

# Integrated Risk Management Strategy

## Current Status

Enterprise

### RISK MANAGEMENT

VII JORNADA ANUAL DE RIESGOS  
Madrid – 25 January 2007

Finance & Control  
Marc Schaedeli / Head of Risk Management



Nestlé

Good Food, Good Life

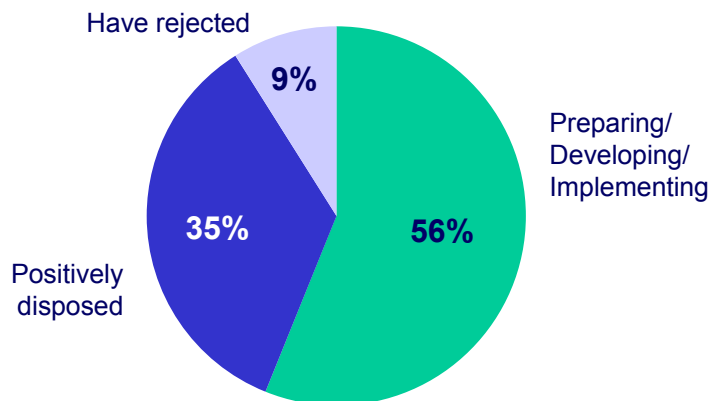
## Why do we have an integrated approach to risk management?

- It brings direct benefits to the business
  - Experience and feedback within Nestlé shows
    - a high level of satisfaction with the immediate benefits
    - a growing demand
- It has the potential to provide competitive advantage
- It is an impending legal requirement in Switzerland



# The Growing Influence of Enterprise Risk Management (ERM)

## A majority of companies are choosing ERM...

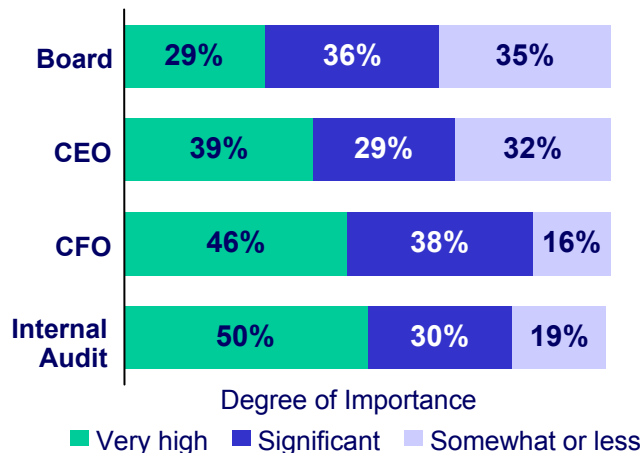


## Clear benefits from an 'integrated' approach to ERM

'Advanced ERM' companies experience significantly greater benefits than those still adopting an ad-hoc approach. Improved benefits have been seen in each of the following areas:

- Better-informed decisions
- Greater management consensus
- Increased management accountability
- Smoother governance practices
- Ability to meet strategic goals
- Better communication to the board
- Reduced earnings volatility
- Increased profitability
- Use of risk as competitive tool
- Accurate risk-adjusted pricing

## ...and ERM is seen as an increasingly important responsibility

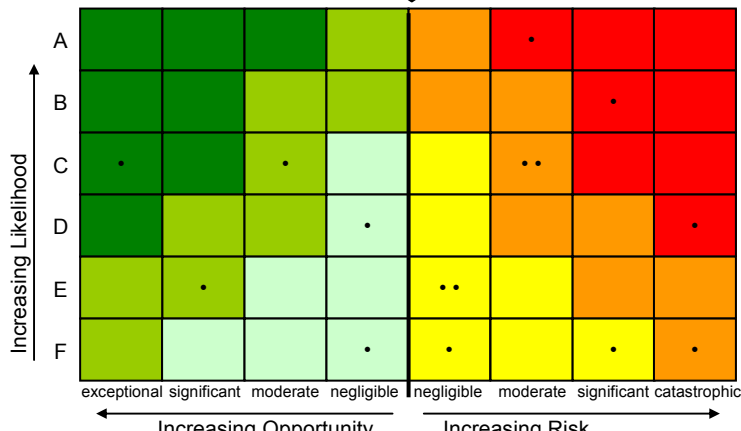


## Current Application of the ERM Process

### ERM Process



### Output



The process is mainly applied in the following areas\*:

