

Nestlé Hungária Kft.
Sustainability and
Creating Shared Value
Report 2008





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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 health 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 appoint-

ment 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 Kékkúti 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, break-fast 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.

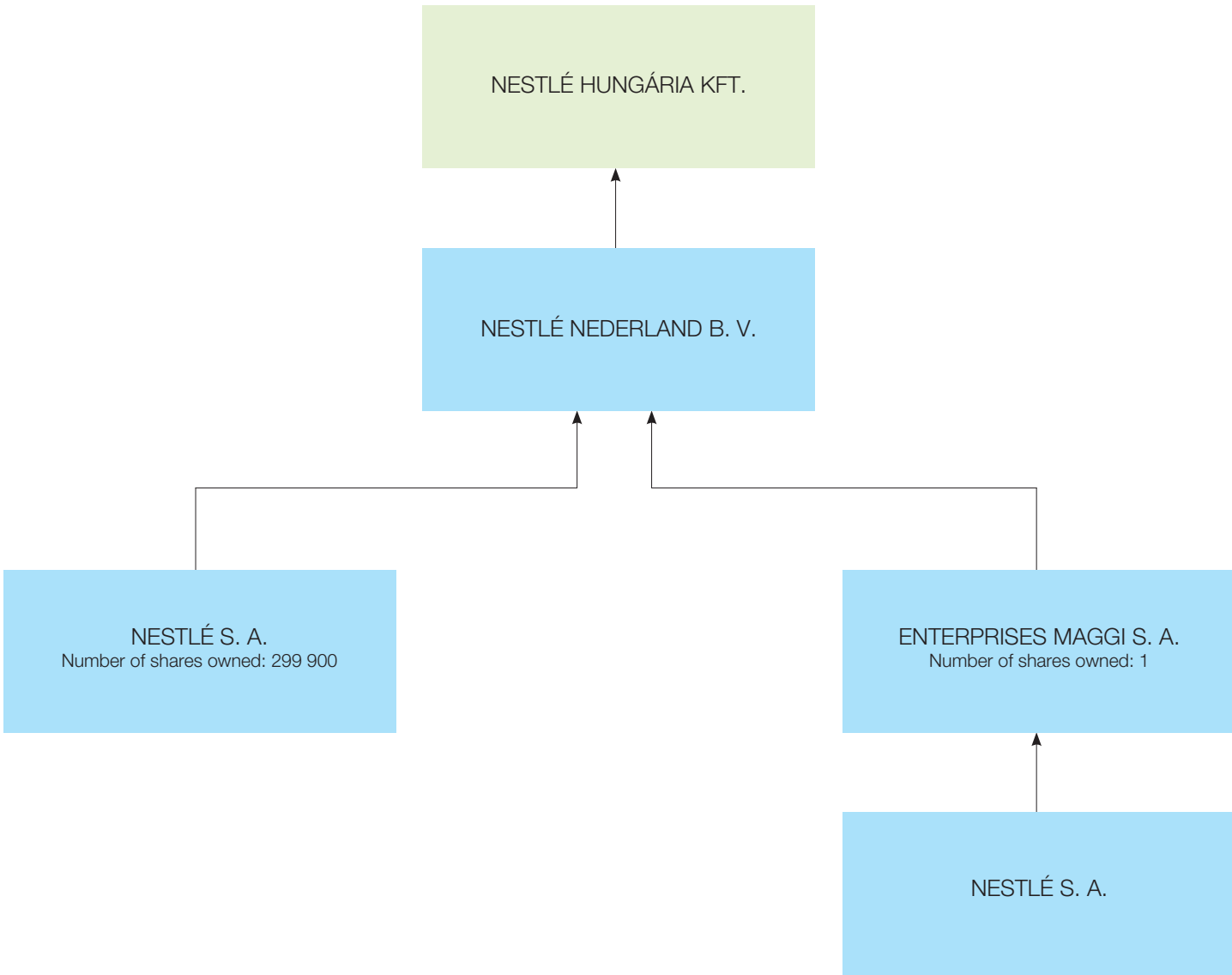


Figure 1. The ownership structure of Nestlé Hungária Kft in 2008.

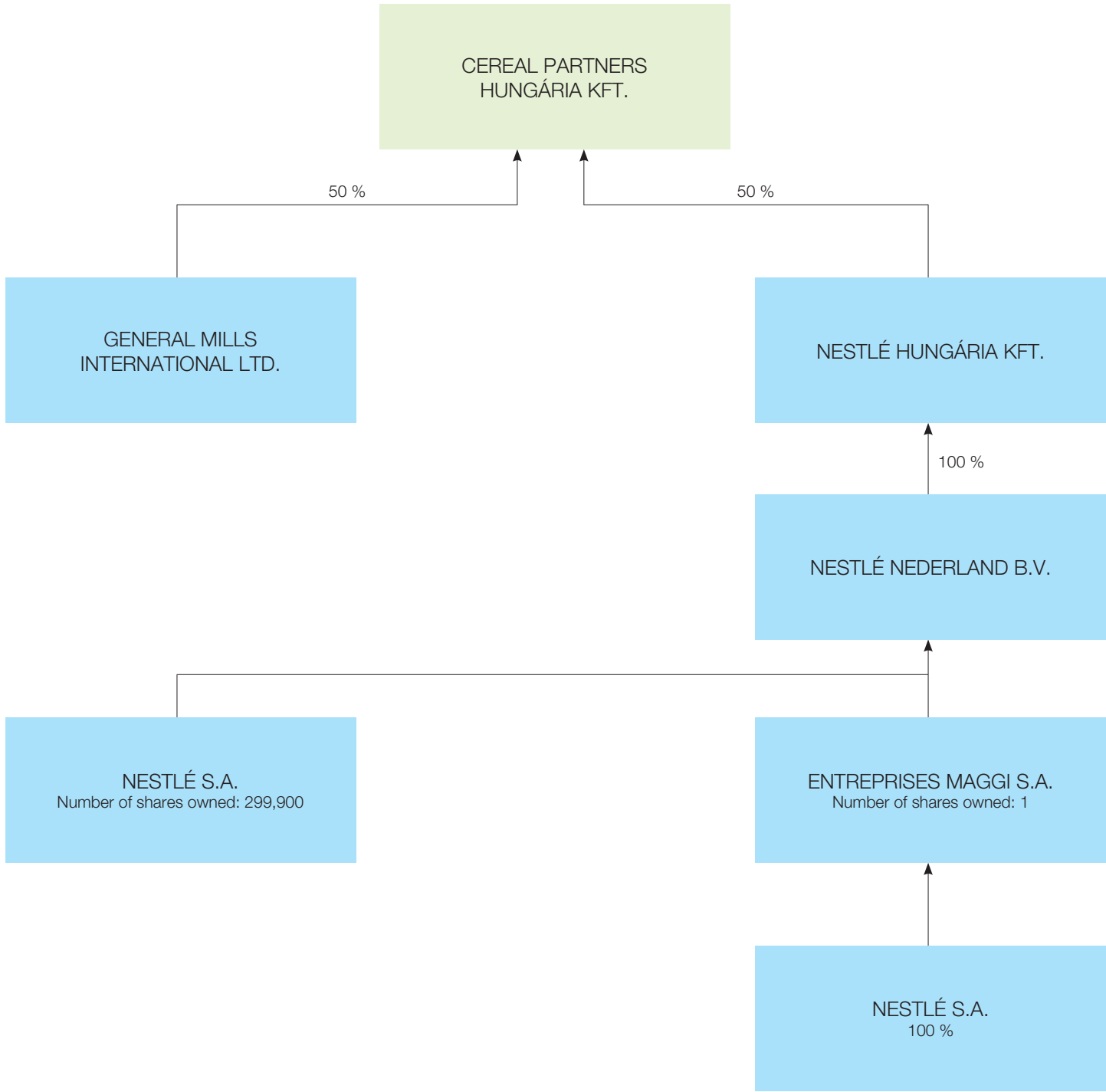


Figure 2. The ownership structure of Cereal Partners Hungária Kft. in 2008



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



NHW focus as they often think about these areas in the same way – wanting what’s good for them and their families, to also be good for society and the environment.

A closer look at the Nestlé CSV framework:

- At the foundation is non-negotiable compliance with laws, rules and codes of conduct.
- After compliance, we seek to develop and run our business in a way that preserves the environment - meeting the needs of the present without compromising the ability of future generations to meet their own needs. Nestlé’s long-term ability to provide tasty and nutritious foods and beverages depends on this and is reflected in The Nestlé Policy on Environmental Sustainability.
- What distinguishes Nestlé is that we go beyond sustainability in actively seeking to improve the economic and social conditions for people and communities across our value chain. We call this Creating Shared Value – creating value for society while helping us deliver on our business performance and shareholder value.

Value is created by our business at each step of the value chain – from supporting farmers and the supply of agricultural raw materials, to the economic development fostered by our factories which are often situated in rural areas, to the finished product which integrates our innovation and renovation efforts for notably better nutrition. It is therefore logical that we have chosen nutrition, rural development and water as particular CSV focus areas.

- **Nutrition** – helping people benefit from improved nutritional understanding and products.
- **Rural Development** – aiding farmers who supply us with raw ingredients through sustainable agriculture practices and improved technology, as well as creation of factories, jobs and infrastructure in rural communities.
- **Water** – optimized water management across our operations and extending to those of farmers and our suppliers, as well as advocating.



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 the 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 manufacturer 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.

