

DANONE

Further questions addressed by European Jury members: “The European Corporate Responsibility Award”

1. How was the CR strategy developed and/or reflected with external stakeholders?

- **The CR strategy is elaborated in collaboration with external stakeholders**

- **Permanent local and global dialogues** with: trade unions, the International Union of Food Industry workers, NGOs (humanitarian and environmental), consumer associations, governments, scientists, etc. The « advisory board » is in charge of collecting their opinion and advice.

- **Through Danone Communities**, for example, the company elaborates concrete local projects in direct collaboration with stakeholders. The Danone Communities strategy is defined by the board of Directors, which is actually made of stakeholder representatives. Among them are for instance:

Muhammad Yunus, who is the founder of Grameen Bank (the world's first micro-credit institution) and was awarded the Nobel Peace Prize for his work as a founder and unflinching promoter of the concept of social business.

Xóchilt Gálvez who is a member of Mexico's Náhuatl nation and a businesswoman committed to supporting communities in need.

Gary Hirschberg who founded Stonyfield Farm, a US organic dairy products company that has built its reputation on environmental responsibility.

Jay Naidoo, a South African trade union pioneer, who served as Minister for Reconstruction & Development and later Minister for Telecommunications in the first government of President Nelson Mandela and is now president of J&J Group, a private investment company, as well as the Development Bank of Southern Africa. He is also chairman of the Global Alliance for Improved Nutrition (GAIN).

Maria Nowak, who has built a reputation as “the banker for those in need” and has been the leading advocate of micro-credit since the 1980s and founded ADIE, the Association for the Right to Economic Initiative, in France in 1989; since then, ADIE has helped create 44,170 businesses, generating 53,000 jobs through over 51,000 loans.

Jean-Michel Severino, who is one of the world's leading experts on developing economies. He headed the development team at the French Ministry for Cooperation and served as Vice-President for Asia at the World Bank. Since 2001, he has been head of the French Development Agency, a financial institution that collaborates with public and private entities as well as with

networks of local associations, deploying a wide range of economic and social initiatives in over 60 countries in Africa and around the world.

See below for further information on examples of local projects the Danone Communities Funds contributes to implement.

▪ **Stakeholders also take part in the implementation of such a strategy**

- **Development of the Danone Communities Funds:** a risk-free funds in which employees, shareholders and consumers can invest to support local projects and give meaning to their savings through the development of local projects linked to the corporate mission regarding « Danone for all » and « health credibility » pillars (which are part of the corporate strategy pillars). The Application form provides examples illustrating such a practice but here are new ones:

Danone for all

A lower return on investment is expected for these projects aiming at allowing underprivileged populations to buy affordable products they need, contributing to local development through “social businesses”.

Ex: “1001 fountains”

The aim of this social business is to bring drinking water to isolated villages in Cambodia and make a litre cost less than € 1 cent so they can avoid using pond water which is one of the main infant mortality causes and leads to several diarrhoeal diseases. Water is thus treated with ultraviolet rays and then brought to those villages thanks to solar energy.

Health Credibility

Danone has developed partnerships with medical and scientific institutions to ensure requirements in terms of scientific proofs are very high. Almost 800 employees work in R&D and collaborate with a very high number of external scientists. Here are some illustrations of their impact:

The Institutes in figures: some 250 recognised experts, over 800 research programs funded, more than 140 conferences organised, 80 books and papers published and 65 education programs for general public. By updating and disseminating scientific knowledge in the field of nutrition, DANONE is affirming its long-term commitment in the sector

Ex: in Italy, paediatricians can take advantage of nutrition programs or obtain online training in paediatric nutrition. In Indonesia, the seventeenth Danone Institute created in Jakarta has decided to launch programs aimed at finding practical answers to the problem of malnutrition, in a country where much of the population lives on very low incomes.

Thanks to such scientific programs, Danone can adapt its products to any country and make them beneficial for health according to local needs. The local population can thus access premium products that are locally made and contribute to the development of a middle class.

Ex: Kefirnaya was developed in Russia thanks to the adaptation of a local product (the Kefir yoghurt) taking the health benefits of the Activia brand into account and making it affordable for most people by lowering costs.

- Implementation of projects elaborated in **partnership with distributors and suppliers**

Ex. development of cardboard packaging collection in supermarkets in collaboration with a major retail company

Ex: another instance is Danone's pledge alongside other major food companies to print transparent nutritional information on product packages.

