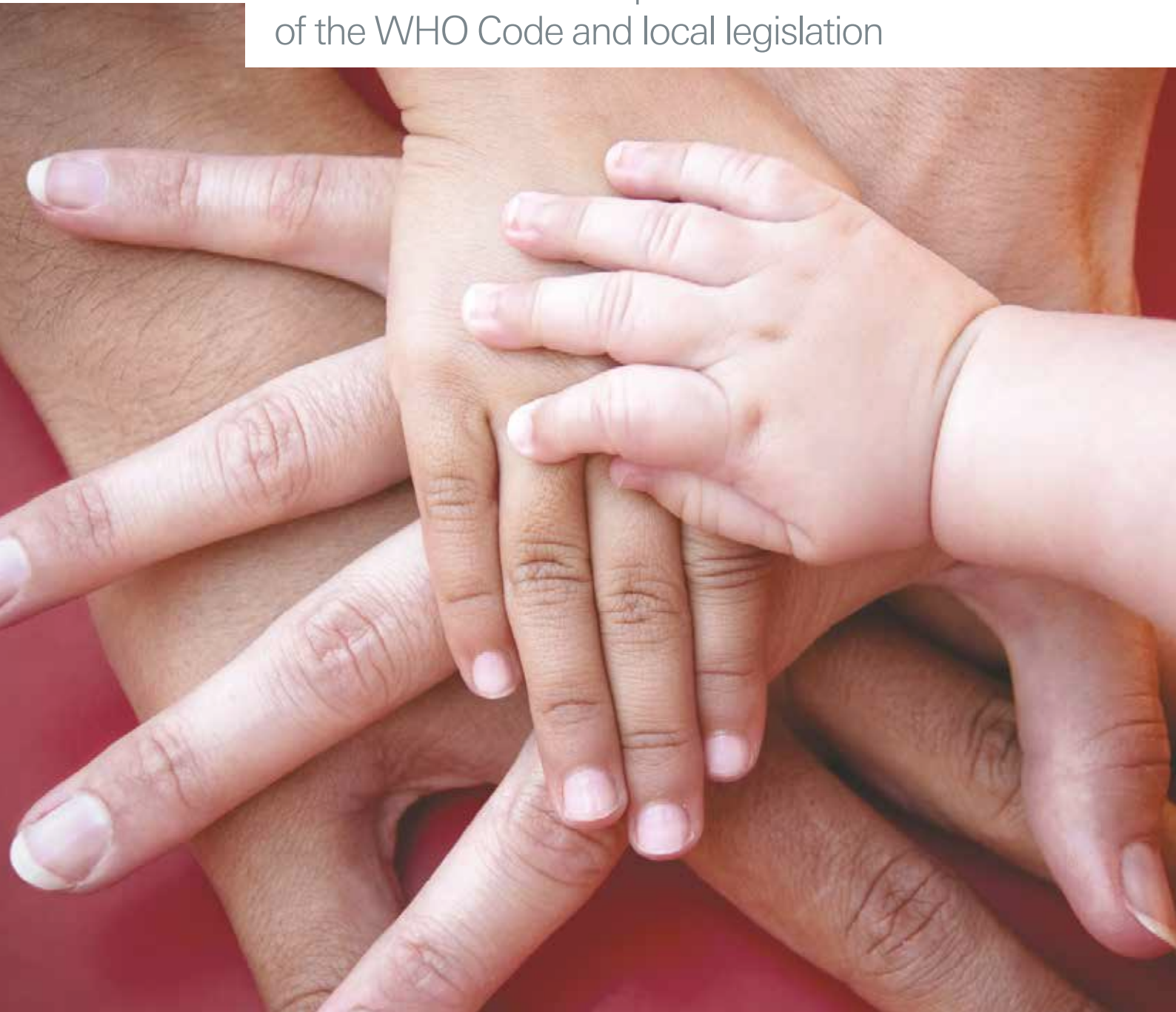




2016 Annual External Report

Compliance with the Nestlé Policy
and Instructions for Implementation
of the WHO Code and local legislation