The NiM Committee is led by the Managing Director of Nestlé Hungária Kft., who has a “custodian” role in the Hungarian market, entrusted with representing Nestlé to the outside world. The managing director from 1 September 2009 is Andrea Zambelli. The joint management board for food businesses, the Management Committee, takes both strategic and tactical decisions in respect of the three main food businesses (beverages, culinary products, confectionery products). The remaining businesses all have their own managing boards responsible for their respective business units.

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.

There is a Works Council at Nestlé Hungária Kft., which operates in the manner and under the conditions specified in the Labour Code of Hungary. In accordance with the procedure that developed, the management of the company holds a formal presentation for the Works Council on two occasions a year, also offering a venue for formulating opinions. As numerous questions and subjects to be resolved arise in addition to the formal presentation, consultation in e-mails and in person between the representatives of the employees and the senior management are rather active. Approximately 60% of the representatives of the Works Council are also members of the Confectionery Workers’ Trade Union.

Remuneration of managers

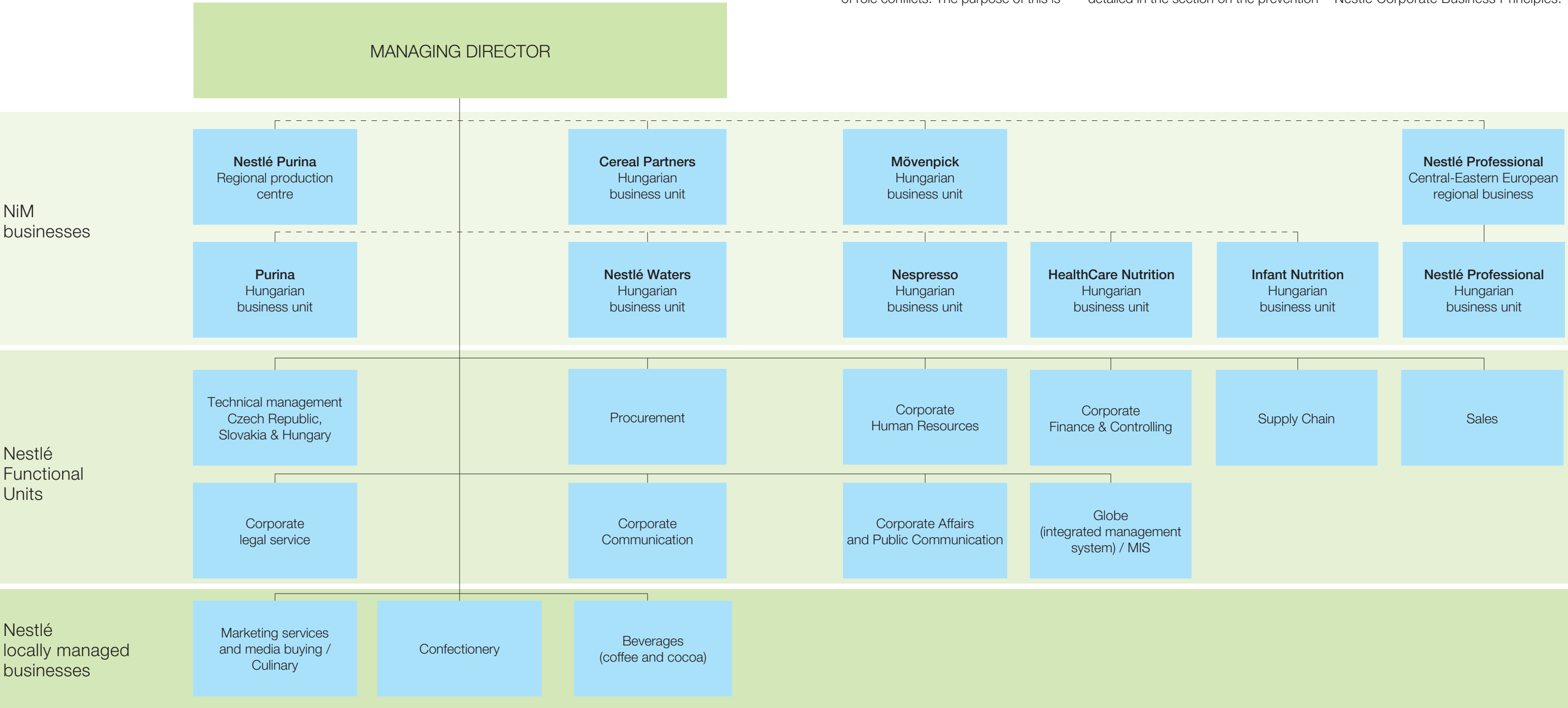
An incentive scheme ensures the connection between the remuneration of senior managers and the performance of the organisation. There are two types of incentives at Nestlé. Within the framework of short-term incentives, the bonus received by managers depends on meeting the annual targets.



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®, RICORÉ®, NESPRESSO®),
- breakfast cereals (NESTLÉ FITNESS®, NESQUIK®, CHOCAPIC®, CINI MINIS®, COOKIE CRISP®),
- pet food (PRO PLAN®, DARLING®, FRISKIES®, GOURMET®, PURINA ONE®, DOG CHOW®, CAT CHOW®),
- infant formulas, baby food and drinks (BEBA®, SINLAC®, NESTLÉ®),
- culinary products (MAGGI®),
- professional foodservice products (MAGGI®, CHEF®, BUITONI®),
- ice creams (MÖVENPICK®),
- clinical nutrition products (ISOSOURCE®, RESOURCE®)

Further information on the brands and products are at the following websites (mostly in Hungarian):

www.nescafe.hu
www.nesquik.hu
www.maggi.hu
www.kitkat.hu
www.boci.hu
www.nestle-fitness.hu
www.reggelizz.hu
www.movenpick-icecream.com
www.purina.hu
www.mitegyenababa.hu
www.nestlefoodservices.hu
www.balatonszelet.hu
www.nespresso.hu

The amount of products manufactured in 2008 in Hungary was 174,870 tonnes in total.

3.4. Presence in the country

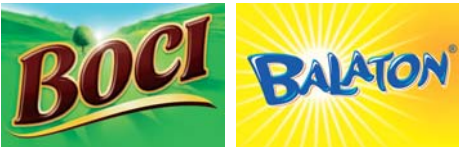
The products of Nestlé are available throughout Hungary. The head office of the company is in Budapest (H-1095 Budapest, Lechner Ödön fasor 7.) There are factories in Bük (pet food), in Szerencs (instant beverages) and Diósgyőr (chocolate hollow figures).

3.5. Awards received

We are proud that our activities have been recognised 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 (organised by the commerce periodical Pórgresszív Magazine and granted by K&H Bank)
- Silver EFFIE for NESCAFÉ Cappuccino “Süti próba” campaign in the FMCG (beverages) category.
- The Nescafé Classic 3in1 Momentcity promotion sachet was awarded the Special Award of ÖKO-Pannon Kht. at the HUNGAROPACK 2008 Hungarian Packaging Competition.
- WorldStar Award for Packaging Excellence (one of the most widely recognised 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 operation: 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,
- The Nestlé Management and Leadership Principles: www.nestle.com/AllAbout/Governance),
- Nestlé Consumer Communication Principles: www.nestle.com/CSV/Compliance/MarkAndComm),
- The Nestlé Supplier Code, www.nestle.com/suppliers).

The Nestlé Corporate Business Principles and the Code of Business Conduct contain the minimum standards, which are non-negotiable worldwide in addition to complying with locally applicable legislation. We shall carry on continuously developing and adopting the Corporate Business Principles of Nestlé (which contains our commitment to the ten principles of the initiative by the UN named Global Compact) to the requirements of the changing world.

The Business Principles and the Management and Leadership Principles of Nestlé express our commitment to correctness, honesty and caring for people. These are accompanied by several other regulations and specifications.

The role of Nestlé’s own internal audit programme, the CARE (Compliance Assessment of Human Resources, Health & Safety, Environment and Business Integrity) is to monitor whether the operation of the company is in compliance with the Corporate Business Principles of Nestlé. In 2008 a new module was added to this on business fairness.

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)
- UN Convention on the Rights of the Child
- “Business Charter for Sustainable Development” issued by the International Chamber of Commerce
- Rules of Conduct of the International Chamber of Commerce to Combat Extortion and Bribery in International Business Transactions
- International Labour Organisation Conventions
- International Labour Organisation

- Convention No 138 concerning minimum age for admission to employment
- International Labour Organisation Convention No 182 on the prohibition of the worst forms of child labour and immediate measures taken for its elimination
- The recommendations of the OECD Council on Combating Bribery in International Business Transactions
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
- OECD Principles on Corporate Governance
- OECD Guidelines for Multinational Enterprises

Nestlé Hungária considers these as valid and agrees to be bound by these just as much as all of the other Nestlé member companies.

4.2. Creating Shared Value Committee

In 2008 the Creating Shared Value Committee was formed.
The aims of the Committee:

- monitoring the activities of the company associated with sustainability and Creating Shared Value (including social and environmental issues, initiatives and donations)
- strategic decision making for activities connected with sustainability and Creating Shared Value, defining of the main directions and programmes
- ensuring involvement of the employees in these topics
- providing a forum on the topic of communication between departments
- ensuring internal information flow associated with sustainability and Creating Shared Value.

The members of the Committee:

- 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) as 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.

