

# DANONE

Registration Document  
Annual Financial Report

# 11



DANONE

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**DANONE**

# Registration Document 2011

ANNUAL FINANCIAL REPORT

**This Registration Document includes  
all the items of the Annual Financial Report.**



The French language version of this Registration Document (*Document de Référence*) was filed with the French Financial Markets Authority (*Autorité des marchés financiers*, or AMF) on March 21, 2012, pursuant to Article 212-13 of the AMF's General Regulations.

This Registration Document may be used in support of a financial transaction if supplemented by a securities prospectus (*note d'opération*) authorized by the *Autorité des marchés financiers*.

This Registration Document was prepared by the issuer and its signatories are liable for its contents.

**This is a free translation into English for information purposes only.**

Copies of this Registration Document are available from Danone at:  
17, boulevard Haussmann 75009 Paris,

on Danone's website: [www.danone.com](http://www.danone.com)

and on the website of the *Autorité des marchés financiers*: [www.amf-france.org](http://www.amf-france.org)





# Selected financial information, information about the issuer, references and definitions

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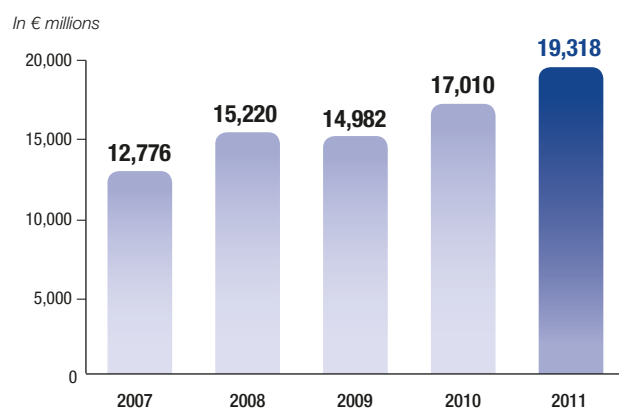
## 1.1 Selected financial information

The financial information presented below is extracted from Section 3 *Danone's business highlights in 2011 and outlook for 2012* and from the Danone group's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

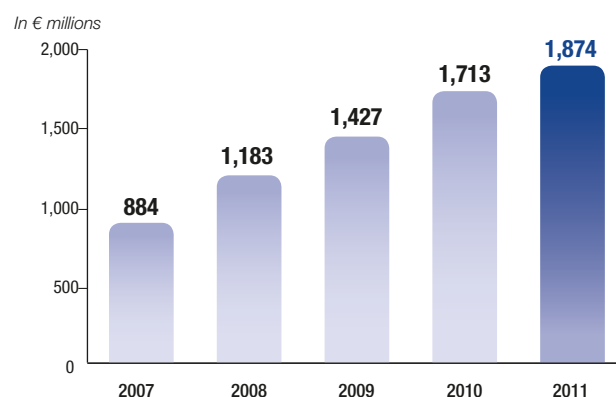
Consolidated financial statements and Notes to the consolidated financial statements are presented in Section 4 *Consolidated financial statements*.

	2009	2010 <sup>(1)</sup>	2011
Sales <sup>(2)</sup>	14,982	17,010	19,318
Like for like growth <sup>(3)</sup>	+3.2%	+6.9%	+7.8%
Trading operating income <sup>(3)</sup>	2,294	2,597	2,843
Trading operating margin <sup>(2) (3)</sup>	15.31%	15.27%	14.72%
Like for like growth <sup>(3)</sup>	+61 bp	+3 bp	+20 bp
Net income <sup>(2)</sup>	1,521	2,040	1,855
Earnings per share - Group share <sup>(4)</sup>	2.41	3.05	2.77
Underlying diluted earnings per share <sup>(4) (3)</sup>	2.50	2.72	2.89
Free cash flow <sup>(2) (3)</sup>	1,427	1,713	1,874

### Sales <sup>(2)</sup>



### Free cash flow <sup>(2) (3)</sup>



(1) 2010 consolidated financial statements have been restated as described in Note 2 of the Notes to the consolidated financial statements.

(2) In € millions.

(3) Financial indicator not defined by IFRS, see definition Section 3.6 Financial indicators not defined by IFRS.

(4) In € per share.



## 1.2 Information about the issuer

### Legal name and trade name

The Company's legal name is "Danone" (hereafter the "Company"), having been changed by the Shareholders' General Meeting of April 23, 2009 from "Groupe Danone".

### Registration number in the Register of commerce and companies

The Company is registered in the Paris Register of commerce and companies under number 552 032 534.

The Company's APE Industry Code is 7010Z, which corresponds to the activity of registered offices.

### Date of incorporation and term of the Company

The Company was incorporated on February 2, 1899. The Extraordinary Shareholders' General Meeting of December 13, 1941 extended the term of the Company through December 13, 2040.

### Registered office

The Company's registered office is located at 17, boulevard Haussmann, in Paris (75009), France. The telephone number of the registered office is +33 (0) 1 44 35 20 20.

### Legal form and applicable law

The Company, a French corporation (*société anonyme*) with a Board of Directors, is subject to the provisions of Book II of the French Commercial Code.

## Corporate purpose

In accordance with Article 2 of Danone's by-laws, the purpose of the Company, whether directly or indirectly, in France and in any country, shall be:

- industry and trade relating to all food products;
- the performance of any and all financial transactions and the management of any and all property rights and securities, whether listed or unlisted, French or foreign, together with the acquisition and the management of any and all real estate properties and rights.

In general, the Company shall be entitled to effect any and all property, real estate, industrial, commercial, and financial transactions relating directly or indirectly or possibly useful in any

connection whatsoever to the Company in the fulfilment of its corporate purpose.

It shall be entitled to act and to effect the aforementioned transactions directly or indirectly, in any form whatsoever, on its own behalf or on behalf of third parties, and whether alone or in a joint-venture, association, grouping or company involving any other individuals or companies.

It shall also be entitled to acquire interests and holdings in any and all French and foreign companies and businesses, regardless of the purpose thereof, by means of the establishment of special companies, through asset contributions or subscriptions, through the acquisition of shares, bonds or other securities and any and all company rights, and, in general, by any means whatsoever.

## Statutory Auditors

### Principal Statutory Auditors

ERNST & YOUNG ET AUTRES  
Membre de la Compagnie Régionale  
des Commissaires aux Comptes de Versailles  
Tour First, 1, place des Saisons  
TSA 14444  
92037 Paris-La Défense Cedex  
Represented by Jeanne BOILLET and Gilles COHEN

PRICEWATERHOUSECOOPERS AUDIT  
Membre de la Compagnie Régionale  
des Commissaires aux Comptes de Versailles  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex  
Represented by Étienne BORIS and Philippe VOGT

### Start date of first term of office

April 22, 2010

May 21, 1992

### Expiration date of term of office

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015

### Substitute Statutory Auditors

AUDITEX  
Tour First, 1, place des Saisons  
TSA 14444  
92037 Paris-La Défense Cedex

Yves NICOLAS  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex

### Start date of first term of office

April 22, 2010

April 22, 2010

### Expiration date of term of office

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015

Date of the Shareholders' General Meeting deliberating on the financial statements for the fiscal year ended December 31, 2015



## 1.3 References and definitions

Unless otherwise noted:

- all references herein to the “Company” refer to Danone the issuer;
- all references herein to the “Group” or “Danone” refer to the Company and its consolidated subsidiaries;
- all references herein to “markets” for products in particular, or to market shares, refer to markets for packaged products and exclude products that may be otherwise marketed or sold;
- data pertaining to market shares or the Group’s market positions are based on the value of sales;
- all references herein to market shares or to the Group’s market positions are derived from third-party market studies and data base provided notably by Nielsen, IRI, Euromonitor and Canadean institutes;
- all references herein to “Fresh Dairy Products” and the Fresh Dairy Products business or markets refer to processed dairy products and exclude milk, cream and butter;
- all references herein to “Waters” and the Waters business or markets refer to bottled water, water sold in large containers (jugs), and water sold in small containers (cups);
- all references herein to “Baby Nutrition” and the Baby Nutrition business or markets refer to baby formula (infant milk formula, follow-on milk, growing-up milks), milk-and fruit-based desserts, cereals, small pots of baby food and ready-made baby food;
- all references herein to “Medical Nutrition” and the Medical Nutrition business or markets refer to adult or pediatric clinical nutrition products to be taken orally, or through a catheter in the event of malnutrition related to illness or other causes;
- all references herein to “Division” or “Divisions” refer to Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition Group businesses;
- all references herein to “mature countries” refer to Western Europe (including France and Southern Europe countries such as Spain, Italy and Portugal), North America, Japan, Australia and New Zealand;
- all references herein to “emerging countries” refer to other countries where the Group is present;
- all references herein to “GPU” (Group Performance Units) refer to medium-term variable compensation described in Section 7.2 *Employee benefits*;
- all references herein to “GPS” (Group Performance Shares) refer to Company shares subject to performance conditions granted to certain employees and corporate officers described in Section 7.2 *Employee benefits*.





# Overview of activities, risk factors



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## 2.1 History

The Group's origins date back to 1966 when the French glass manufacturers, Glaces de Boussois and Verrerie Souchon Neuvesel, merged to form Boussois Souchon Neuvesel, or BSN. In 1967, BSN generated sales of around € 150 million in flat glass and glass containers. In 1970, the BSN group began a program of diversification in the food industry and successively purchased Brasseries Kronenbourg, Société Européenne de Brasseries and Société Anonyme des Eaux Minérales d'Evian which were, at the time, major customers of the BSN group for glass containers. These acquisitions made the BSN group France's market leader in beer, mineral water, and baby food. In 1973, BSN merged with Gervais Danone, a French food group specialized in dairy and pasta products, becoming the largest food group in France, with consolidated sales of around € 1.4 billion, 52% of which in food and beverage.

