



**Leading the way:  
Responsible Marketing  
of Breast Milk Substitutes**  
2018 Report



**4 Our aim: providing optimal nutrition in a responsible way**

**6 Purpose of this report**

**7 Raising industry standards**

**8 2018 highlights: on-going engagement with stakeholders**

**12 Our Global WHO Code compliance framework and tools**

**16 Conclusions from 2018 findings**

**20 Fostering shared responsibility**

**25 Conclusion: how do we lead the industry?**

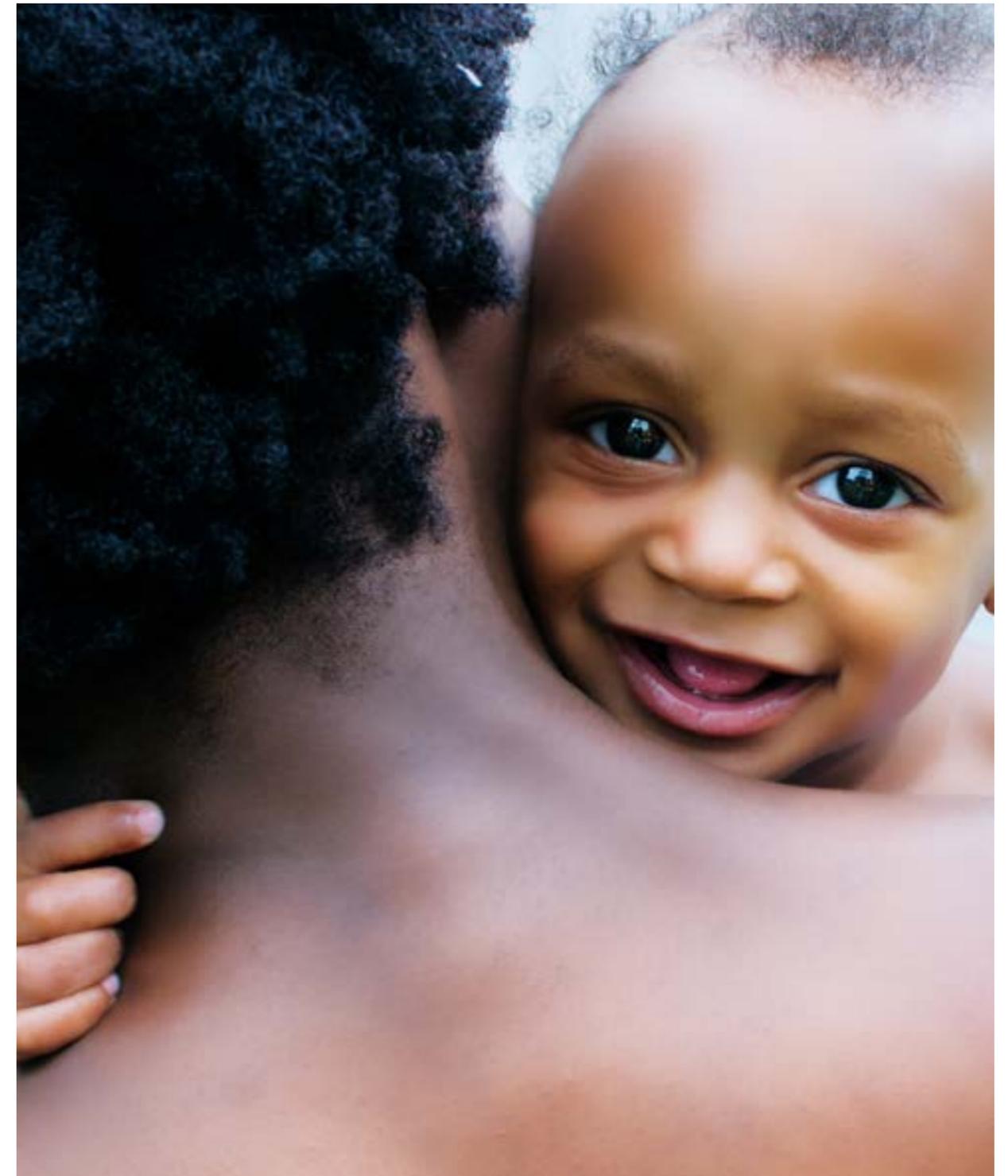
**28 Appendix**

## Our aim: providing optimal nutrition in a responsible way

Optimal nutrition for mothers and babies during the first 1000 days of life is crucial as it lays the foundation for a healthier future.

This starts with breastfeeding, as breast milk provides the best start for infants. We are committed to protecting and supporting breastfeeding. When mothers cannot or decide not to breastfeed, infant formula is currently the only safe alternative, as recommended by the World Health Organization (WHO). Our goal is to provide safe and high quality nutrition for non-breastfed or partially breastfed babies.

We have implemented industry-leading policies and systems for the responsible marketing of breast milk substitutes in accordance with the recommendations of the WHO Code. Compliance with this Code is important to us, as we believe that good business is compliant business. Our values are rooted in respect: Compliance with the WHO Code is an expression of respect that all of our employees are accountable for.



Our values are rooted in respect. Compliance with the WHO Code is an expression of respect that all of our employees are accountable for.