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 Well-ness strategy: The Wellness Commit-tee, 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 commu-nication, monitor and apply the regula-tions 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 com-munication 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 choice for the consumer. In addition to the dietician, regulatory affairs specialist and the legal counsel of the company take part in the workgroup.

4.6. Stakeholders and key issues

In 2008, Nestlé systematically mapped its stakeholders and the social and en-vironmental 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 impor-tant 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 get-ting a systematic dialogue started with the stakeholders. The 2009 sustainabil-ity 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. conduct-ed varying dialogues with the following organisations concerned: European Parliament, Ministry of Agriculture, Min-istry of Environment, Central Agricultural Office, Hungarian Dietetic Association,

National Association for Consumer Pro-tection in Hungary, National Institute for Food and Nutrition Science, Ministry of Education, Hungarian National Assem-bly, National Institute for Health Devel-opment, 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 circum-stances.



5. Consumers, products

Educating the consumers and society regarding health

It is clear for us how great a responsi-bility 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 includ-ing Nestlé Hungária, follow the Nestlé Consumer Communication Principles (www.nestle.com/CSV/Compliance/MarkAndComm).

Within this responsibility, we are com-mitted to the application of clear and user friendly product labels. Our nutri-tional educational programme for chil-dren 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 ambassa-dors 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 transac-tions 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 compre-hensively summarise the principles and commitments of Nestlé Hungária Kft. in these fields.

(The document is available on the www.nestle.hu website in Hungar-ian under the World of Nestlé in the Responsible 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 manage-ment system, which operates within the framework of the Nestlé Quality Management System (NQMS).

Introduction of the NQMS started with vetting the relevant operational proc-esses of every corporate unit, in order for the company to understand what impact each unit has on quality and therefore to setting appropriate per-formance 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 the regional quality assurance manager, as well as the management of the quality issues of partner departments, consumers, customers, suppliers and authorities.

Separate quality assurance organisation operates in the factories 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 organi-

sation (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 substandard, 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 (the energy, protein, fat, saturated fat, carbohydrate, sugar, dietary fibre and



sodium content of 100 grams or 1 portion of food) of a given product, on different dietary recommendations, the physiological traits and composition of the specific basic ingredients, or sometimes on the culinary curiosities related to the product. The recommendations of Hungarian and international professional organisations (e.g., WHO, OÉTI), as well as the results of Nestlé’s own nutritional research serve as the basis for the information displayed on the packaging of the products. Compliance with Hungarian regulations and international laws is checked and approved by a workgroup of the company consisting of vigilant lawyers, a food control expert and a dietician.

According to the results of an international 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.

Guideline Daily Amount (GDA)

The GDA food labelling system shows the full daily amount of the energy, protein, carbohydrate, sugar, fat, saturated fat, dietary fibre and sodium requirements of the diet with a balanced nutritional composition for an adult, in addition it also indicates the proportion of GDA that one portion of the given food represents. International, industrial initiative: the result of the joint work of scientific experts, government, NGOs and companies. GDA labelling is displayed on the products of several large food industry companies, amongst them Nestlé as well.

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 the infants do not allow the development of a common reference), on pet food (not relevant), on desserts (not relevant), on seasonings and on products only containing coffee (their energy content is negligible). Our future aim is to continuously update the messages, filling them with more in-depth content that is even more useful for consumers, and where relevant, strengthening communication of nutritional recommendations on the front of the packaging.

Nestlé complies with the information providing obligations (partially voluntary) listed below in Figure 4 in every product category.



Type of information	Food products	Nespresso products	Pet food
The origin of the components of the product or service	No. The source of the product is displayed on 100% of the products, there is no legal obligation for displaying the origins of the ingredients.	Yes	No
Ingredients, with special consideration to materials with a potential environmental or social impact.	Yes (on 100% of the products) Displaying allergens, voluntarily undertaken	Yes	No
Method for safe use of the product or service	Yes, where it is relevant, e.g. culinary products, making coffee or cocoa.	Yes	Yes, if relevant
Managing the product as waste and its environmental/ social impacts	Yes (on 100% of the products)	No	Yes

Figure 4. Information provided on Nestlé products

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

Fine or penalty				
Kitchen products	item	1	50,000	
Confectionary	item	5	550,000	

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 im-ported 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 es-sential to provide opportunities for the consumers to express their opinions and ideas. The Consumer Service was established to fulfil 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 dietetics 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 condi-tions of participation, the draws and the list of the winners. In 2008, 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 re-ceived 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 cor-rections 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 meth-ods of resolutions.



In 2008, Nestlé commissioned a re-search company to test the consumer services of nine companies by tel-ephone and in writing (electronic). They have contacted nine different consumer services in total on 48 occasions with varying issues (e.g. complaints regard-ing the quality of the products, healthy diet and lifestyle, food allergens).

The research showed that in terms of their competence, there were differ-ences 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 aim of the Nestlé Lifestyle Cen-tre is to provide individually tailored advice for those interested and thus to contribute to the creation of a more harmonious and health conscious lifestyle, what is more, through profes-sionally credible information inde-pendent of fashion trends.

The experts of the Nestlé Lifestyle Centre who provide individually tailored responses to the incoming letters:

- Family GP
- Dietician
- Personal trainer
- Psychologist

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 ex-perts, 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. Link: www.eletmodkozpont.hu, www.nestle.hu/eletmod

The patron of 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.

“One of the primary responsibilities of the Nestlé Research Centre is to anticipate the nutrition needs of the future. Food will continue to evolve and become increasingly personalised. Nestlé Research works to answer consumer needs at all ages, now and for the future.”

Prof. Peter van Bladeren,
Nestlé’s Head of Science and Research

In 2008, Nestlé spent some 1.98 billion CHF on food industry research, technological and research centres, as well as for joint projects with its extensive research partner network.

The scientists of Nestlé respond to the continuously changing environment and legislation, as well as to the challenges of the increasingly refined food testing methods as follows:

- The scientists working within the research and development network of Nestlé are in continuous contact with one another and with the market in order to be ahead of any arising questions.
- They carry out development of analytical methods and risk analysis based on experiences in the key areas of food safety.
- Nestlé’s integrated “farm-to-fork” approach places increasing emphasis on traceability and processing.

- Well developed rapid response procedures for any food safety issues.

Recipe innovation and renovation

We continuously review the nutritional composition of our products, and wherever possible, optimise their nutritional value by renewal of the recipes. When developing the products we are guided by compliance with the dietary policies and objectives included in Figure 5.

Consumer satisfaction

Nestlé also carries out numerous tests targeting increasing consumer satisfaction as well as the ways of measuring it.

- Monthly statements are made regarding the number of consumer complaints for the sold product volume.
- 60/40+ tests (details in the following chapter).

Sensory tests

From 2002, Nestlé Hungária Kft. is the so-called sensory testing centre for Nestlé's Central and Eastern European region in the instant powder drink category. Whilst in the beginning the tests were carried out in the centre in Budapest, in 2006, the sensory laboratory in Szerencs, which was developed based on Nestlé's own standard, commenced its operations. The independent assessors working here carry out sensory tests concerning 60/40+ studies (see below), as

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.

well as other tests related to product development and the monitoring of product quality. In 2008, 26 studies were carried out in the laboratory employing 21 sensory assessors.

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 com-

position 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 MAGGI Óriás grízgombóclevés (Soup with Giant Semolina Dumplings) which was tested for the first time in 2007, at the time it was introduced

	Objectives
Trans fatty acid	Reduce it to below 1% of the total energy content
Salt	Reduce by 25% by 2011 (in case of products with a salt content above 100mg/100kcal)
Sugar	Reduce by 5% by 2011
Saturated fat	Over three years, a 3% reduction in the total fat content, 1% reduction in saturated fat

Figure 5. Nestlé's nutritional content related objectives.

"In the course of development, it is not only the salt content that is reduced, but for example the trans fat content as well, which decreases the risk of cardiovascular diseases. In the operation of Nestlé, this is a key topic on an international level, and affects all culinary products."

Zsuzsanna Szűcs, dietician, nutritional expert, Nestlé Hungária

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 July 2007, Nestlé confirmed its commitment to children by initiating new rules:

- 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.

The legal department of Nestlé Hungária Kft. continuously monitors compliance with the following legisla-

tion and voluntary norms associated with marketing communication:

- Act XLVII of 2008 on the Prohibition of Unfair Commercial Practices against Consumers
- Act XLVIII of 2008 on the Basic Requirements and Certain Restrictions of Commercial Advertising Activity (New Advertising Act)
- Amendment to Act of 1997 on Commercial Advertising Activity
- Amendment to Act XLV of 1997 on Consumer Protection
- Amendment to Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (Competition Act)

In 2008, no cases of non compliance with the above were registered by the department.

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.

- Team spirit is characterised by open communication, a high degree of trust, unity, solidarity and efforts made for one joint objective.
- The ethical behaviour of our employees also includes the complete understanding of the rules and regulations.

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

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

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

The Circumplex model, a worldwide used and recognised tool developed by Human Synergetics 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?

