



**Nestlé** Good food, Good life

# Reporting Scope and Methodology for ESG Key Performance Indicators

## Introduction

Nestlé has engaged EY to provide independent assurance of nine selected Environmental, Social and Governance (ESG) key performance indicators (KPIs) of high strategic importance to our business. This assurance engagement was performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 to provide limited assurance. Nestlé is seeking to provide limited assurance for these KPIs to strengthen stakeholder confidence in the data we report and in anticipation of increased regulation of sustainability reporting and assurance.

This document explains the definition, scope, methodology and assumptions used to calculate and report each of the nine KPIs (the “Selected ESG KPIs”) that were selected from a larger universe of ESG KPIs that Nestlé decided to track and report.

The Selected ESG KPIs reflect the most material issues to our business and stakeholders, including major corporate commitments and ESG performance measures that drive executive compensation. For the design of the Selected ESG KPIs, we considered voluntary reporting frameworks and standards such as the Global Reporting Initiative, the Sustainability Accounting Standards Board, and the World Economic Forum Stakeholder Capitalism Metrics.

Nestlé reports the performance against the Selected ESG KPIs in our 2021 *Creating Shared Value and Sustainability Report*, which is available on nestle.com. Four of the Selected ESG KPIs are also included in our 2021 *Annual Review*.

This Methodology Note is applicable for the 2021 reporting. Nestlé may review the methodology and the Selected ESG KPIs annually to reflect changes to our business priorities, regulatory requirements, industry best practices and standards, and stakeholder feedback.

## Scope

### “In scope” companies

A company is “in scope” of the Selected ESG KPIs when the financial performance of such company is consolidated in Nestlé S.A. consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and excludes associates and joint-ventures. Please refer to Nestlé’s consolidated IFRS financial statements for further details. Exceptions to this are described in the section ‘Acquisition & Divestiture’ below.

Data and performance of legal entities outside companies “in scope” are not considered for the Selected ESG KPIs unless specifically described otherwise in this Note.<sup>1</sup>

### Acquisition and divestitures

Newly acquired entities during 2021 were not considered for the Selected ESG KPIs, except when expressly stated otherwise in this Note<sup>1</sup>. As per our internal rules acquisitions during 2021 will be included in the ESG reporting as from January 1, 2023.

2021 data and performance of divested entities during 2021 were excluded from the Selected ESG KPIs, except when expressly stated otherwise in this Note.

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<sup>1</sup> Newly acquired entities will be included in Nestlé Tracking and Reporting for the Selected ESG KPIs as from January 1st of the following year once elapsed a period of 12 months from the closing of the acquisition.

## Data collection

The data reported is covering the 2021 calendar year unless mentioned otherwise in the Selected ESG KPI details. Each KPI has its own internal guideline including processes, tools, roles and responsibilities, a summary of which is provided in this document. All data was extracted from our own systems or systems from third parties with their authorization when relevant. Data not available in the systems was construed in good faith according to best practice and industry standards.

## Selected ESG KPI List

### Environmental

1. Greenhouse gas (GHG) emissions reduction
2. Water use reduction in factories
3. Percentage of key ingredients produced sustainably
4. Percentage of deforestation-free for primary supply chain
5. Percentage of plastic packaging designed for recycling
6. Percentage of virgin plastic reduction

### Social

7. Number of servings of affordable nutrition with micronutrient fortification (MNF)
8. Number of young people around the world with access to economic opportunities
9. Women in the top 200+ senior executive positions

## Environmental KPI

### 1. GHG emissions reduction

#### Performance Measure

Sum of all the projects of GHG reduction and removals vs. 2018 baseline, in million tonnes of GHG.

GHG emissions Scope 1, 2 (location-based and market-based) and 3.

#### Definition

The latest report by the Intergovernmental Panel on Climate Change (IPCC) has reconfirmed that in order to limit global warming to 1.5°C above pre-industrial levels and avoid the most catastrophic impacts of climate change, the world must halve GHG emissions by around 2030 and reach net-zero GHG emissions by mid-century.