## Purpose of this report

We are committed to report transparently on our compliance with our policies and national legislations implementing the WHO Code.

This document is a key component of our WHO Code Management system, derived from the FTSE4Good Breast Milk Substitutes (BMS) inclusion criteria, which we have deployed across the Nestlé group. Our management system helps us to detect instances of non-compliance with our policies on the marketing of breast milk substitutes. When we find examples of non-compliance, we stop them and take necessary action. We also use this information to improve our approach, practices and efforts to responsible marketing. This report provides an overview of non-compliance attributable both to Nestlé

and to third-parties in direct contractual relationship with our company. It will also outlines the key events of the past year and will serve as a tool for measuring our progress over time<sup>1</sup>. Transparency is one of the pillars of our WHO Code Management System and an important principle to demonstrate accountability and build trust, both internally and externally.

**This report evaluates our performance and serves as a tool for measuring our progress over time.**



<sup>1</sup> It is not intended to give any enforceable rights to third parties.

## Raising industry standards

The WHO published its Code on the marketing of breast milk substitutes in 1981. Shortly after, in 1982, Nestlé became the first company to voluntarily implement the Code through the publication of the Nestlé Policy on responsible marketing of breast milk substitutes, applicable to the Nestlé group and to third-parties with whom we have contractual relationships.

Our Nestlé Policy and Procedures have evolved over time. In 2011, these were updated to reflect the FTSE4Good Inclusion Criteria, in which we were the first company to meet its rigorous standards. The FTSE4Good criteria on the marketing of BMS focus on countries that have the highest rates of child malnutrition and child mortality.

We base the principles that we apply daily to our marketing of breast milk substitutes on the following criteria:

- 80% of all countries are defined as higher risk in terms of infant mortality and malnutrition;
- For these higher risk countries, our Policy and Procedures define specific rules that we abide by, going beyond local legal requirements when these are less strict. In higher risk countries, Nestlé does not promote infant or follow on formulas for children under 12 months of age; and
- In lower risk countries, we abide by local regulation and laws on the marketing of breast milk substitutes.

The FTSE4Good BMS Marketing Criteria requirements continuously evolve over time. The index proposes a

phased approach, representing practical steps a company can take towards meeting the WHO Code. The FTSE4Good Index Criteria is based on "challenging but achievable" requirements, international standards and shaped by consultation. This global approach relates to the status of the WHO Code (and subsequent resolutions) as non-binding recommendations to UN member states. More than 35 years after it was adopted, only 35 countries have implemented all the recommendations of the WHO Code. We support countries as they translate the recommendations of the WHO Code into national regulations, as we always advocate for clear rules to enable optimal nutrition for mothers and babies. Our objective is to transform the industry in terms of better Code compliance, so that common rules apply to all companies, both large and small.

**We are proud of our inclusion in the FTSE4Good Index and of our contributions to improving industry standards on the responsible marketing of breast milk substitutes.**



FTSE4Good



# 2018 highlights: on-going engagement with external stakeholders

Engaging with concerned stakeholders is important to us. They challenge us but they always lead us to take a step back on our actions, which ultimately helps us to improve. We aim to be open, respond to queries and offer engagement. We believe that we can have an engaging dialogue with others who are, like us, determined to help mothers and babies receive optimal nutrition.



# Continuing dialogue with the Access to Nutrition Foundation

The Access to Nutrition Index (ATNI) was developed as an independent benchmarking tool for use by investors, health advocates and companies, and is collated using information in the public domain and supplied by companies themselves. We work in close relationship towards the same objectives: to increase access to healthy products and to responsibly exercise their influence on consumers' choice and behavior.

ATNI's Global Indexes, owned by the Access to Nutrition Foundation (ATNF), are published every two years and include a specific Breast Milk Substitutes (BMS) index assessing marketing policies and practices of companies with significant revenues from baby food.

We were pleased to be ranked second in the BMS index after two countrywide assessments in Thailand and Nigeria. Such results reflected Nestlé's strong commitment supporting breastfeeding, as well as confirmation of our robust compliance mechanisms in the marketing of BMS.

However, following a number of interactions with the ATNF during the assessment, we expressed concerns on the methodology governing the BMS index.

- The report on Thailand cited a high number of incidences of non-compliance, including the point-of-sale promotions on online retail platforms. Unfortunately, the report did not specify the promotions sanctioned by manufacturers or those by retailers.
- Also, 70% of the non-compliance instances found were in the Growing-Up milk segment, which is out-side of the marketing restriction scope of Thai law and Nestlé's policy.

