



2013 Annual External Report

On

**Compliance with the Nestlé Policy and
Instructions for Implementation of the WHO
International Code of Marketing of Breast-Milk
Substitutes**

1. Introduction

As the world's leading Nutrition, Health and Wellness Company, we believe we can contribute to improving the health and nutrition of mothers and their children. Our commitment to good nutrition starts with our support for the World Health Organization's (WHO) recommendation of six months exclusive breastfeeding, followed by the introduction of nutritious and appropriate complementary foods along with sustained breastfeeding up to two years of age and beyond.

For infants who cannot be breastfed for the recommended period of time, infant formula plays a vital role in providing them with essential nutrients. It is the only suitable breast-milk substitute (BMS) recommended by the WHO.

We have a public commitment to [market breast-milk substitutes responsibly](#). As such, we pledge to complying with the WHO International Code of Marketing of Breast-Milk Substitutes (the WHO Code) as implemented by national governments everywhere in the world. In 152 countries which are considered to be "higher-risk" in terms of infant mortality and malnutrition, we follow our [Nestlé Policy and Instructions for Implementation of the WHO Code](#) ("Nestlé Policy and Instructions") when it is stricter than the existing national regulations implementing the WHO Code ("national regulations").

We monitor our marketing practices to ensure compliance with those standards, irrespective of whether or not a governmental monitoring system is in place.

Our rigorous good governance mechanisms also comprise an internal Code Compliance Committee with three members of the Company Executive Board which oversees compliance with the Nestlé Policy and Instructions and with the FTSE4Good BMS Criteria.

Our monitoring process is complemented by **internal corporate audits** to assess compliance with the Nestlé Policy and Instructions, national regulations and the FTSE4Good BMS criteria, and **external verification** on compliance with these standards performed by Bureau Veritas and FTSE4Good.

Nestlé is the first, and so far the only, infant food manufacturer to be included in the [FTSE4Good Index](#) – the responsible investment index of the FTSE Group. To be included in this Index, companies must meet all five environmental and social criteria. BMS manufacturers must also comply with 104 stringent FTSE4Good BMS Criteria for responsible marketing of these products in 149 countries which are considered "higher-risk" by the FTSE4Good Index. Inclusion in the FTSE4Good Index requires an independent regular verification of a company's practices regarding the marketing of breast-milk substitutes in two countries every 18 months and the results are made public.

The FTSE4Good BMS Criteria verification process has identified areas of improvement and we are constantly making our efforts to address them. We have already made significant improvements to our policies and procedures based on the recommendations coming from such assessments, for example, strengthening our internal and external mechanisms for reporting concerns regarding our marketing of breast-milk substitutes, so that allegations concerning the Nestlé Policy and Instructions and national regulations can be raised directly with us, promptly investigated, and addressed if needed.

Nestlé and Wyeth Infant Nutrition employees are able to raise any concerns regarding the marketing of breast-milk substitutes through the internal **WHO Code Ombudsperson System**, either at the corporate level – where the Global Ombudsperson is a member of the Executive Board – or at Market level, with 60 ombudspersons present in different countries.

In addition to this internal grievance mechanism, Nestlé implemented in January 2014 the system “[Tell Us](#)”, a publically available, web-based, external reporting grievance system that enables external stakeholders to raise any concerns they may have with Nestlé directly, including on WHO Code related topics.

We are committed to transparency and [report regularly](#) and publicly on matters related to compliance with responsible marketing of breast-milk substitutes. Annual Compliance reports and external audit summaries are available in our corporate website as well as communication addressing stakeholder concerns.

2. Objective

This report describes the 2013 results of Nestlé’s compliance with the Nestlé Policy and Instructions and with national regulations, where they exist. It is a summary prepared for reporting purposes and is not intended to give any enforceable rights to third parties. An annual report is also submitted to the Audit Committee of our Board of Directors.

Information in this report comes from several sources, both internal and external. Internal sources are reports on audits carried out by corporate auditors and our Internal WHO Code Ombudsperson system. External sources are independent audits carried out by an external global leader in conformity assessment and certification services as well as external stakeholders (including NGOs and consumers).

3. Summary of our 2013 compliance record and corrective action taken

Monitoring of Nestlé’s adherence to the Nestlé Policy and Instructions in 2013 showed the following:

- No evidence of systematic non-compliance with Nestlé Policy and Instructions or national regulations was found.
 - 30 instances of non-compliance with the Nestlé Policy and Instructions or national regulations requiring remediation were found, out of which 22 were directly attributable to Nestlé.
 - 8 resulted from initiatives taken by third parties (distributors or retailers) without Nestlé being involved or informed.
 - 13 out of the 30 instances were identified through external audits in three countries (Bureau Veritas audits in Pakistan, China and Botswana). Thirteen (13) instances were identified through internal audits performed in 31 different countries. Two cases were raised through the WHO Code Ombudsperson system and two cases received as external allegations.
- The two concerns raised through the Internal WHO Code Ombudsperson system required corrective action. One instance was attributable to a third party and one to Nestlé.
- All instances requiring remediation have been corrected.

