Nestlé S.A.

Switzerland, Food, Beverages and Forestry

Accounting		Climate Assumptions		Audit		Date of analysis: Mar. 29, 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: Dec. 31, 2020 Report date: Mar. 16, 2021 AGM: Apr. 15, 2021
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Climate Action 100+ company, so seen by investors as key to driving global net zero emissions.

Summary view:

- Over 70% of the company's in-scope emissions relate to ingredients sourced. A Net Zero Roadmap targets milestones to achieve zero net greenhouse gas emissions by 2050, with interim targets along the way.
- Extensive discussions of climate considerations and commitments outside of the financial statements stand in contrast to no apparent discussion within the financial statements or the audit report. Additional separate disclosure could help investors to assess the impact on financial reporting amounts.

Background

The Business.

- Nestlé manufactures and distributes food and beverage products. Categories consist of powdered and liquid beverages (including *Nespresso* coffee and machine technology), bottled water, milk products and ice cream, prepared dishes and cooking aids, confectionery and petcare, as well as nutritional science products. Nestlé also has a 23.2% holding in L'Oréal, with a 2020 balance sheet value of CHF8.6bn, and market value of CHF43.7bn.
- With reference to a 2018 base, Nestlé's value chain emissions profile amounts to 113m tonnes of CO2e annually, of which 58% relates to ingredients sourced and a further 19% consists of emissions from consumer use of the company's products and purchased services. The remaining 23% relates to the company's manufacturing, packaging, logistics and travel. This data represents consolidated companies only, and therefore excludes joint ventures and associates such as the holding in L'Oréal, as is allowed under the Greenhouse Gas Protocol.

Approach to climate change.

- Disclosure of principle risks does list climate change, but as for all of the risk topics, only a very short discussion of fairly generic risks appears to be provided.
- The company fully achieved 28 of the 36 commitments to environmental and social sustainability targets for end-2020. For planet-related targets, 8 of 10 were achieved.
- In Dec. 2020, Nestlé released a Net Zero Roadmap, with specific milestones to achieve zero net greenhouse gas emissions by 2050, consistent with a 1.5°C path defined by the Paris Climate Agreement. Proposal 7 on the agenda of the 2021 AGM is an advisory vote on support of the company's Roadmap. This vote is in advance of changes to Swiss legislation that it expects will require reporting and a vote on non-financial performance from 2024.
- Historically, the focus of targets set was on scope 1 and 2 emissions. The Roadmap widens efforts to address emissions throughout the value chain. Using the base year of 2018 GHG emissions, 81% (92m tonnes CO2e) are considered in-scope for the purpose of Roadmap commitments; the 19% from consumer use of products and purchased services are excluded.
- In setting the target for 2030, the company expects that without action, growth in the business would increase these emissions by 43%, to 131m tonnes. The 2030 target limits in-scope emissions to half that amount. An interim target is set at a 20% reduction by 2025.
- Certain brands including Nespresso, S.Pellegrino, Perrier and Acqua Panna are planning to achieve carbon neutrality by 2022. The rest of the waters portfolio is to achieve this by 2025.

- In setting targets, the company followed the Science Based Targets initiative (SBTi) criteria, and the SBTi approved the targets in Nov. 2020.
- ESG-related KPIs will be added to the Short-Term Bonus framework of the Executive Board.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns

- The financial statements are prepared in accordance with IFRS and Swiss law.
- There is no explicit reference to climate change in the notes to the financial statements. It is not apparent that any consideration of climate has been built into the numbers.
- The balance sheet value of goodwill is CHF27.6bn, and of intangibles is CHF20.1bn. Intangibles of CHF16.5bn have indefinite-lives and are therefore not amortised (the same as goodwill). In 2020, just CHF0.4bn was recognised as goodwill impairment, primarily as a result of downward revisions to projected cash flows attributed to the COVID-19 pandemic.
- The company also has significant defined benefit pension and similar plan obligations, and plan assets set aside to fund these were valued at CHF24.8bn at the end of 2020. These are 43% invested in government bonds and cash/deposits. The degree to which the value of the other portion of these assets is insulated from climate risk is not clear.

Consistency with other reporting		Significant concerns

- Given the significance of steps to address climate change, it is concerning that there is no separate disclosure made of associated R&D, capex, other costs, or impact on margins etc. of steps being taken in relation to climate risk commitments. Steps under the Net Zero Roadmap will focus on working with the supply chain, developing technologies, and evolving packaging and waste management infrastructure, as well as transitioning aspects of the company's own consumption to sustainable sources.
- Nestlé states that its sustainability activities and reporting are aligned with global frameworks and the Task Force on Climate-related Financial Disclosures (TCFD). Somewhat confusingly, it also plans to publish a first (and separate) TCFD report prior to the 2021 AGM.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions in the accounts. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility of assumptions in the accounts, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in KAMs and consistency check

Audit firm: Ernst & Young Ltd	Responsible partner: Jeanne Boillet (in charge), André Schaub
Audit standards: Swiss law, International Standards on Auditing (ISAs), Swiss Auditing Standards	

Visibility in Key Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- KAMs are 1) Measurement of revenue (related to trade spend), 2) Carrying value of goodwill and indefinite-life intangibles, and 3) Completeness and valuation of uncertain tax positions.

- The impact of COVID-19 on forecasted financial information was specified in relation to impairment testing of goodwill and other intangibles. However, consideration of climate risk and steps to deliver on commitments was not mentioned. The auditor received assistance of valuation specialists to consider aspects of the company's valuation model and discount and growth assumptions, but specialist climate expertise is not mentioned.

Consistency check		Significant concerns

- The 2020 annual report consists of the Annual Review, and the Corporate Governance Report, Compensation Report and Financial Statements. The other information considered by the auditor comprises all information in the annual report, excluding the consolidated and the stand-alone financial statements, the compensation report and separate auditor's reports thereon. No items were identified for communication by the auditor.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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