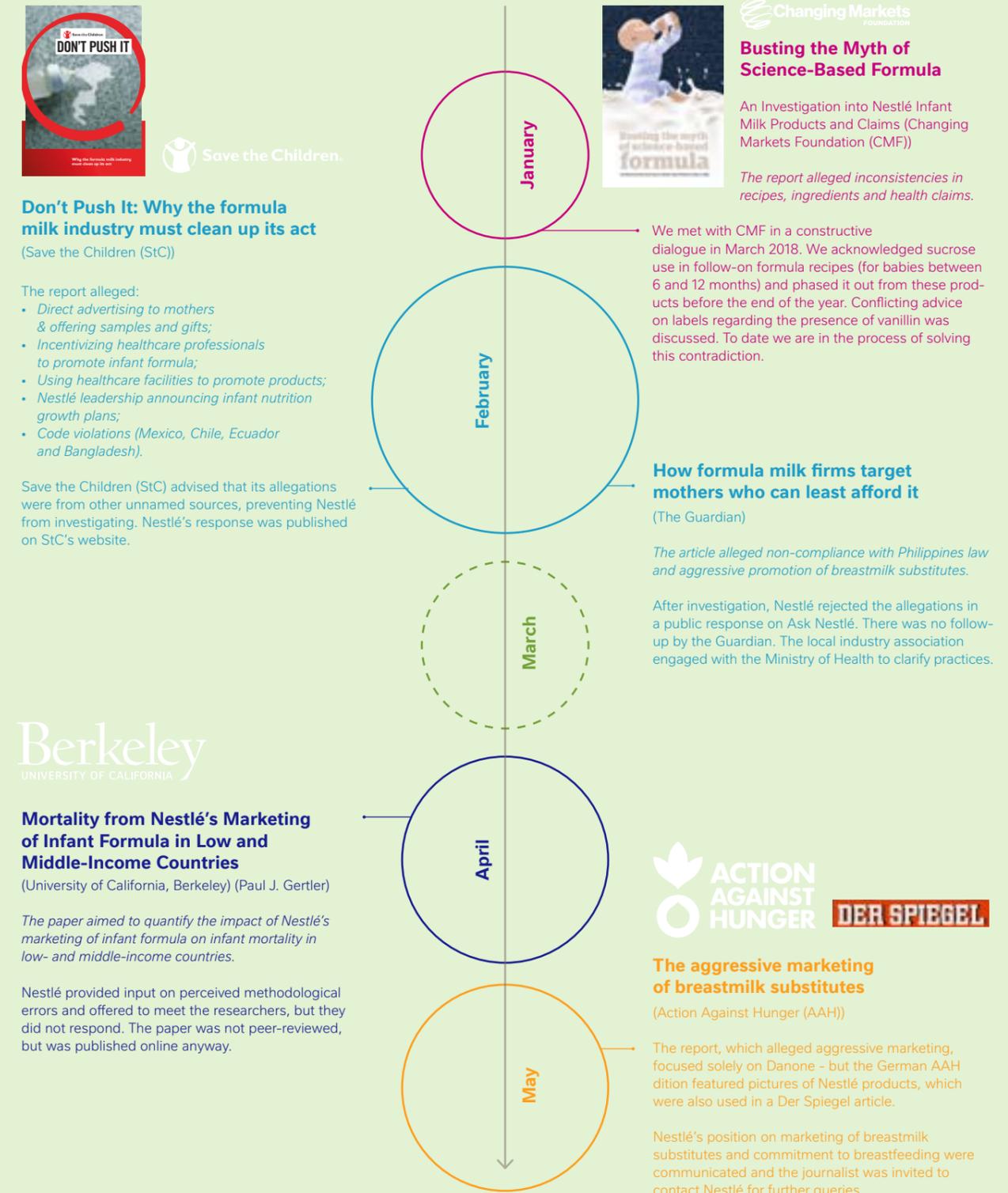
In summary, ATNI considered that Nestlé was non-compliant. However, according to our compliance principle aligned with Thai law and the FTSE4Good criteria, Nestlé would have been regarded as compliant.

We are continuing to engage with ATNI on these areas, as we believe in the benefits of external accountability mechanisms and the representation of a true and fair picture of reality.

# 2018 campaign: addressing stakeholders' concerns

In 2018, a series of reports and press articles were published criticizing Nestlé and the BMS industry. Civil society organizations and journalists addressed different aspects of the issue of compliance focusing on the rules

of a responsible marketing of breast milk substitutes. Nestlé publicly responded to each query, acknowledging concerns and questions, and offering open dialogue and engagement.



# Our Global WHO Code compliance framework and tools

To make sure we market breastmilk substitutes responsibly, we rely on our Corporate Policies and tools to help us coordinating everyone across the world towards the fulfillment of our commitment to support breastfeeding. The continuous improvement of the tools and processes nurtures an open compliance culture that enables our employees to speak up.



# The Nestlé Policy and Procedures

Nestlé's Policy and Procedures are solid examples to highlight how we support and protect breastfeeding across our company and within our sphere of influence.

Since 1982, these tools have expressed our recognition of the WHO Code, which is an important instrument to protect infant health, particularly in countries with poor sanitary, economic and social conditions.

For each article of the WHO Code, we illustrate how Nestlé practically applies the recommendations in our daily sales and marketing activities. Over time, we structured these rules into a WHO Code Management system, which now includes specific compliance mechanisms on topics, such as the display of products at point-of-sale, the relationship with distributors and retailers, and training sessions for healthcare professionals. In particular, we implemented the following restrictions:

- No free supplies of infant formula to hospitals
- Infant Formula/Follow-on formula (IFFO) sales and marketing staff are not allowed to seek direct contact with mothers

- No free samples of infant formula to mothers
- No incentives to healthcare professionals for the purpose of promoting infant formula
- No incentives to its staff based on infant formula sales

As part of Nestlé's 2017 Policy and Procedures update, we improved the transparency of our actions, releasing a public description of our complete compliance framework, which also defines management responsibility. We also publicly disclosed standards regarding the donations of products in emergency situations or the sponsorship of healthcare professionals to support their continuous professional development.