4. 2013 findings

4.1 Monitoring our compliance

- **Internal corporate audits**

In 2013, 31 countries were audited by corporate auditors for compliance with the Nestlé Policy and Instructions and national regulations. This included 24 higher-risk countries and seven lower-risk countries.

Those audits found a total of 13 instances of non-compliance with the Nestlé Policy and Instructions or national regulations requiring remediation, comprising 11 cases attributable to Nestlé and two cases attributable to third parties.

Instances attributable to Nestlé

- Higher-risk countries

The non-compliance cases most frequently found related to:

- promotion of infant formula at points of sales such as incorrect displays of infant nutrition products on shelf (e.g. price tags too conspicuous, infant formula displayed at the same shelf location as complementary foods, use of outdated materials), or one case of price discount offered for infant formula that were planned to be discontinued;

- labels failing to meet all Nestlé requirements in terms of notices for users, such as recommendation of continued breastfeeding missing from some infant cereals labels, or the warning “not to be used to feed infants” missing from the label of one sweetened condensed milk that was being market-tested;

- educational materials intended for parents containing outdated information, such as brochures relating to complementary foods explaining that those products are suitable for babies as of 4 and 5 months of age (instead of 6 months).

- Lower-risk countries

In two countries our auditors have found cases where our guidelines governing relationship with the medical community were not strictly adhered to. In another country, a case of price promotions on infant formula in the company staff shop has been found. In a fourth country, one of our educational brochures failed to include the mandatory statement about the superiority of breastfeeding.

Instances attributable to third parties

In a higher-risk country, our distributor displayed infant formula and infant cereals on its website intended for its trade partners. As it was possible for the general public to have access to that website, we alerted the distributor about preventing the public from consulting that website, and the distributor made the necessary modifications. In another higher-risk country, two supermarkets were found running a weekly promotion on infant

nutrition products; we asked the supermarkets not to carry any promotions for Nestlé infant formula.

- **External audits**

As in previous years, in 2013 we commissioned Bureau Veritas, an external audit and verification firm, to verify our marketing practices relating to breast-milk substitutes in three countries: Pakistan, China and Botswana. The gist of these external audits is available on our website:

<http://www.nestle.com/csv/human-rights-compliance/baby-milk/Pages/home.aspx#monitoring>

These three external audits found a total of 13 instances of non-compliance with the Nestlé Policy and Instructions or national regulations, of which nine were attributable to Nestlé and four to third parties.

Pakistan

Bureau Veritas found that the culture within Nestlé Pakistan was to comply with the requirements of the Nestlé Policy and Instructions and the local Code. Staff members had a good knowledge of those two standards and appropriate training had been undertaken. Bureau Veritas found five instances of non-compliance: two attributable to third parties (promotion at points of sales) and three to Nestlé (labelling and promotion at points of sales).

Bureau Veritas also reported another two instances of non-compliance which are related to the application of the market Procedure Manual and that do not constitute a violation to the Nestlé Policy and Instructions. However, Bureau Veritas did not come across any systematic failure of the Company's WHO Code Management System.

China

Bureau Veritas concluded that a culture of Code compliance within Nestlé China was demonstrated throughout the audit. Staff members of Nestlé China appeared to have a good knowledge of the Nestlé Policy and Instructions and national regulation, and evidences that appropriate training had been undertaken could be found.

Bureau Veritas found five instances of non-compliance – three attributable to Nestlé (medical detailing material without a statement on the superiority of breastfeeding and tracking number, inclusion of feeding advices related to paediatric specialties by mistake in the Nestlé website, point of sale decoration failing to indicate that it is specific to growing up milk) and two to third parties (incorrect placement of shelf-talkers relating to products for infants older than 1 year and incorrect pricing).

Bureau Veritas also reported other three instances of non-compliance which are related to the application of the market Procedure Manual and that do not constitute a violation of the Nestlé Policy and Instructions. However, Bureau Veritas did not come across any systematic failure of the Company's WHO Code Management System.

Botswana

According to Bureau Veritas, Nestlé ZAR (Southern Africa Region) overall has a sound compliance culture and the employees interviewed demonstrated good understanding and awareness of the Botswana Regulations (which are stricter than the WHO Code and the Nestlé Policy and Instructions),

and the requirements they place upon their role and responsibilities and associated activities. The procedures reviewed indicated that there was no systematic direct promotion of any products covered by the Botswana Regulations. During the head office assessment, three instances of non-compliance attributable to Nestlé ZAR have been identified around labelling and sales incentives to Nestlé ZAR staff.

The supporting marketplace assessment has not yet been conducted as approval from the Ministry of Health Research and Ethics Committee in Botswana, in response to the Bureau Veritas proposal, is still pending. The report issued by Bureau Veritas is based on the verification of the management procedures and documentation, and internal interviews only.

