the quality of the produce has decreased in recent years. Nestlé, in cooperation with three organisations, is working on improving the produce and social conditions.

Nestlé joined UTZ, one of the leading sustainability certification systems, with several industries taking part.

The aim of the above initiatives, is that through them Nestlé would contribute to more sustainable ways of growing coffee and cocoa, ensuring the long-term supply of good quality coffee and cocoa and to improve the income and living conditions of the farmers.

We delivered a wide range of flexible packaging materials for Nestlé for the packaging of coffee and cocoa.

What is the cooperation like from a supplier angle?
How is it possible to consider the environmental aspects, too?
As suppliers, do you also carry out your own tests?

Yes, in fact several different types – these are carried out by us in accordance with Nestlé’s own internal specifications. We ensure the excellent properties of the packaging material in this way. For example during the Robinson test we examine what effects the packaging material has on the sensory qualities of the food product, this is carried out specifically according to the Nestlé method. During the tests we provide values that are compatible with Nestlé’s own system, this way it is possible to have an overview of all the properties of the packaging material immediately. One of the essential requirements that we have to satisfy is to provide Nestlé with a detailed declaration of compliance of the products. Without this, they cannot enter the products into their system. Naturally, this declaration is also submitted to them in each case.

Figure 33. The proportion of local suppliers 2006-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of local suppliers (based on the number of companies)</th>
<th>Proportion of local suppliers (based on acquisition value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>85</td>
<td>73</td>
</tr>
<tr>
<td>2007</td>
<td>84</td>
<td>73</td>
</tr>
<tr>
<td>2008</td>
<td>86</td>
<td>74</td>
</tr>
</tbody>
</table>

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8. Community links

8.1. Professional links

Nestlé Hungária Kft is a member of the following professional and advocacy organisations:
- Hungarian Petfood Association
- Association of Confectionery Manufacturers
- Federation of Hungarian Food Industries
- Hungarian European Business Council (HBEC)
- Hungarian Brands Association
- National Human Resources Association
- Swiss-Hungarian Chamber of Commerce
- Hungarian Platform on Diet, Physical Activity and Health (in Hungarian: TÉT Platform)
- Hungarian Paediatrics Association
- Hungarian Brand Association
- Hungarian European Business Association of Confectionery Industries
- Hungarian Petfood Association
- National Institute for Food and Nutrition Science (OÉTI)
- Hungarian Dietetic Association (MDOSZ)
- Hungarian Paediatric Association
- Hungarian Pharmaceutical Manufacturers Association
- Hungarian National Food Technology Platform
- International Chamber of Commerce (ICC Hungary)
- Hungarian Technology Platform

In addition to the above, we gave a presentation at the Dietary Marketing Conference at Kaposvár University. The audience mainly consisted of university professors, governmental officials, nutritionists, dieticians and students.

The Henri Nestlé Award

Nestlé founded the Henri Nestlé Award in Hungary in 2003, which since then has become a significant professional recognition. The three best first-time authors under 40 are awarded with this prize at the annual Scientific Meeting of the Hungarian Paediatrics Association and the Paediatric Gastroenterology Section of the Hungarian Society of Gastroenterology. The prize is awarded by the scientific committee of the section. With the award, Nestlé would like to support the development of talented young professionals so they can contribute to the scientific development of paediatrics.

In 2008, the winners of the prize in the Paediatric Gastroenterology Section of the Hungarian Society of Gastroenterology were:
- 1st Prize: (grant to take part in the annual congress of the European Society of Paediatric Gastroenterology, Haepatology and Nutrition; memorial medal): Dr. Beáta Szűcs, Faculty of Medicine, Semmelweis University, Department of Paediatrics I, Budapest
- 2nd Prize: (grant to take part in the annual congress of the European Society of Paediatric Gastroenterology, Haepatology and Nutrition; memorial medal): Dr. Kata Kelen, Department of Paediatrics I, Budapest University of Technology and Economics
- 3rd Prize: (grant to take part in the annual congress of the European Society of Paediatric Gastroenterology, Haepatology and Nutrition; memorial medal): Dr. Beáta Szűcs, Faculty of Medicine, Semmelweis University, Department of Paediatrics I, Budapest