- Annual top-down risk assessments of Zones and Global Managed Businesses
- Global Business Strategies (GBS)
- M&A and divestiture projects
- Major capital spending and restructuring projects

...and in other areas upon request

\*as defined by the Executive Board (Nov. 2002/Aug. 2003)

It is a structured approach to:

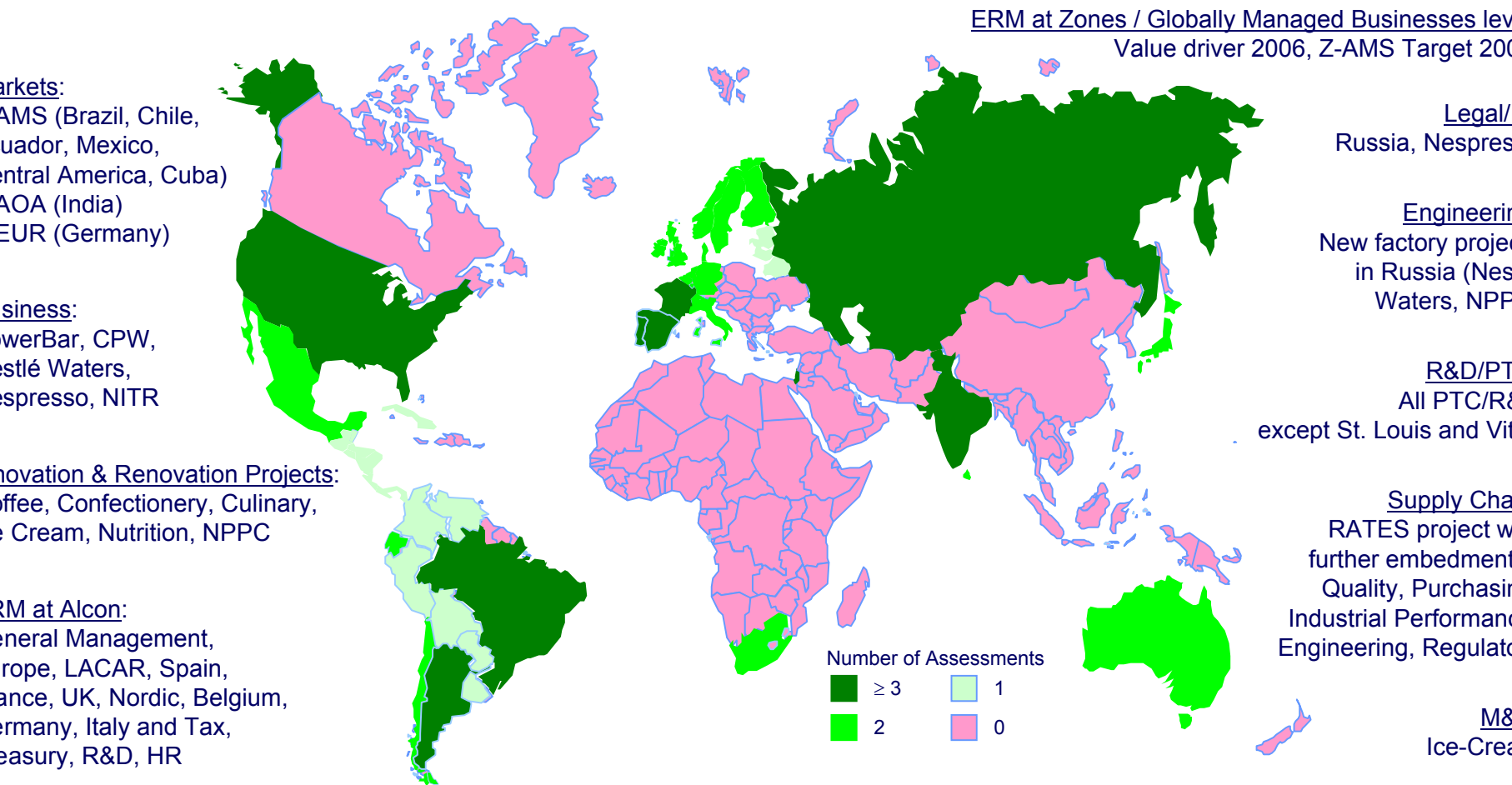
- Identify **risks** to objectives and **opportunities** to exploit competitive advantage
- Quantify impact and likelihood of occurrence
- Prioritise actions to mitigate/avoid risks and exploit/enhance opportunities
- Support decision-making in the management process
- Ultimately optimise allocation of resources