During the 1970s and 1980s, after selling off its flat glass operations, the BSN group focused its growth on food, primarily in Western Europe. This expansion included (i) the acquisition of breweries in Belgium, Spain, and Italy; (ii) Dannon (the leading producer of yogurt in the United States); (iii) Generale Biscuit, a French holding company which owned LU and other European biscuit brands; (iv) the biscuit subsidiaries of Nabisco, Inc. in France, Italy, the United Kingdom and Asia; and (v) Galbani, Italy's leading cheese maker. With consolidated sales of € 7.4 billion in 1989, the BSN group was the third largest diversified company in Europe, and the largest in France, Italy, and Spain.

In the early 1990s, the BSN group started consolidating the positions it had acquired in previous years, developing synergies within Western Europe and expanding into growing markets. The BSN group also laid the first milestones of its development strategy outside Western Europe. This group expanded its operations significantly by acquiring a large number of companies and creating a number of joint ventures. In Western Europe, for example, BSN acquired *Volvic* in France to strengthen its position in bottled water. Outside Western Europe, BSN pursued an active acquisition strategy to expand internationally (in the Asia-Pacific region, Latin America and Eastern Europe, as well as in selected markets such as South Africa and the Middle East).

In 1994, in order to consolidate its position as an international food and beverage group, the BSN group decided to change the BSN parent company's name to "Groupe Danone" (in 2009, the shareholders approved the modification of the relevant article of the by-laws to change the legal name of the Groupe Danone parent company to "Danone").

In 1997, the Group decided to focus on three worldwide business lines (Fresh Dairy Products, Beverages, and Biscuits and Cereal Products). Danone accordingly made several major divestitures in its Grocery, Pasta, Prepared Foods, and Confectionery Products operations, primarily in France, Belgium, Italy, Germany, and Spain. In 1999 and 2003, the Group also sold 56% and 44%, respectively, of the capital of BSN Glasspack, the holding company of its Glass Containers business, and in 2000 the Group sold most of its European Beer activities. In 2002, the Group also sold (i) Kro Beer Brands, which held the *Kronenbourg* and *1664* brands, among others; (ii) its Italian Cheese and Meat activities (Galbani); and (iii) its Brewing operations in China. The Group also sold its Sauces operations (i) in the United Kingdom and United States in 2005 and (ii) in Asia in 2006. In 2005 the Group also finalized its exit from its European Brewing activities, selling its interest in the Spanish company Mahou.

The year 2007 marked the end of a 10-year period during which the Group refocused its operations on the health sector. In 2007, the Group sold nearly all of its Biscuits and Cereal Products business (to the Kraft Foods group). That same year, it also acquired Numico, which enabled it to add the Baby Nutrition and Medical Nutrition business lines to its portfolio.

2010 represented a major new stage in the Group's development strategy with the acquisition of the Unimilk group's companies, making it the leader for dairy products in Russia and the CIS area. In 2011, Unimilk's activities were merged with those of Danone's Fresh Dairy Products Division already present in the area for the purpose of pooling the resources and cultures of the two entities. Furthermore, efforts were made to prioritize Unimilk's brands, with a particular emphasis on the development of value-added dairy products, specifically the *Prostokvashino*, *Tëma* and *Bio Balance* brands.

## 2.2 Presentation of the Group

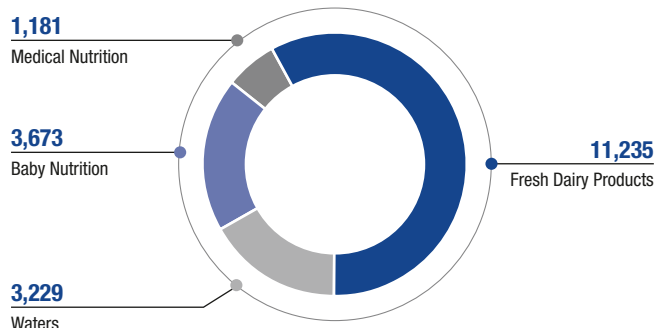
### Activities

The Group's strategy is consistent with its mission of "bringing health through food to as many people as possible". Since 2007 and the acquisition of Numico, this mission has been implemented through four Divisions:

- the Fresh Dairy Products Division (production and distribution of yogurts, fermented fresh dairy products and other specialty fresh dairy products) accounted for 58% of Group sales in 2011;
- the Waters Division (production and distribution of packaged natural, flavored and vitamin-enriched water) represented 17% of Group sales in 2011;
- the Baby Nutrition Division (production and distribution of specialized food for babies and toddlers to complement breast-feeding) accounted for 19% of Group sales in 2011;
- the Medical Nutrition Division (production and distribution of specialized food for people afflicted with certain illnesses or frail elderly people) made up 6% of Group sales in 2011.

#### Sales by Division

In € millions



Each Division has a global management unit, to which the dedicated local entities report.

The Group enjoys the following leadership positions worldwide: No. 1 worldwide for fresh dairy products, No. 3 worldwide for packaged water and No. 2 worldwide for baby nutrition.

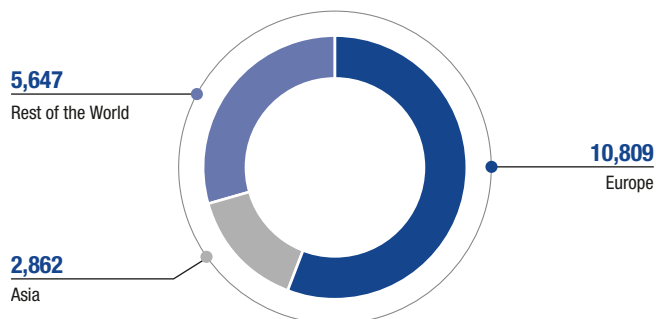
### Principal markets

The Group is present in all regions of the world:

- Europe, including Russia, the other CIS countries and Turkey, accounted for 56% of Group sales in 2011, spread across all four Divisions. The leading countries in this region are France, Russia, Spain, Germany and the United Kingdom;
- Asia represented 15% of Group sales in 2011, notably in China and Indonesia in the Waters and Baby Nutrition Divisions;
- the Rest of the World, which includes the activities in North America, Latin America, Africa and the Middle East, accounted for 29% of Group sales in 2011:
  - the United States is the leading country in this region thanks to the robust activity in the Fresh Dairy Products Division;
  - Mexico, Argentina and Brazil are the main contributors in Latin America for all four Divisions;
  - in the regions of Africa and the Middle East, South Africa and Saudi Arabia are the largest markets, focused entirely on the Fresh Dairy Products.

#### Sales break down by zone

In € millions



The Group's ten principal countries are the following:

	Fiscal year ended December 31
	<b>2011</b>
France	11%
Russia	11%
Spain	7%
United States	7%
Indonesia	6%
Mexico	5%
China	5%
Argentina	5%
Germany	5%
United Kingdom	5%

## 2.3 Description and strategy of the Divisions

The Group defines a specific strategy for each of its four Divisions.

### Fresh Dairy Products

The Fresh Dairy Products Division produces and markets yogurts, fermented fresh dairy products and other specialized fresh dairy products.

The Division's strategy consists of developing consumption of these products in all regions around the world. The strategy is based on:

- strengthening the Division's position in the major markets with strong growth potential such as the United States, Russia, Brazil, Mexico, Japan and South Africa, where *per capita* consumption of fresh dairy products is low;
- maintaining growth in mature European countries through innovation, product line extensions, format diversification and a stronger presence in the various distribution channels, as well as through a communication model based on local ties to the consumer and the use of new media;
- the development of new regions such as Egypt, Chile and Indonesia.

The Division's dynamism lies in its capacity to further develop its product lines and continuously introduce new products in terms of flavor, texture, ingredients, nutritional content and packaging, making it possible to reach new consumers and develop new consumption moments while covering the full range of price points.

Danone has also begun to develop an innovative concept for the distribution of its products through the creation of "yogurterias", kiosks and sales boutiques for frozen yogurt to eat on site or to take out, which have been successfully tested in Spain since 2009.

Moreover, the local deployment of global brand platforms enables the Division to optimize the allocated resources. Given the Group's decentralized organization, this deployment enables each country to innovate based on the local culture and preferences while supporting the vertical innovation strategy applied to the main brands, thereby promoting the broad and rapid spread of products with high sales potential.

The Division's main brands and product lines are as follows:

- *Activia*, which has been marketed for more than 20 years, is now present in 72 countries;
- *Actimel*, on the market for more than 10 years;
- brands aimed at children and pre-adolescents, such as *Danonino*, which have been replicated in more than 50 countries (notably under the *Fruchtswerge*, *Danoninho* and *Petit Gervais* brand names), as well as *Danimals* in the United States, *Serenito* in Argentina and *Milkuat* in Indonesia;
- functional brands such as *Danacol* and *Densia*;

- Indulgent lines such as *Oikos*, *Danette* and *Fantasia*;
- *Vitalinea*, also marketed under the *Taillefine* and *Ser* brand names, which comprises the low-fat product lines;

- so-called core business brands, which include basic fresh dairy products such as plain and fruit yogurts.

## Waters

The Waters Division comprises the natural waters business along with flavored and vitamin-enriched waters:

- the main international brands include *Evian*, *Volvic* (France, Germany, United Kingdom, Japan), *Bonafont* (Mexico, Brazil and, recently, Poland), and *Mizone* (China, Indonesia);
- the main local brands include *Fontvella* and *Lanjarón* in Spain, *Villavicencio* and *Villa del Sur* in Argentina, *Aqua* in Indonesia and *Zywiec Zdroj* in Poland.

