



2015 Annual External Report

Compliance with the Nestlé
Policy and Instructions for Implementation
of the WHO Code and local legislations
on the marketing of breastmilk substitutes



Contents

3	1. Executive Summary
4	2. Introduction
5	Purpose of the Report
	Content and Methodology
6	3. 2015 Findings
	3.1 Internal Audits
	3.2 External Audits
7	3.3 WHO Code Ombudsperson System and Integrity Reporting System
	3.4 External Allegations
	3.5 Internal Monitoring
8	4. Remedial Actions
	5. Conclusion

1. Executive Summary

- This report summarizes the findings of the monitoring of Nestlé's compliance with the "Nestlé Policy and Instructions for the implementation of the WHO Code" (herein "Nestlé Policy and Instructions") and national legislation on the marketing of breast-milk substitutes (herein "local Codes") in the year 2015.
- We strengthened our report this year by including instances of non-compliance identified by sources which were not included in previous reports. This comprises all instances identified by our internal auditors (i.e. whereas we were reporting only major findings previously), instances identified through routine internal monitoring and those reported through the Nestlé Integrity Reporting System. This resulted in an increase of the number of instances of non-compliance attributable to Nestlé this year.
- Forty-eight (48) instances of non-compliance attributable to Nestlé were found in 2015 against 33 in 2014. Fifty-two (52) instances of non-compliance resulting from activities initiated by third-parties were identified in 2015 against 34 in 2014¹.
- **No evidence of systematic instances of non-compliance²** with the Nestlé Policy and Instructions and local Codes initiated by Nestlé has been noted. Non-compliant instances attributable to Nestlé requiring remediation have now all been addressed. Concerning the instances of non-compliance attributable to third-parties, we have requested that they cease these activities as per local procedures but enforcement by Nestlé solely is challenging due to the limitations of antitrust and commercial regulations.
- Sixteen (16) disciplinary actions were taken in 2015 against employees that deliberately breached the requirements of the Nestlé Policy and Instructions.

¹ Third-parties that are not in a contractual relationship with Nestlé (e.g. retailers, pharmacies).

² Systematic instance of non-compliance is considered as an organized and deliberate attempt of the Company to systematically breach its own Policy or local Code.

2. Introduction

Breastmilk is the best nutrition for infants. This is why Nestlé supports the World Health Organization's (WHO) recommendation of six months exclusive breastfeeding, followed by the introduction of adequate nutritious complementary foods along with sustained breastfeeding up to two years of age and beyond.

When mothers and families, together with healthcare providers, decide that optimal breastfeeding is not possible, infant formula plays a vital role in providing essential nutrients to infants. Nestlé has a **global commitment to market breast-milk substitutes responsibly**. We comply with the WHO International Code of Marketing of Breast-milk Substitutes (WHO Code) as implemented by national governments everywhere in the world, as a minimum. The WHO Code is a set of recommendations for Member States that have the responsibility for defining the implementation of the Code within their countries. We voluntarily apply our own **stringent policy** when it is stricter than the local Codes in 152 countries which are considered to be higher-risk in terms of infant mortality and malnutrition³. This is necessary because many "higher-risk" countries have not fully implemented the WHO Code. As of March 2016, only 39 countries out of 194 have introduced comprehensive legislation reflecting all or most provisions of the WHO Code, as per the **report issued by the WHO**. Our policy is in line with the FTSE4Good Inclusion Criteria for the Marketing of Breast-milk Substitutes.

To ensure that we fulfil our public commitment to market breastmilk substitutes responsibly, we monitor our marketing practices to ensure compliance with the Nestlé Policy and Instructions and local Codes, irrespective of whether or not a governmental monitoring system is in place. Our monitoring system includes **internal monitoring** performed by Nestlé staff during routine work (e.g. visits to retailers, review of activities, etc), complemented by the following:

- **Audits**

Nestlé has two audit systems to assess compliance with the Nestlé Policy and Instructions, local Codes and the FTSE4Good BMS criteria:

- **Internal Audit System:** internal audits are performed by Nestlé corporate auditors. In 2015, 40 countries were audited by Nestlé corporate auditors on compliance with the Nestlé Policy and Instructions and local Codes.
- **External Audit System:** external audits are performed by Bureau Veritas (commissioned by Nestlé) and PricewaterhouseCoopers – PwC (commissioned by FTSE4Good every 18 months). In 2015, Nestlé commissioned Bureau Veritas to conduct audits in Peru, Pakistan and Egypt. There were no audits performed by PwC in 2015.

