

5.5 PROMOTING SUSTAINABLE, INCLUSIVE GROWTH WITH SUPPLIERS

Danone has identified three risks linked to sourcing, namely: (i) trading and pricing practices, (ii) responsible sourcing, and (iii) human rights. These risks are addressed below, first for milk and then for all other ingredients. This section is designed to cover the steps involved in complying with the French law on Duty of Vigilance:

RESPONSIBLE SOURCING – MILK

Definition

Both consumers and civil society are increasingly sensitive to fairness towards suppliers and producers, in areas ranging from business practices to value-sharing and pricing. This is especially true for milk sourcing, which is the main raw material that Danone purchases.

Governance

Danone has a dedicated team—the Agriculture cycle—which oversees milk supplier relations and the rollout of the Company’s roadmap. It reports to the Cycles and Procurement Department and works closely with other cycles such as the Water & Nature Cycle, mainly through the regenerative agriculture taskforce. At the local level, the milk departments in each country where Danone operates implement this roadmap with their local milk suppliers.

risk mapping, regular risk map-based evaluation procedures, appropriate measures for risk mitigation and prevention of serious breaches, whistleblowing system and monitoring of measures and assessment of their efficiency (see section 5.1 *An integrated approach of sustainable business model*).

Policies

Sourcing strategy

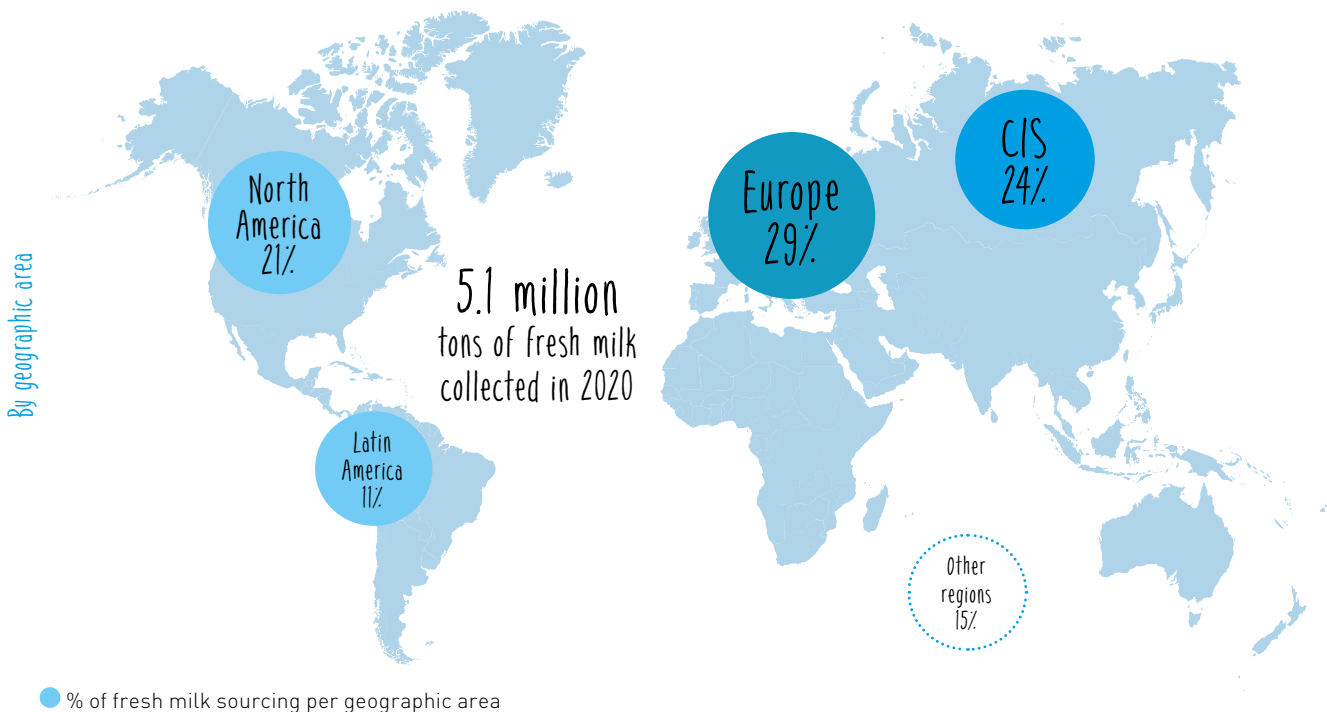
Danone sources local raw milk from more than 50,000 farms in around twenty countries, both directly and indirectly. Most of the milk sourced by the Company comes from small or family farms.