It is applied in a practical way:

- Simple, flexible self-assessment process
- Multi-functional team, typically in a workshop environment
- Risks owned by line management
- Challenges existing mindset
- Requires no additional resources
- Integrated into project/business management
- Risk Management Advisors facilitate and are responsible for methodology

# Overview of ERM Activity

Application of ERM process since December 2004



## Foundation to Support an Integrated Approach

Input



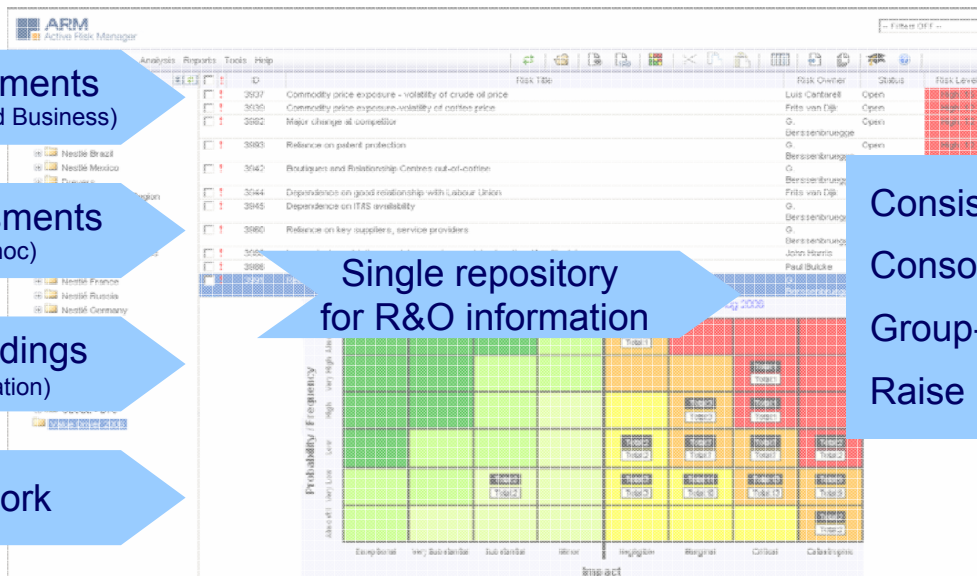
Output  
(work in progress)

Top-Level R&O Assessments  
(mandatory, Zone & Globally Managed Business)

Bottom-up R&O Assessments  
(on management request, ad-hoc)

Nestlé Audit Group Findings  
(NAG guidelines, R&O classification)

Compliance Framework



Single repository  
for R&O information

Consistent assessment of R&O  
Consolidated profile  
Group-level perspective  
Raise major Group-level R&O

Collectively address all sources of main R&O to Nestlé S.A.