The Division's strategy is based mainly on (i) the promotion of hydration-related health benefits and (ii) the management and protection of high-quality natural water resources. Given the bipolarization of its markets (mature/emerging), the Group has adopted a strategy that reflects local concerns:

- in the mature countries, average penetration and consumption levels are already high, and therefore do not offer strong

growth potential in this category in the years ahead. In addition, consumers are increasingly paying attention to the environmental impact of packaged water. For example, the Division developed the use of new plant-based materials for the *Volvic* and *Lanjarón* brands, and is on the verge of achieving its goal of a carbon-neutral footprint for *Evian* this year (see Section 7.5 *Environmental responsibility*);

- in the emerging countries, the Division's strategy consists of accelerating the development of its growth model, notably by (i) identifying and preserving new water resources, (ii) strengthening its local retail experience, and (iii) rolling out certain brands in several countries, such as *Bonafont*, which was successfully deployed in Mexico, Brazil and Poland, as well as *Mizone* in China and Indonesia.

## Baby Nutrition

The Baby Nutrition Division focuses on specialized foods for infants and toddlers to complement breast-feeding while always complying with the World Health Organization (WHO) Code and local laws. The infant formula segment accounts for three-fourths of this activity, with a special emphasis on the development of 2<sup>nd</sup> and 3<sup>rd</sup> stage follow-up milks (designed for children between the ages of one and three). Meanwhile, solid foods for infants, also known as "baby food diversification", account for one-fourth of the activity and are concentrated mainly in European countries such as France, Italy and Poland.

The Division's growth strategy revolves around the four following themes:

- **Scale**, which consists of aligning the local brands around the Division's two brand platforms – Immunity (e.g. the Aptamil brand) and Superior Nutrition (e.g. the *Bebelac* brand) – thereby allowing a rapid global deployment of best practices from each country;

- **Specificity**, which aims to integrate and provide an optimal response to the specific needs of infants and young children;
- **Interactivity**, which consists of initiating interactive educational campaigns to ensure that mothers have access to information corresponding to their respective situations (pregnancy, breast-feeding, baby food diversification);
- **Credibility**, which aims to make this product category better known and understood among opinion leaders, healthcare professionals and the leading order-givers in the sector.

The Division is also developing an economic affordability strategy, notably in Indonesia through its *SGM* and *Gizikita* brands.

From a regional standpoint, the Division continues to record gains in the rapidly growing emerging markets. In particular, China and Indonesia are priority markets and the Group currently ranks as the number one in terms of sales.

## Medical Nutrition

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The Medical Nutrition Division focuses mainly on patients, infants afflicted with certain illnesses and frail elderly people. The Division's products are designed primarily to treat disease-related malnutrition by satisfying special food needs. These products – most of which are eligible for insurance reimbursement – are prescribed by healthcare professionals (doctors, medical personnel in hospitals and clinics, pharmacists).

With its *Nutricia* brand, the Group has a broad portfolio marketed in several countries. These sub-brands include:

- *Fortimel/Fortisip*: liquid oral nutritional supplements, with the most concentrated versions recently introduced in some of the Division's largest markets (United Kingdom, France, Spain, etc.);
- *Neocate*: hypoallergenic products aimed at infants and children with lactose or multiple food protein intolerance or allergy-related troubles;
- *Fortifit*: supplements for people suffering from sarcopenia, an illness marked by degenerative loss of skeletal muscle mass linked to aging.

The Group's strategy consists of increasing its global coverage by penetrating new countries and developing various distribution channels. Thus the Division developed a new platform (known as OTX) for marketing products that are not eligible for insurance reimbursement through new distribution channels (notably pharmacies and drugstores) in countries such as Austria (test market for the *Fortifit* brand) and Brazil.

The Group estimates that the medical nutrition market's growth potential is significant, mainly as a result of (i) the aging of the population in some countries, (ii) the increased awareness of the role of nutrition in health (notably for preventive purposes), (iii) the emergence of new illnesses and allergies, and (iv) the growing number of screening procedures enabling early treatment of afflicted patients. Moreover, current research on the treatment of certain illnesses and allergies could contribute to this growth potential.

## 2.4 Group strategic development priorities

### Health and nutrition

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Through Danone's Food, Nutrition and Health Charter published in 2009, the Group has reaffirmed its mission of "bringing health through food to as many people as possible".

This charter confirms Danone's commitment to providing answers to current food-related public health issues (obesity, diabetes, cardiovascular disease, nutritional deficiencies). These commitments include:

- adapting products to the needs of consumers in terms of nutritional quality, taste and affordability;
- developing products that provide health benefits;
- consumer information presented in a clear (notably with respect to the nutritional labeling of products) and responsible (advertising) manner;
- promoting healthy lifestyles;
- support for nutrition and health research programs;
- dialogue with public health authorities, consumer groups and scientists;
- sharing of knowledge with the scientific community and health professionals.



## Dialogue with consumers

Proximity to consumers is a key success factor for Danone's brands and products. The Group therefore strives to maintain an ongoing dialogue with consumers by adapting to media trends and consumption methods. This dialogue occurs at all levels where a direct link with the consumer may arise:

- at the level of communication through traditional channels (TV, press, etc.) as well as online (*Evian live young* campaign, etc.) or interactive (*Cow & Gate* information platform, etc.) activities;
- at the product and packaging level, by differentiating the product experience for the consumer as much as possible;
- at the point-of-sale level by developing new shelf displays that promote the products in the stores.

In the Baby Nutrition and especially in the Medical Nutrition Divisions, the dialogue with consumers occurs mainly through healthcare professionals (doctors, hospitals, pharmacies). Danone also maintains a permanent relationship with healthcare professionals through medical visits, while integrating trends specific to these distribution channels:

- recognition of growing constraints affecting healthcare professionals (time, regulations, budgetary limitations, growing patient demands, etc.);
- development of alternatives to medical visits, such as online platforms enabling information sharing among professionals (e.g.: *Neocate* site).

## Group's activity upstream, source of value creation

The Group's strategy increasingly relies on the upstream segment of its activity (its natural resources, operations and the environment), not just to manage costs but also to make it a genuine mechanism for creating value and standing apart from the competition.

Danone is thereby developing and securing high-quality supply sources, as exemplified by the Fresh Dairy Products Division in Egypt, where the Group has developed its own milk collection farms to better respond to challenges in the dairy sector. This pilot project with the NGO *Care*, known as *DanFarm*, aims at establishing a local dairy cooperative (combining several hundred dairy farmers) with multiple objectives: improving the productivity and quality of milk in Egypt, strengthening the role of small producers in the dairy supply chain and helping to boost the revenues and know-how of medium-sized producers while securing Danone Egypt's milk supply.

In addition to the supply challenges, the Group has endeavored in recent years to consolidate the existing close ties between Danone and its farmers, to innovate in order to develop the nutritional and environmental quality of the products and to strengthen the ties between farmers and consumers through a sustainable milk initiative "*Acteurs pour un Lait Durable*". The "Our farmers and you" ("*Nos éleveurs et vous*") program highlighting the origin of the raw materials in product communication has been a success, notably by informing consumers of specific initiatives in support of farmers.

Finally, the Group's focus on upstream activities helps with the implementation of its environmental policy, a long-term economic challenge. By working to ensure the long-term availability of its resources, the Group is developing sustainable and environmentally friendly industrial and agricultural models aimed at reducing the environmental impact of its activities throughout the production chain (see Section 7.5 *Environmental responsibility*).

## Regional sites

The development of activities around the world, in particular in emerging markets, represents a key mechanism by which the Group successfully carries out its mission of "bringing health through food to as many people as possible" while ensuring its long-term growth. In 2011, for the first time ever, emerging markets accounted for more than half of the Group sales.

Danone has developed strong positions in the so-called MICRUB countries (Mexico, Indonesia, China, Russia, United States, Brazil), thereby allowing to identify good practices which are then shared throughout the Group. These strong positions also

illustrate Danone's strategy, which relies on local expertise as a means of supporting its development and growth. Local examples include: Mexico, where the *Bonafont* and *Dan'Up* brands were created; Indonesia, where affordable Baby Nutrition products were developed; China, where the *Mizone* brand was rolled out; and finally, Brazil, with the OTX platform and its naturalness initiative for the *Danoninho* brand.

In order to pursue its geographic expansion and develop its long-term growth potential, the Group is testing out small-scale models in new markets such as various Asian and African countries where

the Group does not operate yet, given their growing economic and socio-demographic stature as well as the emergence of a middle class and medium-sized cities (more than 1 million residents) in some of those countries.

Danone thus recently entered a select number of cities in India with its *Qua* and *B'lue* brands (Waters Division), *Danone* and *Danette* brands (Fresh Dairy Products Division) and the *Fundoos* brand,

a line of nutritional products aimed at the most economically distressed populations (Fresh Dairy Products Division).

On the strength of its experience in Africa in recent years, notably in the Maghreb region, the Group is developing new positions in new markets (Ivory Coast, Cameroon, Kenya, etc.) through nutritional product offers adapted to local conditions and consistent with the World Health Organization Code.

## Acquisition strategy

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In the pursuit of its international development strategy, the Group will continue to make acquisitions any time suitable opportunities arise, in order to strengthen its various Divisions. To that end, the

Group is constantly examining acquisition opportunities. In this context, the Group may notably enter into partnership or create companies with non-controlling interests or joint-ventures.

## 2.5 Other points related to the Group's activity and organization

### Customers

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Although the end customers of the Group's products are individual consumers, the Group generates a substantial portion of its sales through major retail chains. This retail sector has become increasingly concentrated over the past several years.

In 2011, the Group's top ten customers (of which five are French) accounted for approximately 22% of its consolidated sales; the top five customers accounted for approximately 15%.

The Group has undertaken several initiatives to work closely with its distributors to help develop the sales of its products:

- it establishes global partnerships with its leading distributors. These partnerships are focused mainly on logistics collaboration and food safety management. Matters involving pricing policies, which are up to each subsidiary, are not included in these agreements;
- the Group has taken several initiatives to work closely with its large retailers in order to accelerate the development of its product categories and to optimize the flow of goods and the inventory levels of its customers. These include the Efficient Consumer Response (ECR) approach. In addition to inventory

management, automatic inventory replenishments and just-in-time delivery, ECR aims at working with distributors to better manage consumer demand and expectations at the point of sale. To that end, the Group has established a shared inventory management system with its leading distributors that is used to coordinate inventory levels among stores, as well as at the distributors' and Danone's warehouses. The Group also works with its customers to develop specific marketing activities such as joint promotions;

- in recent years, some European retail chains have expanded rapidly internationally, enabling the Group to accelerate its own geographic expansion as well as the international development of its brands. In these new regions, such retailers seek to market high-quality brand name products, as they represent an engine for growth and profitability.