About 80% of the partner producers own small farms with fewer than ten cows and are located primarily in emerging countries in Africa and Latin America. These small farms supply about 30% of Danone’s total milk volume.

Danone also works with family farms (with herds ranging from a few dozen to thousands of cows), which represent about 20% of the Company’s suppliers and nearly 70% of milk volumes, the latter being generally directly collected by the Company.

In North America and some Middle Eastern countries, Danone occasionally works with larger farms to ensure reliable access to sufficient volumes of quality milk.

Danone’s sourcing of fresh milk



Action plans and outcomes

Danone supports dairy farmers by providing them with training and technical support to transform their practices while ensuring the viability of their business models. For example, the Farming for Generations alliance, created in 2019 and in which Danone participates, has identified 58 best practices and innovations across various farming models, farm sizes and geographic areas. Through the Sustainable Dairy Partnership, the Company has continued to work for a more sustainable dairy industry by supporting the prevention of deforestation, the protection of human rights and animal welfare, as well as compliance with local legislation. In 2020, it also headed a regenerative agriculture assessment project with the aim of analyzing farmers' practices in the areas of soil health, biodiversity and water management and issuing recommendations. In addition to these collaborative actions, specific tools and methodologies are deployed and monitored by Danone's Agriculture cycle:

- **MilQSat**: an initiative co-developed by the EDP Reporting Entity and its partner farmers to assess the performance of farmers from which Danone purchases milk directly in terms of quality, food safety and traceability;
- **Cool Farm Tool and Cap2Er**: specific tools for calculating greenhouse gas emissions from livestock. Cool Farm Tool, implemented at 14 entities in 2020, covers most of Danone's sourcing, and Cap2Er, developed by the French Livestock Institute (Idele) is the reference tool for all Danone entities in France;
- **animal welfare tool**: launched in 2016 and now implemented in 14 countries (see section 5.3 *Transition toward regenerative agriculture that includes organic agriculture*);
- **water risk assessment in relation to milk sourcing**: updated in 2020, methodology used to identify farms or collection centers

located in water-stressed areas and to determine an appropriate approach (mitigation, adaptation or relocation of the supply source).

Danone also supports the next generation of farmers, who play a leading role not only in producing the food we eat but in implementing responsible practices such as carbon sequestration, protection of water resources and biodiversity.

Cost Performance Model (CPM)

Danone works with producers in the United States, Europe and Russia to develop innovative contracts, with an average term of three to five years, to reduce milk price volatility and thereby offer farmers greater visibility and financial stability.

These long-term Cost Performance Model (CPM) contracts factor production costs into milk pricing and are developed in partnership with milk producers or their organizations.

In 2020, 43% of milk collected in Europe (41% in 2019) and 55% of milk collected in the United States (53% in 2019) came from producers with CPM contracts. Altogether, 29% of the milk Danone collects is covered by CPM contracts (28% in 2019).

Opportunities

By developing viable financial models with its dairy partners, the Company also helps encourage and maintain the transmission of agricultural expertise across generations. These actions are an opportunity for the Company to secure its supply chain while ensuring that practices evolve to address mounting social and environmental challenges. As an example, the MVP Dairy Farm (Danone North America's milk supplier), which has pledged to use farming methods that ensure land preservation and soil health improvement, obtained B Corp™ certification in 2020.

These actions also strengthen the positioning of the Company's brands and meet consumers' responsible sourcing expectations.

RESPONSIBLE SOURCING – SUPPLIES OTHER THAN MILK

Definition

The global supply chains that power the food and beverage sector carry the risk of human rights and environmental violations, both upstream of the farm sector and at the Company's direct suppliers. To limit these risks, Danone has established a set of fundamental principles and has made specific public commitments. It fulfills these commitments by working with suppliers towards more responsible practices.