Recognizing the importance of keeping global warming to 1.5°C, companies are increasingly adopting net zero climate targets. Between July 2019 and June 2020, over 230 companies, including Nestlé, committed to reach net-zero emissions as part of the Business Ambition for 1.5°C campaign. The campaign is led by the Science Based Targets Initiative (SBTi) and backed by a global coalition of UN leaders, business organizations and NGOs.

### Scope

Net zero by 2050 commitment is regulated by the rules established by the SBTi following the GHG Protocol Corporate Standard. According to those rules, the calculation and reporting criteria we have adopted is the following:

- If a company is fully consolidated in the financial statements, we account for 100% of the emissions of the company
- If Nestlé has 50% shareholding of a company, we account for 50% of the emissions of the company
- If Nestlé has less than 50% shareholding of a company, we account for 0% of the emissions of the company

Acquisitions and divestitures are also treated according to the rules established by the SBTi:

- For acquisition, GHG emissions footprint will be captured from the date of closing
- For divestiture, GHG emissions footprint will be captured until date of closing

Scope 3 emissions are calculated as per the GHG Protocol categories. The categories "Processing of sold products", "Downstream leased assets", "Franchises", and "Investments" are excluded from calculation. The categories "Capital goods", "purchased services", "upstream leased assets" and "use of sold products" are calculated but excluded from SBTi scope.

### Performance data preparation

In order to measure the project benefits in terms of GHG reduction and removals, we use an internal system to manage our ESG project portfolio.

All climate related projects that have been recorded as contracted and started by project owners will be reported in the ESG project portfolio management system. These projects are reflected in the KPIs of that year, such that if:

**Project benefits (target year) =  
Total project verified reductions to date +  
Total secured removals**

All project benefit plans are aligned with the GHG accounting principles as set out in the GHG Protocol corporate & project standards.

GHG emissions (Scopes 1, 2, 3) are also calculated according to the GHG Protocol principles and guidance. The emissions are calculated as follows:

	Source of data	Emission factors used
<b>Scope 1 and 2</b>	Factories energy consumption reporting	IPCC (2006), IEA (2021) and DEFRA (2021).  Market-based emissions are partially calculated with residual mix emission factors (in Europe only).
<b>Scope 3</b>	Data from internal ERPs. Assumptions backed by literature to extrapolate missing data	Various recognized sources depending on categories (World Food LCA Database, DEFRA, IEA, etc.).  External EcoTransIT calculator for downstream transportation and distribution

**Assumptions**

We are following the GHG Protocol Corporate standard and Guidance provided by the Science Based Targets Initiative.

**2. Water use reduction in factories**

**Performance Measure**

m<sup>3</sup> of water use reduced in our factories.

**Definition**

Annualised savings from Nestlé factories obtained from qualifying improvement projects delivering benefits in 2021 and measured in m<sup>3</sup> of water saved during 2021.

**Scope**

All entities that are or were Nestlé factories during 2021.

**Performance data preparation**

- The units of measure for the consolidated water savings are m<sup>3</sup> (volume).
- A project contributes to savings only when it meets the qualifying criteria:
  - Existing Withdrawal: the project relates to an actual, existing and ongoing water withdrawal by the factory;

- Direct Cause: the project is the direct cause to the water use reduction; and
- Permanent: the water use reduction achieved by the project is permanent.

- Annual savings count towards the subject reporting year only when the savings have been realized in that year
- Total group savings for the year are calculated from the consolidated sum of savings from each project.
- Project savings are calculated based on the projected annualised saving following the realization of the project.
- The annualised savings are calculated using the actual representative performance of the project over the first full period of delivery (e.g. full week, month), extrapolated for a twelve-month period, using a rigorously documented projection of performance.
- Annualised savings contribute to the KPI only for the months of contribution in the current year
- Any balance is carried forward in the following year for the remaining months
- Water usage and reduction cannot be offset, assigned nor transferred between factories or third parties. Each water use and reduction is subject to the party that claims it.
- A difference of usage arising as a result of a change of meter readings is not a certain indication of a water savings project.

