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The logo for FTSE Russell, consisting of the words "FTSE" and "Russell" stacked vertically in white, bold, sans-serif font, centered within a dark maroon circular background.

Mr. Emmanuel Faber
Chief Executive Officer
Danone
17 Boulevard Haussmann
Paris, 75009

29 August 2017

Dear Mr. Faber,

I wanted to write to you directly, to thank you for the effort that Danone has and continues to make with respect to meeting the ESG criteria for the FTSE4Good Index Series, but also to raise with you some significant findings from Danone's recent breast milk substitutes marketing verification assessment. To ensure Danone's ongoing inclusion we will need to see progress in future reviews and we will support you on these areas.

Following the company's inclusion in the FTSE4Good Index Series in June 2016, Danone was subject to its first FTSE4Good verification assessment against the FTSE4Good Breast Milk Substitutes (BMS) Criteria and Verification Framework. This verification assessment of Danone's marketing practices took place between December 2016 and January 2017, and this letter is in follow up with regards to the findings.

We commend that your company allowed a third party to undertake an independent assessment of your operations, with full cooperation. I therefore wanted to thank you for agreeing to this verification. Your colleagues have taken notable steps to support this process, and I want to convey our appreciation of this.

A summary of the key findings and next steps is provided in the attached note. Although there were many positive findings, there are also some serious and significant findings that show where improvements are needed and require your attention. I would be grateful if you could let me know your response on the points raised on behalf of the FTSE ESG Advisory Committee. The Committee additionally requests oversight of any plans or future policies that would address them.

The next reviews of the index series will be in December 2017 and June 2018 when the Committee will meet again and review Danone's ongoing inclusion. Understanding your position and progress on these points will be important in this process.

In addition, our intention is to commission a follow-up verification assessment of Danone in two further countries in around 18 months time where we would expect to see progress made on these areas, and we would be grateful if Danone would work with us on this process.

This is an area of interest from investors, and we look forward to working with you, and other stakeholders, on improving industry practices for the benefit of infant nutrition and health globally.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mark Makepeace", written in a cursive style.

Mark Makepeace,
Chief Executive FTSE Russell



ATTACHMENT

SUMMARY OF KEY FINDINGS: Danone's FTSE4Good BMS Verification Assessment.

Background

An assessment we carried out of publicly-disclosed documentary and policy evidence found Danone's policies met the FTSE4Good BMS Criteria and, supported by the FTSE4Good Breast Milk Substitutes Criteria Advisory Group comprising independent experts, resulted in Danone's entry to the FTSE4Good Index Series in June 2016.

Having joined the FTSE4Good Index Series, a requirement of ongoing constituency for BMS manufacturers is periodic in-country verifications of BMS marketing practices. As such, the verification assessment of Danone's practices in two high risk countries was set up for BMS Criteria and Verification purposes.

Corporate interviews were held in July 2016 at the Danone Head Office in Paris followed by site visits to Nigeria in December 2016 and Thailand in January 2017.

The FTSE4Good Indexes are reviewed twice a year, in June and December. The sub-committees, including the FTSE4Good BMS Criteria Advisory Group, meet in the run up to the FTSE ESG Advisory Committee meeting prior to each review, which approves changes to the Index based on research from Evalueserve. The findings of the verification assessment have been discussed by the BMS Marketing sub-committee, and their recommendations were presented to the FTSE ESG Advisory Committee in June.

Danone has provided a public response to the FTSE4Good verification assessment findings, and this will be placed on our public website alongside the verification assessment reports themselves and our correspondence (this letter and any response you provide).

Review of Assessment Findings

The FTSE4Good BMS Criteria Advisory Group has initially concluded, using the information from the assessment outlined above, that Danone is making reasonable efforts to ensure its BMS marketing policies are met in the two higher risk countries visited and hence was, on balance, in compliance with the FTSE4Good BMS Criteria.