- **Danone Supporting Life:** Danone encourages social local initiatives (120 social initiatives identified in 2008 for 180 Business Units). A new approach, "Danone Supporting Life", based on three objectives (business growth driver, social wins for local community and people pride enabler) is a new ambition, which started in 2008.

Ex: Danone has launched the Volvic "Glasgow Recycled" pilot program, which is a bottle recycling program with dedicated and branded recycling containers for Volvic. This initiative also includes public awareness on recycling issues and increases job opportunities for socially excluded people.

Ex: Danone has also implemented a project involving midwives in Indonesia to reduce baby/mother mortality and increase maternal health in the country. So far, 6,000 midwives have been involved, whom directly interact with target consumers.

2. Can the company provide more information on the realisation of CR on the operational level, e.g. country level and unit level?

▪ Organisational aspects of the implementation of such a strategy

- **2 departments are dedicated to CR issues:** a Sustainable Development and Social Responsibility Department within the General Human Resources Department and a Scientific and Regulatory Affairs Department within the General Secretariat.
- By the end of 2006, the Board of Directors decided to create a **Governance organ dedicated to societal innovation:** the Social Responsibility Committee (SRC).

▪ The CR self-assessment initiative

- Since 2001, the Danone Way (and then Danone Way ahead) initiative has allowed the company to ensure the integration of the CR strategy into the operational action plans of units and subsidiaries. It is also a way to speed innovation up and monitor CR performance through key indicators (see below for further information).

▪ The CR strategy is integrated at Business Unit level according to each department / product

- **The CR strategy is part of all BU / Department managers' annual objectives**, and then integrated into the operational action plans of their teams (variable pay takes their achievement into account and social and environmental objectives represent one third of overall objectives).
- The strategy is implemented **through various structures:** the Danone Communities Funds, Danone Supporting Life initiatives, Research and Development cells, the innovation lab (which

gathers managers to work altogether in a creative way for social innovation) in-house initiatives (suppliers audits, partnerships with NGO's, etc.).

- **Each Business Unit/Department can make the most of those global structures/tools to develop its own action plan pregnant with its own vision.**

Examples of projects:

Ex: One example is Danonino (Petit Gervais), reformulated with added vitamins and minerals to counter specific nutritional deficiencies affecting children in over ten countries.

Ex: Since 2006, following an initiative by Danone Waters Deutschland, Volvic France has embarked on a program along with Unicef, designed to improve access to drinking water in Niger, the "1 litres bought = 10 litres pumped" program. The aim is to construct and maintain wells while guaranteeing local communities 40 litres of drinking water per person per day, twice the minimum subsistence level recommended by the World Health Organization. 6 wells are currently being built and will provide access to drinking water for 16,000 persons in 6 villages over a period of 15 years. In 2007, the operation was extended to another region in Niger, the province of Zinder.

3. In which of the following business processes are CR aspects integrated: product development, supply chain management, HR management, procurement, production, marketing, risk management, etc.? How are they regularly monitored?

- **Eco-conception**

- In 2007, the Group set up a research and development cell dedicated to sustainable packaging. It is working on recycled terephthalate polyethylene (PET) that is used in bottles, with seven countries taking part. This innovation, approved by the French food safety agency (Afssa), is expected to allow bottles to be produced with 25% of recycled PET.
- Experimental research is also carried out for all products with health benefits. Related budget is 15 times as important as five years ago. 20 to 30 new clinical tests are launched each year and last for more than a year. These tests respect very strict standards and processes.

- **Product Development**

A strong collaboration within the medical sphere has been developed (notably through the takeover of Numico) so as to develop healthy quality products and take into account the specific nutritional needs of some populations. Thanks to the research carried out by both Danone and Numico, Groupe Danone has stronger strike force and scientific expertise than any of its competitors.

- **Procurement**

Purchasing offices monitor the implementation of the RESPECT initiative by subsidiaries buyers allowing them to follow their suppliers and launch progressive initiatives according to the 7 criteria

of the International Labour Organisation (ILO). This initiative aims at making buying offices integrate CO2 emissions into their criteria whenever they select suppliers (packaging, transport...).

▪ Supply Chain

Danone Committed itself to launch a “carbon neutral” initiative for 5 of its main brands (by 2011). This commitment has very concrete local implications.