In addition, we clarified that our policy applies to all electronic forms of communication, including digital platforms, reflecting the practices we have followed since e-commerce emerged as a route-to-market.

This constant evolution is part of seeking continuous improvement at Nestlé: no matter how effective our systems become, there is always room to improve.

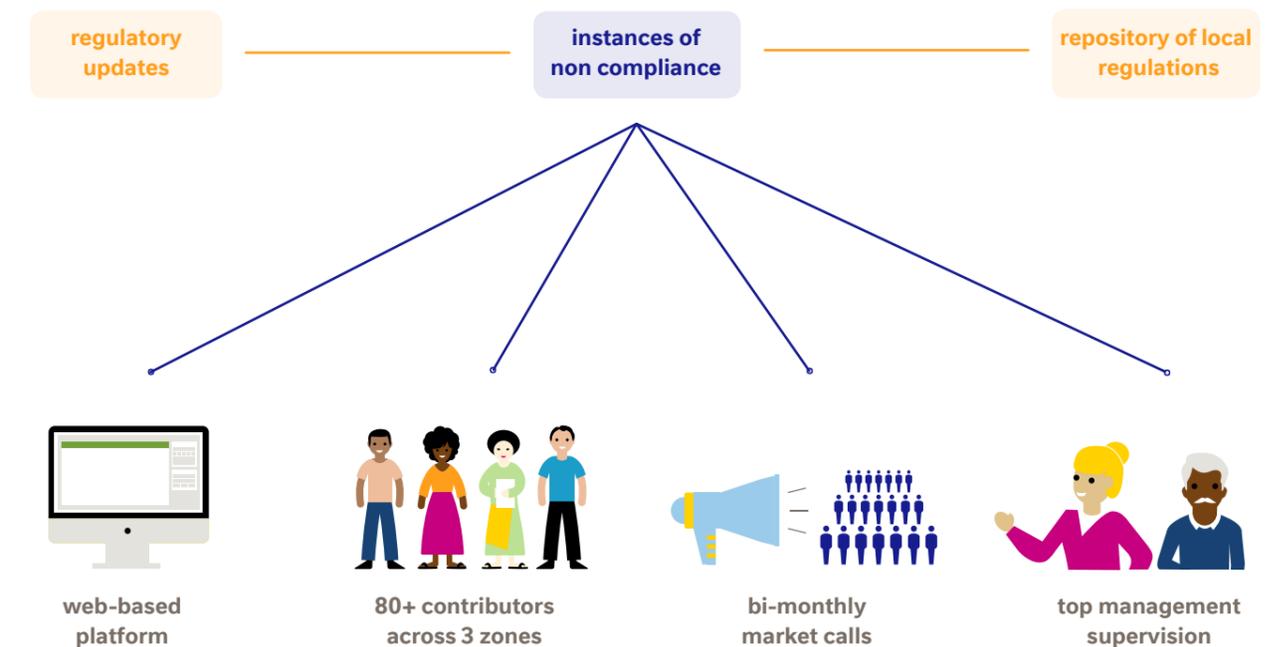
# A unique tool in the industry: the Code Room

The Code Room is our unique tool to oversee WHO Code Compliance, which works as a web-based platform dedicated to WHO Code-related matters.

Each market has appointed a Code Room delegate, who is in charge of reporting information related to the local legislation or instances of non-compliance. On a regular basis, conference calls are organized to foster sharing of experience in the markets and learning on the reporting of instances of non-compliance.