Policies

Sustainability principles

Danone's responsible sourcing approach is based on the Company's Sustainability Principles, which cover its operations and supply chain and labor rights, environmental protection and business ethics topics and include:

- seven labor principles based on the criteria set by the International Labour Organization (ILO): elimination of child labor, elimination of forced labor, non-discrimination, freedom of association and the right to collective bargaining, workplace health and safety, working hours and compensation;
- five environmental principles: preservation of resources, reduction of use of chemicals, fight against climate change and reduction of greenhouse gas emissions (GHG), environmental management and animal welfare;
- principles of business ethics for fair, lawful transactions that reflect the provisions of Danone's Code of Conduct for Business Partners.

These principles are incorporated into a clause in its contracts with direct suppliers. Pursuant to this clause, the supplier warrants that the labor and ethical principles are already in place in its own organization, and that its employees, agents, suppliers and subcontractors comply with these as well. The supplier also undertakes to adopt the environmental principles.

Environmental commitments

In addition to its sustainability principles, Danone's environmental strategy covers issues that require the involvement of its value chain partners and suppliers, particularly with respect to its commitments related to elimination of deforestation, regenerative agriculture, preservation of water resources, circular economy and reduction of GHG emissions (described in detail in section 5.3 *Preserve and renew the planet's resources*).

The Company has made the following commitments:

- since the publication of its Forest Footprint Policy in 2012, to eliminate deforestation from its supply chains and to apply the principle of no deforestation, no development on peat and no exploitation of the rights of workers, indigenous people and local communities (NDPE). At the end of 2020, Danone had reached key milestones towards achieving these goals, in particular the creation of the first supply chain for RSPO-certified segregated palm oil in the United States. The Company's efforts have been recognized by the CDP, which awarded Danone the highest possible score (A) for the CDP Forests questionnaire (see section 5.3 *Preserve and renew the planet's resources*);

- to implement sustainable practices with its farmers all over the world as part of its regenerative agriculture strategy: For example, Danone has pledged that 100% of its agricultural raw materials produced in France will come from regenerative agriculture by 2025 and is helping its farmers whose farms are located in water-stressed areas reduce their water consumption by 25% by 2030;
- to work with its suppliers to (i) activate its circular economy commitment for its plastic packaging, and (ii) meet its commitment to reduce by 50% its full scope GHG emissions intensity by 2030 compared with 2015.

Human rights

In 2016, Danone joined the Consumer Goods Forum's (CGF) collective effort to eradicate forced labor from its global supply chain. To this end, in 2017 Danone incorporated the three priorities set by the CGF into its Fundamental Social Principles: (i) every worker should have freedom of movement; (ii) no worker should pay for a job, and (iii) no worker should be indebted or coerced to work. In 2018, Danone formalized this commitment in the Danone statement on forced labor (see Danone's website). The Company also supported the launch in 2020 of the CGF's new Coalition—*Working to end forced labor*, which is co-sponsored by Emmanuel FABER, Danone's Chairman and CEO (until March 14, 2021). In doing so, Danone pledged to develop and implement Human Rights Due Diligence (HRDD) systems that focus on forced labor in its operations, with the goal of achieving 100% coverage by 2025, including external workers hired by temporary work agencies or by its subcontractors to carry out regular and continuous work at its entities. In 2021, Danone will establish its roadmap based on the CGF's guidelines.

Meanwhile, in 2019 Danone participated with the OECD in the launch of the Business for Inclusive Growth coalition, which aims to scale up actions on inclusive growth, particularly as regards human rights across the value chains. In November 2020, the 40-member coalition issued a position paper reaffirming its resolve to eliminate child labor and forced labor and to respect freedom of association. To that end, the members intend to develop and mobilize tools related to (i) due diligence, (ii) helping suppliers make progress in terms of human rights, and (iii) grievance mechanisms.

Governance

In 2020, compliance with the responsible purchasing and human rights programs is monitored by the Nature & Water Cycle Department, part of the Cycles and Procurement Department, under the responsibility of the Chief Cycles & Procurement Officer.