Figure 34: Professional cooperation in 2008

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Collaboration, joint project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungarian Dietetic Association (MDOSZ)</td>
<td>Professional support for the Nestlé Lifestyle Centre and the Nutrikid programme</td>
</tr>
<tr>
<td>Hungarian Platform on Diet, Physical Activity and Health (in Hungarian: TÉT Platform)</td>
<td>Continuous dialogue regarding the application of the food labelling system of the Confederation of the food and drink industries of the EU (CIAA) on Nestlé products.</td>
</tr>
<tr>
<td>National Institute for Health Development (OÉFI)</td>
<td>We held presentations at professional conferences for teachers and school nurses regarding the Nutrikid programme, on the topic of health development in schools.</td>
</tr>
<tr>
<td>Chamber of Hungarian Health Professionals (MESZK)</td>
<td>Dialogue regarding the official and uniform translation of the guideline daily amount GDA and harmonisation with the CIAA food labeling system; on physical activity and educational programmes; dialogue with the government, NGOs and professional communities</td>
</tr>
<tr>
<td>Cordi K+F Nonprofit Zrt</td>
<td>Research and development: environmental protection and energy efficiency increasing programmes</td>
</tr>
</tbody>
</table>

In the scientific meeting organised by the Hungarian Paediatrics Association and the Paediatric Gastroenterology Section of the Hungarian Society of Gastroenterology in 2008, I met the case I presented at the Gastroenterology and Haepatology section of the conference during my residency. I had the opportunity to follow this very educational case all through with the guidance of Dr László Szûnyi. It was my great pleasure that the jury awarded me the first prize for my presentation on the diagnostic difficulties of mitochondrial diseases. Thanks to the prize, I was able to take part in the Annales Congress of the European Society of Paediatric Gastroenterology, Haepatology and Nutrition held in Budapest. During my participation at this very valuable event, I had the opportunity to establish professional and personal relationships benefitting my knowledge previously obtained in the field of haepatology and gastroenterology.

Dr. Kata Kelen – Resident Paediatrician
In Hungary, Nestlé contributes with several programmes to the development of health consciousness and to the promotion of a balanced diet and a better way of life. The flagship of these programmes is Nutrikid.

The Nutrikid Programme, developed for the 10-12 year old age group, was launched in conjunction with the Hungarian Dietetic Association in 2003. Any primary schools in Hungary may join the free programme. The Nutrikid programme package is an advertisement free exercise book for children, rich in playful elements, containing a film with cartoons and a teacher’s manual to assist educational work.

The interested primary schools can find the material of the Nutrikid educational programme all year around at the following website: www.nutrikid.hu. The interactive interface contains interesting reading, a film titled “The secret of the pyramid” related to the programme and various games for the children together with a separate menu for adults. Between November 2008 and May 2009, the registered visitors of the site could win Nutrikid gifts and sports equipment.

Since 2003, at least 200,000 pupils from 2,700 primary schools have used the Nutrikid programme. In the 2007/2008 school year 28,759 Nutrikid exercise books were ordered by 981 schools.

Nutrikid Olympics

For the prevention of childhood obesity, Nestlé announced a competition for primary schools, called the Nestlé Nutrikid Olympics, for 10-12 year old pupils. Approximately 7,000 pupils took place at the Nutrikid Olympics in the 700 teams of near 500 schools.

During the five months of the competition those participating had to solve tasks connected with nutritional information. The teams supported by their newly gained knowledge as well as their creativity had a monthly chance of winning various gift items, furthermore there was also a 100,000 HUF bonus prize, which they could utilise for school trips, sport or educational equipment.

Following the last round in January, the best performing Nutrikid Olympic Champion School was selected by a jury. The honourable title came also with a 300,000 HUF prize, which was awarded to the “We understand! Do you?” team of the Szent László Primary School, Dunakeszi.

Nutrikid exercise books were ordered by 981 schools.

The programme fills a hole in the Hungarian school education. The exercise books are much liked by the pupils and they carry out their preparations for the sessions with enthusiasm. I have also added some supporting items made by myself to the playful course material, enabling even more visual learning. This way the children become easily familiarised with the basics of a balanced diet.

Forencné Kirsch, teacher, Bárdos Lajos Primary School, Dunakeszi

8.3. Donations, charity

Donations

The value of the donations made to the public sector in 2008 was 64 million HUF. Organisations receiving mainly product donations: Hungarian Food Bank Association, Hungarian Red Cross, Responsible for Our Future Foundation, National Association of Large Families, Baptist Aid Foundation, MPANNI – Pető Institute.

The Red Cross - Nestlé Fund

The idea of creating a charity fund, with the help of which Nestlé Hungary Kft. can manage the requests coming from private individuals in a transparent, safe and simple way, was born at the end of 2008. The company selected its internationally recognised partner, the Red Cross, for coordinating the distribution of the amount available to the charity fund. Nestlé contributed 700,000 HUF in 2008 to the open-ended charity fund. With the charity fund Nestlé has set the objective of supporting the expenditures associated with the medical treatment of children and young people of 0-18 years of age.