**3. Percentage of key ingredients produced sustainably**

**Introduction**

Nestlé is committed to sourcing its key ingredients with care and respect for individuals, communities, and the planet. In 2013, two commitments and KPIs were introduced, related to the percentage of total volume traceable and the percentage of total volume responsibly sourced, which ended December 2020.

To continue this journey defined by our Nestlé Net Zero Roadmap, a new KPI “% key ingredient produced sustainably” and objectives have been developed.

The new KPI terminology “produced sustainably” was therefore created during H1 2021 and is applied to the 2021 results being

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reported in 2022 and beyond. This new KPI terminology builds on the foundation and practices laid out in the Nestlé's Responsible Sourcing Standard (NRSS) which defines the way we source through care and respect for individuals, communities and the planet, and embraces the Assess, Address, and Report approach which is becoming a standard for human rights and environmental due diligence. This new KPI provides additional requirements for the ingredients we source. The results are thus not comparable to previous years.

### Performance measure

Percentage defined by the total volume of key ingredients in scope that are considered as produced sustainably divided by the total volume of key ingredients in scope (measured in metric ton) during the given year.

### Definition

Produced sustainably is defined as where both the material origin and social and environmental performance of the key ingredient is known. The main criteria to define if a key ingredient is produced sustainably are, but not limited to, the following:

- the material is traceable back to the point of origin (farm or group of farms),
- human rights and environmental due diligence systems are in place to assess, address, and report on the potential or actual impacts in the supply chain as defined in the Nestlé Responsible Sourcing Standard, and
- the tier 1 supplier is measurably progressing in addressing identified human rights and environmental impacts identified in its supply chain, as well as animal welfare where applicable

For each key ingredient in scope, specific criteria have been defined to ensure and assess specificities of the key ingredient (key ingredient guidelines).

### Scope

In scope for this KPI are Nestlé's 14 priority key ingredients: cereals, cocoa, coconut, coffee, dairy, fish and seafood, hazelnuts, meat, poultry and eggs, palm oil, pulp and paper, soya, spices, sugar, vegetables.

### Performance data preparation

Multiple data sources and checks are used and vary by key ingredient. To secure that system

extracts (E.g. Businesswarehouses) are correct, buyers are involved to validate the accuracy of the raw data used, when triggering any further steps (RFI, traceability exercise). Vendors may also be required to re-validate our own records to secure matching.

For 2021 year-end performance reporting, commodities' volumes used to calculate the KPI were based on 12-month periods ending in Q4 or Q3 2021 for most of them; for 3 commodities representing 8% of volume purchased, data used was on 2020 volume.

### Assumptions

Estimation methods in case of inconsistent data or unavailability of the data vary by key ingredient. In these cases we either use previous year's data, benchmarked vs. previous years to demonstrate consistency of supply or accuracy or using industry average for translating unit of sourcing into consistent unit of measures (particularly applicable for paper).

## 4. Percentage of deforestation-free for primary supply chain

### Performance measure

Percentage defined by the total volume of commodities in scope assessed deforestation-free divided by the total volume of commodities in scope (measured in metric ton) during the given year.

### Definition

This KPI aims at ensuring that the commodities in scope that we buy do not originate from:

- Areas converted from High Carbon Stock (as defined by the High Carbon Stocks Approach) forests and habitat such as peatland, wetlands, savannas
- Areas converted from natural ecosystems
- Peatlands of any depth, except where farming practices protect peat
- International Union for Conservation of Nature (IUCN) protected areas categories I-IV
- UNESCO World Heritage Sites and wetlands on the Ramsar List

### Scope

The commodities in scope includes the direct supplies of palm oil, pulp & paper, soya, meat, and sugar for Nestlé.