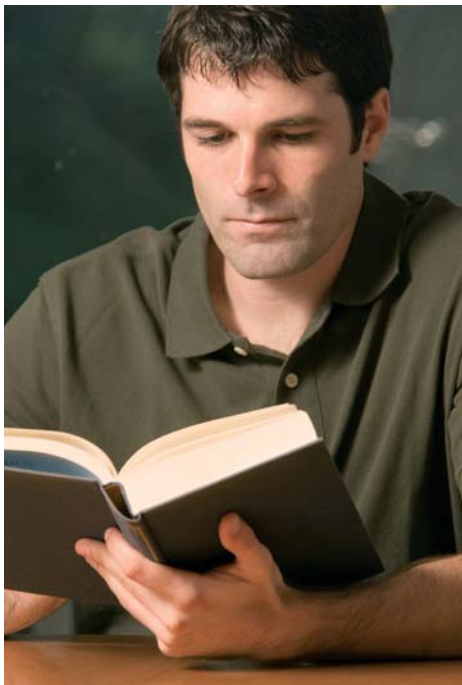
Change is clearly observable in everyday life: the atmosphere within the company, the style of communication, the employers' attitude towards tasks, the management's tools all changed positively during the past one and a half years.

- 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.

Barbara Verő, Personal Development and Training Manager, Nestlé Hungária



6.2. Employment data

	2006	2007	2008
Total employees	1,323	1,329	1,345
Head Office and Purina Budapest	394	402	407
Szerencs and Diósgyőr	638	632	596
Non-manual	104	101	97
Manual	534	531	499
Bük	291	295	342
Non-manual	63	67	71
Manual	228	228	271
Full-time	1,308	1,325	1,335
Head Office and Purina Budapest	379	398	398
Szerencs and Diósgyőr	638	632	595
Bük	291	295	342
Part-time	15	4	10
Head Office and Purina Budapest	15	4	9
Szerencs és Diósgyőr	0	0	1
Bük	0	0	0
Fixed-term contract	71	40	37
Head Office and Purina Budapest	20	12	11
Szerencs and Diósgyőr	0	0	0
Bük	51	28	26
Open ended contract	1,252	1,289	1,308
Head Office and Purina Budapest	374	390	396
Szerencs and Diósgyőr	638	632	596
Bük	240	267	316
Hired and agency contract	382	128	116
Head Office and Purina Budapest	1	6	10
Szerencs and Diósgyőr	377	112	98
Bük	4	10	8

Figure 6. Total workforce by employment types, work contract and regions (person)

Fluctuations

The number of those leaving the organisation

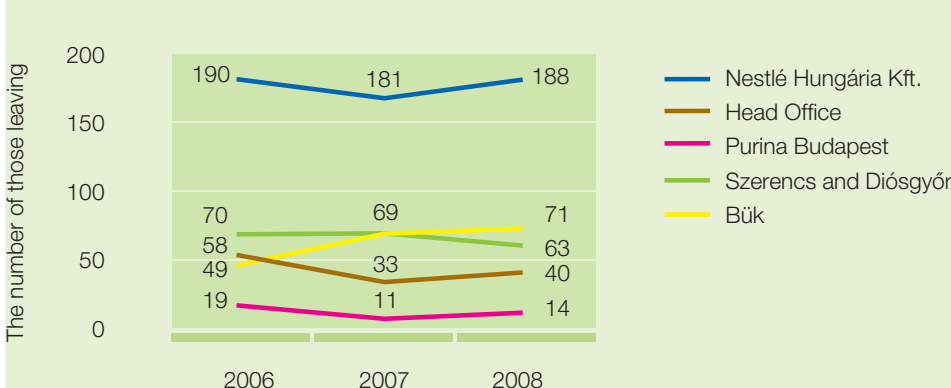


Figure 7. The number of those leaving the organisation between 2006 and 2008

Fluctuations

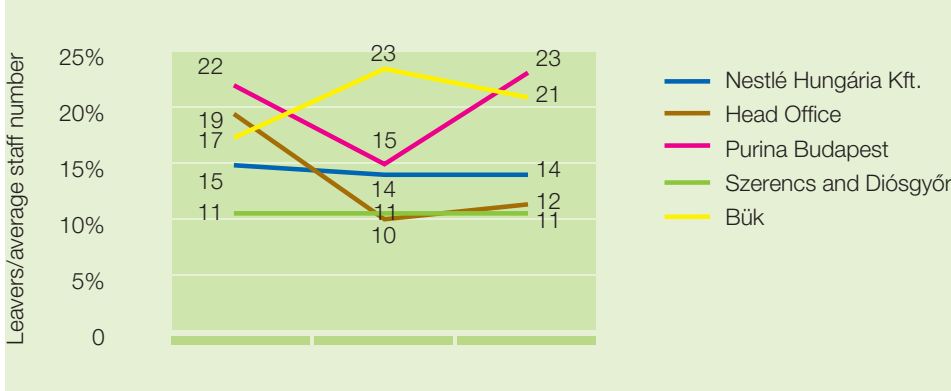
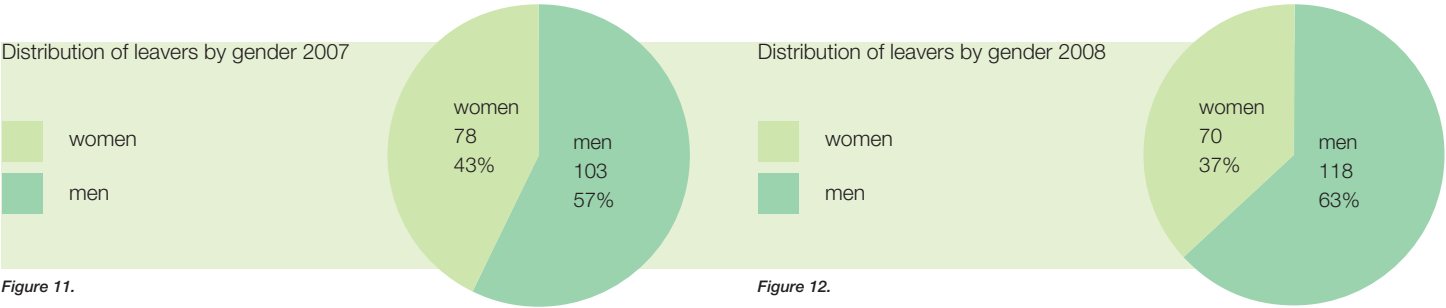
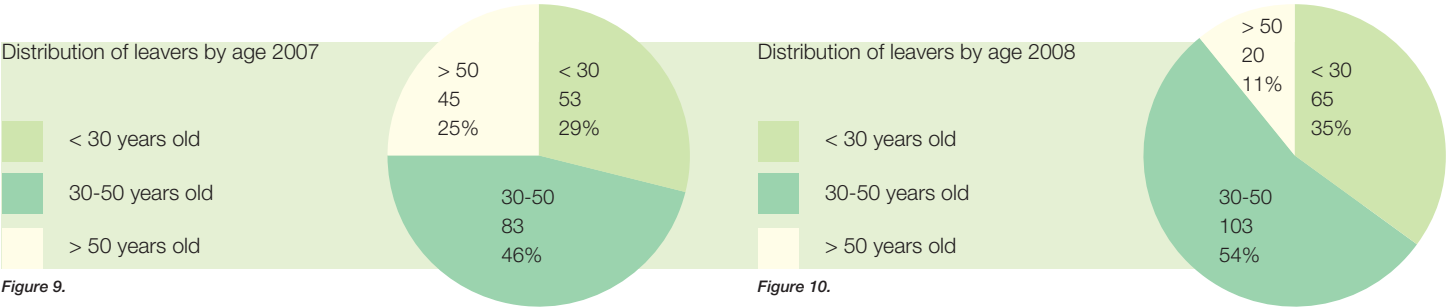