In addition to the Red Cross - Nestlé Fund the Budapest Juventutis Foundation (concerts) and the Paediatric Surgery for Children Awaiting Operation Foundation (for purchasing hospital equipment) also received donations.
9. Environment

The Policy on Environmental Sustainability (www.nestle.com/CSV/Environmental-Sustainability) was first published in 1991 with significant amendments and updates carried out in 2008. This master document lays down the environmental protection principles and commitments of Nestlé.

Environmentally friendly operation is governed in addition to the Environmental Protection Policy of Nestlé Hungária Kft. by the “Nestlé Integrated Management System” (NIMS). In 2008 the development of the ISO 14001 environmental management system commenced in all the factories of Nestlé. Certification is expected in 2009.

Reduction in the environmental footprint is one of the key areas of Creating Shared Value. Nestlé’s principle and objective is to continuously reduce the specific energy and water consumption per one tonne of product every year.

Therefore the targeted saving in energy and water as well as the reduction in waste were included amongst the personal performance objectives of the managers of the factories. The management of Nestlé provides incentives for savings to all employees and contractual partners through training and visual materials.

We succeeded in improving the environment protection performance by the combination of innovative solutions, refined settings and the encouragement of individual initiatives.

The comprehensive efficiency improving programme that was started in the Nestlé factories in Szerencs and Diósgyőr in 2005, focused on reducing the water and energy consumption, as well as limiting waste so that by one unit of investment the largest possible savings can be achieved. During the measures taken so far, in addition to the new investments, the refining of the processes and procedures as well as the integration of employee suggestions were equally defining. Insulating the walls and ceilings of the buildings and warehouses in Szerencs, as well as replacing the glass and windows resulted in an important saving factor. Replacement of the water pipes and the control elements proved to be a progressive measure, just like the control modernisation of the water management system based on reverse osmosis boilers, the elimination of the leaks from the compressed air and nitrogen pipes, as well as the optimisation of the operation of the cooling system.

In Diósgyőr, fine tuning and more frequent maintenance of the existing systems as well as the partial reconstruction of the water pipe system was of key importance in achieving energy and water savings, all these were covered by the annual maintenance budget.

Energy

As a result of the three-year development process, in the factory of Nestlé Hungária Kft. in Szerencs the energy consumption per 1 tonne of product decreased by half, out of which the efficiency gain for 2008 was 9.9%.

The implementation of the energy saving action plan for the Bük factory was also successful. Within the framework of this, twilight switches and sensors were installed, steam fittings and pipes were re-insulated. These projects resulted in a 4%, thus 0.8 MWh energy saving.

In addition, the CO₂ emission of the factory was also reduced by optimising gas use. Since 2008 one of the steam boilers has only been operating as an auxiliary unit, thus the required gas for the production of 1 tonne of steam is decreased by 5 m³. This means a 2%, thus 110,000 m³ gas saving annually, with a decrease in the CO₂ emission by 210 tonnes (5.7%).

For now, no summarised data is available on the petrol and diesel consumption of the organisation and on the natural gas consumption of the offices in Budapest.

No data is available regarding the electricity consumption of the offices in Budapest.
In what areas has cooperation been realised between CORDI and Nestlé to date?
In the past period we supported the activities of Nestlé with extensive research and analytical activity.
In the field of packaging technology for example, we tested innovative PET packaging procedures, the possibilities of introducing biodegradable packaging materials in the food industry (PLA, PLAN-TIC) and the breaking down of plastic waste at low (300°C) temperature.

We compared the energy consumption and services for each factory unit, and we also developed and introduced a new energy management system in the factories in Szerencs and Diósgyőr.

What other sorts of environmental and energy research was carried out in Bük?
We carried out laboratory tests and field trials and we also prepared a feasibility study on the possibilities of generating biogas from production waste. Furthermore, the development and experimental use of the innovative sewage monitoring system was also an important project in Bük.

What represented the main attraction in these projects?
The projects in Bük were particularly attractive for me, as the results can be utilised in several other areas in the future. The payoff of the project may not only be cost reduction, but even energy production for Nestlé.

Gábor Gyimóthy, Chief Researcher, Department of Environmental Research, CORDI K+F Nonprofit Zrt.