Ex: In 2007, DANONE United Kingdom changed its logistic chain by increasing current journeys to France by 35%. The follow-up audits carried out every four months demonstrate that total carbon emissions have been reduced by 26%.

Thanks to collaboration with a British distributor, storage centres have been shared from Zeebrugge in Belgium. This decision means that lorries have been filled and their number reduced. The environmental benefit is estimated at almost 350 tonnes of CO2 a year.

Ex: The Group is the first transporter to benefit from the Marco Polo 2 program: the first phase consists of a project involving all Evian and Volvic supply flows to Germany being transferred to rail and the return of empty bottles to France being discontinued. This will free up the road network by the equivalent of 1000 million t/km a year.

▪ Production

- **Several partnerships have been launched** in order to reduce the environmental impact of activities (Ratification of the Ramsar Convention in partnership with the UNO for the restoration of wetlands, through the Danone Funds for Nature, etc.) and ensure raw material traceability.

Ex. Evian has supported the first three projects, called “Water conservation schools” in Nepal, Thailand and Argentina, aiming at helping local populations to manage their water resources in a sustainable and independent way thanks to “Water Protection Institutes”.

- In 2000, **DANONE set up a programme to audit plants**, based on several points: operating permits, water supplies, waste, atmospheric emissions, storage of materials, refrigeration installations, energy, noise, managing the environment, land and waste, etc. Since 2007, all plants have been audited and marked by a third party. It draws up action plans that are scored and put into rank order to make it easier to compare performances.

▪ Recycling

Danone has launched **experimental projects** to develop recycling practices in areas where it is insufficient.

Ex: in Mexico, Bonafont is testing a new business model, where the brand pays the supplier for collecting recyclable material at a price that is above market standards. At the same time, it saves costs because recycled PET is cheaper than original PET.

▪ Advertising

See information on advertising aimed at children below.

▪ HR Management

- In 2007, 9,000 managers and 22,000 employees took **the biennial Danone People Survey**: the turnout was 85% for managers and 67% for employees. Action plans have been implemented thanks to employees' involvement in every progress line identified.
- **The “lean organisation” program** aims at reinforcing all employees' commitment by reducing hierarchy and giving responsibility to each management line, and thus also aims at increasing the economic performance of business units
- **Diversity**: in 1989, DANONE signed an initial agreement with the IUF regarding sexual equality. In 2007, 23% of DANONE employees were women and, of the Group's 7,279 managers, 39% were females, a 3% increase compared with 2006.

Some subsidiaries, especially in France, have signed agreements and set up training designed to tackle stereotypes. At the Group's Head Quarter, 200 of the 500 employees have undergone awareness-raising training, led by disabled trainers.

- **Access to training**: an 80% of the staff has been trained in 2007. Such a performance is achieved through various initiatives such as:

Ex: The Evolution programme, which promotes the employability of personnel, has been especially a success in France (through the Evoluance program): about 950 employees managed to get a diploma. This initiative is based on fundamental knowledge (writing, reading, counting), operational training, professional development interviews and mobility analysis.

On a global scale, 50,458 employees have attended one training session minimum, each employees has on average attended to 16hours of training.

Ex: The Odyssey Leading Edge program helps directors develop their leadership skills through an innovative approach. Directors are actually led to discover new environments to enrich their perspectives (they for instance met the creator of a hospital for children suffering from aids, Greenpeace activists, etc.).

- **Mobility**: about 68% jobs are given in-house. Mobility is thus a very important issue for Groupe Danone, which goes further than training and development:

Ex: cross-functional workshops are organised so that finance professionals (for instance) can get to understand marketing or human resources issues (and vice-versa). Such an initiative not only develops mobility but also creativity.

On a global scale, in relation to the Evolution program, 78% of employees have been offered one job evolution proposition minimum for the past 5 years.

- **Danone is committed to its staff: the “people first” initiative also takes employees' well-being into account.**

Ex: in Brazil was launched the “health and nutrition project” which promotes healthy practices to employees through better diets and lifestyles as a mean to physical and psychological well-being. The company has launched a program including healthier food machines, better diets for lunch breaks, partnership with universities for anthropometry and corporal composition, biochemical and clinical assessments, individual hints, training about nutrition, etc. Results are tangible: obesity within the subsidiary has dropped from 20 to 5%.