## Performance data preparation

To implement the no-deforestation ESG KPI, Nestlé applies a toolkit risk-based approach. We map our supply chains to know where the commodities in scope are bought from. In at-risk origins, Nestlé takes steps to verify that our purchases are not contributing to deforestation or conversion of natural habitats.

Based on this approach, the following volumes of commodities in scope are assessed as deforestation-free:

- **Traceable to low-risk origin:** Volumes have been traced back to regions classified as at low risk of deforestation using tools like, but not restricted to, Maplecroft. The traceability exercise is carried out in collaboration with our partners (e.g. Earthworm Foundation and Proforest) or using technology (e.g. SupplyShift) and, because of its low risk nature, does not require additional verification.
- **Assessed on the ground:** Volumes have been assessed through on-the-ground assessments, including, but not restricted to, e.g. High Carbon Stock Approach (HCSA) & High Conservation Values (HCV) assessments, by our partners (e.g. Earthworm).
- **Assessed from the sky:** Volumes have been assessed through satellite monitoring of production sites (farms, mills or supply area) in our supply chain identified through traceability exercise.
- **Certification:** Foundation, Proforest, SGS and/or through certification such as Round Table on Responsible Soy (RTRS) and Proterra (soya), Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC) (paper), and Roundtable on Sustainable Palm Oil (RSPO) (palm oil).

## 5. Percentage of plastic packaging designed for recycling

### Performance measure

Percentage defined by the total volume of plastic packaging designed for recycling divided by the total volume of plastic packaging.

## Definition

Nestlé has developed its publicly available “Rules of Sustainable Packaging”, composed of the Golden Rules and the Negative List, that are driving the sustainable packaging transformation of the Group.

Primary, secondary and tertiary packaging are taken into account in the calculation.

Packaging Designed for Recycling (D4R) refers to packaging materials and formats which are compliant with the Negative List and aligned with the Golden Rules. It does not systematically correspond to packaging “recyclable in practice and at scale”, as per Ellen MacArthur Foundation’s definition, nor to packaging being “effectively recycled”.

To date, given the very large number of products and material specifications covered by the KPI and the limitations of the current information systems, the applicable criteria used to assess if a plastic packaging is Designed for Recycling (D4R) and compute the indicator during the 2021 reporting are as follows:

- Rigid plastics: Polyethylene Terephthalate (PET), Polyethylene (PE), Polypropylene (PP) are considered as D4R;
- Flexible plastics: PP, PE and Polyolefins (PO) based films are considered as D4R.

Additional criteria from the packaging sustainability rules on material specifications will gradually be included in future reporting, including black color and black carbon color, Poly-Ethylene Terephthalate Glycol - PET G, Metalized materials, and separability from the other materials constituting the packaging.

The KPI reflects the D4R status of the packaging portfolio at the end of 2021. The KPI is calculated using the last available material specifications applied to the packaging quantities of the full reporting period.

## Scope

This KPI covers all finished products sold by Nestlé, produced by Nestlé’s factories or by co-manufacturers.

The KPI includes the sales of all entities that are in SAP within the Group plus all the entities not reported in SAP with sales above CHF 100 million and all Nestlé Waters entities. With this method, the scope covers 98% of the sales of the Nestlé Group.

## Performance data preparation

The main source of data for this KPI is SAP:

- **Sales data** is used to calculate packaging quantities sold to consumer which are reflected in the KPI. Each unit sold has a defined weight of packaging maintained in the global master data, and the corresponding weight is applied to all units sold within the given year.
- **Production data** is used to obtain the detailed composition of the packaging sold (bill of materials, material specifications).

Two exceptions are to be noted:

- For Nestlé Waters, the KPI is exclusively based on production data (quantities of plastic packaging leaving the production site reflected in the KPI, instead of plastic packaging in sold products).
- For the small part of Nestlé's owned businesses not currently using SAP and accounting above CHF 100 million in terms of sales, the data collection is manually done using an Excel template designed by Nestlé.