In January 2008 we commissioned the CORDI K+F Nonprofit Zrt. to further develop the sewage treatment of the Bük factory. As a result of the research, the drinking water used during production is treated with a new metrological procedure. The essence of the new method is a new application of the electrochemical probes that are widely used in the water treatment industry, which replaces the previous optical based measuring; the new measuring method provides information regarding the quantity of material dissolved in the liquid by testing the pH value as well as the oxidising or reducing properties of the solution.

Within the framework of the project, with the support of CORDI’s experts, we developed a continuous monitoring centre. The procedure extends beyond the monthly measuring provision specified by the specialist authority. Fast and high precision testing enables very accurate dosing of water treatment chemicals.

With regard to water treatment chemicals, my objective is to automate the chemical dosing as much as possible, so that the result is a more precise, smooth and innovative industrial solution.

Erzsébet Budai, Environmental Specialist, Nestlé Bük Factory

Water
In Szerencs as a result of several water saving projects, the water consumption per tonne of product decreased by 56% (103 m³) compared with 2005. Nearly half of this saving was realised between 2007 and 2008. In Diósgyőr we also succeeded to reduce the per tonne water consumption by 18.8% between 2005 and 2008. In 2008 in the Bük factory, in order to implement a more environmentally conscious treatment of the water used for production, Nestlé reduced the phosphorus content of the water by 85% by the application of a new chemical (compared with the figure of 2007). This way the composition of the waste discharged to the town’s treatment plant was comparable to the residential sewage. In addition, water consumption was also reduced by recycling the feed water of the autoclave. As a result, water abstraction from the well aquifer is 50 m³ less per day.

In Szerencs and Diósgyőr, the water consumption of the offices in Budapest is not included.
Waste

The corrugated cardboard outers and trays of all products manufactured in the Szerencs factory are made of recycled paper (this is supplied by Dunapack). In Bük, due to selective waste collection, 80% of the non-hazardous waste and 100% of the production waste is recycled.

In addition to selective waste collection, minimizing the mass and volume of materials used during production and reducing the amount of packaging materials are aims of fundamental importance. In Szerencs, we also succeeded to reduce the amount of materials used for production by approximately 25% in 2008, while in the factory in Diósgyőr an even higher, 30% improvement was achieved compared with last year. This means that in two years the amount of materials used during production – later treated as waste – decreased by approximately half per unit of product.

By applying the described waste reduction approach, we can prevent the release of large amounts of carbon-dioxide into the atmosphere, by reducing the necessity of tree-felling and by reorganizing packaging, transportation and recycling.

Noise and odours

On the production line in the Szerencs factory an air filter is in operation for reducing dust emission. The factory also has a noise reduction system. Due to the odour filter investment of previous years in Bük, no complaints were received in 2008 in this matter from the inhabitants of the surrounding area. The installed biofilter operates with a 96% efficiency and has a maintenance cost of 100,000 EUR per every five years.

<table>
<thead>
<tr>
<th>Hazardous waste</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tr>
<td>Szerencs</td>
<td>39</td>
<td>13</td>
<td>5.4</td>
</tr>
<tr>
<td>Diósgyőr</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Bük</td>
<td>6.9</td>
<td>15.93</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45.9</strong></td>
<td><strong>28.93</strong></td>
<td><strong>11.4</strong></td>
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<table>
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<th>Non-hazardous waste</th>
<th>2006</th>
<th>2007</th>
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<td>180</td>
<td>163</td>
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<tr>
<td>Diósgyőr</td>
<td>62</td>
<td>43</td>
<td>29</td>
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<tr>
<td>Bük</td>
<td>304.3</td>
<td>340</td>
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<td><strong>Total</strong></td>
<td><strong>526.3</strong></td>
<td><strong>563</strong></td>
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<table>
<thead>
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<th>Noise and odours</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>171,046</strong></td>
<td><strong>177,253</strong></td>
<td><strong>176,052</strong></td>
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<tr>
<td>Szerencs</td>
<td>42,231</td>
<td>45,000</td>
<td>41,372</td>
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<tr>
<td>Raw materials</td>
<td>29,970</td>
<td>33,000</td>
<td>32,731</td>
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<tr>
<td>Packaging materials</td>
<td>12,261</td>
<td>12,000</td>
<td>9,641</td>
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<tr>
<td>Diósgyőr</td>
<td>4,838</td>
<td>3,056</td>
<td>2,744</td>
</tr>
<tr>
<td>Raw materials</td>
<td>2,835</td>
<td>2,854</td>
<td>2,334</td>
</tr>
<tr>
<td>Packaging materials</td>
<td>1,803</td>
<td>202</td>
<td>410</td>
</tr>
<tr>
<td>Bük</td>
<td>124,177</td>
<td>129,197</td>
<td>131,936</td>
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<tr>
<td>Raw materials</td>
<td>111,304</td>
<td>118,880</td>
<td>122,108</td>
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<tr>
<td>Packaging materials</td>
<td>12,873</td>
<td>10,317</td>
<td>9,828</td>
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10. Economic performance

The year of 2008 brought dramatic changes in the world and also in Hungary. Starting from the financial sector, the crisis had an impact on all areas of the economy. In the Hungarian market economic growth fell back by 2.3% with 6.5% inflation, the unemployment rate increased from 7.4% to 7.9% and consumer prices for food industry products increased by 10.5%.

