

This year again, we would like to thank FTSE and PricewaterhouseCoopers (PwC) for the systematic approach and transparency with which they carried out the third-party evaluation of our company's breast milk substitutes (BMS) marketing policies, procedures, and practices. Each time, we learn from the FTSE4Good BMS Criteria verification process which helps us further improve our procedures in the area of the responsible marketing of breastmilk substitutes. We find that this high level of transparency is essential to a constructive dialogue and building trust with concerned stakeholders.

The learnings from the FTSE4Good verifications help us strengthen our commitment to market breast milk substitutes responsibly

We believe breast milk is the best food for infants and this is why we actively promote it. Yet, when in consultation with their healthcare provider mothers and families decide that it is necessary, infant formula – the only suitable breast-milk substitute (BMS) recognised by the World Health Organization (WHO) – plays a vital role in providing essential nutrients to infants. We have made a global public [commitment to market our breast-milk substitutes responsibly](#). Our ongoing inclusion in the FTSE4Good Index keeps challenging us to go further in its implementation. It is a key performance indicator of our commitment and we are proud of it. We value the higher standard the FTSE4Good BMS Criteria have set for the entire industry. As we are so far the only BMS manufacturer to be included in this Index, it is our hope that other companies will seek inclusion in order to join in the effort to ensure industry-wide progress on the responsible marketing of BMS..

I. We deliver our commitment through 5 building blocks

1. Compliance with countries' regulations and the Nestlé Policies

The [International Code of Marketing of Breast-milk Substitutes](#) is a set of recommendations for member states of the WHO designed to regulate the marketing of breast milk substitutes, feeding bottles and teats. It states that governments should take action to give effect to its aim and principles, through legislation or other means. We pledge to comply with the WHO Code as implemented by governments throughout the world. When stricter than the national Code, we apply our [Nestlé Policy and Instructions for the implementation of the WHO Code](#) (hereafter the Nestlé Policy on the WHO Code) in the 152 countries which are considered to be higher risk by the FTSE4Good Index. This is necessary because children in these countries may be more vulnerable to illness and malnutrition, and that many 'higher-risk' countries have not implemented the WHO Code. It purposely entails that Nestlé restricts voluntarily the marketing of its infant formula up to 12 months of age and we are the only infant formula

manufacturer to do so currently. Compliance with our Policies is assessed yearly in more than 30 countries through internal corporate audits and external verification (by Bureau Veritas). Our practices are also externally assessed every 18 months by PricewaterhouseCoopers who is commissioned by FTSE4Good.

2. Good governance: validating through 3 main mechanisms

- i. We have set in place a Corporate **WHO Code Compliance Committee** system which is composed of, among others, 3 Executive Board members at the global level. This committee structure is also in place in all higher-risk markets. These committees advise and oversee observance with the Nestlé Policy on the WHO Code and the FTSE4Good BMS Criteria, as well as assist in the management of significant compliance issues.
- ii. Policy setting and compliance verification functions are overseen by departments separate from the infant nutrition business.
- iii. Internal and external grievance mechanisms are widely accessible: i) our internal system of 60 **WHO Code Ombudspersons** covering all the higher risk countries where Nestlé operates, and is overseen by the Global Ombudsperson who is a non- business related member of the Executive Board; ii) the **Nestlé Integrity Reporting System** which enables all employees to anonymously report any non-compliant behaviours; and, iii) our corporate “[Tell Us](#)” system that enables external stakeholders to raise any concerns they may have with Nestlé via the internet or by telephone.

3. Transparent Reporting

We believe transparency is key to building trust. This is why we make the following information public: our reports of [compliance](#) with the Nestlé Policy on the WHO Code and with the FTSE4Good’s BMS criteria, our responses to stakeholders who raise concerns with us regarding our breast milk substitutes marketing practices, our [positions on maternal, infant and young child nutrition](#) as well as a comprehensive [Q&A section](#) notably on why Nestlé supports breastfeeding and the application of the WHO Code.

4. Constructive engagement

We consider collaboration between all key stakeholders, who include governments, industry and civil society organisations, essential to promoting responsible conduct and establishing accepted standards for assessing the marketing of BMS. We are keen on active and constructive engagement, and when doing so, we follow the [Nestlé Policy on transparent interaction with authorities and organisations](#).

5. Continuous improvement

For a company to be successful, it is important that it continuously adapts to its changing environment. The significant improvements we have made since 2011 are discussed under item IV below.

II. Context of the 2014 verification of the FTSE4Good BMS Criteria

One company, one policy: Making our Wyeth Infant Nutrition business compliant within one year.

On 30 November 2012, we acquired Wyeth Infant Nutrition (WIN) from Pfizer. Since then, we have made it our priority to align WIN's practices with the FTSE4Good BMS Marketing Criteria and our Nestlé Policy on the WHO Code by 1 April 2014 in each of the 50 higher-risk markets where WIN operates. This required substantial investments and changes, including the deployment of a cross-functional high level integration task force, extensive training of more than 10,000 personnel and third-parties involved in breast milk substitutes marketing (including wholesalers, distributors, retailers and marketing agencies), internal assessments in all 50 higher-risk markets, and external verification in 5 markets to ensure compliance with the FTSE4Good BMS Criteria and our Nestlé Policy on the WHO Code. We also have discontinued the WIN business in seven African countries since we could not ascertain whether our distributors would be able to comply with our strict Policies.