Figure 8. Fluctuations 2006-2008



Fluctuations



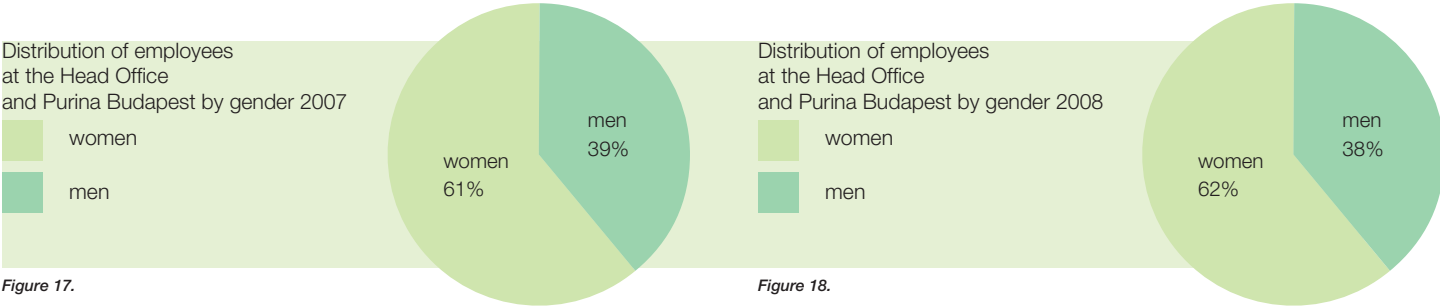
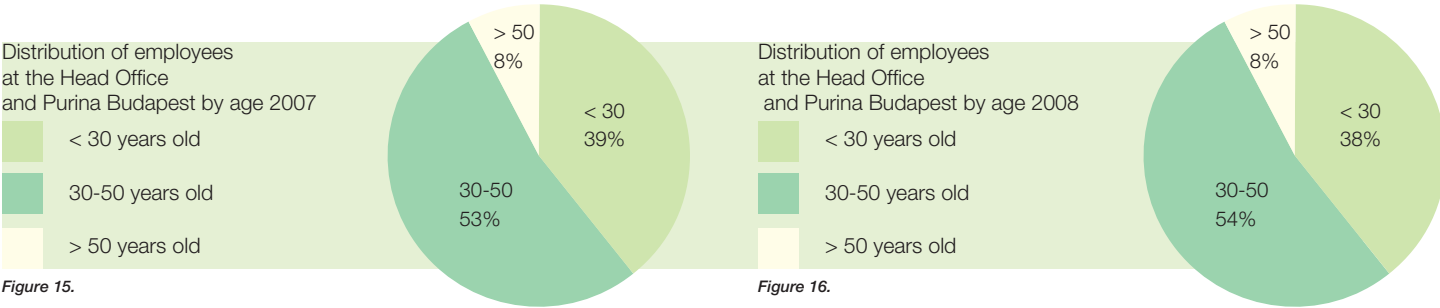
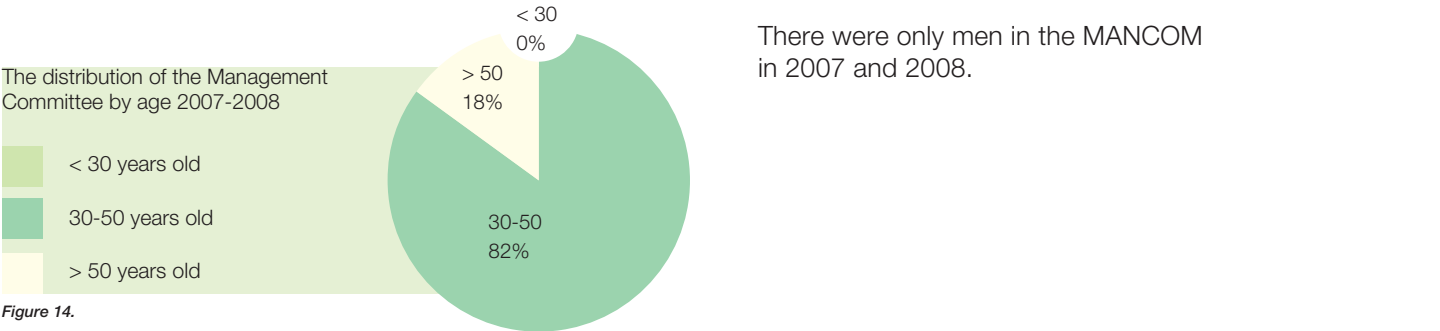
The proportion of local employees

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.

	Local proportion (%)
Management Committee	77%
Head Office and Purina Budapest	65%
Szerencs and Diósgyőr employees	99%
Bük employees	91%

Figure 13. The proportion of local employees in senior management and amongst the employees in 2008

The proportion of ages and gender



The proportion of ages and gender

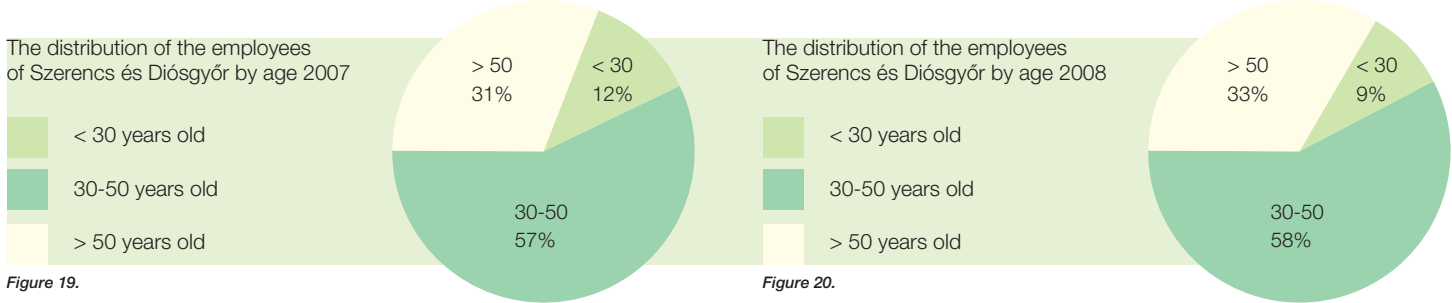


Figure 19.

Figure 20.

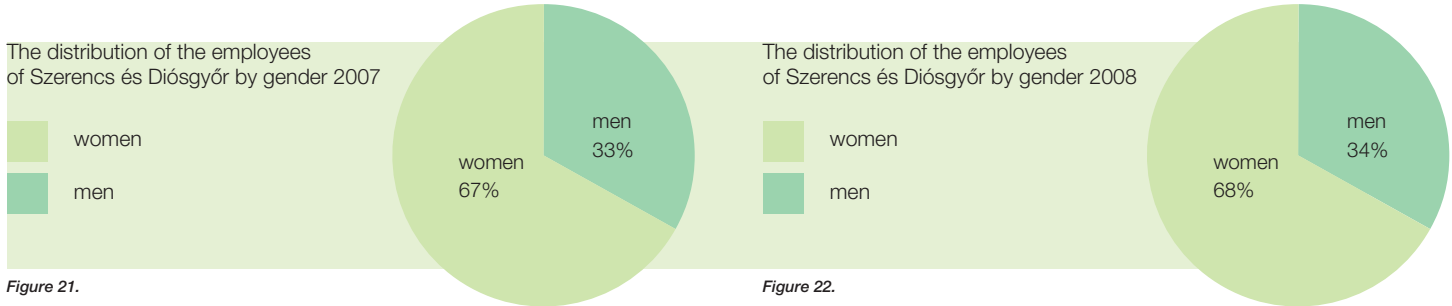


Figure 21.

Figure 22.



The proportion of ages and gender

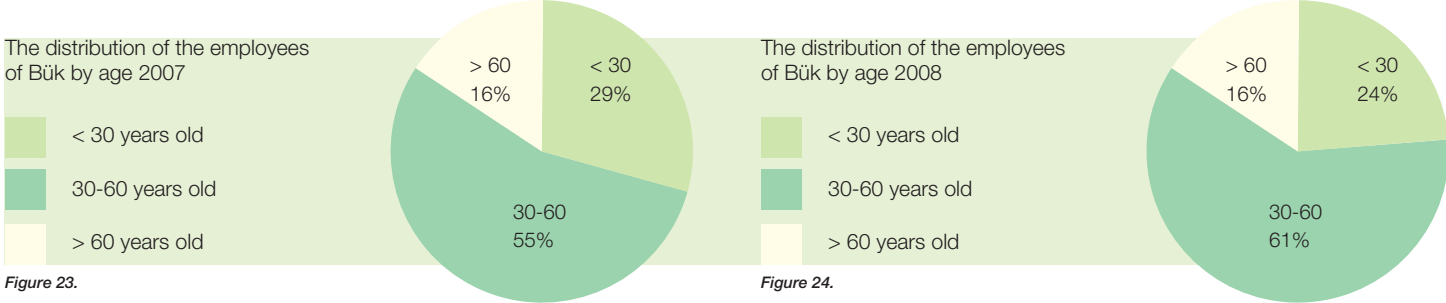


Figure 23.

Figure 24.

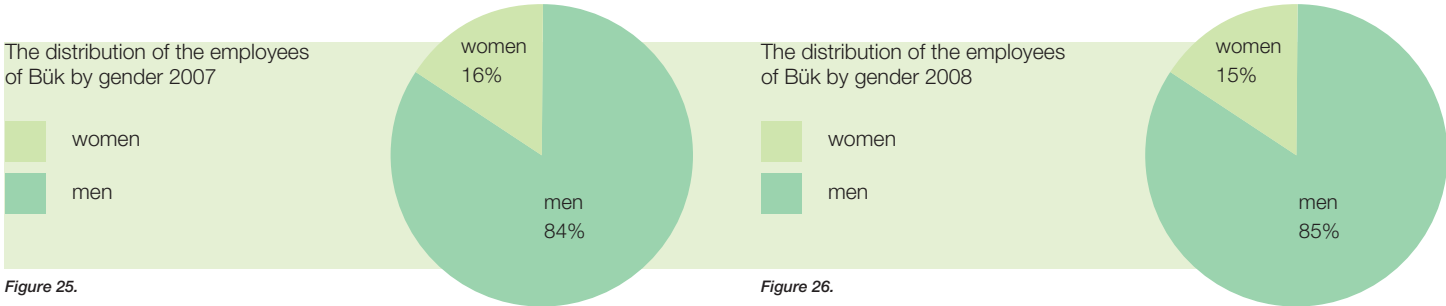


Figure 25.

Figure 26.

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 representations 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 confidently 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 typically do not have direct consumer contact;
- Advanced 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 Diósgyőr, 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 benefiting 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.
Zsuzsanna Szűcs, dietician, nutritional expert, Nestlé Hungária

The description of the programme	Unit of measure	2006	2007	2008
Head Office				
NQ training (basic, advanced, specialist)	participants	0	155	117
Health survey, diet programme, office massage	participants	109	145	125
Health weeks (information by e-mail regarding healthy eating and lifestyle, poster campaign, alternative equipment, arm rest, screen guards, product packages)	participants	250	285	280
Sporting opportunities with a contracted partner (fitness, swimming)	participants	305	337	348
Interesting and topical articles in the WellNess section of the monthly internal newsletter	participants	305	337	348
Purina Budapest				
Unlimited use of fitness facilities with a contracted partner	participants		68	69
Health survey, massage	participants	0	0	36
Health weeks (information by e-mail regarding healthy eating and lifestyle, poster campaign, alternative equipment, arm rest, screen guards, product packages)	participants	0	68	69
Szerencs				
NQ training (basic)	participants	0	0	229
Health weeks (information by e-mails regarding healthy eating and lifestyle, poster campaign)	participants	0	389	379
Diósgyőr				
NQ training (basic)	participants	0	0	169
Health weeks (information by e-mails regarding healthy eating and lifestyle, poster campaign)	participants	0	270	236
Bük				
Health weeks (information by e-mails regarding healthy eating and lifestyle, poster campaign)	participants	0	294	337
Unlimited use of fitness facilities with a contracted partner	participants	0	294	337

Figure 27. Additional internal programmes related to a healthy lifestyle

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.