An update on the progress of the "human rights" pillar of the vigilance plan was presented to the Board of Directors' Engagement Committee in December 2020.

Due diligence in responsible procurement

Danone implements responsible procurement due diligence towards its direct suppliers through its RESPECT program and also for the highest-risk agricultural raw materials in its supply chain.

Scope of RESPECT program

The RESPECT program applies to Danone's direct (Tier 1) suppliers in purchasing categories other than raw milk, *i.e.* processed raw materials such as fruit preparations and powdered milk, packaging, production machinery and transport and other services.

Since 2017, Danone has moved this program towards a comprehensive due diligence approach and stepped up its human rights requirements. This approach is inspired by the United Nations Guiding Principles on Business and Human Rights (UNGPs).

Labor and environmental risk-mapping

In 2017, the Company updated its global materiality and risks analysis, which highlights the importance of responsible purchasing and respect for human rights. In 2021, this analysis has been reperformed (see 2020 Annual Integrated Report of Danone).

At the same time, Danone mapped major potential risks for its 20 purchasing categories with the highest exposure in terms of social and environmental impact. The Company analyzed these risks using a checklist derived from the ISO 26000, GRI G4 and SA 8000 standards, taking into account the potential impacts of purchased products mainly from the standpoint of labor rights and human rights, but also the impacts on local communities and consumers, as well as in terms of fair trade practices and environment.

This work made it possible to identify the priority categories of goods and services purchases from the standpoint of human rights, namely (i) workers employed through outside labor providers and (ii) four agricultural raw materials (palm oil, cocoa, cane sugar and fruits), for which the potential risks primarily exist at farms and plantations in the upstream end of Danone's supply chain and include, in particular, the potential risks typical of agricultural chains, such as working conditions, health and safety, forced labor and child labor. For the environment, the risk-mapping exercise confirmed the three priority categories set out in Danone's Forest Footprint Policy (palm oil, soy, paper pulp and paper and cardboard packaging).

After acquiring the WhiteWave group companies, Danone updated its risk-mapping process to include changes to its ingredient portfolio.



Agricultural supply chain transparency

With input from independent experts, Danone is working on transparency for the following five priority categories:

- **palm oil:** Danone works with Earthworm Foundation (formerly The Forest Trust) to ensure traceability of palm oil. At the end of 2020, 95% of the palm oil sourced by Danone was certified RSPO segregated, 3% was certified RSPO Mass Balance and the remaining 2% was conventional palm oil sourced in Africa (see section 5.3 *Preserve and renew the planet's resources*). Since 2018, the Company has also published a list of its palm oil suppliers (direct and mill-level) on its website;
- **fruit:** in 2020, 100% of Danone's fruit supplies were traceable to the Company's Tier 2 suppliers;
- **cocoa:** in 2018, Danone reached 70% country-level traceability and sourcing of cocoa products remained unchanged in 2020;
- **sugar cane:** Danone works with the NGO ProForest to ensure traceability of sugar cane, which reached 83% in 2020, of which 41% mill-level traceability and 42% plantation-level traceability. The drop versus 2019 was linked to a decrease in purchased volumes as a result of Covid-19;
- **soy:**
 - soy used in plant-based products: in Europe (*Alpro*) and in North America, soy comes from areas with very low deforestation risk. In addition, 100% of soy used for the *Alpro* brand is ProTerra-certified.
 - soy for animal feed: Danone estimates that soy accounts for less than 5% of the feed consumed by the dairy cows in its supply chain. In North America and Brazil, its dairy farmers buy soy locally in regions with no risk of deforestation. Through research with Transparency for Sustainable Economies (TRASE), the Company estimates that 20% of the soy used for animal feed in Europe, Russia and Africa could come from regions at risk of deforestation. To mitigate this risk, it has implemented action plans consistent with its soy policy and aims to promote the use of local soy or other local alternatives. Danone also purchases RTRS (Round Table on Responsible Soy) credits – a widely recognized certification scheme – in proportion to the risk for the Company.