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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 2016.
- This report is also part of the reporting requirements set out by the FTSE4Good Breast-Milk Substitutes Criteria.
- The improvements in the data collection mechanism now enable Nestlé to have a comparable and robust reporting system to identify and correct non-compliance trends in a swifter and more accurate manner. This 2016 report followed the same reporting mechanism adopted in the previous year, following two consecutive changes in 2014 and 2015. These changes were designed to strengthen the report and improve our analytical capabilities.
- The sources of information for this report are: **internal audits** performed by Nestlé Group Audit (NGA) and Nestlé Market Audit (NMA) teams; **external audits** performed by Bureau Veritas; the **WHO Code Ombudsperson System** and the **Integrity Reporting System (IRS)**; **external allegations** raised by external stakeholders; **internal monitoring** performed by Nestlé staff.¹
- **Forty-six (46) instances of non-compliance attributable to Nestlé** were found in 2016, compared to 48 in 2015 (-4.3%). Six (6) out of the 46 instances (13%) were initiated by third-parties in direct contractual relationship with Nestlé², compared to eight (8) in 2015 (16%).
- **One (1) systematic instance of non-compliance** with the Nestlé Policy and Instructions and the local Code by Nestlé was noted in South-East Asia. It was related to interactions of Nestlé staff with healthcare professionals (HCPs) and was identified via an allegation received by the local WHO Code Ombudsperson.
- All non-compliant instances attributable to Nestlé requiring remediation have been **addressed**.
- Thirteen (13) disciplinary actions were taken against employees that deliberately breached the requirements of the Nestlé Policy and Instructions: a total of six (6) Warning Letters were issued to staff (South-East Asia and Africa) and seven (7) employees were dismissed (South-East Asia and Central Asia).

1 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).

2 Distributors and merchandizing agencies.

2. Introduction

Breast milk 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 in consultation with their healthcare professionals, mothers and families have determined that optimal breastfeeding is not possible, it is vital their babies are fed with the highest quality, scientifically proven breast milk substitutes to help them thrive. We are guided by the WHO International Code of Marketing of Breast Milk Substitutes as to market our infant formulas responsibly.

In all countries, we comply with government legislation implementing the WHO Code. In addition, in 'higher-risk' countries (152 countries which are considered to be higher-risk in terms of infant malnutrition and mortality), many of which have not yet fully implemented the WHO Code, we will voluntarily apply the provisions of the Nestlé Procedures which give Nestlé and relevant third parties clear guidance on marketing procedures. In higher-risk countries, we follow the Nestlé Procedures when they are stricter than the local legislation, unless otherwise mandatorily required by the government.

To ensure that we fulfil our public commitment to support breastfeeding and protect it by implementing industry leading policies, we have put in place a set of mechanisms to ensure compliance, and to quickly detect and address any instances of non-compliance that do occur. Our compliance record is based on:

Monitoring systems: we voluntarily submit our practices for verification to ensure compliance with the Policy and Procedures, as well as all local measures implementing the WHO Code, regardless of whether or not a governmental monitoring system is in place:

- **Internal Monitoring:** performed by Nestlé staff during routine work (e.g. visits to retailers, review of activities, etc).
- **Internal Audit:** internal audits are conducted each year in a number of lower and higher-risk countries in which we operate to verify our adherence to our policies, procedures and national legislations implementing the WHO Code. In 2016, 37 countries (incl. 26 in higher countries and 11 in lower risk countries) were audited by Nestlé corporate auditors.

- **External Audit and Verifications:**

these are performed by Bureau Veritas (commissioned by Nestlé) and PricewaterhouseCoopers – PwC (commissioned by FTSE4Good every 18 months). Bureau Veritas reviewed compliance to the Nestlé Policy in 3 countries (Colombia, Saudi Arabia and Uganda) in 2016. One audit was performed by PwC in 2016 (Nigeria) as part of 2017 FTSE4Good Verification Assessment and the results will be reported in the 2017 Compliance Report.

- **Grievance mechanisms:** Internal and external grievance mechanisms are widely accessible, so that both our employees and external stakeholders can raise concerns about our business practices:

- **Internal mechanisms:**

- **WHO Code Ombudsperson System:**

60 WHO Code Ombudspersons at the end of 2016 covering all Higher Risks Countries and the Group WHO Code Ombudsperson (Deputy Executive Vice President Human Resources and Centre Administration), who is a member of the Executive Board and who chairs the Global Code Compliance Committee. This system allows employees of the Nestlé Group:

- to alert the company of potential WHO Code related violations
- seek advice or raise concerns regarding the marketing of Infant Nutrition products in an **anonymous** and **confidential** way;

- **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 noncompliant behavior they observe.