- **Grievance Mechanisms**

Nestlé has implemented internal and external grievance mechanisms to allow employees and external stakeholders to raise directly with us any concerns they may have on compliance with WHO Code related topics:

- **Internal Grievance Mechanism:** Nestlé employees in higher-risk countries can raise any concerns regarding the marketing of breast-milk substitutes through our internal network of 59 WHO Code Ombudspersons: the Global Ombudsperson, who is a member of the Executive Board, at the corporate level; or at Market level, with 58 ombudspersons covering all 152 higher-risk countries where Nestlé is present. In addition to the WHO Code Ombudsperson System, the Integrity Reporting System (IRS) enables our employees in higher and lower-risk countries to report confidentially and anonymously, if they choose to, via phone message or web form, any illegal or non-compliant behavior they observe.
- **External Grievance Mechanism:** Nestlé implemented its "Tell Us" system in 2014, which is a publically available, web-based, external reporting grievance system that enables external stakeholders to raise any concerns they may have with Nestlé directly, 24h/7 days per week, including on WHO Code related topics.

³ We follow the FTSE4Good breastmilk substitute marketing criteria, which classify countries as "higher-risk" if they have mortality rates for under-fives of more than ten per 1000, or more than 2% acute malnutrition among under fives. All other countries are 'lower-risk'.

In addition to monitoring of our practices, we have also put in place extensive good governance mechanisms consisting of a Corporate WHO Code Compliance Committee system. The Global committee is composed of, among others, three Executive Board members. In addition, all higher-risk countries have established local WHO Code Compliance Committees composed of appropriate members of local management. These committees advise and oversee observance with the Nestlé Policy on the WHO Code, local Codes and the FTSE4Good BMS Criteria, as well as assisting with the management of significant compliance issues. In addition, policy setting, reporting and verification are overseen by departments separate from the infant nutrition business. Ultimately, the Nestlé Nutrition CEO, who is a member of our Group Executive Board, is accountable for implementing and monitoring Nestlé's compliance with the aim and principles of the WHO Code.

As part of our commitment to market our breast-milk substitutes responsibly, we commit to transparency and to **report regularly** and publicly on matters related to compliance. We confirm that annual bonus calculations for marketing personnel do not include volumes of sales of infant and follow-up formula (0-12 months) in higher-risk countries. We publish this annual compliance report and external audit summaries on our corporate website as well as communication addressing stakeholder concerns.

Purpose of the Report

This report summarizes the 2015 results of Nestlé's compliance with the Nestlé Policy and Instructions for Implementation of the WHO Code and with local Codes. It is not intended to give any enforceable rights to third parties. It is also part of the reporting requirements set out in the **FTSE4Good Breast-Milk Substitute Criteria**. An annual report is also submitted to the Audit Committee of our Board of Directors. This report is a key component of our WHO Code Management System and is central to our commitment to transparency and continuous improvement of our practices.

Content and Methodology

The report analyses confirmed instances of non-compliance with the Nestlé Policy and Instructions and local Codes, either attributable to Nestlé or to third-parties, reported through one of the following sources:

- **Internal Audits** performed by Nestlé corporate auditors.
- **External Audits** performed by Bureau Veritas.
- **External Allegations** received from external stakeholders⁴.
- **WHO Code Ombudsperson System and Integrity Reporting System**⁵.
- **Internal Monitoring**⁶.

This process involves an annual collection of data from Nestlé Nutrition Markets in higher and lower-risk countries through an Internal Reporting System and an annual questionnaire completed by our 58 Market WHO Code Ombudspersons.

4 External Allegations comprise the cases reported through "Tell Us" and other direct reports received from external stakeholders (i.e. NGOs, Industry Associations, competitors, consumers, etc).

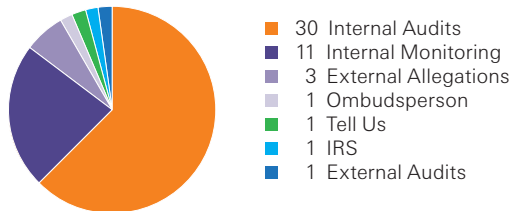
5 The cases identified through the Integrity Reporting System (i.e. related to WHO Code topics) and Internal Monitoring are being reported for the first time this year.