Direct (Tier 1) supplier risk mapping

In 2020, Danone conducted a new risk analysis that combined risks and purchase amounts for its top 50 suppliers (in terms of purchase amounts) of its representative operating units and global categories. The Company developed an in-house human rights impact score for each supplier based on (i) the inherent country social risk index as identified by the new Sedex (Supplier Ethical Data Exchange) risk tool (50%), (ii) the purchase amount (30%), and (iii) the purchase category risk (20%) based on the analysis of 892 audits conducted worldwide on Danone's suppliers in 2018 and 2019. In 2020, the Company focused on the largest purchase amounts to better understand the coverage rate of its suppliers in terms of Sedex registration and auditing (the previous 2018 risk analysis included small suppliers). As a result, 838 suppliers were measured based on this human rights impact score, representing approximately 26% of purchase amounts.

Regular risk map-based evaluation procedures for direct suppliers

Danone asks its direct suppliers to register on the Sedex collaborative platform and complete a self-assessment questionnaire evaluating their sustainability performance. At the end of 2020, 3,891 supplier sites were registered on the platform vs. 4,062 in 2019 (this drop was mainly due to tightening of the registration renewal rules), and 57% had completed the new 2020 questionnaire.

Regarding on-site assessments, Danone conducted the remaining six audits from its 2019 audit plan in the first quarter of 2020 using the SMETA (Sedex Members Ethical Trade Audit) protocol. As travel was restricted due to the Covid-19 pandemic, Danone focused mainly on (i) improving its assessment procedure to identify high-impact suppliers in regions and for the priority categories and (ii) providing resources to help suppliers improve their performance. Based on its 2020 impact analysis, the RESPECT team worked with purchasing departments around the world to co-develop the 2021 audit plan, selecting 119 potentially at-risk and commercially important sites. The Company plans to implement virtual audits in 2021 conducted by third-party organizations in accordance with the Sedex Virtual Audit (SVA) protocol.

Through the Sedex platform, the Company can also access audits of shared suppliers by peer companies and participates in mutual audit recognition through the AIM-Progress forum. As a result, in 2020 Danone had access to 309 SMETA audits carried out on its suppliers, either by the Company itself or by its peers.

With regard to continuous supplier improvement and audit closure, Danone's goal is to establish regular dialogue with its direct suppliers on their responsible purchasing processes and monitor audit effective remediation, including when audits of shared suppliers are conducted by peer companies. In 2020, in the context of the Covid-19 pandemic, Danone focused on developing new processes to increase the robustness and sustainability of its supplier remediation plans. The Company relied on dedicated experts in China and Mexico to help suppliers develop their corrective action plans. Audit closure is monitored through the RESPECT KPI 3 indicator.

Mitigating risk and preventing serious violations

Training and engagement

Danone trains its RESPECT champions and buyers on the RESPECT program and ensures that they are aware of risks related to forced labor and the CGF's three priorities. In 2020, the central team in charge of this program stepped up this training by organizing monthly training webinars and sessions regarding audits. They included more than 327 buyers, champions or purchasing managers, with one-third attending more than one session. In 2020, the RESPECT team also developed e-learning modules that will be part of the buyer skills program. These initiatives significantly strengthened buyers' engagement and fostered discussions about local requirements. They supplement the training module on human rights and forced labor already offered online (see section 5.4 *Focus – Respecting and promoting human rights in Danone operations*). At the end of 2020, more than 3,500 Danone employees had completed this training.

Certification

The Company uses certification for the following categories: RSPO for palm oil; UTZ for cocoa and for Danone North America's coffee, FSC or equivalent for paper, and RTRS or Proterra for soy.

Projects

The Company works directly with selected producers further up its supply chain and has developed many collaborative projects that help producers address environmental and labor issues, such as:

- the launch in 2020 of a third phase of the Cartoneros project which supports waste pickers in Argentina, in collaboration with the Danone Ecosystem Fund and local partners, to counter forced labor and informal employment abuses in the recycling of plastic. The objective is to increase the impact of the project, by raising waste recycling rates while improving the working and living conditions of urban collectors organized into recycling cooperatives, and empower 45,000 people within 40 cooperatives in 35 cities in Argentina;

- a vanilla plantation project in Madagascar supported by the Livelihoods Fund for Family Farming. The aim of this project, which involves 3,000 family farms, is to develop solutions that improve the quality and traceability of vanilla production, boost food security for farmers and preserve biodiversity;
- participation in a multi-stakeholder holistic project in the Siak and Pelalawan districts in Indonesia to support deforestation-free palm oil and improve the livelihoods of small farmers. The aim of this initiative is to develop sustainable and inclusive production models in these regions.