- Danone is also committed to innovation regarding its HR processes and that is exactly why the company has settled its **Social Innovation Lab**. Managers are gathered and encouraged to share innovative social practices and so as to stimulate their creativity.

Ex: in July 2008, the Social Innovation Lab worked on health and well-being issues. It highlighted many practices within local subsidiaries such as in Brazil (see above), but also in the UK through sport at work, or the “day for you” program in the Czech Republic (hairdressers, manicurists, cosmeticians, etc. spend the day in the office, an anti-stress week is also organised), etc.

The Social Innovation Lab thus helps developing bottom-up approaches in terms of CR practices.

- As a result the registered offices of the Group and DANONE France are **ranked as the eighth Best Workplace of companies with over a thousand employees** (Portugal was ranked 15th, Argentina 43rd and Spain 15th for example).

- **The Danone Way (and Danone Way Ahead) initiatives help to monitor these programs**

Among the self-assessment initiative, 2 pilars and 7 related fundamentals directly concern HR and Human Rights.

[Extracted from the application form (page 15):

The assessment covers the 5 areas of sustainable development and company responsibility: human rights, human relations, the environment, consumers and governance

The 16 fundamental principles are evaluated against policies, with four levels of progression, with results also being assessed using around indicators.

By consolidating the evaluation of both policies and indicators, each subsidiary can obtain a total number of points ,which, in turn, determines the number of stars for each subsidiary. Requirements are really high and attribution criteria very strict.

Each steering committee sets objectives that the Group confirms for the year and the next three years within the context of its strategic plan]

These pilars were rated as follows in 2007:

Human Rights: 1900 / 2000

Human Relations: 1800 / 2000

Among all HR related fundamentals, the best ones are: pay (50/60), social dialogue (48/60), work time (43/60), security (42/60) and diversity (40/60). These rates illustrate exactly how efficient Danone is in terms of social policy.

4. **Please specify all the CR Related Key Performance Indicators (if you have any) and their annual performance.**

See application form for further information regarding how objectives are settled and monitored

See attached pdf file for information on indicators.

5. **Please specify the impact of your CR Strategy and programs on your business performance**

▪ **Cost-saving aspects**

One tangible impact of Danone CR strategy on its business performance is that it led the company to reduce its production costs: every environmental energy or packaging program launched (for example) enables Groupe Danone to save resources and money.

Ex: more than 3.5 billion litres of water have been saved for the past 5 years.

Ex: the use of recycled PET enables to save 210,000 tons of oil that would have been needed in the transformation process.

Ex: Danone has managed to lower the Evian bottle weight by 15% within 5 years, which represents an annual saving worth the oil 30,000 cars would consume

▪ **Impact on the business model itself**

- Although savings are tangibles, the real impact of the CR strategy goes **beyond cost-related issues**. It impacts the company's performance as a whole. It has progressively led Danone to the implementation of a new business model: Danone takes the specific needs of certain populations into account so as to locally make products adapted to these needs. These activities are profitable, although profitability expectations are lower for such products, which enable Danone to develop its activity in these areas in the long run. That is typically the kind of business approach that has been developed in Bangladesh in partnership with M. Yunus and is now being globally spread through subsidiaries that can adapt this concept to local communities needs.

- Measuring such a global CR-related business performance is very difficult, that is why it is more appropriate to analyse CR impacts on a local scale and **focus on projects**:

Ex: the Danone Clover South-African subsidiary has launched a program helping children suffering from cancer to get access to hospitals providing medical treatments (notably through housing facilities). Since 2004, more than 25,000 children have been housed. The business benefit is genuine: in South-Africa, 69% consumers agree that Danone Clover cares for the community and the Danone Clover Kids campaign is the best known CR campaign in the country (46% awareness).

Ex: the Evian Water Protection Institutes (in partnership with the Ramsar Convention to restore wetlands) also have a concrete influence on Danone business performance in Argentina, Nepal

and Thailand. Purchase intentions reach 41% for those who have been exposed to the WPI concept while standard purchase intentions only reach 8% in those three countries.

Such projects thus increase indirect loyalty, improve product and corporate images and reputations in a quantifiable way.

6. How does the company address sector specific issues, like obesity, nutritional health and fair pricing for milk farmers?