## Assumptions

For businesses where sales are in SAP but not the production data (e.g. Co-Manufacturers), packaging weight and composition is estimated based on similar internal finished product in the same category and same country. Approximately 85% of the sold packaging weight in SAP is covered by production data in 2021.

## 6. Percentage of virgin plastic reduction

### Performance measure

Percentage defined by reduction of usage of virgin plastic between 2021 and 2018, divided by total virgin plastic volume of 2018.

Virgin plastic volume is obtained by deducting the recycled plastic volume from the total plastic packaging volume of the period.

Primary, secondary and tertiary packaging are taken into account in the calculation.

### Definition

Virgin plastic is defined as plastic that has not been previously used or subjected to processing other than for its original production. It includes fossil and bio-based plastics.

Recycled plastic is defined as pre-consumer and/or post-consumer plastic packaging as per the ISO 14021:2016 standard.

The KPI reflects the recycled content of the packaging portfolio at the end of the reporting period. The KPI is calculated using the last available material specifications applied to the packaging quantities of the full reporting period.

### Scope

Please refer to above KPI n°5.

The total Nestlé baseline 2018 used to measure the virgin plastic usage reduction is restated to match the 2021 reporting scope and take into account divestiture and acquisitions since 2018:

- For divestiture: The Nestlé 2018 baseline is restated in the year 2021, by removing the contribution of divested companies from the total Nestlé baseline of 2018.
- For acquisition: The Nestlé 2018 baseline is restated in the year 2021, by adding the baseline of acquired companies between 2018 and 2020 to the total Nestlé baseline of 2018.

If the 2018 baseline of an acquired company is not available, the closest succeeding available baseline is used as a proxy for the baseline 2018 (i.e., baseline 2019, or baseline 2020, etc. ...)

## Performance data preparation

Please refer to above KPI n°5.

## Assumptions

Please refer to above KPI n°5.

## Social KPI

### 7. Number of servings of affordable nutrition with micronutrient fortification (MNF)

#### Performance measure

The KPI is the number of fortified servings of affordable nutrition sold in emerging markets<sup>2</sup> based on the quantity sold, which is connected to the sales in 2021.

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<sup>2</sup> As defined per World Economic Situation and Prospects 2020 | Department of Economic and Social Affairs (un.org)

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The sales that meet the following two criteria are counted as part of the KPI:

- Products which meet the definition as Popularly Positioned Products (PPP) Affordable Nutrition and
- Products have been fortified with at least one of the Big 4 micronutrients (Iron, Iodine, Vitamin A, Zinc) in accordance with the Micronutrient Fortification policy.

To determine number of servings, a serving size is defined for each stock keeping unit (SKU) and maintained in the SAP material master data. The serving size is a critical piece of information that, when used in conjunction with the recipe data, allows the amount of nutrient (or ingredient) contained in the serving to be calculated in order to reach 15% NRV (Nutrient Reference Value) with at least one of the Big 4 micronutrients.

### Definition

PPP is Nestlé's business strategy to provide accessible products and affordable nutrition to lower-income consumers in emerging countries through a competitive value chain. Affordable Nutrition products are quality products with enhanced nutrition credentials (for example, nutrient-fortified products), that meet the price point suitable for the target market. Three categories drive Affordable Nutrition: Dairy, Nutrition and Ambient Food.

Affordable nutrition with micronutrient fortification is defined as a serving of eligible PPP affordable nutrition SKUs fortified with at least one of the Big 4 micronutrients (Iron, Iodine, Vitamin A, Zinc).

### Scope

All Nestlé entities are integrated in the data selection process. Some minor businesses are excluded from the report. With this method, we cover 99% of sales of the Nestlé Group in 2021 eligible for this KPI.

As per the [Nestlé Policy on Micronutrient Fortification of foods and Beverages](#) all products for infants below 36 months are excluded from this KPI.

### Performance data preparation

Fortified servings in affordable nutrition are based on the quantity sold maintained in SAP in the Nestlé Group during 2021.

