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INTRODUCTION

At Danone, our business is food, and our mission is bringing health through food to as many people as possible. In working to meet this ambitious goal, we have learned a great deal about the importance of food and hydration to good health and the huge food-related challenges facing today's world.

► Our convictions

1 ► Danone's businesses are directly linked to nature and agriculture, where we face major challenges including food safety, competitiveness, price volatility and access to raw materials. This means that the sustainability of our business hinges on our ability to strengthen and protect our global food chain in terms of both quality and quantity. In this report, we set out our challenges, our vision and our commitments along the entire chain, drawing on years of experience partnering with milk producers, protecting our natural springs, and working with local communities.

2 ► We view our food chain as a partnership. Because our operations are part of a larger ecosystem that includes our company, our customers, our suppliers and other partners, as well as institutions and the broader community wherever we do business, we owe a large measure of our success and competitive edge to the health of this ecosystem and the quality of the relationships among its members. Taking a collaborative approach is thus an integral part of our culture and the basis of our approach to the food chain.

- Trust-based relationships with our stakeholders are at the heart of our philosophy, and we cultivate that trust over the long term by living up to our promises:
- We recognize the vital role of our fellow stakeholders in the food chain ecosystem and actively encourage entrepreneurship, innovation, and skill-building.
- We work with our fellow stakeholders—farmers, scientists, suppliers, consumers, government, local communities and more—to “co-create” solutions that make a large-scale difference.
- We live out this commitment to progress with determination and pragmatism, adjusting to local conditions and always striving for the best balance among the four competing priorities we have defined: health through food; profitability

and competitiveness; creation of societal value; and environmental protection.

3 ► Our food chain vision is directly inspired by the dual commitment to business success and social progress that has guided our corporate vision for decades. We work to find the best solutions, creating a profitable business while at the same time generating social and environmental value. Maintaining this tradition of dual commitment has kept us in the forefront of social innovation since Danone was founded nearly a century ago.

4 ► Today our consumers trust brands that are actively engaged in managing sourcing responsibly. More generally, civil society expects stakeholders in the corporate world to do business responsibly and strive to constantly improve their direct and at times indirect social, economic and environmental footprint.

► Our guiding principles

Danone's food chain begins with water resources and production of agricultural raw materials such as milk, fruit and grains, and extends through processing, packaging, transport and distribution. The chain then continues through consumer use to disposal and waste collection. By approaching this food chain as a whole, rather than as separate parts, we can improve quality and use natural resources more sustainably.

To fulfill our food chain vision we will follow 5 principles throughout our activities, and across the chain:

- Reconnecting the food chain. We will strengthen the relationship between farmers and consumers, and consider the entire product life cycle, paying special attention to improving conditions for producing raw materials and protecting the natural waters that are essential to our products.
- Maintaining safety, traceability and quality control from the start and throughout the food chain.



- Ensuring reliable, adequate supplies of quality ingredients at the optimum price, to stay competitive for consumers and keep the food chain sustainable and efficient.
- Promoting methods of production and consumption that conserve natural resources all along the food chain. We have an important role to play, not only in our own production process, but also within our larger ecosystem, which includes the full range of stakeholders—farmers, industrial suppliers, transport providers, distributors, consumers and beyond.
- Developing agricultural production models that simultaneously meet the demand for food and protect the natural cycles linked to soil, water, climate and biodiversity upon which our business depends.

► How we operate

> To fulfill our Food Chain Vision we will build upon our existing commitments and experimentation as well as on our own tools:

- Our operations—industrial production, packaging, logistics and distribution—are guided by our Environmental Charter, signed in 1996 and supplemented by goals and an action plan adopted in 2000. In 2008 we committed to reducing our operations-related greenhouse gas emissions by 30%, and we reached this goal in late 2012.
- We will also draw on the experience of the funds Danone has created with partners in civil society—the danone.communities fund, the Danone Ecosystem Fund, and the Livelihoods Fund.
- Our food chain vision incorporates social, environmental and economic priorities into a single approach covering all of our operations. To guide this approach, we've created a “compass” with one point for each of four priorities: health through food; profitability and competitiveness; creation of societal value; and environmental protection.