Nutritional health and obesity

▪ **The Food, Nutrition and Health Charter**

- **Danone commits itself to:** propose products adapted to needs and tastes, dialogue with scientists, support research, promote knowledge sharing, heed public opinion, communicate with clarity and transparency, guarantee the scientific validity of the claimed benefits, promote responsible advertising (for example the pledge on advertising aimed at children) and encourage physical activity.

- **To honour its commitments the Group's R&D division has developed nutritional guidance systems** for each category of products and each major brand, setting down minimum-maximum ranges for ingredients and nutrients that enter into the composition of products. These thresholds rigorously comply with, and even go beyond, the recommendations of the WHO, the FAO and the European Eurodiet program.

▪ **Products adapted to nutritional needs/deficiencies**

It leads to the **adjustment or conception of new products** adapted to nutritional deficiencies/needs each country has to face (ex. fight against obesity in Mexico, specific yoghurts in Bangladesh...) in collaboration with local consumer associations

Ex. in 2002, Danone Poland decided to initiate the first nationwide study on the nutrition of four-year-old children, in partnership with two local scientific institutes and then organised the first national conference on malnutrition in Poland and enriched the local Danonino recipe (Danonki) in calcium and vitamin D. Since 2003, through its "Share your meal" program, Danone has provided thousands of children with meals and developed new programs to fight malnutrition. In 2006, it launched the first food product in Poland providing social benefits that is affordable for even the most disadvantaged families. The product is the first of its kind for European consumers.

▪ **Medical and scientific research is constantly carried out and considered as a priority for the group (cf. takeover of Numico in 2007)**

▪ **Danone has committed itself to public authorities and professional organisations in this respect**

▪ **The group Promotes healthy practices**

Ex: Keen to play its part in efforts to combat the development of childhood obesity, Groupe Danone is also creating or supporting a number of initiatives (research programs, encouraging

people to adopt a balanced diet and practice physical activity, etc). It is now extending its commitment to cover advertising aimed at children aged between 3 and 12, to take account of circumstances where children are exposed to brand publicity without their parents present. Consequently, Danone has decided that, for media and advertising where the target is mainly made up of children between the ages of 3 and 12 - and where there is no state recognised self-limitation program -, Danone will restrict its advertising to products whose nutritional profile and portion size are suitable for the requirements of children aged 3 to 12, in line with public health priorities. To this end, Groupe Danone will apply the nutritional criteria from the Food Profiler system.

- As a result, Danone was **ranked 1st by JP Morgan Insight Investment regarding its product portfolio compliance to the company health positioning** (April 2008)

Ex: Takeover of Numico and handover of Lu to align the product portfolio with the health strategy.

Fair pricing for farmers

- **The "Perspective" program**

This program has been introduced to enable farmers to **cut costs without harming the quality of their production**. It gives farmers the means to identify and breakdown the costs of milk production, ranging from animal feed to water and electricity. This information can also be compared to other farmers in the region. In that way, farmers can introduce other farmers' good practices, lower their consumption and optimise production. And in doing so they can make substantial savings. Proof that the Group's requirements can also help create wealth.

Ex: In Turkey, Danone has launched the Milking Parlor Project to help small producers do their milking in good conditions and train them. It allows Danone to control the quality of its milk and these farmers to benefit from good milking conditions and faire prices (thanks to long-term contracts with Danone).