In the baby nutrition market, customers also include major retail chains as well as pharmacies, hospitals and clinics.

In the medical nutrition market, the Group works closely with local and regional regulatory authorities, doctors, scientists, hospitals, clinics and pharmacies.

## Distribution

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### Fresh Dairy Products and Waters

Although they vary to reflect local specificities, the Group's distribution models reflect two main approaches: distribution aimed at major retail chains on the one hand and distribution to traditional commercial points of sale on the other.

In emerging countries, particularly in Asia, Latin America and Eastern Europe, a large portion of Danone's sales is generated through traditional market outlets thanks to small-scale point of sale networks. An in-house sales force and exclusivity agreements with wholesalers represent a competitive advantage for the Group in countries where traditional commerce and independent supermarkets continue to account for a significant share of food sales.

Moreover, in Latin America and Asia, a significant portion of the Waters Division's products is directly distributed to consumers (Home and Office Delivery or "HOD").

The Group is constantly streamlining its logistics flows in order to improve service quality while reducing costs. This policy is based on an ongoing assessment of its distribution organization, notably through outsourcing of distribution in collaboration with specialized distributors.

### Baby Nutrition and Medical Nutrition

In the baby nutrition and medical nutrition markets, products are marketed through hospitals, clinics and pharmacies. The Baby Nutrition Division also markets its products through large retail chains. Medical visitors meet with general practitioners and specialists (pediatricians, nutritionists, etc.), as well as with pharmacists.

## Marketing

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Advertising and promotional policies represent a key factor in the Group's strategy based on innovation, brand recognition and market leadership.

Danone's operating companies in each Division and regional market are responsible for their own advertising, promotional and

sales strategies, adapted to local consumption patterns. They are all supported by common foundations defined by dedicated central organizations. In order to ensure the coherence of the policies implemented, the sharing of know-how and optimization of costs, the Group has its own commercial retail strategies department and cross-functional marketing teams.

## Competition

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The Group's competitors in its respective business lines include (i) large multinational food and beverage corporations such as Nestlé, PepsiCo, Coca-Cola, Unilever and (ii) large corporations in the medical nutrition and baby nutrition segments such as Abbott, Mead Johnson, Fresenius, and (iii) smaller companies specializing in certain product lines or markets, or (iv) retail chains offering generic or private label products.

The packaged food and beverage sector is highly competitive due to the large number of national and international competitors. The Group is confident that its strategy for profitable growth is strongly supported by its products' quality, convenience, affordability and innovative nature, and by the powerful brand image conveyed on health, nutrition and food safety. Reckoning that success in this industry is achieved through strong local market positions, the Group is (or seeks to become) the market leader of each segment in every country where it operates, always in compliance with competition laws and regulations. This strategy allows for a long-lasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability for both parties:

- in Western Europe, where markets tend to be relatively mature, competition for market share gains is particularly intense.

The Group's strategy is to differentiate itself from its competitors by marketing innovative, value-added products that respond to a growing consumer demand for health-oriented/well-being food products. This effort is reinforced by a sustained advertising support as well as by the use of new media and the development of new ways to connect to consumers;

- in North America, the Group operates mainly in market segments that offer strong growth opportunities for consumption per capita (Fresh Dairy Products and Medical Nutrition Divisions), in which it faces competition mainly from large groups. Danone has based its strategy on developing the size of its segments products, in particular through innovation and enhanced distribution;
- in emerging countries, the competitive pressure is high due to (i) the presence of local players who market products at very low prices, and (ii) multinationals looking to penetrate or increase their activities in these high potential markets. The Group's strategy in these countries is to offer quality products bearing strong health/food safety benefits and affordable to the largest number of people.

## Research and Development

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The Group's Research and Development's mission is to:

- develop products offering specific benefits and targeted to optimize people's health capital and quality of life. A significant portion of the product portfolio therefore offers nutritional benefits, such as digestive system, bone development, weight management and cardiovascular health;
- improve dietary practices and promote better food for all. Danone therefore promotes nutrition research, educates and trains health professionals on diet-related matters and contributes toward improved dietary practices by the general population through educational and informational campaigns;
- adapt its products to the local needs and typical use.

This process is conducted in compliance with a policy of uncompromising food safety and through the development of innovative production processes that serve the general strategy of reducing costs.

The Group's Research and Development Department includes, within Danone Research, some 1,200 people, including 500 in France. The Research and Development teams work in two major scientific centers: one in Palaiseau, near Paris, and the other in Wageningen, the Netherlands. Local teams have also

been created in most countries where the Group is present. Their primary mission is to adapt the products (namely their texture, aroma, size, packaging, etc.) to local consumption habits and to develop specific products for their market.

The Group has developed scientific expertise in the following areas:

**Digestive system and microbiology.** Along with its research into lactic bacteria, probiotics and prebiotics, Danone has also conducted research for the past several years into the bacteria that make up the intestinal microbiota. This microbiota plays a part in the digestion of certain foods, affects the immune system and protects against certain harmful bacteria. In fact, prebiotics and probiotics can have a positive impact on the composition of the intestinal flora and therefore provide positive health benefits. Consequently, there is a network of interactions between the human body, its intestinal microbiota, prebiotics and probiotic bacteria. For all their work, teams use the latest techniques in genomics and robotics and collaborate with high-level scientific partners such as the Pasteur Institute, INRA (the French National Institute for Agricultural Research), Washington University (United States), Wageningen University (Netherlands), and the Lawson Institute (Canada).

**Nutrition and physiology.** Nutrition is a prerequisite for good health. Through collaboration with experts and governmental authorities, Danone has built a nutritional strategy based on two key areas:

- nutritional epidemiology, aimed at understanding and analyzing changes in dietary practices and the nutritional status of local populations in order to identify the major food-related public health challenges for each country. For example, Danone's expertise in this area made it possible to develop a nutritional and public health map in 17 countries, identify the deficiencies and excesses, and adapt the formulas of the Group's products accordingly. As a result, *Danonino* (known as *Petit Gervais aux Fruits* in France), a dairy product for children, differs from one country to another, for example with added vitamins D and E in Brazil, calcium and vitamin D in Poland, zinc and vitamin D in Mexico;
- continuous improvement of the products' nutritional quality, which applies the recommendations developed by the World Health Organization (WHO) to come up with nutritional targets for each nutrient, product category and consumer group, and to implement gradual action plans to bring these products closer into line with those targets.

**Sensory analysis and behavioral sciences.** Putting the consumer, i.e. the individual, at the heart of the development projects, represents a major challenge for Danone. The development of this link between Research and Development and the consumer involves integrating the consumer upstream from

product development, understanding the human element in food consumption and identifying consumer expectations in terms of taste, typical use and experience in daily life, targeted benefits, etc.

The Group regularly conducts research in collaboration with external entities such as universities and specialized public research centers. The Group benefits from the expertise of external scientific committees on strategic themes (such as probiotics or water) and its health brands. The Group also maintains permanent contact with the scientific community to better understand health and nutrition issues. This ongoing dialogue with scientists and research support are two of the commitments made by the Group in its Food, Nutrition and Health Charter.

As part of its contribution to nutritional research, 18 Danone Institutes (non-profit organizations) around the world have been created to help further understanding of the links between food, nutrition and health. Their initiatives support scientific research, provide information and training for health professionals, and extend into public education. The Danone Institutes bring together independent experts (researchers, doctors, dieticians) covering all areas of food and nutrition (biology, medicine, and human sciences, such as psychology and sociology).

Lastly, the Danone International Institute has established a biennial international award to recognize innovative research and concepts that make a major contribution to public health in the area of nutrition. In 2011, the 8<sup>th</sup> Danone International Prize for Nutrition was awarded to Professor Jeffrey GORDON for his research on microbiota.

## Plants and equipment

The Group's policy is to generally own its production facilities. The Group has many, widely-dispersed production facilities except for Baby Nutrition and Medical Nutrition Divisions for which the sites are more concentrated.

The Group has production facilities around the world in its principal markets. As of December 31, 2011, the Group had 186 production sites: (i) 77 in Europe, including 13 in France and 10 in Spain; (ii) 43 in the Asia-Pacific region, including 19 in Indonesia; and (iii) 66 in the Rest of World, including 7 in the United States and Canada, 43 in Argentina, Brazil, Mexico and other countries in Latin America, and 16 in Africa and the Middle East.

Analysis of the total number of Group production facilities as of December 31, 2011 and total production by Division in 2011, for the fully consolidated companies is presented in the table below:

Division	Number of plants	Production
Fresh Dairy Products <sup>(1)</sup>	77	6,908
Waters <sup>(2)</sup>	85	20,900
Baby Nutrition <sup>(1)</sup>	21	635
Medical Nutrition <sup>(2)</sup>	3	121

(1) In thousands of tons.

(2) In millions of liters.

In 2011, the Group's five largest Fresh Dairy Products facilities were located in Mexico, Argentina, the United States, Brazil, and Saudi Arabia, and accounted for approximately 34% of the Group's total production of Fresh Dairy Products.

The Group's two largest bottled water facilities, both located in France, accounted for approximately 11% of the Group's total packaged water production capacity in 2011, and the two largest production facilities for water in large containers, both located in Indonesia, accounted for close to 10%.

The Group's largest facility in the Baby Nutrition Division is located in Indonesia and accounted for close to 12% of the Division's production in 2011.

The Group's largest facility in the Medical Nutrition Division is located in the Netherlands and accounted for close to 91% of the Division's production in 2011.