	Total number of training hours	Training hours/person
Nestlé Hungária		
Head Office and Purina Budapest	13,718	10.2
Szerencs	369	1
non-manual	115	1.8
manual	254	0.8
Diósgyőr	280	1.2
non-manual	94	2.9
manual	186	0.9
Bük	2,452	7.2
non-manual	547	7.7
manual	1,905	7

Figure 28. Number of training hours in 2008

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.

Training type / Person	Nestlé Hungária	Head Office	Purina Budapest	Szerencs	Diósgyőr	Bük
Compulsory education	1,319	325	20	392	247	335
Skill development	225	173	16	16	20	n/a
Professional training	136	66	14	9	n/a	47
Team building	388	349	6	14	6	13
English language course	160	65	7	53	23	12
Vocational training (with learning agreement)	11	9	1	1	0	0

Figure 29. Training types and the number of participants in 2008



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.



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

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

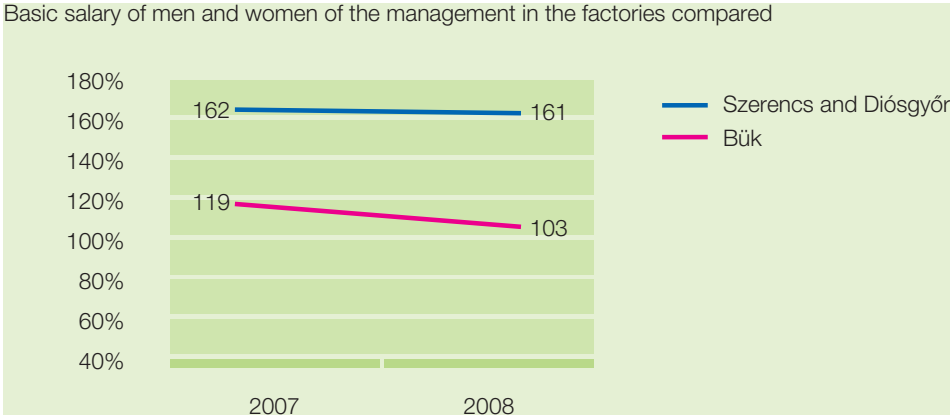
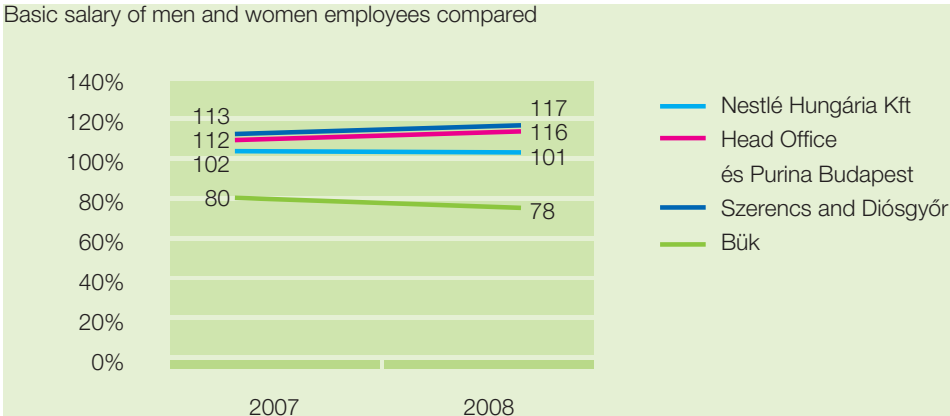


Figure 31. Basic salary of men and women compared

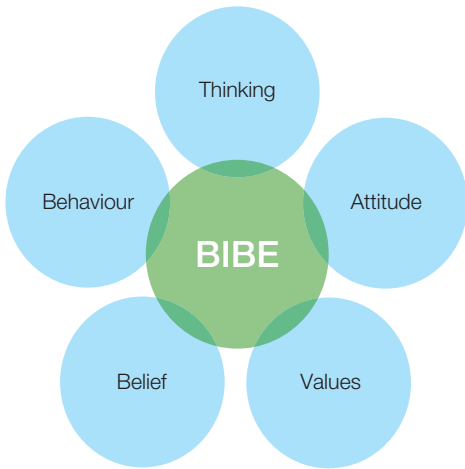
6.5. Health and Safety

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 this, driver training was organised for colleagues with a company vehicle.

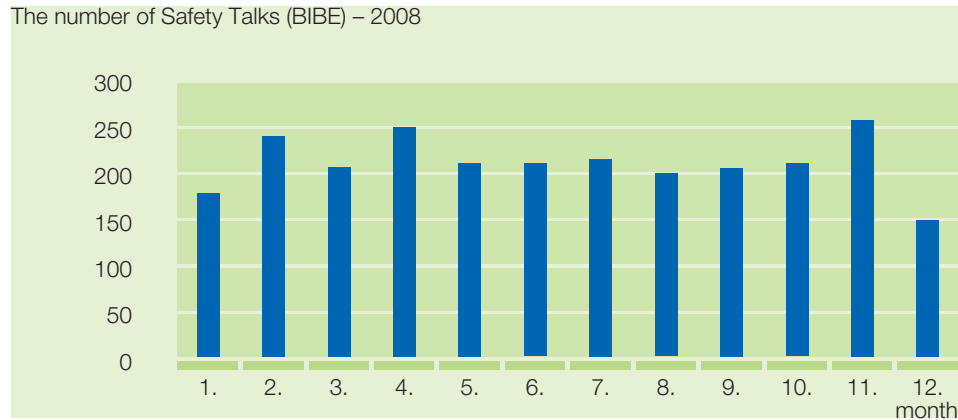
Based on Act 93 of 1993 on Labour Safety and its amendment, as well as Act 161 of 2007, health and safety officers were elected in the plants (jointly in Szerencs and Diósgyőr, separately in Bük).

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.) The health and safety officers hold a meeting on the first Monday of each month with the managers and discuss the current health, safety and environmental issues.

Safety Talks in the factory in Bük
The factory in Bük attaches great importance to health and safety, involving the employees is an integral part of this. As, according to statistics, over 90% of all accidents result from incorrect behaviour (accidents due to machine or equipment failure are rarest), it is obvious that these have to be addressed first.



Several methods exist for developing a correct behavioural culture, the factory in Bük chose the method of “Safety Talks” (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.



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 talks 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.

	2006	2007	2008
Nestlé Hungária Kft.			
number of accidents	17	11	12
total number of non-productive days	391	524	509
non-productive days as a % of the working hours	0.12%	0.17%	0.16%
Head Office and Purina Budapest			
number of accidents	2	2	1
total number of non-productive days	30	7	30
non-productive days as a % of the working hours	0.03%	0.01%	0.03%
Szerencs and Diósgyőr			
number of accidents	9	7	9
non-productive days as a % of the working hours	0.17%	0.13%	0.21%
Bük			
number of accidents	6	2	2
total number of non-productive days	109	331	193
non-productive days as a % of the working hours	0.15%	0.47%	0.23%

Figure 32. Number of accidents causing loss of working hours between 2006 and 2008

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 the 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 administrative law
- certain knowledge of civil law
- certain knowledge of criminal and prosecution 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 officers of the EU Commission, or the representatives of the European Parliament and their assistants. Occasionally, this is carried out with the involvement of a lobbying agency.

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, Cereéal: 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 several chambers and business forums (e.g. Swisscham, Hungarian European Business Council, MGYOSZ etc.), which are active opinion makers in questions regarding public and economic policy. The company is directly involved in the wording and revision of recommendations, reports and proposals issued by these organisations. The managing director and the Corporate Affairs Manager are active participants of these dialogues.

Nestlé does not support any political parties, politicians or associated institutes either financially or by any contribution in kind. This is also prohibited by the chapter on Bribery and corruption in Nestlé’s Code of Ethics and Business Conduct.

7. Suppliers

The procurement policy of Nestlé in Hungary is governed by the local application of the Code of Business Conduct of the Nestlé Group, as well as Nestlé’s Corporate Business Principles. Accordingly, identical conditions apply to the suppliers. The data in Figure 33 demonstrate clearly that our local business partners also meet the requirements and do well amongst the competition. The main criteria for selecting suppliers are quality, reliability and price. The selection of the suppliers is governed by NIMS (Nestlé Integrated Management System).

Responsible procurement

Nestlé pays more and more attention to the improvement of the environmental and social performance not only its own offices and factories but also in case of its suppliers. For this, in July 2008 a new Supplier Code was introduced www.nestle.com/suppliers. The code is valid for all suppliers, compliance with it is monitored through self-inspection of the suppliers and audits carried out by third parties. In addition, Nestlé is an active 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 or not the given company may work for Nestlé in the future.