> This vision has been agreed and is overseen by Danone's Executive Committee. Every Danoner has a responsibility to fulfill the vision, with the support of internal experts.

> Danone also convenes an Expert Advisory Panel twice a year to challenge our progress and advise on priorities for action.

We recognize that this is a significant undertaking, so in response to the enormous challenges at the early stages of the food chain, we are currently focusing on two areas critical to our business: agriculture and water. New initiatives will build on this foundation in the future.

The impact of the food chain on agriculture:
Danone's Fresh Dairy Products Division

Worldwide, Danone's Fresh Dairy Products Division collected some **7.5 billion liters of milk** from over 120,000 milk producers with a total **1,600,000 dairy cows in 37 different countries** in 2012. And yet this represents only **1% of global milk production. 80% of our producers have fewer than ten cows.**

To produce the milk, the cows consumed **22 million metric tons of grain and fodder**, grown on **5,200,000 ha**, or **0.35% of arable land under cultivation worldwide**. Growing the feed and watering the cows consumed around **70 billion liters of water***, while **7 million metric tons of CO₂ equivalent** were emitted into the atmosphere throughout the milk production cycle.

Some **500,000 people** lived directly off income from the milk these farms produced, which was supplied to **88 Danone dairy plants** with 46,000 employees around the world. 92% of these farms were within 200 km of a Danone plant.

Every month, our plants produced **7.5 million metric tons of fresh dairy products**—the equivalent of 60 billion servings of yogurt—which were enjoyed by over **600 million consumers** around the world.

** Calculated using the Water Footprint method based on a sampling of countries and farms.*

A SUSTAINABLE AGRICULTURE POLICY FOR HEALTHY FOOD

► 1. OUR APPROACH TO SUSTAINABLE AGRICULTURE

Danone is committed to a healthy food chain. This new vision brings together our social, environmental and economic goals in a single holistic vision. We want to prove that offering a healthy, balanced diet can keep farms competitive and generate economic and social value, while preserving natural ecosystems.

Sustainable agriculture is central to this vision. Yet we acknowledge the global, systemic and seemingly insurmountable challenges that we face as humanity seeks to feed 9 billion people in ecosystems that are already under pressure. And we recognize key dilemmas: for instance, rising consumer demand for animal protein-rich products versus environmental impacts; striking the right balance between diversification and specialization for farming models; fair prices for farmers versus more affordable products for consumers; and non-dairy alternatives versus animal protein in a sustainable food system. There is no silver bullet and we will continue to seek solutions in a transparent, open dialog with stakeholders.

Our Sustainable Agriculture Principles:

The challenges are enormous, and taking a holistic view of the food chain raises many questions. Any action we initiate from our place within it must be guided by a set of simple principles that are both pragmatic and ambitious.

1/ Take a 360° approach

For every commitment in our Sustainable Agriculture Policy, we must consider all four points of our compass—Economics, Nature, Social and Health and Well-being—as well as our impact on the rest of the food chain, both upstream and down. Our decisions will be most successful when guided by a holistic, system-wide view, ranging from production of agricultural raw materials to the quality of the finished product, and from agriculture to scientific research and technical innovation.

2/ Adapt to diverse local needs

Though the food chain is global, it is based on local agricultural methods and unique food cultures, with their own history and regional identity. We recognize and respect this kaleidoscope of cultures, know-how and local production methods, as well as the integrity and independence of farmers. Wherever we do business, we ground our operations in existing farm and food systems, and we rely on the knowledge of local stakeholders to help us adopt the best solutions and produce sustainable foods.