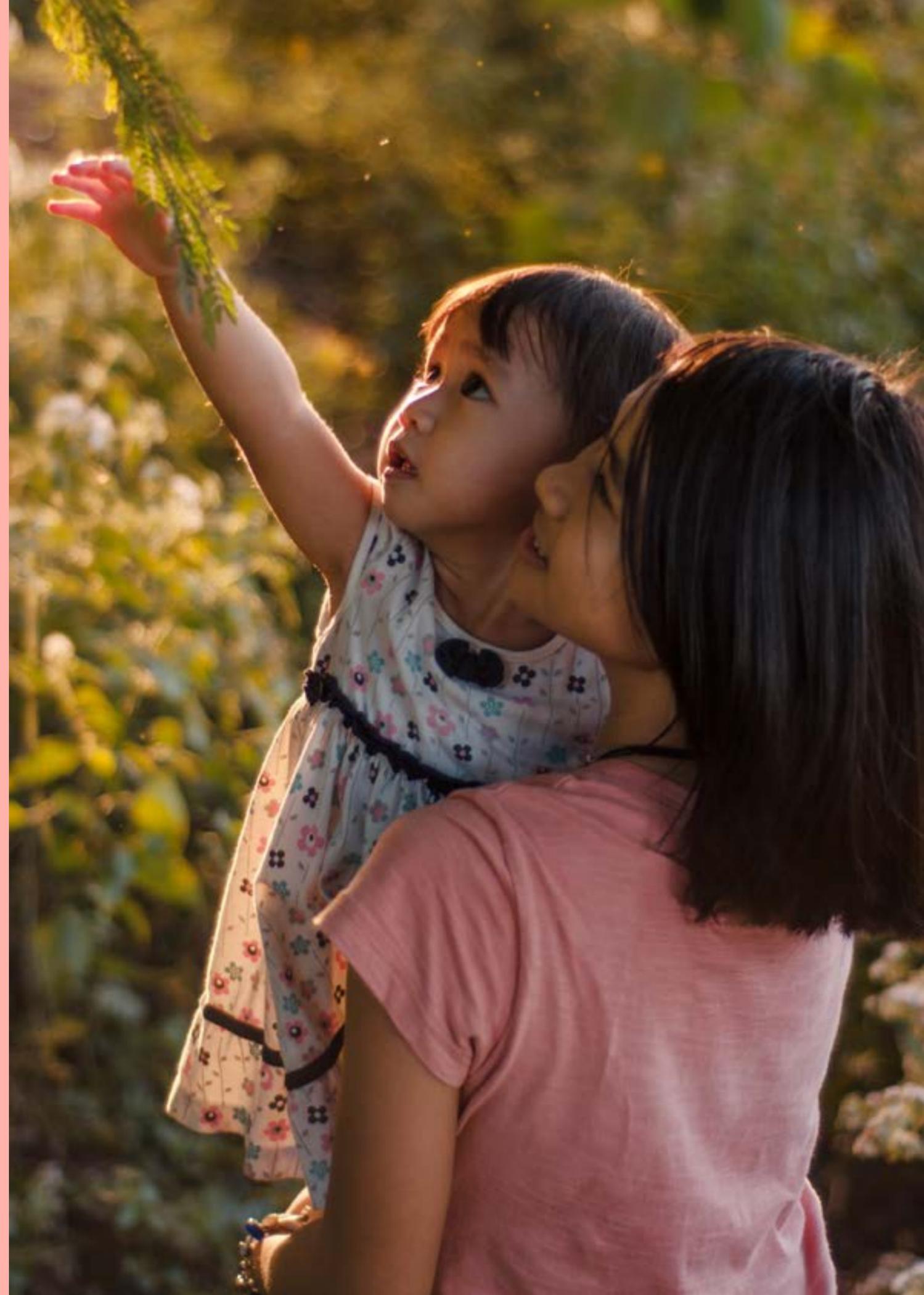
We encouraged greater use of the Code Room tool in 2017 to increase transparency and identify both actual and potential instances of non-compliance with our policy and underlying procedures.

As a result, reporting has increased and led to a greater number of matters being raised compared to previous years, which we leveraged for this year's reporting. There has also been a noticeable improvement in the effective management of these issues at market level.



# Conclusions from our 2018 findings

We leveraged the improvements of our process and tools achieved last year to strengthen our efforts on compliance and monitoring in 2018. As a result, we can rely on our robust compliance mechanisms to highlight instances of non-compliance, and in turn, correct and learn from them.



# Overall results<sup>2</sup>

Following the improvements of our compliance framework that we achieved last year, we maintained strong participation from countries in reporting instances of non-compliance. We always take appropriate action for each reported case, leveraging full support from our top leaders.

We take compliance with the WHO Code seriously. This is an essential part of what we are doing to achieve our commitment to support breastfeeding. The involvement of our leaders is crucial to set the tone at the top, and make sure the strict rules we defined to market breast milk substitutes responsibly are properly implemented across the whole organization, and at the right level of priority.

Communication and engagement from our CEO to employees worldwide helped to consolidate the process improvements we achieved in 2017, which helps us to provide more accurate reporting. Our 2018 compliance record reflects this, with 117 instances of non-compliance reported and corrected, compared to 103 cases in 2017.

The systematic use of the updated Nestlé Internal Audit Manual by our Internal Auditors (across the 28 countries where they reviewed the marketing of breast milk substitutes practices against Nestlé Policy and Procedures, and local legislation implementing the WHO Code) was instrumental to improve efficiency in the

detection of cases. We noted a significant increase of instances detected through our internal audit activities a total of 26 compared to 11 in 2017.

At the same time, the systematic use of our Code Room supports the efficiency of our internal monitoring through increased visibility on potential or actual instances of non-compliance, together with our Policy and Procedures at market level. The volume of instances reported in the Code Room, detected through internal monitoring activities (56) or through external allegations (25), remained at the same level as 2017.

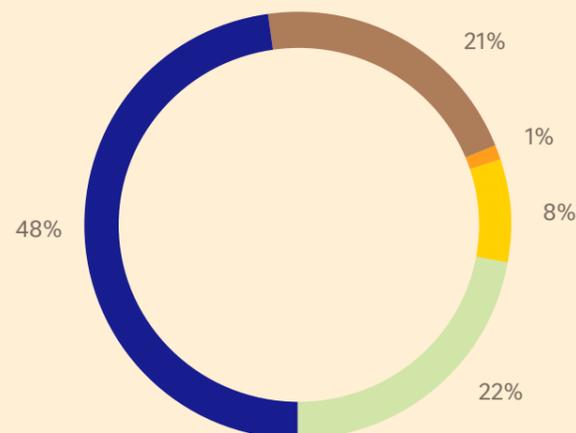
When we detect non-compliance, we act firmly. After observing deliberate and severe breaches of the rules, we take disciplinary action. A total number of 13 disciplinary actions (i.e. dismissals, warning letters) were issued to employees in 2018 (9 in 2017).