Whilst the Corporate Head Office interviews demonstrated that suitable governance structures and a number of policies and procedure documents are in place that meet the requirements of the Criteria, it was noted during the in-country visits that policies and procedures established at the Corporate Head Office are not updated to incorporate and reflect local requirements. Furthermore, although awareness of the Criteria at the local in-country level and appropriate allocation of responsibilities was seen, some inconsistencies in the application of the Criteria were noted during the in-country visits.

Summarised below are the key findings of the in-country verification assessment and relative considerations.

1. Policies and Procedure

Areas of good practice: Existence of BMS marketing policies, procedures and training materials defined against the Criteria at a Corporate Head Office level.

Areas for improvement: A first aspect to be highlighted is the lack of formalised country-specific policies and procedures (both on a macro and micro level). We note a commitment to address this has been made in Danone’s public response and we look forward to seeing country-specific policies and procedure manuals by the time of the next verification assessment.

Furthermore, I would like to raise a particular issue regarding the similarities between the corporate brand name and product brand name (Dumex in Thailand) which could create the perception of the infant formula being marketed through the promotion of Dumex.

Additionally, although permitted in Danone’s policy, the in-country visits found evidence that sales incentives for BMS products were in some cases applied and bonuses were therefore calculated based on the level of BMS sales.

No public response has been made regarding these two final points, but we certainly expect to see a response or remedies by the time of the next verification assessment.

2. Management Systems & Governance

Areas of good practice: The verification assessment found that robust programmes were in place to ensure all newly hired Danone Healthcare Nutrition staff complete relevant training. Consumer and medical communication materials are carefully reviewed at Corporate and Local levels and their distribution has to be approved to ensure compliance.

Areas for improvement: Despite various channels existing for employees, distributors and customers to report complaints or incidents of non-compliance, a lack of awareness about them was evident, with distributors unaware and stating they would only raise issues to their assigned Danone contact. In Danone’s public response, a commitment has been made to increase awareness of these reporting channels; we again look forward to concrete evidence of increased awareness of these channels by the time of the next verification assessment.

3. Interactions with Health Care Practitioners

Areas of good practice: The verification found strong evidence that Danone representatives were very clear in communicating “Breast is best” when starting any interaction across both urban and rural areas.

Areas for improvement: The assessment found that promotion of products is a clear area where greater improvements can and should be achieved. In particular, it was found that some promotional items displaying BMS product names and logos were in use at health care facilities.

Further, it was apparent that in Thailand, Danone representatives had visited a number of health care facilities in the days between finding out the location of the verification and the verification visits themselves, to remove promotional materials and/or inform them of the upcoming “auditors” visit. This was not in the spirit of this process.

Danone’s public response acknowledges shortcomings were reported in interactions with healthcare professionals, and stated that upcoming training will cover this issue. We would appreciate further detail on the training that will be provided and expect promotional items to be removed from health care facilities by the next verification assessment.

4. Retail

Areas of good practice: A clear accountability and governance system is in place relating to retail management. The Danone staff present at local levels endeavour to ensure Danone policy requirements are met.

Areas for improvement: Some discrepancies were detected in the manner of retailer training delivery. The approaches taken are not uniform in Thailand and no retailer training has yet been performed in Nigeria.

There was found to be lack of guidance to retailers, who are not fully aware of the WHO code and who run independent parallel imports of Danone's BMS products. In some circumstances, retailers were found to apply inappropriate product promotions and remove product labelling.

A commitment has been made in Danone's public response to increase awareness and understanding of Danone's policy amongst distributors, retailers and e-commerce partners. We would like additional details on the guidance that is being given to third parties and expect improvements to be seen at the next verification assessment.

Media Monitoring

Areas of good practice: No instances of BMS marketing activity was engaged by Danone during the verification's media monitoring exercise.

Areas of improvements: Despite no instances of direct marketing activity being found for formula brands for infants under 12 months (Stages 1+2), there was advertising of products targeting infants over 12 months (Stage 3) that use logos that are shared with Stage 1 and 2 products. No response has been provided to this point in Danone's public response, but we also expect to see action by the time of the next verification visit.