PwC's in-country assessment of our practices: two highly different contexts

Angola: has not yet passed any regulations implementing the WHO Code and therefore, as a higher risk country, Nestlé applies its stricter Policy on the WHO Code. Angola is a new market for Nestlé. Nestlé Infant Nutrition products are sold exclusively through a network of 17 third-party distributors. Some important challenges faced are logistics and communication infrastructure due to the reconstruction of the country after the civil war, a strong traditional trade structure, and the presence of parallel imports from Europe.

Malaysia: has strong local regulations on the marketing of breast milk substitutes which is enforced by the health authorities. Malaysia has a wide retail market ranging from hypermarkets to traditional retail stores (mom & pop shops), Chinese medical halls, totalling over 60,000 outlets across the country. The majority of Nestlé products are distributed through a network of more than 70 distributors and WIN products are sold exclusively through one distributor. In this country, our infant nutrition business is of medium size and encounters very strong competitors' presence.

III. Comments on the 2014 PwC Verification Report

We welcome this new independent assessment report produced by PricewaterhouseCoopers (PwC) on behalf of FTSE4Good. As indicated in the PwC report, we believe that we have acted on all the areas of improvement identified in the 2011 and 2012 PwC reports. We are assessing the ones identified in the 2014 PwC report and have already taken actions on some points: we are enhancing our internal audit procedures and, we have discontinued the use of soft toys as well as "stage 1" labelling on our infant cereal products. We would appreciate guidance from external stakeholders on how to address the challenges listed below under section V.

IV. What have we improved since our inclusion in FTSE4Good?

We have completed almost all the actions needed on the areas of improvement identified in the 2011 and 2012 PwC reports and are already addressing the ones identified in the 2014 PwC report. Below are some specific points on the areas which we have acted upon since our inclusion in the Index:

Strengthened our compliance reporting process: We have reinforced our internal audit mechanisms so that compliance with the relevant policies and guidelines on the responsible marketing of BMS is systematically part of the verification and is reported to our Headquarters.

Removed infant formula-branded cabinet displays: Since 2013, more than 3,600 display cabinets for breast-milk substitutes have either been removed from the trade or modified to ensure that they comply with our new Display Cabinets Guidelines.¹

Expanded training of employees: In 2014, existing training initiatives² have been further complemented by the roll-out of the first Nestlé Nutrition global online training programmes which includes specific modules on the fundamentals of breastfeeding, the WHO Code, the Nestlé Policy on the WHO Code and the FTSE4Good BMS Criteria. To date, close to 8, 000 Nestlé Nutrition employees have successfully completed these modules.

Enhanced systems to report concerns regarding our practices: This improvement is explained earlier under the good governance section.

V. Challenges we face in the responsible marketing of breast-milk substitutes

Multitude of country regulations implementing the WHO Code: [According to the WHO](#), only 37 out of 199 member states had passed laws reflecting all the recommendations made to member states under the WHO Code and 105 countries had translated some parts of the WHO Code into a national legislation as of 2011. This results in a highly complex regulatory environment for companies and can lead to misunderstanding and differences of interpretation about the application of the WHO Code.

Limited influence on businesses with no contractual relationship with Nestlé: We do our best to encourage the responsible marketing of our BMS throughout the value chain. We have contractual clauses and send regular letters to our distributors and retailers to remind them to respect the Nestlé Policy on the WHO Code. However, our sphere of control is restricted as Nestlé must also respect the limitations set by local regulations and anti-trust laws. This means that the company has limited influence on how its BMS are commercialised (e.g. price reduction, display of products in windows and

¹ The Guidelines also apply to the Wyeth Infant Nutrition business and cover all higher-risk countries.

² which cover 100% of our staff involved in the marketing of infant formula in higher-risk markets

parallel imports) by third parties with whom Nestlé has no commercial relationship, such as retailers and e-commerce businesses.

VI. Our recommendations to support the responsible marketing of BMS

More BMS manufacturers should be encouraged to seek inclusion in the FTSE4Good Index

The public and private sectors as well as the civil society should encourage other BMS manufacturers to seek inclusion in FTSE4Good so that it creates a “race to the top” that will lead to the improvement of practices within the Industry. The BMS Criteria set by FTSE4Good is a real step forward as it is the highest standard established with respect to the responsible marketing of BMS presently. We invite other breastmilk manufacturers to follow Nestlé’s steps.

Monitoring of the BMS marketing practices must be a shared responsibility

The monitoring of the marketing of breast milk substitutes should be a collaborative effort between the authorities, civil society and the private sector, and take a “route to market” approach (i.e. from producers to distributors, to retailers to consumers).

One standardised tool to monitor the marketing of BMS is needed.

There needs to be collaboration between all parties to achieve consistency between the various initiatives that aim to monitor the marketing of BMS. The learnings from the FTSE4Good BMS Criteria and verification methodology should be used as a basis for the development of a widely accepted tool to monitor the practices of BMS manufacturers. External verification of practices by independent and professional third parties without a vested interest is also important.

VII. Going forward

We believe that the private sector has to be part of the solution to tackling global health challenges and that constructive engagement with all concerned stakeholders is essential to improve the nutrition of vulnerable populations. We are ready to work closely with the public sector and the civil society, as well as to play a leading role to support countries’ efforts to promote a conducive environment to breastfeeding. While divergent opinions remain still today about the interpretation of the WHO Code, we share a common commitment to improving maternal, infant and young child nutrition.