**These trends highlight the efficiency and the robustness of our systems that we are continuing to improve.**

<sup>2</sup> Please refer to the appendix for details

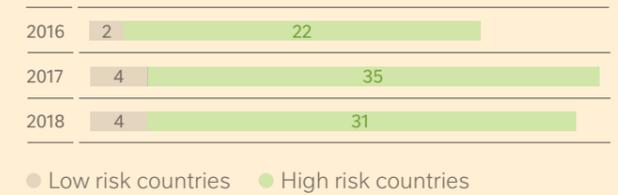
## Results by source of detection

Internal Monitoring	48%
External Allegations	21%
External Audits and Verifications	1%
Grievance Mechanisms	8%
Nestlé Internal Audits (NIA)	22%



## Geographical results

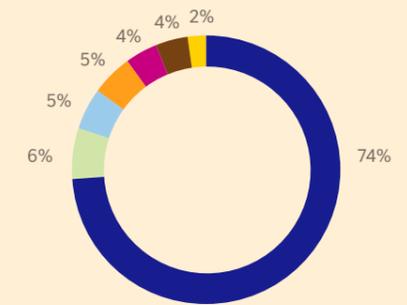
A total of 35 countries reported instances of non-compliance in 2018, compared to 39 in 2017, and 26 in 2016. Most of the instances of non-compliance were reported in Asia and Latin America/Caribbean region - 32% and 27% respectively; 26% were reported in Europe/Middle East; and 15% were detected in Africa.



## Main types of instances of non-compliance

As in previous years, 74% of instances of non-compliance are related to art.5. of the Nestlé Policy and Procedures on the General Public and Mothers. They consisted of promotions at point-of-sale (43%), special displays (16%), advertisement to the general public (12%), or contact with pregnant mothers (3%). Instances related to relationships and engagement with the healthcare system and workers (including detailing activities) accounted for 8% of the instances of non-compliance (compared to 24% in 2017).

The large majority of instances of non-compliance (70%) were related to activities by third-parties that have direct relationships with Nestlé.



General Public and mothers (art.5)	74%
Labelling (art.6)	6%
Information & Education (art.4)	5%
Implementation and Monitoring (art.11.3)	5%
Persons employed by Manufacturers and Distributors (art.8)	4%
Healthcare workers (art.6)	4%
Healthcare system (art.7)	2%

## Root causes

In order to be able to take the relevant corrective actions for all cases of non-compliance, like in previous years, we collected and examined the root causes collectively identified by our markets when managing instances of non-compliance.

The complexity of the rules is challenging and underlines why proper training is crucial for both third-parties and Nestlé employees. It is often not easy for our third-party employees to deal with different sets of rules (48%) on the marketing of breast milk substitutes, especially when they have to train employees working in positions facing a high turnover (4%). For Nestlé employees, confusion in the applicable rules arose too:

in 18% of cases, they believed that complying with the local law was sufficient, whereas adherence to the stricter Nestlé Policy and Procedures was required.

These different measures explain why some third-parties develop resistance to implementing our rules when the law is softer (16%). They have no incentive to put more effort into compliance in a context of strong competition amongst retailers.

Finally, "personal interest" formed 6% of cases. It refers to deliberate breaches of the Nestlé Policy and Procedures motivated by the potential benefits of improved sales performance. Dismissals or warning letters were issued in all of these cases.

# Fostering shared responsibility

13 different articles of the WHO Code stipulate that BMS manufacturers and distributors of their products share the same responsibilities. Nestlé and civil society organizations share concerns that trade partners across the distribution channels are responsible for the majority of reported instances of non-compliance. We believe the responsible marketing of BMS is a shared responsibility and by working together, we can make a big impact on the health of future generations.



# Nestlé and distributors: same responsibility

According to the WHO Code (and our Nestlé Policy and Procedures), trade partners operating across distribution channels have the same responsibility as manufacturers such as Nestlé to market breast milk substitutes responsibly.

The Code defines a distributor as a person, corporation or any other entity in the public or private sector engaged in the business (whether directly or indirectly) of marketing at wholesale or retail level a product within the scope of this Code. A "primary distributor" is a manufacturer's sales agent, representative, national distributor or broker.