3/ Promote pragmatism and continuous improvement

Reconnecting the food chain and making it more sustainable is a long-term process, and our goal will change over time. One-time certification is not enough. Sustainable agriculture demands continuous improvement to spark innovation and inspire others to adopt best practices. Hands-on pragmatism and small-scale experimentation are the tools we need to solve the complex challenges of the food chain.

4/ Work together

To make the sustainable food chain a reality, our entire industry—agricultural suppliers, farmers, food companies, scientists, local communities, governments and more—must set aside competition and work together for a common understanding and framework, and to find solutions. Reconciling different points of view, working together, forming partnerships and encouraging co-creation are the most effective ways to move toward a more sustainable food system that will benefit everyone.

5/ Meet change with innovation

Farmers are key drivers of innovation and transformation and must be at the heart of our approach. What is more, the transition to sustainable agriculture will succeed only if all of the stakeholders in the chain are willing to take action and create momentum for change. As a food company, we must find innovative ways to speed the transition to new models. Danone will continue to act as a social innovator, creating new forms of cooperation and effective financing structures to drive change and benefit food industry stakeholders.



► 2. OUR GOAL & COMMITMENTS

We are committed to promoting agriculture that supports a healthy, balanced diet, keeps farms competitive, generates economic and social value, and preserves natural ecosystems.

In this section, we set out the commitments, approaches and mechanisms Danone will use to fulfill our goal. These commitments are ongoing and form the basis of our Sustainable Agriculture Policy. Separate time-bound targets will also be set within our business units.

In many cases, it will take years for us to meet them across our entire food chain. We are aware of this, and our corporate reporting will provide information on those which are being met with ease and those which are still in the early stages.

Producing healthy foods for a balanced diet

The purpose of sustainable agriculture is to produce a healthy, nutritionally balanced diet that people can enjoy together.

At Danone, we are committed to preserving and enhancing the quality of sustainably produced agricultural raw materials all the way to the consumer by:

- Using agricultural raw materials to make healthy, tasty, highly nutritious products
- Offering a range of products tailored to the cultures, tastes, eating habits, nutritional needs of local populations
- Communicating clearly and responsibly with consumers, showing them how their foods are produced—from farm to table—and how we deliver the highest-quality products
- Acting alone or with stakeholders throughout the food chain to perform the testing required to ensure that our products meet quality standards all the way to the consumer

- Setting up programs to provide farmers with advice, training and information on quality in agriculture and on best practices for ensuring quality control on their farms

- Recognizing top-quality products with a sliding price scale

Keeping farms competitive

For a farm to be sustainable, it must first be economically viable within its regional market. Farmers need to be able to grow wholesome ingredients at a cost competitive enough to ensure affordable products for consumers, while generating enough money to support their own families and plan for growth.

Danone is committed to working with other food industry stakeholders to promote this goal by:

- Working with our fellow stakeholders to give producers advice, information, and technical and business training
- Enabling our agricultural suppliers to anticipate trends and develop strategic plans by sharing market intelligence and trend analysis with them
- Cultivating long-term partnerships with our agricultural suppliers
- Ensuring that our contracts are fair and transparent as required by national and industry agreements and within this policy.
- Developing innovative contract provisions to counter the increasing volatility of agricultural markets
- Working with our partners in the food industry to fight agricultural waste by:
 - o Deploying a quality control system that covers the very first links in the food chain
 - o Maintaining quality through compliance with transport and storage requirements
 - o Developing solutions for reclaiming wasted agricultural raw materials, using these for animal feed, biomass energy, or other purposes

Generating economic and social value

The well-being of farmers and their communities is a key factor in sustainable agriculture.