- **External mechanisms:**

- **Tell us:** platform available on all markets' and Nestlé Global websites to all of our stakeholders with a dedicated communication channel for reporting potential instances of non-compliance with our Corporate Business Principles, policies and applicable laws.
- **Direct correspondence:** External stakeholders can also share their concerns via email or letters.

In addition to the monitoring of our practices, we have also put in place an extensive good governance mechanism consisting of the Global WHO Code Compliance Committee and its equivalent at market level.

The Global and Local WHO Code Compliance Committees oversee compliance with the Policy and Procedures, the national regulations implementing the WHO Code, and the FTSE4Good BMS criteria.

The Global Code Compliance Committee includes three Executive Board members and Global Public Affairs manages its administration.

In all higher-risk countries, the local WHO Code Compliance Committees, which are composed of relevant members of the local management, advise and oversee compliance of activities with the Policy and Procedures and local legislation, as well as manage instances of non-compliance.

At Corporate level, policy setting, verification and external reporting functions are overseen by departments that are separate from the infant nutrition business. The Chief Executive Officer (CEO) of Nestlé S.A. is ultimately responsible for ensuring compliance with the Policy and Procedures.

Transparency with consumers and stakeholders is also an important principle to demonstrate accountability and build trust, both internally and externally. As part of this principle we publish this Annual external report summarizing all instances of non-compliance with our Policy and Instructions and national legislation implementing the WHO Code, as identified through all internal and external monitoring mechanisms, and the corrective actions taken.

Purpose of the report

This report describes Nestlé's compliance record with the Nestlé Policy and Instructions and local legislation implementing the WHO Code in the year 2016. It is not intended to give any enforceable rights to third parties.

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. It aims to evaluate our yearly compliance, provides guidance for continuous improvement and, together with previous and future reports, will serve as a tool for measuring our progress over time.

An annual report is also submitted to the Audit Committee of our Board of Directors. Both the internal report and the publicly available summary are part of the reporting requirements set out by the FTSE4Good Breast-Milk Substitutes Criteria.

Content and Methodology

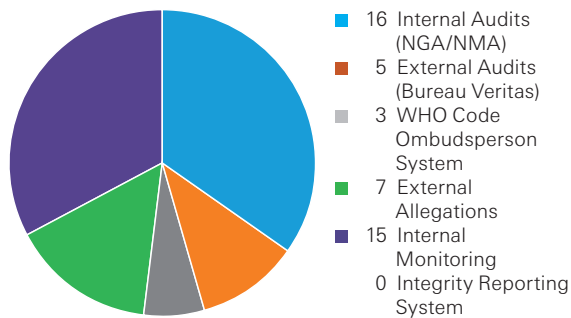
The report analyses confirmed instances of non-compliance with the Nestlé Policy and Instructions and local Codes, either attributable to Nestlé or to third-parties in direct contractual relationship with Nestlé, reported through the Monitoring systems and Grievance mechanisms.

This process involves an annual collection of data from Nestlé Nutrition Markets in higher and lower-risk countries and an annual questionnaire completed by our 60 Market WHO Code Ombudspersons.

3. 2016 Findings

The 46 instances of non-compliance attributable to Nestlé were identified through internal audits (16), internal monitoring (15), external allegations (7), external audits (5) and WHO Code Ombudsperson system (3).

Table 3. Instances attributable to Nestlé by source of information



3.1 Internal Audits

In 2016, 37 countries were audited by Corporate Internal Auditors for compliance with the Nestlé Policy and Instructions and local Codes. This included 26 higher-risk countries and 11 lower-risk countries.

Internal Audits found a total of 20 instances of non-compliance with the Nestlé Policy and Instructions and/or local Codes. Sixteen (16) out of these 20 instances were attributed to Nestlé and related to:

- Labeling (i.e. inadequate important notice message on breastfeeding) (4),
- Donations of equipment to HCPs (3),
- Medical detailing materials (2),
- Inadequate execution of the internal instructions pertaining to provision of incentives to Nestlé employees (2).