Collaborative initiatives

Danone participates in several dedicated palm oil platforms such as POIG, SASPO and RSP0, as well as more generic platforms such as the Sustainable Agriculture Initiative (SAI). The Company also contributes to collaborative food and beverage sector initiatives such as AIM-Progress and the CGF.

Whistleblowing system

Since 2017, the Danone Ethics Line has also enabled whistleblowers to report suspected environmental and human rights violations (see section 5.1 *Responsible practices: ethics and integrity*). The reporting process was developed in consultation with employee representatives and ensures that whistleblowers are protected.

In 2020, 31 reports were made in the "human rights" category. This category selected by whistleblowers includes violations in the areas of child labor, forced labor, right to collective bargaining, working time and wages. The reports received in 2020 came from 14 countries and covered routine human resources matters, including in particular working time (nearly 50%) and wages and, in some cases, trade unions and unfair dismissal. None of them qualified as human rights violations, but all have been or are being pursued in thorough internally investigations. Thus, 24 cases have been closed and 7 are still under investigation.

All reports received in the "human rights" category are initially reviewed by the Human Resources function. If serious violations are identified based on a report, the Sustainability, Human Resources

and General Secretary departments come together to review them and determine appropriate action plans.

In 2020, eight reports were made in the "environmental violations" category, all of which were investigated and plans for mitigation measures were developed as necessary. All cases have been closed.

All reports received in the "environmental violations" category are initially reviewed by Danone's Compliance Department and, when necessary, sent to the relevant function or department in order to investigate and, where applicable, mitigate the potential problem.

In addition, in 2019 Danone published on its website the grievance mechanism it developed, with Earthworm Foundation's support, to handle allegations of non-compliance with the palm oil policy. In 2020, the Company strengthened its process to address human rights violation allegations coming from channels other than Danone Ethics Line by formalizing a human rights grievance reporting template and following up on them through weekly grievance meetings.

Tracking and assessing the effectiveness of supplier programs

Danone tracks its RESPECT program using three indicators that measure (i) suppliers' registration on the Sedex platform (KPI 1), (ii) the audit plan completion rate (KPI 2), and (iii) on-time closure by auditors of audits that identified critical non-conformities (KPI 3). Due to the pandemic, in 2020 the latter two indicators were converted to resources indicators, which helped strengthen the involvement of the purchasing teams.

Instead of plan completion, the KPI 2 indicators measured the purchasing teams' efforts to work together to develop the 2021 audit plan combining risk and commercial significance. This indicator was 89% for the regions in 2020. Instead of audit closure, the KPI 3 indicator measured the purchasers' involvement with their suppliers in the closure of critical non-conformities, with the help of expert resources. This indicator was 74% in 2020.

These RESPECT indicators are included in the calculation of the variable compensation of the regional purchasing teams and the RESPECT team, including for their managers.



Breakdown of critical non-conformities identified

Analysis focused solely on critical non-conformities from SMETA audits (or those conducted using a similar methodology) of Danone suppliers in 2019 and 2020.

	2019	2020
Total number of critical non-conformities identified	277	126
Percentage of critical non-conformities related to:		
• forced labor	1%	1.6%
• child labor	1%	0%
• health and safety	51%	49.2%
• discrimination	0%	0%
• freedom of association and the right to collective bargaining	2%	2.4%
• working hours and compensation	27%	33.3%
• the environment	8%	4.8%
• business ethics	5%	4%
• other	5%	4.8%

The critical non-conformities identified and reported above have been resolved or are being remedied with the suppliers.

The two non-conformities related to forced labor have been resolved. One was related to mandatory overtime at a production site in the

United States: corrective measures included notably implementing a new clocking system and training supervisors to manage working hours more effectively. The second was related to the lack of a reimbursement policy for employee training expenses in Indonesia: corrective measures included updating the terms of the contract.