Lastly, the Group rents some of its facilities, notably offices and warehouses, (see Section 3.4 *Balance sheet and financial security review*).

The production sites are inspected regularly to assess possibilities for improving quality, environmental protection, safety, and productivity. On the basis of these reviews, management establishes plans for the expansion, specialization, upgrading, and modernization (or closing) of specific sites.

## Raw materials purchasing

The Group's raw materials needs consist mainly of:

- **materials needed to produce food and beverage products, namely milk and fruits (the "food raw materials").** On a value basis, milk represents the leading raw material purchased by the Group. These purchases consist mainly of liquid milk, for which the operating subsidiaries typically enter into agreements with local producers or cooperatives. Liquid milk prices are set locally, over contractual periods that vary from one country to another. The main other food raw materials are fruit-based preparations and sugar;
- **product packaging materials, in particular plastics and cardboard ("packaging").** Packaging purchases are managed through global and regional purchasing programs that make it possible to optimize skills and volume effects. Prices are influenced by supply and demand at the global and regional levels, economic cycles, production capacities and oil prices. The main packaging materials purchased by the Group are plastics including PET and cardboard.

Energy supplies account for only a limited portion of the Group's overall purchases.

The price trends of major raw materials may have a significant impact on the volatility of the Group's earnings (see Note 32 of the Notes to the consolidated financial statements). In that context, the Group manages cost inflation of raw materials through the following measures, ranked in order of importance:

- purchases made locally whenever possible, as local markets are often less volatile;
- establishment of a purchasing policy ("Market Risk Management") that consists of defining rules for securing the physical supply and price setting with suppliers and/or on financial markets when they exist. The monitoring of exposures and of the implementation of this policy is made at the level of each raw materials category by the Group's central purchasing staff. The buyers typically negotiate forward purchase agreements with suppliers, since no financial markets exist that would allow efficient hedge of the volatility of the Group's main raw materials purchase prices;

- productivity improvements and production cost reductions, for example by streamlining packaging;
- optimization of fixed costs through concentration and increased volumes;
- depending on the markets and products, sales price adjustments while maintaining the Group's competitive position.

Forward purchase agreements are monitored at the Group level at the end of each year. The information regarding these future purchasing commitments is presented in Section 3.4 *Off-balance sheet commitments*. Also, with respect to the Group's two main raw materials categories (milk and dairy ingredients and plastics including PET), a sensitivity analysis for the impact of changes in their prices on the Group's annual purchasing costs (applied simultaneously in all countries where the Group has a production activity) is presented in Note 32 of the Notes to the consolidated financial statements.

## Social and environmental responsibility

A direct result of Danone's dual economic and social project, Corporate Social Responsibility (CSR) is deeply anchored in the Group's strategy.

In 1972, Antoine RIBOUD noted that "corporate responsibility does not stop at the factory gate or the office door". This vision was then formalized into the dual economic and social project that forms the basis for Danone's development and organizational model.

Since 1996, Franck RIBOUD has lent increasing weight to societal concerns, making corporate social responsibility and sustainability essential levers for strong and lasting growth.

2006 marked a key stage, with the formalization of Danone's mission: "Bring health through food to as many people as possible".

This mission is reflected in the Group's major social welfare challenges:

- social challenges: employment, increased employability and professional skills, due consideration for employees' commitment and well-being, for occupational health and safety standards, and for the local and regional areas where the Company operates;
- challenges linked to products and consumers: taking nutrition and food into account as basic elements in public health policies;

- environmental challenges: satisfy the needs of an ever-increasing number of consumers while limiting the environmental impact of this industry's activities.

To satisfy these challenges and grow in accordance with its mission, Danone decided to focus on four strategic priorities to ensure sustained and responsible growth:

- health: strengthening of the Group's capacity to deliver relevant benefits with respect to nutrition and health challenges;
- for All: establishment of economic models to bring high-quality nutritional solutions to populations with limited purchasing power in a growing number of countries;
- nature: recognition of environmental impact through reductions in the Group's carbon footprint and water consumption;
- people: transformation of the Company as a place for the development of all employees.

These four strategic priorities (Health, For All, Nature, and People) are a guiding principle by which Danone designs, produces and markets its products.

See also Sections 7.4 *Corporate social and societal responsibility* and 7.5 *Environmental responsibility*.

## IT systems

The Group has a policy for developing specialized IT (information technology) systems and deploying them in its subsidiaries in order to optimize and streamline investments in information technology while taking advantage of global synergies and limiting risks. The development and deployment of IT systems are the responsibility of a centralized team within the Group's IT Systems Department.

This IT systems policy covers all of the Group's functions and activities, in particular:

**Integrated information system.** At its subsidiaries, the Group implements an integrated information system Themis based on an SAP architecture.

Currently, Themis supports activities accounting for around three-fourths of consolidated sales in the Fresh Dairy Products and Waters Divisions (excluding Unimilk group's companies). The roll-out of this system is continuing in Latin America, notably Brazil; it is also central to the integration plan for the Unimilk group's companies.

The system is in the process of being implemented at the subsidiaries of the Medical Nutrition and Baby Nutrition Divisions (covering currently around 30% of sales for these two Divisions).

**Research and Development.** In this area, the Artemis (SAP) system was developed in order to consolidate all formulations of products and raw materials used. This application makes it possible to take advantage of and share all nutritional and food safety information related to products and ingredients used by Danone and to accelerate the design phases for new products.

For example, the Waters Division initiated a Hydra project for systematic quality measurement of hydrological resources that combines an analysis management application with a GPS application. Following an initial successful pilot program in France, this project will be rolled out to all the water sources managed by the Group.

**Purchasing and Supply chain.** The Group has implemented a Supplier Relationship Management solution, which covers the processes for analyzing expenditure, selecting suppliers, managing contracts, and analyzing suppliers' performance. This system is designed to structure and reinforce the internal procurement processes and the relationship with suppliers.

For example, the Fresh Dairy Products Division has developed an SAP-based application for analyzing the value of fruit preparations.

This application enables a collaborative approach with suppliers in order to optimize the preparations.

As for the supply chain, the Group offers its suppliers and industrial partners a range of EDI (Electronic Data Interchange) messages to automate and digitize information flows from orders to invoices (eSupply Chain).

**Environment.** Through a joint effort with IT systems developer SAP, the Group developed an innovative application to measure the carbon footprint of its products. Based on an analysis of each product's life cycle and operational monitoring of these various stages, this application makes it possible to measure the carbon footprint of each product. After being successfully validated at two pilot entities in 2010, in 2011 this solution was rolled out to twenty other entities, currently representing 42% of Danone's sales. This deployment will continue in 2012 at all subsidiaries equipped with the Themis system.

**Sales and Marketing.** Several major initiatives were launched in order to satisfy customers' and consumers' expectations more precisely, notably:

- implementation of the first "Sales force" and "Next generation promotion management in Modern Trade" systems;
- implementation of applications for handling customers' inventory shortages and monitoring of products' point of sale performance;
- initial operational experiences in Digital Marketing on the various interactive channels with consumers (Mobile & Call Center & Web & In Store Digital).

These new systems will be deployed more broadly in 2012, with a particular focus on the digital marketing operations.

## Financial risk management

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The Group's policy consists of (i) limiting the impact that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet, (ii) monitoring and managing such exposure centrally, whenever the regulatory and monetary frameworks so allow and (iii) using derivative instruments only for the purpose of economic hedging.

The Group's Treasury Department, which is part of the Group Finance Department, possesses the expertise and tools (trading

room, front and back office software) necessary to manage this risk. These means enable the Group to act on different financial markets following standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit departments review the organization and procedures applied. Lastly, a monthly treasury report is sent to the Group Finance Department, enabling it to monitor the decisions taken to implement the previously approved management strategies (see Section 2.7 *Risk Factors*).



## 2.6 Simplified organization chart

As of December 31, 2011 the Company consolidated 241 companies, of which 225 were fully consolidated and 16 were associates.

The list of all consolidated companies with country of origin, percentage of ownership and control as of December 31, 2011 appears in Note 36 of the Notes to the consolidated financial statements.

### Principal publicly traded equity interests

The Company holds, directly or indirectly, equity interests in the following companies:

- fully consolidated entities:
  - nil : the company Aqua (Waters – Indonesia) was delisted in 2011; it was previously listed on the Jakarta Stock Exchange;
- entities consolidated as equity associates:
  - Yakult Honsha (Fresh dairy products – Japan), listed on the Tokyo Stock Exchange;
  - Centrale Laitière du Maroc (Fresh dairy products – Morocco), listed on the Casablanca Stock Exchange.

## 2.7 Risk factors

### Risk identification and control policy

Danone maintains an active risk management policy aimed at protecting and developing its assets and reputation and protecting the interests of its shareholders, employees, consumers, customers, suppliers, the environment and its other stakeholders.

Since 2002, the Group has implemented a global risk identification and management system that prioritizes challenges in terms of their probability of occurrence and their estimated impact on the Group. It uses a special risk mapping methodology called “Vestalis”.

In the entities that use it, this mapping is designed to identify the risks related to the various processes and activities, to prioritize them at the local level and to consolidate and contextualize them at the regional or Division levels. This mapping then leads to the definition of key risk mitigation actions through preventive measures, which may be local or global as appropriate, or through the establishment of crisis management plans.

Vestalis has thus been deployed in all companies in the Fresh Dairy Products and Waters Divisions, and since 2009 its use has been largely and progressively extended to the companies in the Medical Nutrition and Baby Nutrition Divisions. As of December 31, 2011, Vestalis was deployed in 131 Group operating subsidiaries, which represent 96% of the Group’s consolidated sales.