Four (4) instances of non compliance were attributed to third-parties and were related to the promotion and advertisement of in-scope products and the use of special displays.

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 2016, Bureau Veritas (BV) was commissioned by Nestlé to conduct audits in Colombia, Uganda and Saudi Arabia.

Five (5) instances of non-compliance (one out of these five was initiated by our distributor in Uganda, in direct contractual relationship with Nestlé) were identified by Bureau Veritas and related to:

- Promotional language on medical detailing materials (e.g. picture of baby),
- Promotion of in-scope products (e.g. advertisement on distributors' webpage),
- Special display or gondola end for IF/FUF products.

In addition, opportunities for improvement were raised in the three countries to reinforce current practices to ensure continued compliance.

3.3 WHO Code Ombudsperson System and Integrity Reporting System (IRS)

In total, three (3) instances of non-compliance were identified through allegations raised via the WHO Code Ombudsperson System and no cases were reported by the IRS and concluded in 2016:

- In South-East Asia, a systematic practice relating to the interaction between Nestlé Infant Nutrition (NIN) staff with healthcare professionals (HCPs) was identified. Immediate disciplinary actions were taken against 8 employees.
- In Asia, Wyeth Infant Nutrition (WIN) staff were instructed to promote infant and follow-up formula. This led to the dismissal of two (2) WIN employees and reinforcement of training to the local team.
- In the Middle-East, an employee sold at reduced price via social media some tins of infant formula that the employee received from Nestlé as part of the Infant Feeding Scheme. The employee resigned during the course of the investigation.

3.4 External Allegations

Seven (7) confirmed instances of non-compliance attributed to Nestlé were reported through external stakeholders (i.e. one out of the seven instances was initiated by a Nestlé distributor, with direct contractual relationship with Nestlé) and related to:

- Promotion of infant formula products e.g. in South-East Asia a competitor reported that a third party medical delegates sent a text message requesting a HCP to recommend the use of a code covered product;
- Unapproved medical detailing materials to HCP e.g. in Africa a newsletter was sent to Healthcare Professionals in error whereas any communication to HCP needs to be approved by the Ministry of Health;
- Idealization of IF products e.g. in Oceania, the Department of Health determined that an advert that combined the use of a child that appeared to be under 12 month and “baby-like” language would make a consumer believe that the advert was for infant formula.

In 2016 we also received reports from external stakeholders on non-compliant activities initiated by third-parties (e.g. promotion and advertisement of in-scope products, special displays and sampling to mothers) in different countries.

3.5 Internal Monitoring

In 2016, fifteen (15) instances of non-compliance attributable to Nestlé were identified in 11 countries through internal monitoring. The non-compliance cases most frequently found were related to:

- medical detailing materials provided to HCP with incomplete important notice (3);
- promotion of in-scope products such as discount stickers on infant formula products on e-commerce platforms (3);
- quantities of samples higher than 2 tins provided to HCP for professional evaluation (1).

These instances of non compliances are reported by Nestle staff during their routine work, as per the requirements of the local Procedure Manual on the Marketing of Breast Milk Substitutes. They are reported to the WHO Code Compliance Manager who centralizes the information. Reported cases are presented and discussed during the Local Who Code Compliance Committee meetings and shared with the Global Headquarter through a dedicated platform.

4. Remedial Actions

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

Regarding 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 ensure that independent businesses to comply.

We have also implemented the following actions to strengthen our internal processes:

- Analyzing the root causes to the 3 main types of instances of non-compliance, with the objective to identify trends and implement relevant corrective actions at global level;
- Organizing a webinar for the Market WHO Code Ombudspersons to further build the capacity around the system;
- Engaging further with the main internal stakeholders of our monitoring system to enhance the internal procedures and methodology designed to identify instances of non-compliance.

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 46 instances attributable to Nestlé were identified in 24 different countries (22 higher risk and 2 lower-risk countries) and fall under 14 different topics.

The three most recurrent instances of non-compliance (i.e. in terms of numbers of instances) were related to Materials provided to HCPs and health care institutions (8), Promotion of in-scope products (6), Labelling (5).

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 support breastfeeding and to protect it by implementing industry leading policies.