Strategic, Operational, Reporting, Financial, Compliance

**R&O Management Information Repository (ARM)**  
Secure and web-based, providing transparency and real-time updates  
Facilitates sharing of knowledge and avoids duplication of efforts

**Documented Best Practices and Guidelines**  
R&O Assessment Best Practice  
R&O Management Terminology / Classification  
ARM User Guidelines

**'R&O Champions' in selected markets**

Regular reports to EBM

## Where is the ERM process applied at Nestlé...? Status – December 2006

- **Mandatory annual Zone/Globally Managed Business (GMB) assessment (major R&O impacting on targets)**

- Workshop involving direct reports, timing: October / November
- Support provided by Group Risk Management (FC-GRS)
- Outcome challenged and validated by Head of Zones / GMB

- **‘Ad-hoc’ assessments (on request):**

- Provide support for business, project ‘ad-hoc’ assessments

### **Furthermore we have agreed to work hand-in-hand with:**

- **Group Control:**

- To improve R&O management within strategy setting
- To embed simple process within Strategic Planning (GBS) to identify major strategic R&O
- Pilot studies already performed

- **GMB (Nestlé Nutrition):**

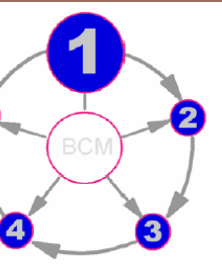
- Embed R&O Management within Top Nestlé Nutrition I&R projects, operational R&O

- **R&D/PTC:**

- Build upon ‘ad-hoc’ R&O assessment already performed in Coffee, Confectionery, Culinary, Ice Cream, NPPC to develop common I&R project R&O catalog
- Embed R&O Management within Top I&R projects (all product categories)



# Nespresso risk characteristics



- Single production center
- Maximum capacity utilization
- Single key suppliers

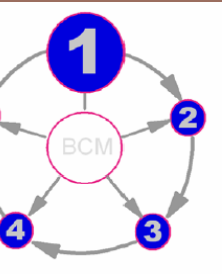
- Prototype lines
- Single distributor







# ERM Process





# Step 1: Goals & Objectives

Scope of the assessment defined:  
Production Centre operation



**Supplier**

**Production Center  
Logistics**

**Distributor**

Key Supplier

Construction

Transfer

**Operation**

3PL  
(former PESA)