The most significant risks are reviewed once a year by the management teams of the Divisions and geographic regions during specific meetings that also make it possible to discuss their main opportunities. More than 95% of the Zone CEOs and CFOs participated in a risk review meeting focusing on the risks faced by their subsidiaries in 2011. Risk review meetings organized by function or by process may also be held. A general review of the Group’s risks is regularly performed by the general management of Danone (to ensure a more detailed review, a risk management committee - the Danone Enterprise Risk Committee - was created in 2008 and meets every six months). The Audit Committee is

also regularly informed of these risks, and operating managers occasionally attend its meetings in person in order to report on the risks related to their areas of responsibility.

The risk management system is described in greater detail in the Chairman's report on internal control and risk management systems in Section 6.11 *Internal control*. It is an integrated system which relies significantly on the Group's risk management, internal

control and internal audit activities but which also benefits from the activities of the Group Finance Department and several other central functions.

The operational risks generally related to the business sectors in which Danone is active, those specific to the Group's activities and organization, legal risks, industrial risks, environmental risks and market risks are presented below by thematic category.

## Operational risks related to the Group's business sectors

### I. Risks associated with the volatility of prices and the availability of raw materials

#### Risk identification

The Group's principal raw material needs consist primarily of:

- materials needed to produce Danone's food and beverage products, primarily milk and fruits ("food raw materials");
- materials needed for packaging its products, primarily plastics and cardboard ("packaging").

Energy supplies represent a limited portion of the Group's purchases.

Variations in supply and demand at global or regional levels, weather conditions, government controls, regulatory changes and geopolitical events could substantially impact the price and availability of raw materials and the materials needed to package the products concerned, which could have an adverse effect on the Group's results. In particular, a potential increase in their prices may not be passed on, either in full or in part, in the sales price of the Group's products and could have in any event a significant adverse effect on the Group's activities and on its results.

#### Risk management

In the context of strong raw materials price volatility, the Group manages this commodity inflation through the following measures, ranked in order of importance:

- purchases made locally whenever possible, as local markets are often less volatile;
- establishment of a purchasing policy ("Market Risk Management") that consists of defining rules for securing the physical supply and price setting with suppliers and/or on financial markets when they exist. The monitoring of exposures and of the implementation of this policy is made at the level of each raw materials category by the Group's central purchasing staff. The buyers typically negotiate forward purchase agreements with suppliers, since no financial markets exist that would allow full-cover hedge of the volatility of the Group's main raw materials purchase prices;
- productivity improvements and production cost reductions, for example by streamlining packaging;

- optimization of fixed costs through concentration and increased volumes;
- depending on the markets and products, sales price adjustments while maintaining the Group's competitive position.

Additional information is provided in Section 2.5 *Other points related to the Group's activity and organization* and in Note 32 of the Notes to the consolidated financial statements.

### II. Risks associated with the concentration of distribution and the default of a customer

#### Risk identification

While the end customers of Danone products are individual consumers, the Group sells its products mainly to major retail and grocery chains. Overall, the distribution market has become increasingly concentrated. In 2011, the Group's top ten customers (of which five are from French origin) accounted for approximately 22% of its consolidated sales; the top five customers accounted for approximately 15% of such consolidated sales. A continuation of the movement to concentrate distribution would result in a smaller number of customers and could lead to retailers demanding price cuts and further promotions. This could affect the Group's operating margin, change its market shares and/or represent a counterparty risk in the event of a default by a major customer, and consequently have a significant adverse effect on the Group's activities and results.

In some countries, certain subsidiaries of the Baby Nutrition and Medical Nutrition Divisions have commercial relations with public and quasi-public organizations, health insurance and supplementary health insurance companies, as well as hospitals, whose default risk is relatively limited but which sometimes make payments only after lengthy time periods. It is possible that some of these organizations would collaborate and issue joint requests for proposals, which could put pressure on the earnings of the respective Divisions.

#### Risk management

The Group manages this risk mainly through an action program focused on the large key accounts and Credit Committees or

equivalents in Danone subsidiaries, as described in Section 2.5 *Other points related to the Group's activity and organization*.

Moreover, the Group's exposure to unpaid trade receivables not yet the object of a provision is limited, as indicated in Note 19 of the Notes to the consolidated financial statements.

### III. Risks associated with competition

#### Risk identification

The Group conducts its business in highly competitive markets that include large multinational companies and numerous local players of different sizes. In Western Europe and North America, the Group's markets tend to be relatively mature, and competition is therefore particularly intense, both in terms of pricing and innovations. With respect to the Group's activities in the Rest of the World, a few international food and beverage groups also hold strong positions in some emerging markets and seek to expand such positions or enter new markets. In addition, certain retail and grocery chains, having developed their own brands, could reduce the shelf space occupied by the Group's products in favor of their own products.

The Group is thus facing national and international competition which could lead it to reduce its prices to defend its market shares, which could have a significant adverse effect on the Group's results.

#### Risk management

To enable it to compete effectively with the main operators in these markets, the Group has decided to differentiate itself from its competitors in terms of its product range, quality/price ratio and positioning.

This strategy enables Danone to develop a long-lasting, balanced and constructive relationship with the major distribution networks by supplying leading products that generate growth and profitability for both parties.

The aim of these actions is to mitigate competition risk.

Additional information is provided in Section 2.5 *Other points related to the Group's activity and organization*.

### IV. Risks associated with the geopolitical environment

#### Risk identification

Danone's activities and employees can be subject directly or indirectly to the effects of a period of economic, political or social instability in numerous countries susceptible to experience or having recently experienced such periods, particularly in the Maghreb/Mashrek, Sub-Saharan Africa, the Near and Middle East, Latin America or Asia.

Also, some countries where the Group is present have regulations that are not very developed and/or not very protective (in particular with respect to intellectual property rights), and are often very

unstable due to the influence of powerful local interests. Some of these countries maintain exchange controls, control the repatriation of profits and invested capital, impose taxes and other payments and impose restrictions, sometimes retroactively, on the activities of multinational groups.

Any period of political or economic instability in a country in which the Group operates or any economic or political measure of a type described above that may be implemented in some countries could have a negative impact on the Group's activities.

#### Risk management

Danone's international growth enables a geographical distribution that diversifies and limits the concentration of this risk. In addition, the Group is preparing action plans and is implementing measures aimed at reducing to the greatest extent possible the impacts of this risk in the areas of human resources, finance and legal affairs. Depending on the situation, the Security Department participates in the development and implementation of these plans and measures, and forms or consolidates in certain regions relationships with state or private partners that the Group may make use of should the need arise. However, there can be no assurance that the results of the Group will not be significantly affected by a deterioration of economic, political or regulatory conditions or by a crisis in some of the countries where the Group is present.

### V. Risks associated with economic conditions in the Group's principal markets

#### Risk identification

The Group's sales are dependent on the overall economic climate in its principal geographic markets. In periods of economic slowdown that may hit some countries, the Group may have to contend with reduced spending by consumers whose purchasing power has declined and changing consumption patterns as a result of economic conditions. These trends may have adverse effects on the Group's activities and on its results.

#### Risk management

Danone's diversified geographic presence means that its exposure to the particular challenges in a given country is limited. The product portfolio of the Group's various subsidiaries, which is also diversified, and the ability of its management to adapt to changes in the market also enables the Group to reduce the risk associated with economic conditions.

### VI. Risks associated with weather conditions and seasonal cycles

#### Risk identification

Some of the Group's product markets are affected by seasonal consumption cycles and weather conditions, which may have a negative impact on the Group's results: in particular, demand



for beverages peaks during the summer months. For instance, relatively cool summer temperatures may result in substantially reduced sales of beverage products, especially packaged water, in the impacted geographical area relative to a normal year, and thus may have adverse effects on the Group's activities and results.

### Risk management

The Group's Divisions are affected to varying degrees by seasonal factors and, thanks to its diversified geographic presence, Danone has a limited exposure to weather conditions specific to a particular area. The Group manages these seasonal effects on the basis of lengthy operational experience and anticipates changes in weather conditions to the greatest extent possible.

## VII. Risks associated with the consequences of restructuring plans

### Risk identification

Danone works continuously to improve its efficiency in order to achieve better performance and anticipate adjustments needed to respond to changes in the market, projects, competition and, with respect to its internal organization, jobs and skills. This commitment to blending both short- and medium-term visions may in some cases result in difficult decisions regarding jobs (plant closings, restructuring plans with layoffs, etc.), that may be poorly understood and received by both employees and local constituencies (local elected officials, governmental authorities, etc.). Such decisions could affect the Group's relations with its employees, resulting in industrial disputes including, in particular, stoppages, strikes and other disruption and, consequently, could have, in addition to the financial impacts, adverse effects on the Group's reputation, activities and results.

### Risk management

At Danone, a restructuring decision needs to be made at the earliest possible stage, when the Group has the time and resources to prevent and responsibly manage the social and human consequences of such restructuring. In order to minimize the

various risks associated with this type of decision (labor disputes, increase in local unemployment, loss of reputation), Danone (i) keeps under constant review its needs in terms of skills, (ii) is committed to continually improving the employability and skills of its employees to ensure that they are able to adapt, at all times, to changes in their professions and to acquire skills to qualify them for promotion to a more senior post within or, if necessary, outside Danone, (iii) makes its restructuring decisions based on economic and social criteria in accordance with the international agreement signed on this subject with the International Union of Food Workers (IUF) in 1997, and (iv) implements them with an emphasis on a return to employment and support for employees.

## VIII. Risks associated with the Group's reputation

### Risk identification

The Group is exposed to criticisms of all types and origin, whether well-founded or not and whether in good or bad faith, that could affect its image and reputation. The Group may therefore face negative publicity that could result from a risk situation, or even a simple allegation, concerning its activities and products.

This type of criticism could adversely affect the Group's sales, activities, results and growth prospects.

### Risk management

The Group has established risk management procedures designed to avoid and anticipate potential crises, and crisis management procedures aimed at anticipating such criticisms and limiting their effects to the extent possible.