6 Internal Monitoring performed by Nestlé staff during routine work (e.g. visits to retailers, review of activities, etc). This report details only the cases attributable to Nestlé.

3. 2015 Findings

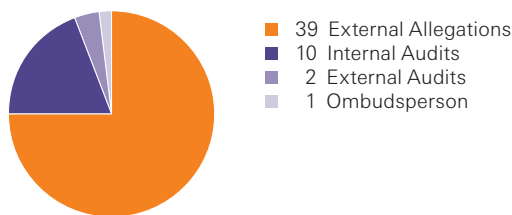
- Total number of instances of non-compliance with the Nestlé Policy and Instructions and local Codes attributable to Nestlé: 48

Instances attributable to Nestlé by source of information



- Total number of instances of non-compliance with the Nestlé Policy and Instructions and local Codes attributable to independent third-parties: 52

Instances attributable to independent third-parties by source of information



3.1 Internal Audits

In 2015, 40 countries were audited by Nestlé corporate auditors for compliance with the Nestlé Policy and Instructions and local Codes. This included 27 higher-risk countries and 13 lower-risk countries.

Out of the 48 instances of non-compliance attributable to Nestlé identified in 2015, 30 instances were identified by internal corporate audits. The cases reported by internal auditors in 2015 encompass a multitude of topics and no evidence of systematic instances of non-compliance with the Nestlé Policy and Instructions and local Codes has been noted. The non-compliance cases most frequently found are related to:

- Inadequate execution of the internal instructions pertaining provision of incentives to Nestlé employees (e.g. sales objectives for sales and marketing staff).
- Inaccuracies in the provision of infant formula as a benefit to Nestlé employees with new babies.

- Lack of mandatory statements on materials and webpages (e.g. lack of important message on breastfeeding in digital media pages, detailing materials for healthcare professionals (HCPs) and educational materials for mothers without complete important notice required by Nestlé Policy and Instructions and/or local Code).

Ten (10) instances of non-compliance initiated by independent third-parties were identified through internal audits in 2015.

Instances of non-compliance identified through the internal audit system are recorded by the internal auditors and presented during the audit closing meeting, during which the corrective actions and management action plan to implement these recommendations are defined. The implementation of these corrective actions is verified by the internal auditors in the course of a subsequent audit.

3.2 External Audits

In 2015, Bureau Veritas was commissioned by Nestlé to conduct audits in Peru, Pakistan and Egypt. This external audit process includes:

- Conducting a gap analysis between the Nestlé Policy and Instructions and the local Codes (if any);
- Verification of the implementation of the local WHO Code Management System and its alignment with the FTSE4Good BMS Criteria. This is done through a desktop review of the local Policy and Procedures Manual and interviews with Nestlé staff.
- Compliance with the Nestlé Policy and Instructions and local Codes on marketing of breast-milk substitutes (if any). This verification covers: interviews with Nestlé staff, distributors' staff, health-care professionals and other external stakeholders (authorities, NGOs, etc) whenever possible; visits to health-care institutions and retailers.

No instances of non-compliance with the Nestlé Policy and Instructions and/or local Codes were identified in Pakistan. One (1) instance of non-compliance attributable to Nestlé was identified in Peru which was related to the lack of mandatory statements required by the Nestlé Policy and Instructions on medical detailing materials. Two (2) instances of non-compliance were identified in Egypt which were attributed to third-parties: in two pharmacies, special display cabinets for growing-up milks were also used for Nestlé infant formula products (i.e. such displays were not produced by Nestlé); in one private clinic, a set of

materials intended for HCPs was observed in the waiting room and available to the general public.

The Assurance Statements by Bureau Veritas relating to these external audits are available on our website.

3.3 WHO Code Ombudsperson System and Integrity Reporting System

We encourage our employees to contact us if they have any questions or concerns regarding the marketing of our BMS products. Our WHO Code Ombudsperson System allows employees in higher-risk countries to report concerns about our infant food marketing practices confidentially, outside their line management. Any employee can report allegations or concerns about Code compliance directly to the Nestlé Group Ombudsperson.

In total, two (2) allegations were raised through the Market WHO Code Ombudsperson system and required corrective actions:

- In Latin America, a Nestlé employee reported a price promotion of infant formula in a retailer. The result of the investigation supported the allegation and meetings with the retailer were organized to request that they cease the price promotion.
- In South East Asia, there was a report of the wrong implementation of our internal procedures related to sponsorship of healthcare professionals. The recommendation from the audit was to review and strengthen existing procedures.