On the other hand, supplier audit does not only concern new partners. The degree of danger of the materials supplied determines how often the partners must be inspected (for example, suppliers of highly dangerous products must be audited in every two years). In most cases, the audit is carried out by Nestlé instead of being outsourced to third parties; besides, it occurs quite often that a Hungarian supplier of a foreign Nestlé company is also audited by local Nestlé experts. Another part of supplier assessment is the questionnaire sent by the purchase department to factories, on which it is possible to give a feedback on the partner’s business activity or reliability. The annual audit list is drawn up on the basis of feedbacks as well as of the degree of danger the supplied products pose. In 2008, Nestlé carried out 30 supplier audits in Hungary (in the Food business line).



- What materials do you provide for the food products of Nestlé?
We deliver 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?
There is a supplier audit every other year, but the joint work is considerably more intensive. Joint developments are common, a good example for this is the replacement of certain existing raw materials.

- 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.

- How is it possible to consider the environmental aspects, too?
This is a very important area, as we play an active role in minimising packaging waste. On the one hand the flexible materials we use are produced and printed in the largest possible width, so that packaging waste is minimised at the end of the packaging process. In addition, Nestlé continuously makes efforts to reduce the thickness of certain foils. Through these mutual efforts, we further reduce the mass of the material used. I also would like to mention that during our work we only use second-hand, newish euro pallets; all this helps to spare natural resources.

**András Ádám, General Manager, Director of Procurement and Logistics,
Mondi Packaging Békéscsaba Kft.**

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 our products from over 60 countries in the value of approximately 22.5 billion CHF annually. Two-thirds of these

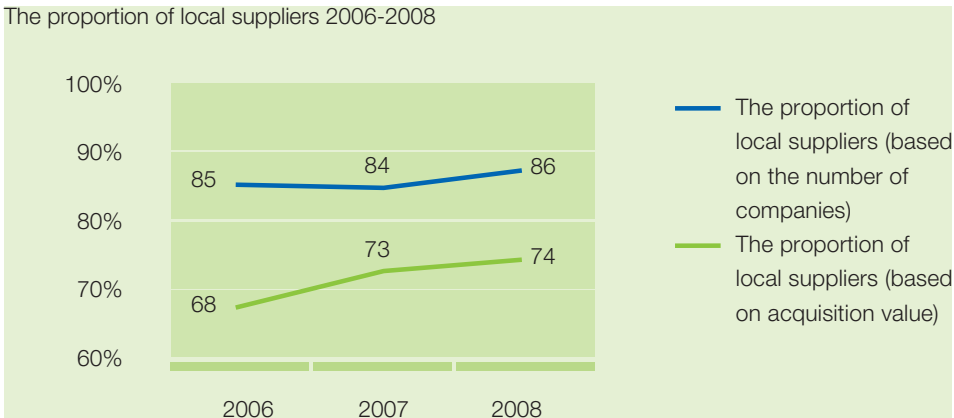


Figure 33. The proportion of local suppliers 2006-2008

originate from developing countries. Almost one-fifth of our sales depend 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 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 uses premium prices as incentives for farmers to produce the highest quality coffee by sustainable methods.

We undertook to increase the quantity of the green coffee purchased

within the framework of the Nespresso AAA Sustainable Quality programme to 50% of the total consumption by 2010, from the 40% in 2008. We have this target in the knowledge that a significant increase is expected in this segment of the business (in 2008 approximately 40%). 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.



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 (HEBC)
- Hungarian Brands Association
- National Human Resources Association
- Swiss-Hungarian Chamber of Commerce
- Hungarian Platform on Diet, Physical Activity and Health (in Hungarian: TÉT Platform)
- International Chamber of Commerce (ICC Hungary)
- Hungarian Pharmaceutical Manufacturers Association, Formula section
- Self-Regulating Advertising Body
- Öko-Pannon
- Hungarian National Food Technology Platform



Professional cooperation

Organisation	Collaboration, joint project
Hungarian Dietetic Association (MDOSZ)	Professional support for the Nestlé Lifestyle Centre and the Nutrikid programme
	Health screening (voluntary) of colleagues in the Head Office
	Collaboration on NQ trainings
National Institute for Food and Nutrition Science (OÉTI)	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.
National Institute for Health Development (OEFI)	We held presentations at professional conferences for teachers and school nurses regarding the Nutrikid programme, on the topic of health development in schools.
Chamber of Hungarian Health Professionals (MESZK)	Cooperation with a workgroup of school nurses within the framework of the Nutrikid programme. We held presentations in the MESZK conference for school nurses on the topic of the Nutrikid programme.
Hungarian Platform on Diet, Physical Activity and Health (in Hungarian: TÉT Platform)	Dialogue regarding the official and uniform translation of the guideline daily amount GDA and harmonisation with the CIAA food labelling system; on physical activity and educational programmes; dialogue with the government, NGOs and professional communities
Cordi K+F Nonprofit Zrt	Research and development: environmental protection and energy efficiency increasing programmes

Figure 34. Professional cooperation in 2008

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. Winners of the prize in 2008: 1st Prize: (grant to take part in the annual congress of the European Society of Paediatric Gastroenterology, Haepatology and Nutrition; memorial medal): Dr. Kata Kelen, Semmelweis University, Department of Paediatrics I, Budapest 2nd Prize: (grant to take part in a chosen Hungarian paediatric congress): Dr. Beáta Szebeni, Faculty of Medicine, Semmelweis University, Department of Paediatrics I, Budapest 3rd Prize: (grant to purchase specialist books) Dr. Beáta Szűcs, Faculty of Medicine, Szeged University, Department of Paediatrics and Child Health Centre.

I took part in the scientific meeting organised by the Hungarian Paediatrics Association and the Paediatric Gastroenterology Section of the Hungarian Society of Gastroenterology in 2008 as a resident of the Department of Paediatrics I of Semmelweis University. I met the case I presented at the Gastroenterology and Haepatology section of the clinic during my residency. I had the opportunity to follow this very educational case all through with the guidance of Dr László Szűnyi. It was my great pleasure that the jury awarded first prize for my presentation on the diagnostic difficulties of mitochondrial diseases. Thanks to the prize, I was able to take part in the annual 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 benefiting my knowledge previously obtained in the fields of haepatology and gastroenterology.
Dr. Kata Kelen – Resident Paediatrician

8.2. The Nutrikid programme



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 from Jászszentlászló.

During the assessment of the applications submitted in November, the jury found a genuine treasure: the application of the Móricz Zsigmond Primary School and Kindergarten from Nagyrábé was a real rarity. The team called Vitamin Elves, led by their class tutor Sándorné Tiszai, prepared a pair matching board game by displaying the names of the vegetables and fruits contained in it in Braille. This way their blind class mate

could also actively participate in the game and in completing the competition. The jury of Nutrikid awarded a prize in kind for this solution.

My health education work has been supported by the NUTRIKID programme for years. 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 lessons. This way the children become easily familiarised with the basics of a balanced diet.

**Ferencné 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, Responsibly 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 Hungária 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 expenditure 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.

On several occasions we managed to put a smile on the faces of many little school pupils and kindergarteners around the country with some sort of Nestlé confectionery. The confectionery products were also well received for replacing the lost calories by those donating blood (for example at the Sziget Festival, which was one of the most important blood donating events Nestlé sponsored this year or at Nestlé's own blood donation event).

The Nestlé blood donation is always scheduled for the beginning of the summer, when only a few are on holiday, and the "anaemic" summer period is fast approaching. In addition to approximately 30 returning donors, there were also a few new applicants, though they were not encouraged in any ways. He who enters registration, give up all hope, as from now on big brother is watching you, and so are your colleagues! :-)

- Who and how decides about the use of the donations?

The community spirit that accompanies the joint social actions is exemplary. It is never the managers who decide, but the employees themselves who select the objectives that are the most important to them from the three to four aims proposed by the Red Cross. This is how the one and two HUF coins (which were sorted in the dining hall as a voluntary cooperative work) were added up to a summer camp for children with disabilities. And this is how the still running Nestlé Charity Fund was born in the Christmas of 2008, from which children requiring rehabilitation and their families are supported. Finally I would also like to mention the well appreciated attention that we receive from Nestlé, both professionally and personally. The Christmas concert was beautiful, if we are invited we shall come again.

Dávid Kovács, Specialist Youth Leader, National Directorate of the Hungarian Red Cross



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 Environment 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%).



Water and energy saving per tonne of product (Szerencs, 2005-2008)

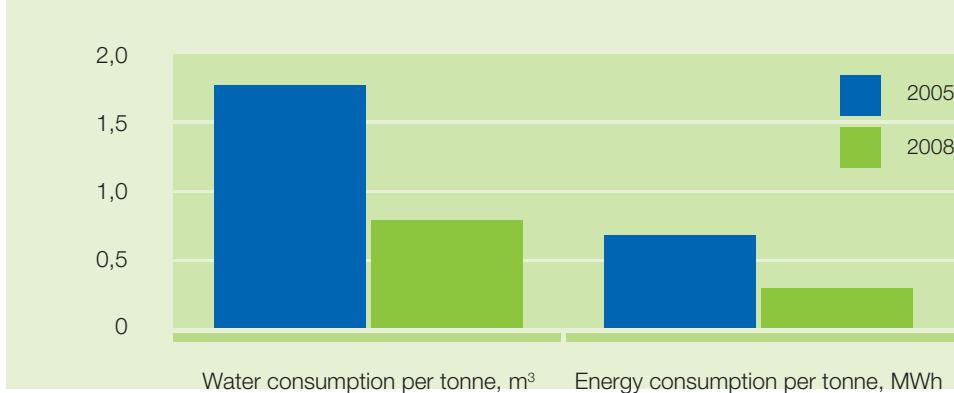


Figure 35.