## Operational risks specific to the Group's activity and organization

### I. Risks associated with the concentration of purchases of some products and services from a limited number of suppliers

#### Risk identification

In connection with its policy of optimizing its purchasing, the Group centralizes the purchase of certain goods (in particular raw materials such as the ferments used in the Fresh Dairy Products Division or powdered milk for the Baby Nutrition Division in some

Asian countries) and certain services (in particular sub-contracted services or information technology services) from a restricted number of rigorously selected suppliers.

If some of these suppliers were not able to provide the Group with the quantities and qualities of products or goods specified that the Group needs under the conditions set forth, or if the suppliers are not able to provide services in the required time period, the Group's activities and results could be materially adversely affected.

## Risk management

Great care is given to the initial selection and subsequent monitoring of such key suppliers. Measures are taken to safeguard these supplies and services including the development of business continuity plans that include the identification of backup suppliers.

## II. Risks associated with the Group's position in certain markets

### Risk identification

The Group is market leader in some of its markets. As a consequence, the Group may be accused of abusing a dominant position in these markets by third parties. Such allegations could affect the reputation of the Group, and possibly result in legal proceedings or even potential penalties. This could have an adverse effect on the Group's activities and results.

### Risk management

This topic is addressed with considerable attention by circulating and presenting the Danone Business Conduct Policy and the Code of Ethics aimed at the sales functions. The legal function comprises an international network responsible for competition law, which closely monitors this risk.

## III. Risks associated with the Group's acquisition and partnerships

### Acquisitions

#### Risk identification

The Group's strategy is to enjoy leading positions in each of the markets in which it operates. Within the context of continued concentration in the food and beverage industry, this strategy involves the pursuit of growth opportunities through joint ventures or acquisitions, as was the case in 2010 with the Unimilk transaction in Russia and in other countries with YoCream and ProViva. Acquisitions may have a negative impact on the activities and results of the Group if it does not successfully integrate the acquired companies, provide the necessary resources and/or achieve all the expected synergies and cost savings.

Significant acquisitions may, during the integration phase, generate risks associated with historical structures and practices. In the case of Unimilk, integration is continuing, following a first phase related to the specific assessment of operational risks.

#### Risk management

The Group draws up an integration program and provides the resources necessary for its implementation.

Within Danone-Unimilk, the Group's policies are in the process of being implemented. In particular, internal audits, internal control principles and the risk management system are being rolled out.

## Partnerships

### Risk identification

The relationships with partners of the Group in certain entities are governed by contracts or documents that may provide for certain decisions to be made either with the agreement of such partners or without the agreement of the Group. Such restrictions could make it difficult for the Group to carry out its strategy in these entities, which could have an adverse effect on the Group's activities. More generally, problems of any kind encountered with joint venture partners could adversely affect the Group's activities and results. In addition, certain agreements signed with partners may provide the Group or its partners with call or put options on their stake.

### Risk management

Danone carefully reviews the drafting of shareholders' agreements and ensures the implementation and maintenance of adequate governance with its partners.

## IV. Risks associated with an unfavorable change in business activity forecasts and its impact on impairment testing of assets

### Risk identification

In connection with Group's acquisitions a significant amount of the acquisition price can be allocated to goodwill and to acquired brands with an indefinite useful life. In particular, a significant amount of the purchase price was allocated to goodwill and to acquired brands with an indefinite useful life, in connection with Numico acquisition in 2007, and to a lesser extent, in connection with Unimilk group's companies acquisition in 2010.

Goodwill and indefinite useful life brands are not amortized. They are subject to an impairment test at least once annually and whenever events or circumstances indicate that a reduction in value might have occurred.

An unfavorable change in business activity forecasts and assumptions used in the projection of cash flows for the purpose of the impairment tests, in particular with respect to goodwill and to the Numico brands, could result in the recognition of impairment charges. These charges could then have significant adverse effects on the Group's results.

### Risk management

The Group draws up assumptions and business activity forecasts and, when deemed necessary, a customized action plan.

## V. Risks associated with the Group's products

Due to the nature of its activity, Danone is exposed to the risk, whether proven or merely alleged, of product contamination or that its products are harmful which, in addition to the immediate financial impact, could also have an adverse impact on the Group's reputation and sales.

## Contamination risk

### Risk identification

The absence of chemical and microbiological contaminants in raw materials and packaging, the lack of cross-contamination with allergens and the maintenance of the safety of finished products when they leave the factory and throughout the distribution chain are crucial.

For all Group products, in particular fresh dairy products, application of appropriate conditions of storage is vital in order to retain their flavor and nutritional value and to avoid subsequent contamination or deterioration. If certain of the Group's products were alleged to be contaminated or actually were contaminated due to the non-detection of contaminants (even in infinitesimal amounts), the deterioration of products during the distribution phase or any other factor, the Group's activities, results and reputation could be adversely affected.

### Risk management

The risk of product contamination is classified into four categories (microbiological, chemical, physical and allergic) and depends on the nature of the products. This risk of contamination exists and is controlled at each stage of the production and marketing cycle: at the time of purchase and delivery of raw materials, the production process, the packaging of products, the storage and delivery of finished products to distributors and food retailers, and the storage and shelving of finished products at the points of final sale. The Group believes that it has put in place measures to limit the risk of contamination, in particular through the completion of multiple controls of the production lines and throughout the distribution chain and regular audits of its sites.

Partnerships with scientific organizations of international standing and the implementation of zero-tolerance quality management and food safety policies enable the Group to achieve the expected level of quality and food safety.

## Other health risks

### Risk identification

In the event that certain of the Group's products (including recipes/formulas or certain active ingredients) were alleged to have harmful short- or long-term health effects or to have no health effects, or if this were in fact the case, the Group's activities, results and reputation could be even more adversely affected since the Group's strategy is based on the development of products with a strong nutrition/health component.

In addition, the food industry must deal with the growth in obesity; consumers, the medical profession and public bodies are becoming increasingly concerned about the resulting public health

consequences. Although the Group has a large portfolio of ranges enabling it to offer a wide variety of products meeting the various needs and changing tastes of consumers, local governments could take action against the food industry, such as imposing surtaxes or more stringent regulation of the advertising of certain products. Such actions could adversely affect not only the Group's results but also its reputation.

### Risk management

Generally speaking, the Group is particularly vigilant regarding scientific fundamentals, the regulatory context and the origin of ingredients used.

Moreover, the Group also remains vigilant with respect to the follow-up of issues considered critical by the consumer, such as obesity. To this end, the Group has developed a network of privileged interlocutors (including, in particular, consumer associations) in order to discuss common subjects that preoccupy individuals in both a formal and informal manner and to offer elements of clarification.

## Risk associated with innovation and consumer taste

### Risk identification

The Group's activities are subject to trends in the tastes and preferences of consumers. If the Group cannot predict, identify, and interpret trends in the tastes and dietary habits of consumers, its sales and results could be negatively affected.

### Risk management

The Group has a broad portfolio of product ranges that allows it to offer a wide variety of products to respond to different consumption needs and situations. The Group carries out regular studies of consumers' attitudes, perceptions and expectations with regard to its various product categories. In this area the Group uses a decentralized approach that allows it to respond quickly and precisely to consumer expectations: local marketing teams have a high degree of autonomy in carefully monitoring consumers' evolving tastes and adapting the offer of Group products within each country.

## VI. Risks associated with human resources

### Risk identification

The availability, quality and commitment of Danone's employees play an essential role in the Group's success. A decline in the appeal of the Group to attract and retain employees with the necessary skills or talents could negatively affect Danone's ability to achieve its objectives, which could have an adverse effect on its results.

## Risk management

The Group's subsidiaries and top management carefully monitor indicators related to human resources (turnover, commitment, etc.), annual employee survey results and how Danone is perceived as the "employer of choice" in countries where it is present. The Group's actions in these areas are focused on compensation (regular benchmarks in each country), implementation of basic medical cover in countries where no such cover exists (Dan'Cares program), and the priority given to training and career development programs. In high-growth countries with significant resource requirements in terms of quantity and quality, specific programs for setting up talent incubators are drawn up, at country (China, Mexico, etc.) or region (Asia) level, with the aim of attracting, developing and retaining skills.

## VII. Risks associated with information systems

### Risk identification

The Group is increasingly dependent upon common infrastructures and information technology applications for all its business activities. The main risks are related to the availability of computer services and the confidentiality and integrity of data. Any failure of these infrastructures, applications or communication networks, any interruption linked to the failure of security of data centers or networks as well as any accidental or intentional loss of data and any use of data by third parties, could block or slow down production or sales, delay or taint certain decisions and, more generally, have an adverse effect on the Group's activities and results.

In addition, most of the former Numico subsidiaries, as well as the recently acquired Unimilk companies, rely on different information systems, specific to certain subsidiaries, which may increase the complexity of the monitoring and management of these risks by the Group.

### Risk management

The Group's policy is to consolidate data centers. In particular, the Group's central applications are hosted in a highly-secure data center managed by IBM.

In addition, Danone is developing and implementing specific information systems (Themis, Artemis, etc.) in its subsidiaries to optimize and streamline IT investment whilst promoting global synergies and reducing risks. The former Numico and Unimilk subsidiaries are gradually benefitting from the implementation of Themis, the Danone ERP system. Additional information is provided in Section 2.5 *Other points related to the Group's activity and organization*.

## VIII. Risk of an internal control failure

### Risk identification

The risk of an internal control failure is a risk associated with the achievement of the following main objectives: accurate and reliable financial information; compliance with the applicable laws, regulations and internal policies; and efficient and effective internal processes, including those related to the protection of the Group's assets.

If the Group's internal control systems were to experience failures or prove to be inadequate, particularly in the area of fraud, the quality of its financial information, the ability of its executives to take the correct decisions and, more generally, its results, could be adversely affected.

### Risk management

The Group has implemented an internal control system. This system, regardless of how adequate it may be, can only provide reasonable assurance and not an absolute guarantee with respect to the achievement of the Company's objectives due to the limits inherent in any control process. Whilst the Group cannot fully exclude the risk of an internal control failure, the performance level and widespread deployment of its five internal control components (Control environment, Information and communication, Control activities, Risk identification and assessment and Continuous monitoring) reduce the Group's exposure to this risk (see Section 6.11 *Internal control*).