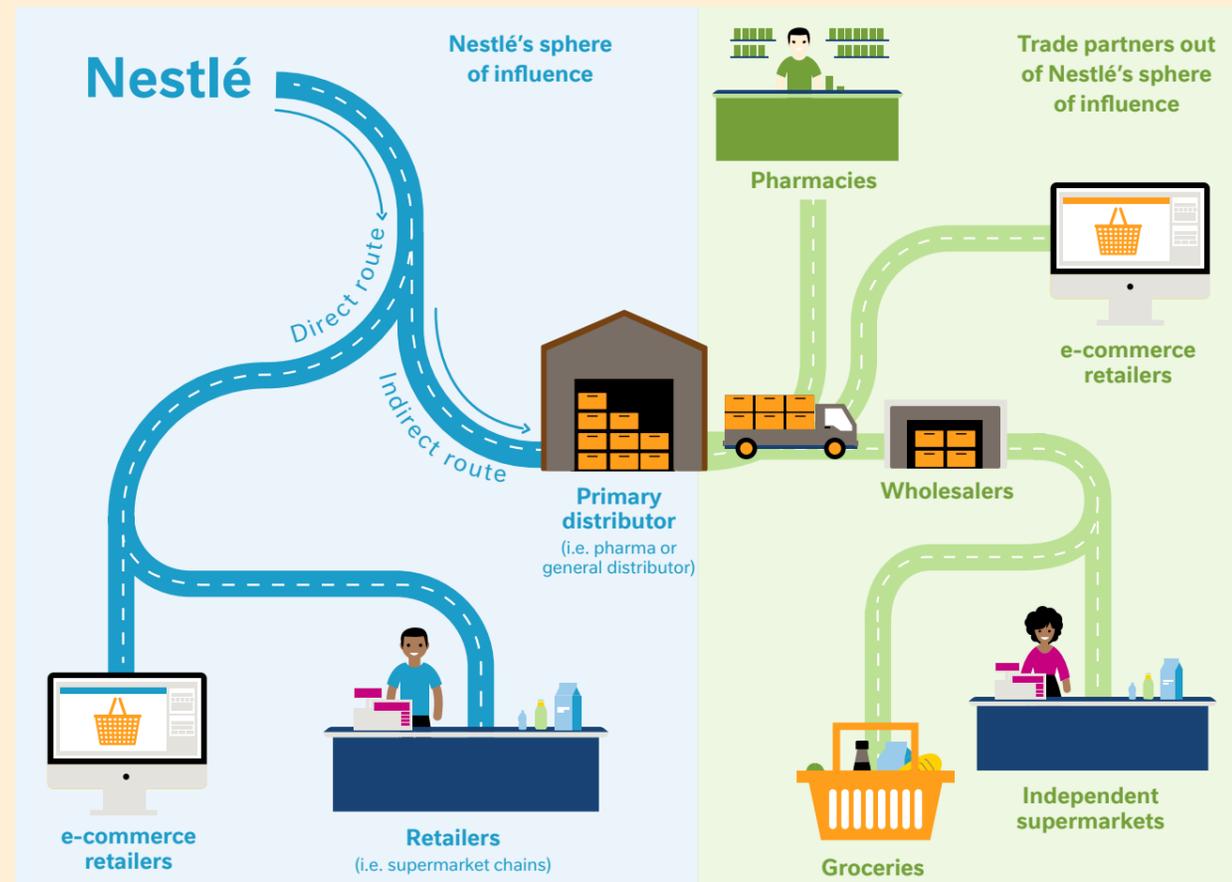
In higher-risk countries, it is our responsibility to provide regular training to help third parties, with whom we have a direct service relationship, to comply with our Policy and Procedures and national legislation implementing the WHO Code. We believe that responsibility for implementing adequate and responsible marketing practices should be

shared with all those involved along the different routes to market, between Nestlé and our consumers, as required by the WHO Code.

In this regard, our monitoring of WHO Code Compliance demonstrated that a majority of deviations are caused by business partners outside of Nestlé's sphere of influence. This limits the strength of our WHO Code Compliance framework.

We support national laws and regulations that ensure the WHO Code applies equally to all parties involved in the marketing of breastmilk substitutes.

The different routes to markets and players – sharing responsibilities across the channels



# Our solutions

We must maintain our policies and adapt them to our business practices in our markets. We are implementing this approach globally, adapting to the local legislative and commercial context.

All instances of non-compliance, which are reported in this report have been corrected. When we observed deliberate and severe breaches of the rules, we took exemplary actions such as dismissals, and warning letters against employees or third-parties in our direct sphere of influence.

Through our Policies and Procedures and the WHO Code Management System, we have introduced standard procedures that frame our relationship with the trade partners.

However, we face a number of limitations. We cannot always stop third-parties selling our products when we identify that they contravene our Policy and Procedures or the law. According to the Competition law, Nestlé cannot contractually influence distributors price mechanism and cannot take actions such as warnings or suspensions of deliveries with respect to their pricing and marketing policy. Nevertheless, we are continuing to develop solutions to encourage distributors towards the responsible marketing of breast milk substitutes.

Fostering long lasting improvement in our distribution channels.





## Conclusion: how do we lead the industry?

We value the trust that our consumers place in us, and it is our responsibility to respect this trust by acting in their best interests at all times. We are transparent in our practices to demonstrate accountability and build trust, both internally and externally.

Compliance with the law and our internal policies as well as accepted international standards (such as the WHO Code) is fundamental to all of our activities.

We have implemented a comprehensive WHO Code Management system aligned with the FTSE4Good criteria to safeguard the trust of our consumers and other stakeholders by ensuring we market and sell our products responsibly.