One (1) instance of non-compliance was identified in the Caribbean Region through a report received via the Integrity Reporting System in 2015: the report alleged that the donation of infant formula to infants in one Market. The review identified breaches of the Nestlé Policy and Instructions. Remediation actions were put in place and disciplinary action was taken against the business manager.

3.4 External Allegations

Five (5) confirmed instances of non-compliance were reported through external stakeholders

- four (4) attributable to Nestlé and one (1) to a third-party. The sources were the “Tell Us” system (2) and direct reports received from external stakeholders (3), as per the details below:

- **“Tell Us”**

- One (1) instance attributable to Nestlé in Latin America: a video about a Nestlé infant formula intended for HCPs was transferred from the Marketing agency to Nestlé through Google Drive and access was open to the public (although this was only possible with the link). The access to the video was blocked and measures taken to avoid repetition.

- One (1) instance attributable to third-parties in Asia: during the investigation of an allegation which was not substantiated, we identified isolated cases of promotion initiated by third-parties.

- **Direct Reports received from NGOs, Industry Associations, Competitors and Consumers**

- Southeast Asia: Nestlé’s merchandizing agency staff incorrectly implemented promotion briefs which ended up in promotion of infant and follow-up formula at point-of-sale. These situations were corrected and a reminder letter sent to the merchandizing agency.
- Europe: at his own initiative, a Nestlé employee asked a pharmacy to include infant formula in a loyalty card scheme that clearly indicated such an inclusion was prohibited. We informed the pharmacy that such promotion is forbidden and the employee was dismissed.
- Southeast Asia: medical detailing materials were found in the waiting room of a medical clinic. The leaflets were removed the same day the complaint was received.

IBFAN also shared with us concerns regarding some activities implemented in different Markets. We investigated the allegations and, while all activities were compliant with the Nestlé Policy and Instructions and local Codes, decided to refrain from some of the activities, understanding the sensitivities related to them.

In 2015 we also received 38 reports from external stakeholders on non-compliant activities initiated by third-parties (e.g. promotion at point-of-sale, special displays, advertisement of in-scope products, parallel import).

3.5 Internal Monitoring

In 2015, eleven (11) instances of non-compliance attributable to Nestlé were identified through internal monitoring. The non-compliance cases most frequently found are related to labeling (e.g. lack of sticker describing the preparation instructions in the local languages, usage of promotional claim on label, lack of warning on labels of milk products not adapted to infant feeding).

Other cases are related to: improper distribution of medical materials to consumers (i.e. instead of consumer leaflet), inadequate provision of incentives, inadequate execution of the procedure for donation of infant formula for social welfare institutions, inadequate sampling to HCPs and mistakenly contacting mothers of infants below 1 year during a campaign for growing-up milks.

4. Remedial Actions

The instances of non-compliance attributable to Nestlé have now all been addressed.

Concerning the instances of non-compliance attributable to independent third-parties, we have requested that they cease these activities as per local procedures. As in previous years, instances of non-compliance attributed to third-parties with which we have no commercial relationship remain an area of attention. Such instances encompass promotions at point-of-sale, special displays and parallel imported products. However, enforcement solely by Nestlé is challenging due to the limitations of antitrust and commercial regulations. Tackling this issue requires the collaboration of governments, civil society and industry associations to encourage these independent businesses to comply.

5. Conclusion

This report is a central element of our compliance system as it enables us to identify areas for improvement and areas that can be further strengthened.

The 2015 data shows no evidence of systematic contravention of the Nestlé Policy and Instructions for Implementation of the WHO Code and local Codes initiated by Nestlé.

The 48 instances attributable to Nestlé were identified in 28 different countries (22 higher-risk and 6 lower-risk countries) and fall under 17 different topics. The three most relevant ones (i.e. in terms of numbers of instances) were: wrong provision of incentives to employees, inaccuracies in the provision of infant formula to employees with new babies and lack of mandatory statements (or usage of incomplete statements) on informational and educational materials and webpages.

We encourage our 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 extent possible where we receive enough information to carry out an investigation. For more information on how to raise a concern, please visit Nestlé's webpage on our **commitment to market breast-milk substitutes responsibly**.