Other Suppliers **Supply** →

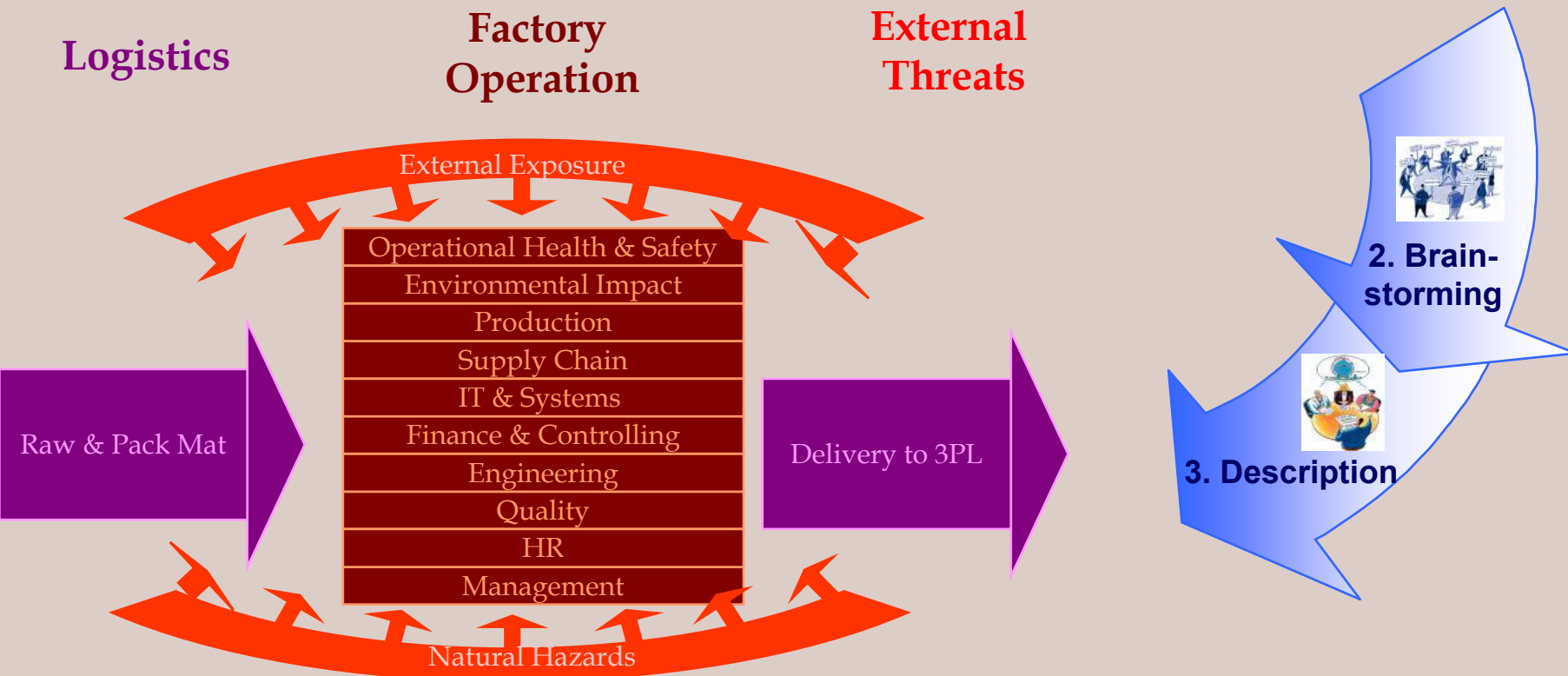


→ **Delivery**



# Steps 2-3: Brainstorming and Description

Team: Simple, flexible and multifunctional  
Supported by Group Risk Services, Nestec





# Steps 4-5: Evaluation and Reporting

All areas covered  
120 risk scenarios evaluated  
Impact/Likelihood assessed

Tolerable risk level defined

Active Risk Manager - Nestlé:Nestlé Ltd. - Microsoft Internet Explorer provided by S.N.D.W. Workstation

**ARM**  
Active Risk Manager

Risk Management

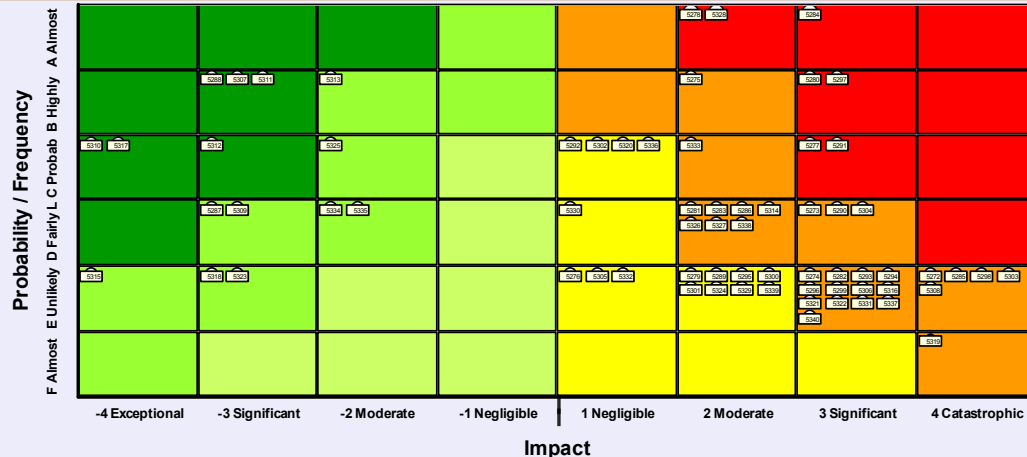
File Edit New View Link Analysis Reports Tools Help