4.2 Internal WHO Code Ombudsperson

Each Nestlé organization operating in a higher-risk country has a designated Ombudsperson to whom suspicions of breaches to the Nestlé Policy and Instructions and national regulations can be reported by employees in a confidential manner, outside of line management. There is also a Corporate Ombudsperson at the Headquarters, who is a member of the Executive Board of the Nestlé Group, to whom employees can report allegations directly instead of going through their markets' Ombudsperson, as they prefer.

In 2013, reports from the WHO Code Ombudsperson pointed to two concerns requiring corrective actions. One related to activities initiated by third party retailers in Russia and Eurasia (price promotions on infant formula products in retail shops), and one that was attributable to Nestlé in Pakistan (staff incentive scheme).

In the first case, a letter was sent to the third parties in Russia and Eurasia that were responsible for the price promotions to inform them of our policies and remind them of their responsibilities to abide by the WHO Code. In the second case, Nestlé Pakistan corrected its incentive schemes applicable to infant nutrition staff so that they fully reflect Nestlé's policies.

4.3 External stakeholders

Two concerns were raised by external stakeholders.

The first case was raised by the non-governmental organisation Baby Milk Action concerning the use of the "Natural Start" claim on labels of NAN H.A. infant formula marketed in Thailand. Although the "Natural Start" logo was duly approved in April 2012 by the FDA in Thailand, we will voluntarily discontinue the use of the "Natural Start" logo on our infant formula products by mid-2015.

The second case was mentioned in an article published in a medical journal (BMJ) in India which alleged that Nestlé was breaching India's Infant Milk Substitutes (IMS) Act by promoting baby foods and tied sales of the infant cereal "Cerelac Stage 2 Wheat Orange" with baby detergents through various websites. Contrary to what was suggested in the article, Nestlé has not tied sales of its "Cerelac Stage 2 Wheat Orange" with baby detergents in India and has not promoted its baby foods through websites. The allegations made refer to an independent e-commerce company with which Nestlé has no contractual relationship. We do not have any type of commercial relationship with companies operating external websites that sell infant nutrition products, nor do we supply to them. Hence, in India we are fully compliant with the IMS Act. Furthermore, all our contracts with third party distributors include clauses specifying that they should comply with national legislation and with our policies. We also educate them on the importance of ensuring compliance and encourage them to share this information with their clients. In addition to our rigorous measures which ensure

compliance with India IMS Act, FTSE4Good commissioned PricewaterhouseCoopers (PwC) to conduct an independent verification process in India which confirmed that we meet the criteria for responsible marketing of BMS as defined by FTSE4Good. This includes compliance with India's national legislations. We invite readers to consult the key findings of the verification assessment which are publically available on the [FTSE4Good BMS Criteria](#) website.

4.4 FTSE4Good in 2013

Nestlé sustained its inclusion in the FTSE4Good Index in 2013. This is based on Nestlé's continuous meeting of FTSE4Good rigorous criteria in environmental sustainability, human rights, supply chain labour standards, countering bribery and climate change, as well as responsible marketing of breast-milk substitutes (BMS Criteria).

The BMS Criteria are subject to independent verification assessments every 18 months assigned by FTSE to PricewaterhouseCoopers (PwC). In 2013, FTSE4Good did not commission such verification assessments.

In order to increase transparency and build further trust in the BMS Criteria verification process, for the first time, FTSE4Good made public the complete [PwC's 2012 verification assessment report](#). The report confirmed that Nestlé met all the criteria, as defined by FTSE4Good, for the marketing of breast-milk substitutes in Morocco and Laos. It also laid out areas for improvement. We have taken actions to address them.

4.5 Alignment of Wyeth Nutrition's marketing practices

Nestlé completed the acquisition of Pfizer Nutrition (now known as Wyeth Infant Nutrition) on 30 November 2012, following the successful conclusion of the regulatory process in most countries. In 2013 we actively worked with Wyeth Infant Nutrition to align their practices and procedures with Nestlé's stringent WHO Code policies and management systems, so as to ensure that Wyeth Infant Nutrition infant formula business meets the FTSE4Good criteria.

5. Conclusion

In light of the observations we have drawn from external audits and FTSE4Good verification assessments, we have enhanced our good governance and transparency mechanisms and strengthened our compliance systems.

We are committed to continually improve our practices. This is why we encourage our consumers, employees and stakeholders to contact us directly should they have any questions or concerns regarding the marketing of our BMS products.

We take seriously all concerns raised directly with us. We investigate and respond to all of them to the possible extent if and as we receive enough information to carry out an investigation. For more information on how to raise a concern, please visit the webpage on [our commitment to market breast-milk substitutes responsibly](#).

The responsible marketing of BMS requires concerted efforts and we call upon open collaboration with retailers, governments and civil society to help the industry as a whole to achieve this