Every year we publicly report our record on WHO Code compliance: it encompasses the number of instances of compliance that we detected through our internal and external systems, the root causes we identified and the corrective actions we implemented.

This year, we have improved the robustness of our systems, which have helped us to gain increased visibility over monitoring activities in the markets. However, we acknowledge that we need to continuously improve in

order to meet the expectations from all our stakeholders. Our top management is closely involved to make this continuous improvement happen.

We acknowledge that training third-party trade partners is the main challenge. Specific attention is required when our products are sold through distribution channels out of our sphere of influence. Active support from the distribution and retailing industry is key for driving improvements towards responsible marketing practices.

By transparently sharing our experience, we believe we can inspire a change across the industry and foster collaboration with civil society organizations and governments.

We will continue to play a leading role through constructive engagement to do all we can to contribute to a healthier future together.

Please feel free to share your feedback with us,  
and tell us about any instances of non-  
compliance with our Policy and Procedures  
implementing the WHO Code.

[www.nestle.com/aboutus/businessprinciples/  
report-your-concerns](http://www.nestle.com/aboutus/businessprinciples/report-your-concerns)



# Appendix

To fulfill our public commitment to support breastfeeding and protect it by implementing industry-leading policies, we have set a number of mechanisms in place to ensure compliance, and to quickly detect and address any instances of non-compliance.

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.). We acknowledged 56 instances of non-compliance across 35 countries detected by internal monitoring activities, out of which 50 are attributable to a third-party in a direct relationship with Nestlé.

The main types of instances of non-compliance were:

- Promotion at point-of-sale (discount, rebate, etc.) (32);
- Advertising to the general public (12); and
- Special displays (gondola ends) (7).

**Internal Audits:**

In 2018, internal auditors verified our adherence to our policies, procedures and national legislations implementing the WHO Code in 28 countries. This included 24 higher-risk countries and four lower-risk countries. Internal auditors detected a total of 26 instances of non-compliance with the Nestlé Policy and Procedures and/or local Codes: 21 were attributed to Nestlé and five were attributed to third-parties in direct contractual relationships with Nestlé. In particular, in Latin America, NIA provided evidence of excessive entertainment expenses at pediatric congresses. As a result, two employees were terminated and corrective actions implemented.

**External Audit and Verifications:**

One audit commissioned by Nestlé was performed by Bureau Veritas in Indonesia. Indonesia was selected to follow up on the remediation actions implemented after a case of systematic non-compliance was reported in 2017. Bureau Veritas concluded that the corrective actions were adequately implemented. Nestlé Stage 1 and 2 products were identified in special displays in several locations, but this was immediately corrected by addressing it with the relevant retailers.

**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: it allows all employees of the Nestlé Group, in both lower and higher risk countries, to alert the company of potential instances of non-compliance in line with our Policy and Procedure and/or local legislation, and seek advice or raise concerns with regards to the marketing of infant nutrition products. They can do this in an anonymous and confidential way outside the line management structure. The Group WHO Code Ombudsperson is the Executive Vice President for Human Resources and Business Excellence, who is a member of the Executive Board and who chairs the Global Code Compliance Committee. The Country WHO Code Ombudspersons and the Group WHO Code Ombudsperson are not involved in the day-to-day management of our infant nutrition business.
- 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 mechanisms:**

- Tell us: A confidential 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.

Nine cases were reported through internal and external grievance mechanisms, mainly in Latin America and Asia. A whistleblower in Latin America reported a case of a non-compliant relationship with healthcare professionals, with the purpose to induce the prescription of infant formula. The subsequent investigation conducted to the dismissal of six employees, and three others received a written warning.

- Direct correspondence: External stakeholders can also share their concerns via email or letters to Nestlé Headquarters or in the markets. In 2017, 25 external allegations were reported from the following sources:
- Competitors (22). On a regular basis, in different geographies, competitors reported instances of non-compliance against Nestlé. The reported instances of non-compliance related to special displays or promotions at point-of-sale. However, after investigation it turned out that not all allegations reported by the competitors against to Nestlé are confirmed instances of non-compliances. In 2018, Nestlé confirmed 22 cases. Nestlé also reported instances of non-compliance against its competitors when they are observed in the markets: at least 153 cases were filed by Nestlé worldwide.
- NGO/NPOs (1): The International Baby Food Action Network's (IBFAN) published a report on the "inappropriate marketing of baby foods and feeding bottles" in 11 countries in Asia in December 2018. The report highlighted 13 out of the total 42 allegations against Nestlé in 7 out of 11 countries. After reviewing all of the allegations against our WHO Code Compliance principles, we acknowledged one incidence: the important notice was not in the national language on the labels of products sold in Bhutan. However, the labels included graphics to illustrate the correct preparation and usage of the product. As a corrective action, we are investigating the possibility to add on stickers with important notice and information in Dzongkha on the tins to be exported to Bhutan. Our formal response to IBFAN is available [online](#).
- Public authorities (2). In Latin America, the authorities reported promotional elements on Nestlé's Start Healthy Stay Healthy website. In South East Asia, the FDA reported that the labeling of Nestlé (and other manufacturers) products did not comply with the new interpretation of the legislation by authorities.

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