Activites	ID	Risk Title	Risk Owner
Nestlé Ltd.	3932	Organisation des projets internes Nespresso (Warehouse, NPTubes,...), management, gestion des priorités	Jeremie Guigoz
Alcon Inc.	3672	Need to increase capacity reserves, manufacturing capacity at Nespresso due to reduced efficiency, quality failure, rework, etc.	Thomas Kaizer
NPPC	2421	Business OP	Isabelle Simal
Nestlé Z-AMS	2422	Failure of electricity supply	Isabelle Simal
Nestlé Z-EUR	2424	Failure, breakdown of data lines, servers	Isabelle Simal
Nestlé Z-AOA	2430	Leakage of confidential information	Isabelle Simal
Nestlé Waters	2634	fulfillment houses overload = entreprise adaptée surcharge	Pierre Debayle
Nestlé Nespresso	3637	Not enough focus on Tolkien	Thomas Kaizer
Relationship Centre Brussels	3639	Investment for Tolkien too late, delayed (even status-quo)	Thomas Kaizer
Relationship Centre Dusseldorf	3674	Compatibility between old machine and new capsules not achievable	Thomas Kaizer
Relationship Centre Vienna	3683	Failure, breakdown of data lines, servers (incl. Nessoft)	Caroline Millet-Vanoli
Relationship Centre Lyon	3911	Qualité du projet	Jeremie Guigoz
Production Centre Orbe	3929	Visiteurs dans le CPO et sur l extension pendant le chantier (???)	Jeremie Guigoz
Boutique			
Project Tolkien			
Relationship Centre Sion			
Extension Construction Orbe			

5. Reporting



4. Evaluation





# Step 6: Decision

**“fire”**: A scenario clearly above our risk appetite!

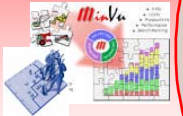
Plan Title

Plan Owner

Completion

Activities	ID	Plan Title	Plan Owner	Completion	Related
Nestlé Waters Direct	1950	Make first cost assessment based on current information	Daniel Manser	30 Jun 2007	⚠️ 🚫
Nestlé Nespresso	1953	Prepare clear procedure for the event considering the 4 principle of crisis management	Daniel Manser	31 Dec 2007	⚠️ 🚫
Relationship Centre Brussels	1956	Clarify business strategy	Daniel Manser	31 Mar 2007	⚠️ 🚫
Relationship Centre Dusseldorf	1954	Need for clarification and provide clear guidance on final requirements	F. Haschke	31 Mar 2007	⚠️ 🚫
Relationship Centre Vienna	1959	Establish communication strategy	F. Haschke	31 Dec 2007	⚠️ 🚫
Relationship Centre Lyon	1960	Commercial development stream to be staffed appropriately	F. Haschke	31 Dec 2006	⚠️ 🚫
Production Centre Orbe	1961	Commercial development stream to be staffed appropriately1	F. Haschke	31 Mar 2007	⚠️ 🚫
Boutique	1963	Explore opportunities & limitations	F. Haschke	31 Dec 2007	⚠️ 🚫
Project Tolkien	1964	Clarify business strategy regarding the need for medical device status	F. Haschke	31 Mar 2007	⚠️ 🚫
Relationship Centre Sion	1969	Define mandatory elements depending on decision on medical device	F. Haschke	31 Dec 2007	⚠️ 🚫
Extension Construction Orbe	1970	Prepare clear communication for mothers in the event of running out of products	F. Haschke	31 Dec 2007	⚠️ 🚫
	1949	Define & propose pre-trial phase	M. Steven	31 Mar 2007	⚠️ 🚫

**6. Decision**



**-70% of Nestlé's large property losses**



# Steps 7&8: Improvement and Monitoring



## Who, what, by when...

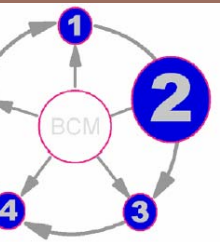
### Measures

- Clear rules and training
- Procedures (hot work permit)
- Audits
- Roasters safety checks
- Smoke detection system installed
- Sprinkler system in place
- ...





# Our BCM strategy



- Ensure the safety of our staff
- Maximise the defence of Nestlé Nespresso S.A reputation and brand image
- Minimise impact of business interruption events on our consumers (the Gap)
- Limit/prevent impact beyond our company's boundaries
- Demonstrate effective and efficient governance to the media, markets and stakeholders
- Protect Nestlé Nespresso S.A assets
- Meet insurance, legal and regulatory requirements

*Thank you for your attention  
Thank you very much  
And enjoy 5 minutes of pleasure...*



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