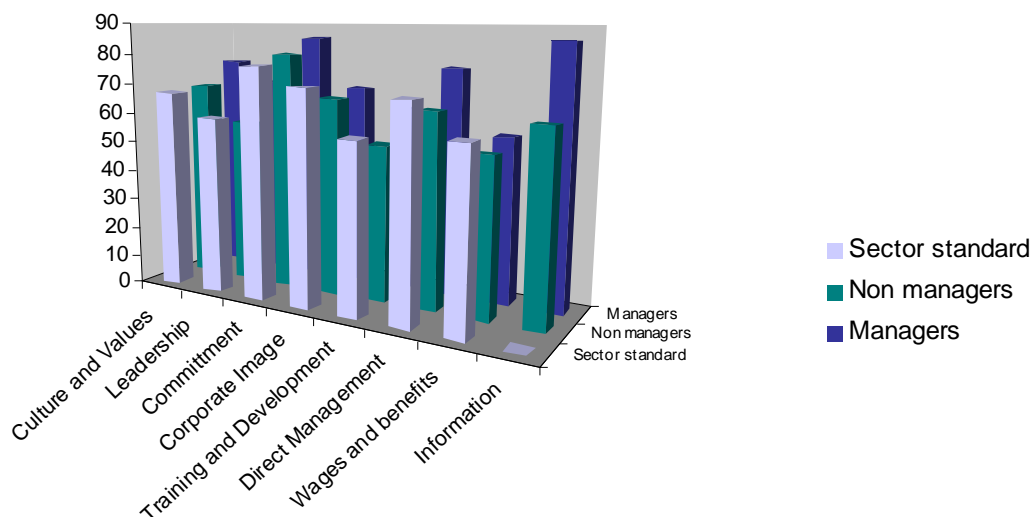
Ex: Another example of Danone Communities local project is the "shepherd dairy" project in Senegal: the aim is to buy local milk so that local producers can improve their situation and to increase the quality of products while lowering costs (since locally-produced milk is cheaper than imported one, although 90% of milk is imported in the country). The factory actually collects milk twice a day in the area and provides farmers with food for their cattle to help them to increase their productivity. Thanks to this initiative, local milk farmers now have regular incomes. 6000 farmers can now live thanks to their production only (their income is now three times what it used to be before the initiative). Danone experts have contributed all along the project.

7. Please provide us with evidence (if you have any) on staff opinion regarding your CR Strategy.

- **The Biennal Danone People Survey**

It measures employees' commitment to the CR policy of the group. In 2007 Danone registered results often much better than its competitors, notably concerning the staff's commitment:

Danone Biennial People Survey 2007



8. What is the most innovative aspect of the company's CR approach?

- **Employees and external stakeholders can give meanings to their savings**

Employees can give meaning to their savings by investing in the « Danone Communities » mutual fund. It's meant to sponsor local development projects, linked to Danone mission, with a different ROI approach. Danone participates in those projects with local NGOs.

- **The Danone Way initiative**

In 2001, DANONE launched Danone Way as a self-assessment initiative that allowed teams worldwide to share and implement the company's vision, particularly in the areas of social and environmental responsibility. By the end of 2006, Danone Way had been launched in 94% of the subsidiaries of the Group and 700 progressive projects had been implemented.

Danone Way Ahead allows Danone to integrate the sustainability and CSR policy of the Group into the governance processes of the Group and its subsidiaries, to bring the whole Group into line according to more and more demanding standards, and to make sure they are in accordance thanks to internal and external audits (KPMG)

The management committees of the subsidiaries define their own objectives, within the scope of the Group. They are responsible for these objectives, according to which they are evaluated and

paid. This process moreover associates internal control at both subsidiaries and Group level. 100% subsidiaries should reach the right standard level by 2011.

- **1/3 of bonuses take sustainable development objectives into account**

Since 2008, the 650 top managers' objectives have taken societal and environmental criteria into account. They can fix up to one third of their variable pay.

Objectives are set in 3 different categories: 1/3 of them are linked to economic performance, 1/3 are social and environmental objectives, 1/3 concern business development (which may include societal projects). Social and environmental objectives are chosen by the subsidiaries through Danone Way Ahead and then ratified by the Group (Objective example: implementation of a carbon impact calculator for all stages of the value chain).

These objectives are then adapted to all employees of the subsidiary.

- **The carbon measuring tool covers over 97% of the product lifecycle**

By preserving natural resources, Danone manages to reduce some of its production costs (it for example committed in 2002 to reduce its packaging weight by 10% within 10 years, recycle waste material, reduce its water consumption through the Danone Water Footprint program: more than 3,5 billion litres of water have been saved for the past 5 years).

Meanwhile, Danone keeps improving the quality of its products: protection of springs (quantity and quality of water), high requirements on the quality and traceability of milk for its products.

The Group also committed itself to launch a "carbon neutral" program for 5 of its main brands (carbon neutral by 2011), including a computing tool measuring CO² emissions at each stage of the product lifecycle. Results influence decision-making processes regarding procurements, eco-conception, transport choices, production processes, etc. in order to reduce CO² emissions

- **The Triple win "Danone supporting life"**

Danone encourages social local initiatives (120 social initiatives identified in 2008 for 180 BU). A new approach, "Danone Supporting Life", based on three objectives (business growth driver, social wins for local community and people pride enabler) is a new ambition, which started in 2008. See above for examples of projects and initiatives.