We are committed to using our status as an economic actor to influence government and other institutions to:

- Work with other food industry stakeholders to promote the farming profession and the know-how it represents, and make consumers and others aware of its fundamental role in producing healthy, sustainable food.
- Encourage business models that provide producers with an income that is both fair and sustainable, and enables farmers to take care of their families and grow their businesses.
- Work with farmers to raise governments' and other institutions' awareness of how hard it can be for farmers to secure access to the resources they need, including land, credit and training.
- Promote working conditions on and around farms that comply with prevailing law and fundamental social principles, and preserve the well-being and health of farmers and farm workers, especially women.
- Encourage producers to form organizations that can improve conditions for raising crops and livestock, ensure product quality, create value, promote sharing of best practices and more.
- Promote cooperation with technical institutes, universities and other stakeholders to help develop and disseminate new knowledge and agricultural practices.

Preserving the environment

Sustainable agriculture must constantly strive to conserve natural resources and maintain the delicate balance in the ecosystems and natural cycles it depends on. Our key priorities include:

Soil

Soil is the foundation of the food chain—a living system with a direct impact on yields, product quality and the environment.

Danone is committing to working with other stakeholders and its suppliers to promote practices that:

- Preserve and improve the physical and biological structure of soil
- Maintain soil's natural ability to regulate water resources
- Limit the use of mineral fertilizers, pesticides and other chemicals.

Water

Water is essential to farming. Protecting and managing this increasingly scarce resource is an integral part of sustainable agricultural production.

Danone is committed to working with producers and other stakeholders at the beginning of the food chain to develop systems that are more water-efficient, especially in areas with water deficits. Priorities include:

- Helping to establish standard measures of water consumption and methods for reducing consumption on farms and in catchment areas.
- Identifying regions with water deficits and encouraging agricultural production systems that are especially effective in reducing water consumption through their use of irrigation systems, mulching and careful choice of crop varieties.
- Encouraging practices that limit the risk of farm-related water pollution, such as efficient use of fertilizers and crop protection products, and safe storage of chemicals.

Biodiversity

Biodiversity is critical to successful farming and to keeping natural ecosystems resilient. It regulates both the climate and water cycle, and without the ecosystem services it provides, agriculture could not exist. This is why sustainable agriculture has a clear and urgent interest in protecting this vital asset to preserve it for the future.

Danone helps protect biodiversity by:

- Encouraging farmers to promote biodiversity through practices such as rotating crops, maintaining natural grasslands, planting and protecting trees, preserving wetlands, using crop protection products efficiently, practicing integrated pest management, and monitoring the impact of feed that is imported or purchased off the farm.
- Committing to eliminate deforestation impacts from supply chain by 2020.
- Pro-actively contributing to programs preventing deforestation or promoting reforestation.

(These two last points are described in more detail in the Danone Forest footprint policy — 2012.)

Carbon and energy

Because production of agricultural raw materials is often the biggest source of greenhouse gas emissions in the food product lifecycle, sustainable agriculture has a responsibility to minimize its impact on climate change. Agriculture can also make a positive contribution by promoting carbon capture, which should be strongly promoted.

Danone is committed to working with other food-industry stakeholders to fight climate change by:

- Promoting agricultural practices that are less dependent on fossil fuels, both by cutting direct energy consumption on farms and by reducing the use of purchased inputs such as nitrogen and other fertilizers, crop protection products and animal feed.

- Cultivating partnerships with the agricultural and research communities to identify innovative ways of reducing greenhouse gas emissions in agricultural production systems. Options include animal feed programs, new systems for crop production, precision farming and methanizers.
- Exploring agriculture's potential for soil-based carbon sequestration and biomass recycling.
- Helping agricultural stakeholders adapt their production systems to climate change.

Animal welfare

Because the health and well-being of livestock contribute to efficient production and quality, they are essential to sustainable agriculture.

At Danone, we're committed to promoting animal welfare by raising awareness among our suppliers and other food industry stakeholders, and by promoting animal welfare as represented by five freedoms:

- Freedom from hunger and thirst
- Freedom from discomfort
- Freedom from pain, injury and disease
- Freedom to express normal behavior
- Freedom from fear and distress