

14th November 2011

Mr Paul Bulcke
Chief Executive Officer
Nestlé S.A.
Avenue Nestlé 55,
Vevey, CH - 1800,
Switzerland

Dear Mr Bulcke

This letter is in follow up to the recent assessment of Nestlé against the FTSE4Good Breast Milk Substitutes (BMS) Criteria and Verification Framework. Our assessment over the last two index reviews has included an evaluation by our research partner EIRIS of documentary evidence provided by Nestlé and a subsequent verification assessment. We appointed PricewaterhouseCoopers (PwC) as the assessor and the verification assessment took place between April and August.

It is an important act of trust to allow a third party to undertake an independent assessment of your operations. I therefore wanted to thank you for agreeing to this verification. Your colleagues have worked diligently and transparently with both ourselves and PwC and I wanted to record our appreciation of this. In addition I wanted to provide you with a summary of the key findings and next steps.

Background

As you know in March 2011 Nestlé was admitted into the FTSE4Good Indices following the provision of documentary evidence that it had met the FTSE4Good Index BMS Inclusion Criteria. The research for the assessment was carried out by our partner, the independent research firm EIRIS, and was supported by the FTSE4Good Breast Milk Substitutes Marketing Committee comprising independent experts. Nestlé was the first infant formula manufacturer to achieve this. To complete the assessment process, as set out in the criteria, once a company is regarded as having met the criteria and enters the index, it is then subject to a verification assessment of its practices in two high risk countries to verify that practices on the ground follow the stated policies, and are meeting the FTSE4Good requirements.

The FTSE4Good indices are reviewed twice a year, in March and September. The Sub-Committees including the FTSE4Good BMS Marketing Committee meet in the run up to the FTSE4Good Policy Committee meeting which approves changes to the index based on research from EIRIS. At the last review the FTSE4Good BMS Marketing Committee used information from EIRIS and the findings of PwC's verification assessment to perform its full assessment of Nestlé.

Review of Assessment Findings

The FTSE4Good BMS Marketing Committee concluded, using the information from the assessment outlined above, that Nestlé was overall making good and reasonable efforts to implement its BMS marketing policies in the two "high risk" countries visited and hence was, on balance, meeting the criteria. Nestlé has therefore maintained its inclusion in the index. However there were a number of areas that the FTSE4Good BMS Marketing Committee felt that Nestlé should improve on and have asked me to communicate these to you. I have set these out below.



Areas for improvements

- 1. Influencing third parties.** A significant issue is the 'boundaries of responsibility'. The FTSE4Good Criteria requires no promotion of BMS products in high risk countries. In order to achieve this it requires manufacturers to work closely with their distributors and retailers to ensure that these organisations are aware of the company's policies. This can be a challenging task. A parallel can be drawn with supply chain labour standards in ensuring that suppliers, sometimes multiple steps removed from the company, are meeting labour standards. On this topic many companies, including Nestlé, have taken responsibility for the actions of their suppliers and found approaches to influence and to a large extent ensure minimum standards are met. We recognise that influencing a distribution chain can be more challenging than a supply chain not least because there are antitrust and other commercial laws that affect this. However the assessment did identify that in one of the countries visited there were cases of inappropriate promotional activities by retailers selling Nestlé BMS products. The Committee would like see a clearer policy and stronger implementation in order to ensure retailers and distributors are aware of Nestlé's policy regarding the marketing and promotion of BMS products in High Risk countries.
- 2. Nestlé activities that may be regarded as promotional.** Certain marketing practices, including the use of specialist display cabinets for BMS products in Zambia could be regarded as promotional. In addition there were some questions raised by the BMS Committee regarding conference attendance for health care professionals in India. Arguments can be made regarding the scientific and educational benefits of supporting conference attendance but it raises questions on the extent to which this could be regarded as a promotional activity. Whilst these may be regarded as grey areas the Committee would like Nestlé to analyse these practices and to more broadly consider what is regarded as promotional.
- 3. Board reporting.** The assessment indicated that only a Nutrition Code Compliance Manager and a Public Affairs Manager received the annual summary reports on internal monitoring, external reporting and corrective actions regarding BMS marketing activities. As stated in the FTSE4Good BMS Marketing Criteria the Committee noted that Nestlé's Group Board of Directors must receive these reports, and would like to know Nestlé's intent on this matter.
- 4. Transparency and whistle blowing.** Many of the Nestlé policies and reports on BMS marketing were difficult to find on-line and transparency should be improved by making these documents easier to locate. In addition the Committee would like clarification on whether the Nestlé "Ombudsman Process" will be able to involve independent investigation of issues raised, and the Committee would like to see some examples to demonstrate that the whistleblowing procedures are effective.

Next steps

I would be grateful if you could let me know your response on the points above that I have raised on behalf of the FTSE4Good Policy Committee and the BMS Marketing Committee (a Sub-Committee of the Policy Committee). The Committee would like to hear of any plans or future policies that would address them.

The next reviews of the index will be in March and September 2012 when the Committee will meet again and review Nestlé's on-going inclusion. Understanding your position on these points will be helpful in this process.

In addition our intention is to commission a follow-up verification assessment of Nestlé in two further countries in 2012 and we would be grateful if Nestlé would be prepared to work with us in the same collaborative and transparent manner as you have done for the assessment earlier this year.

Yours sincerely



Mark Makepeace
Chief Executive
FTSE Group