	2006	2007	2008
Szerencs	21,380	20,474	22,391
Diósgyőr	6,455	4,102	5,555
Bük	200,617	190,699	188,338

Figure 36. Natural gas consumption in the factories (GJ)

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.

	2006	2007	2008
Szerencs	17,909	20,307	17,972
Diósgyőr	8,117	8,446	7,563
Bük	69,768	67,356	69,278

Figure 37. Electricity consumption in the factories (GJ)

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 biologically degradable 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.

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 water 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 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 measuring method, which also includes a distant 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

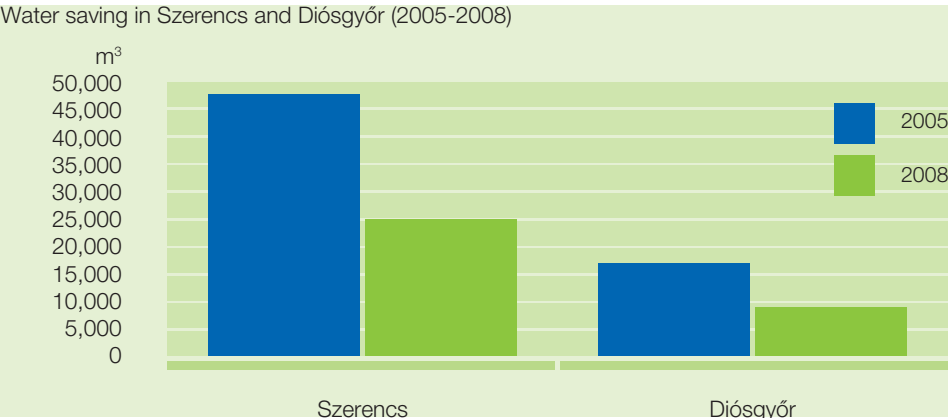


Figure 38. Water saving in Szerencs and Diósgyőr (2005-2008)

Withdrawal	2006	2007	2008
Total	246,704*	232,091*	222,668
Tap-water	192,785*	59,603*	20,074
Head Office and Purina Budapest	NA	NA	1,764
Szerencs	0	0	0
Diósgyőr	11,894	11,995	10,041
Bük	180,891	47,608	8,269
Subsurface water	53,919	172,488	202,594
Szerencs	34,278	34,660	26,014
Bük	19,641	137,828	176,580

Figure 39. Water withdrawal by sources (m³)
* Water consumption of the offices in Budapest is not included.

	Water discharge	2006	2007	2008
Factories total	Discharged into public sewer	246,704	232,091	220,904.3
	untreated	96,305	93,014	82,267.3
	treated	150,399	139,077	138,637
Szerencs	Discharged into public sewer, untreated	34,278	34,660	26,014
Diósgyőr	Discharged into public sewer, untreated	11,894	11,995	10,041
Bük	Discharged into public sewer	200,532	185,436	184,849
	untreated	50,133	46,359	46,212.3
	treated	150,399	139,077	138,637
Head Office és Purina Budapest (Budapest)	Discharged into public sewer, untreated	NA	NA	1,764

Figure 40. Total water discharged by quality and receiver (m³)

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.

Hazardous waste	2006	2007	2008
Szerencs	39	13	5.4
Diósgyőr	0	0	1
Bük	6.9	15.93	5
Total	45.9	28.93	11.4

Non-hazardous waste	2006	2007	2008
Szerencs	160	180	163
Diósgyőr	62	43	29
Bük	304.3	340	599.7
Total	526.3	563	791.7

Figure 41. Quantity of total waste (t)



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.

	2006	2007	2008
Total	171,046	177,253	176,052
Szerencs	42,231	45,000	41,372
Raw materials	29,970	33,000	32,731
Packaging materials	12,261	12,000	8,641
Diósgyőr	4,638	3,056	2,744
Raw materials	2,835	2,854	2,334
Packaging materials	1,803	202	410
Bük	124,177	129,197	131,936
Raw materials	111,304	118,880	122,108
Packaging materials	12,873	10,317	9,828

Figure 42. The quantity of materials used (t)

	2006	2007	2008
Szerencs	1,2	3,1	0,9
Diósgyőr	0,1	0,6	0,2
Bük	6,2	18,5	18,3

Figure 43. Emission of sulphur dioxide (total SO₂ equivalent, t)

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.



	Nestlé Hungária Kft.			Cereal Partners Kft.			Total		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Income	81,432,226	86,604,643	91,565,835	2,962,944	2,756,910	3,149,265	84,395,170	89,361,553	94,715,100
Net sales revenue	77,619,331	83,882,373	85,938,080	2,934,252	2,735,849	3,057,336	80,553,583	86,618,222	88,995,416
Capitalised value of own performance	-440,060	586,108	-581,484	0	0	0	-440,060	586,108	-581,484
Other income	116,029	555,736	1,047,046	6,321	411	13,257	122,350	556,147	1,060,303
Income on financial operations	4,136,926	1,580,426	5,162,193	22,371	20,650	78,672	4,159,297	1,601,076	5,240,865
Operational costs	69,384,485	78,139,456	78,794,760	3,022,083	2,730,542	3,078,319	72,406,568	80,869,998	81,873,079
Material costs	61,462,168	68,499,615	68,730,471	2,940,001	2,649,727	2,944,371	64,402,169	71,149,342	71,674,842
Other costs	2,092,964	2,550,436	2,786,902	35,126	47,737	43,665	2,128,090	2,598,173	2,830,567
Expenditures of financial operations	5,829,353	7,089,405	7,277,387	46,956	33,078	90,283	5,876,309	7,122,483	7,367,670
Employee wages, allowances and their contributions	6,485,140	7,135,399	7,970,007	0	0	0	6,485,140	7,135,399	7,970,007
Payments to owners (Dividend)	1,600,000	0	0	0	0	0	1,600,000	0	0
Direct taxation	1,086,839	868,272	1,260,128	38,118	39,300	42,274	1,124,957	907,572	1,302,402
Corporate tax	394,376	0,	45,059	0	0	1,195	394,376	0	46,254
Other taxes	692,463	868,272	1,215,069	38,118	39,300	41,079	730,581	907,572	1,256,148
Community Investments	6,834	5,767	64,003	0	2,805	0	6,834	8,572	64,003
Profits retained (profit reserve and depreciation)	2,868,928	455,749	3,476,938	-97,257	-15,736	28,672	2,771,671	440,013	3,505,610

Figure 44. The created and shared direct economic value (thousand HUF)

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 a value of 50.7 million CHF and provided micro-loans for small producers to a 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.

Source of data in this chapter: Nestlé Management Report 2008 (link: <http://www.nestle.com/InvestorRelations/Reports/ManagementReports/2008.htm>)



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.

	Indicator	Page/Comment
Strategy and Analysis		
	1.1.	2
	1.2	7
Organizational Profile		
	2.1	3
	2.2	12
	2.3	3
	2.4	12
	2.5	12
	2.6	4
	2.7	17
	2.8	12, 26, 55
	2.9	7
	2.10	12
Report parameters		
	3.1	2
	3.2	Not relevant.
Riport Profile	3.3	2
	3.4	3
	3.5	2
	3.6	3
	3.7	3
	3.8	3
	3.9	3
	3.10	Not relevant.
	3.11	Not relevant.
GRI Content Index		
	3.12	57
Assurance		
	3.13	3

	Indicator	Page/Comment
Governance, Commitments and Engagement		
Governance	4.1	9
	4.2	9
	4.3	Not relevant.
	4.4	9
	4.5	9
	4.6	10
	4.7	11
	4.8	13
	4.9	14, 15
	4.10	13
Commitment to External Initiatives	4.11	13
	4.12	14
	4.13	44
Stakeholder Engagement	4.14	16
	4.15	16
	4.16	16
	4.17	16
Economic		
Economic Performance	EC1	55
Market Presence	EC5	37
	EC6	42
	EC7	28
Environmental		
Materials	EN1	53
Energy	EN3	49
	EN4	49
	EN8	51
Biodiversity	EN11	Not relevant. There are no habitats of rich biodiversity in the direct neighbourhood of our premises.
	EN12	
	EN13	
	EN14	
	EN15	

	Indicator	Page/Comment
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		
Employment	LA1	26
	LA2	27
	LA3	36
Labour/Management Relations	LA4	32
	LA5	32
Occupational Health and Safety	LA6	38
	LA7	38
	LA8	33
	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
	SO5	40
Public Policy	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.

	Indicator	Page/Comment
Product Responsibility		
Customer Health and Safety	PR1	18
	PR2	18
Product and Service Labelling	PR3	20
	PR4	20
	PR5	22
Marketing Communication	PR6	23
	PR7	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.
Customer Privacy	PR8	In 2008 there was no case of abuse of personal data of Consumers.
Compliance	PR9	In 2008 there was no case of non-compliance with legislation or other regulations associated with care and use of the products.

Report Application Levels


		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared			Report Externally Assured		Report Externally Assured		Report Externally Assured
	Third Party Checked							
	GRI Checked							

Figure 45. GRI Application Levels



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We would like to hear your opinions and suggestions!
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Nestlé Consumer Service
40/214-200 (food)
40/20-40-20 (pet food)