The sales by SKU are measured based on the following two criteria:

- SKU is eligible for PPP Affordable Nutrition and
- SKU is eligible for the Micronutrient Fortification policy

The serving size as sold is defined for each SKU as per Nestlé data standard and maintained in the SAP material master data.

The volume sold is divided by the serving size to obtain the number of fortified servings sold.

## 8. Number of young people around the world with access to economic opportunities

### Performance measure

The KPI is the number of opportunities offered to young people, defined as individuals below 30 years old, which include jobs or the essential skills to prepare them for economic opportunities.

### Definition

The KPI is measured based across three pillars of activities: Employment & Employability, Agripreneurship and Entrepreneurship, with the following sub-groups:

- Employment & Employability
  - Get Hired (e.g. permanent and temporary positions)
  - Get Skilled (e.g. internships and apprenticeships)
  - Get Support (in-person) (CV clinics, job fairs)
  - Get Support (digital) (e.g. live streams, digital career fairs)
- Agripreneurship
- Entrepreneurship
  - Entrepreneurs supported/engaged
  - Entrepreneurs as part of Nestlé's value chain
  - Young Culinary Talents
  - Young Veterinarians
  - Young Pediatricians



## Scope

Scope includes all Nestlé entities “in scope”<sup>3</sup> plus Cereal Partners Worldwide (CPW) where Nestlé manages the human resources function for CPW (Nestlé global standard Human Resources Information System).

Companies in the scope covers 99% of the sales of the Nestlé Group.

## Performance data preparation

The data provided is collected at the country level across the three pillars during 2021. Each country then reports centrally the data across the three defined pillars in order to be aggregated centrally.

For all categories, the participants should not be counted if they declare themselves above the age of 30.

The reporting cut-off date for Get support (Employment & Employability), Entrepreneurship and Agripreneurship data was on 15th December 2021. The reporting cut-off date for Get Hired and Get Skilled (Employment & Employability) was 31st December 2021.

The type of data collected and processed is adjusted for compliance with local regulations (e.g. age of participants may not be collected).

As mentioned above, it is not always possible to check the age of attendees/participants due to local regulations in some countries. This impacts countries contributing to approximately 20% of the KPI. Further, even in countries where it is possible to collect the information, some participants do not disclose their age. Therefore, as there is a possibility that some of the attendees are above 30, a global reduction coefficient of 5% is applied centrally to the overall result. The reduction coefficient was determined by reviewing data for countries where collecting the age was possible, where approximately 5% of participants were over 30.

## Assumptions

The assumption is that each opportunity is linked to one person, although some people may have had access to more than one opportunity (e.g. training and internship).

## 9. Women in the top 200+ senior executive positions

### Performance Measure

KPI is the ratio of women currently holding senior executive positions versus the total population of professionals currently holding senior executive positions on December 31, 2021.

### Definition

With its Gender Balance Acceleration Plan, Nestlé puts further emphasis on increasing the proportion of women in the group’s top 200+ senior executive positions from around 20% to 30% by 2022. This is another step in Nestlé’s journey towards gender parity.

### Scope

Similar scope as the KPI 8 above.

Companies in the scope covers 99% of the sales of the Nestlé Group.

### Performance data preparation

Basis for the calculation are reports from Nestlé global standard Human Resources Information System on December 31, 2021.

The % of women holders of senior executive positions is calculated dividing the women current holders number versus the current holders total population.

Senior executive positions are defined as following:

- All Market Head positions
- Business positions in charge of largest organizations within the Group
- Positions in charge of Group wide strategic functions and/or initiatives
- Positions providing functional leadership to Executive Board Member or Key Markets

### Assumptions

The gender of employees is informed by employees themselves and recorded in Nestlé global standard Human Resources Information System, based on official identification (such as a passport or national identity card).

Any addition / exclusion to the top 200+ senior executive positions is aligned/approved by Group Head of Human Resources, in alignment with other members of the Executive Board.

<sup>3</sup> CPW is a global joint venture 50%-50% between Nestlé and General Mills.