The results of the Company in the last quarter of 2008 brought the desired growth, producing approximately 2.5% increase in turnover, despite the general economic downturn occurring in the Hungarian market. The largest scale increase in turnover (3.3%) showed at Nestlé pet food, while the turnover of traditional Nestlé products increased by 1.9% compared with the previous year despite the 1.8% reduction in consumer demand and the increase in the share of private labels.

New products appeared on the 2008 product palette of Nestlé in accordance with consumer demand. The company on 1 July 2008 acquired the Balaton chocolate brand and introduced the Boci Aero to the chocolate market, and also extended the Maggi product family with new Maggi Fix products.
11. Nestlé around the world in numbers

Nestlé is the largest food company in the world. The centre of the company is in Switzerland.

Nestlé employs 283,000 people around the world, half of them living in developing countries. The company has 456 factories worldwide. Our products are sold in 130 countries. In 2008, the total investment expenditure of Nestlé was 4.9 billion CHF, from which 1.7 billion was utilized in developing countries. In 2008, Nestlé at world level financed social and environmental projects to the value of 50.7 million CHF and provided micro-loans for small producers to the value of 30 million CHF.

Reducing the environmental footprint
68% - Increase in the volume of production since 1999
58% - Water savings per tonne of product since 1999
20% - Decrease in the packaging material use of bottled water between 2004 and 2008
48% - Decrease in greenhouse gas emission per tonne of product since 1999

Supporting income growth of smallholders and ensuring high quality raw materials
594,223 - number of small producers receiving technical support

Development of employees
42% - The ratio of local citizens in the Management Committees operating in developing countries
25% - The ratio of female managers
70,167 - The number of employees receiving formal education in developing countries

Nutritional developments
6,254 - The number of products renewed based on nutritional and health aspects in 2008

Research and development
5,000 - This is the number of colleagues working in Nestlé research centres and product technology centres around the world.


12. GRI index

The following index contains the indicators, grouped by topics, based on the codes in the GRI G3 Guide.

The description of the indicators is available at: www.globalreporting.org.

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</table>

**Emissions, Effluents and Waste**

- EN20: 53
- EN21: 51
- EN22: 52 (partially)
- EN23: There was no significant spillage in 2008.

**Compliance with legislation**

- EN28: There was no case of environmental penalty or violation of environmental legislation or regulation in 2008.

**Social**

- Labour Practices and Decent Work
  - LA1: 26
  - LA2: 27
  - LA3: 36
- Labour/Management Relations
  - LA4: 32
  - LA5: 32
  - LA6: 38
- Occupational Health and Safety
  - LA7: 38
  - LA8: 38
  - LA9: 38
- Training and Education
  - LA10: 35
  - LA11: 35
  - LA12: 36
- Diversity and Equal Opportunity
  - LA13: 29
  - LA14: 37

**Human Rights**

- Non-discrimination HR4: 40
- Freedom of Association and Collective Bargaining HR5: 32
- Security Practices HR8: 40
- Indigenous Rights HR9: Not relevant.

**Society**

- Community SO1: 46 (partially)
- Corruption SO2: 40
- SO4: 40
- Public Policy SO5: 40
- SO6: 40
- Anti-competitive Behavior SO7: In 2008 there was no case of legal procedure associated with anti-competitive conduct, or violation of anti-trust and anti-monopoly regulations.
- Compliance SO8: In 2008 there was no case of violation of any laws or legislation.
In 2008 there was no case of non-compliance with legislation or violation of voluntarily undertaken norms in the area of marketing communication, including advertising, promotions and sponsorships.

In 2008 there was no case of abuse of personal data of Consumers.

In 2008 there was no case of non-compliance with legislation or other regulations associated with care and use of the products.

The manuscript is closed on 30. October 2009. We would like to thank the support of all Nestlé colleagues, who contributed to the completion of this report.

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www.nestle.hu

We would like to hear your opinions and suggestions!