Similarly, the Group cannot exclude any risk associated with fraud or corruption. However, the risk profile of its activities and the existence and widespread dissemination (notably via the DANgo internal control system, see Section 6.11 *Internal control*) of an exhaustive anti-fraud program, covering all aspects of reducing the risk of fraud and the potential impact of any fraud (risk identification, prevention, detection, and corrective measures and reporting) reduce the Group's exposure to this risk.

## IX. Risk of failure of insurance cover

### Risk identification

The Group's insurance cover could be insufficient and/or the Group could be unable to renew its insurance programs on acceptable terms, which could have an adverse effect on the Group's financial situation.

### Risk management

See Section *Insurance and risk cover* hereafter.

## Legal risks

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### I. Risks associated with intellectual property

#### Risk identification

The Group owns rights to brand names, registered designs and patterns, copyrights and domain names throughout the world.

The territorial extent of the protection depends on the significance of the products and activities concerned: the protection is global for products intended for the international arena, and local or regional for other products.

The Group is also the owner of patents, licenses, proprietary recipes and substantial expertise related to its products and packaging, as well as to their manufacturing processes. Finally, the Group has established licensing agreements with its subsidiaries and partners that use these intellectual property rights. Intellectual property represents a significant portion of the Group's assets.

Danone cannot be certain that third parties will not attempt to infringe on its intellectual property rights. Moreover, the Group's potential recourse to intellectual property rights protection varies by country. The degree of protection may be different, as may be the Group's implementation of a defense strategy. If the Group is unable to protect its intellectual proprietary rights against such infringement or misuse, its results and growth could be negatively affected, as could its reputation.

In addition, certain employees have access to confidential documents in the course of their work. The loss or dissemination of sensitive and/or confidential information could harm the Group's interests and reputation, and have an adverse effect on its results.

#### Risk management

In order to monitor its assets and ensure the management and protection of these rights in a coherent and optimal manner, the Group has drawn up an "Intellectual Property" charter. The Group regularly contacts each of its subsidiaries in order to update its intellectual property rights portfolio and thereby protect and defend, to the best of its ability, the brand names, decors, forms, packaging, advertisements, websites, etc. that are used by the Group. The Group also takes all appropriate legal measures to protect and defend its intellectual property rights at both international and local level.

The Group is continuing its efforts to develop awareness among staff with access to and/or in possession of sensitive and/or confidential information and provides updates to staff on best practice with a view to limiting this risk, particularly as regards the use of information systems and corporate networks.

### II. Risks associated with regulations

#### Risk identification

As a player in the food and beverage industry present in numerous countries, the Group's activities are subject to extensive laws and regulations enacted by many national and international authorities and organizations, including regulations with respect to corporate governance, tax and import/export duties, labor law, hygiene and food safety and quality control and the use of water sources. The Group's activities are also subject to good conduct rules such as those of the World Health Organization (WHO) regarding the marketing of breast-milk substitutes and the corresponding rules at the various local regulatory levels. The Group may also be subject to customs duties, trade barriers or sanctions that may be imposed.

More particularly, the Group's activities are subject to numerous laws and regulations that are always changing and more and more restrictive, relating, in particular, to the protection of health and food safety, consumer protection, nutrition and claims about the health benefits of products marketed by the Group, along with environmental claims, the reimbursement of certain products of the Medical Nutrition Division and the Group's advertising and promotional activities. Any change in these laws or regulations, any decision by an authority regarding these laws or regulations or any other event that would challenge the nutritional or health claims related to certain products could have a significant impact on the Group's activities, increase its costs, reduce consumer demand and possibly result in litigation.

In addition, the Group is involved, or could be involved, in litigation associated with its normal course of business. Should the result of such litigation be unfavorable for the Group, this could adversely affect the Group's financial situation and its image or reputation. Major litigation is presented in Note 33 of the Notes to the consolidated financial statements.

#### Risk management

The subsidiaries, assisted by their legal departments and/or external legal advisors, take steps to ensure that they comply, at all times, with national and international regulations. This compliance forms an integral part of the Group's quality strategy and internal control system.



## Industrial and environmental risks

### I. Industrial risks

#### Risk identification

The Group's main industrial sites have limited exposure to major natural hazards (floods, earthquakes and hurricanes). These risks are assessed prior to each major investment, and the Group's new industrial installations are designed to satisfy applicable safety standards. However, the Group's geographical expansion makes it necessary at times for the Group to set up businesses in areas that are occasionally exposed to the risk of natural hazards, in particular earthquakes.

In general, the manufacture, storage and transportation of the Group's products gives exposure to risks, among them natural catastrophes, fire, explosions, systems failures, terrorism, epidemics, strikes and other factors that could affect the Group's capacity to produce or sell its products. These operating risks can, if they materialize, cause injury to people and damage to goods and affect the conduct of the Group's operations, which could have a negative impact on the Group's activities and financial situation.

#### Risk management

The safety of the Group's employees, subcontractors, people living close to the Group's industrial sites, and its industrial sites is a key priority for the Group's industrial policy. Moreover, controlling the risks of fire, explosions and pollution are a significant concern of the industrial departments of the Group's Divisions.

In order to reinforce its risk management, the Group has put in place procedures to assess safety levels at its industrial sites. These assessments are made by independent experts and enable operational units to define and implement customized prevention and protection policies. These procedures are based on international standards that typically exceed local standards. Furthermore, they allow an exhaustive inventory of the various potential industrial risks and also apply to partnerships with the Group's largest suppliers.

In 2011, 115 safety audits of the Group's industrial sites were conducted by independent companies, which assigned a rating from 1 to 5 (with 5 being the best) to each audited industrial site. As of December 31, 2011, 34 sites had a rating of 5. The weighted average rating for Danone's industrial sites was 3.86 in 2011, compared with 3.93 in 2010. This rating does not take into account the recent acquisition of Unimilk companies, whose sites were visited starting in the fourth quarter of 2011.

### II. Risks associated with environmental regulations

#### Risk identification

In all of the countries where the Group does business, it is subject to numerous regulations in the environmental area (mainly regarding water, air, the use of natural resources, noise and waste). These regulations are becoming more and more stringent and are constantly evolving.

These activities are notably subject to (i) obtaining operating authorizations or (ii) the submission a prior notification statement;

- in Europe, pursuant to the laws relating to installations designated for environmental protection;
- in other countries, pursuant to similar regulations.

Access to water sources and resources is sometimes linked to national or local regulations. Changes in these regulations could negatively affect the availability of water intended to be bottled and marketed by Danone.

Packaging is subject to specific regulations and in particular European Directive 94/62, as amended in 2004, relating to packaging and packaging waste, which requires source reductions, reductions in the use of substances hazardous to the environment, recycling, and recovery. Danone's activities are furthermore subject to the European Waste Framework Directive 2008/98/EC.

The Group's activities are also subject to, on the one hand, the European Directive of 2003 establishing a trading system and, on the other, quotas for greenhouse gas emissions and the transpositions of the National Allocation Plans in the European Union. Five of the Group's sites in the European Union are thereby subject to quotas (whose impact on the Group's financial situation is not significant), while the other sites are currently below the minimum eligibility threshold. If, in the future, the Group is unable to limit the emissions of these five sites and comply with allocated quotas, it will incur a fine and would have to purchase the shortfall on the market for greenhouse gas quotas.

The Group cannot guarantee that it will always be in compliance with these multiple regulations, which are complex and constantly changing. Moreover, bringing the Group's activities into compliance with new regulations or changes in existing regulations could prove to be costly or even limit the Group's capacity to pursue or develop its activities.

#### Risk management

In order to comply with applicable environmental regulations, the Group took the following steps:

- reduced the intensity of direct emissions, notably those from the Group's industrial sites, by focusing mainly on energy consumption;



- lightened its packaging materials and contributed to the development of recycling (collection and use of recycled materials).

The environmental action plans are described in Section 7.5 *Environmental responsibility*.

No major provision for contingencies and charges related to environmental protection has been recognized in the consolidated balance sheet as of December 31, 2011.

### III. Risks associated with consumers' choices, preferences or environmental considerations

#### Risk identification

Consumers' purchasing preferences, notably in the most developed countries, are increasingly influenced by environmental concerns (in particular greenhouse gas emissions – including methane emissions by cows producing the milk used by the Group – and the preservation of water resources), and such preferences are at times supported by NGOs (Non-Governmental Organizations). Distributors also pay increasing attention to communications with consumers (in particular the labeling of the carbon footprint of products). If the Group is unable to anticipate changing consumer preferences, in particular through the implementation of measures designed to reduce resource consumption and communicate with its consumers on environmental consequences, its results could be negatively affected.

#### Risk management

The Group undertakes continuous efforts to reinforce its corporate commitment and improve the management of its business activities with respect to every step of its products' life cycle.

In 2008, the Group identified five types of impact across the full supply chain of its activities (CO<sub>2</sub>, water, packaging, agriculture and biodiversity). Specifically, it set a goal of reducing the carbon intensity related to its products by 30% over the 2008-2012 period (excluding recently acquired Unimilk group's companies).

In 2009, Danone created a Nature Department, which reports to the Group's Finance Department, thereby putting environmental concerns at the heart of its decision-making process. In addition, a portion of the annual variable compensation of Group officers and executive management (including all Executive Committee members) is conditioned upon the achievement of environmental objectives.

Danone's Nature strategy and its implementation and achievements in 2011 are described in Section 7.5 *Environmental responsibility*.

### IV. Other environmental risks

#### Risk identification

The principal potential other risks are water pollution (essentially organic and biodegradable pollution), risks related to cooling installations (ammonia and other cooling liquids), and risks related to the storage of raw materials or products for the cleaning and disinfection of the Group's plants (acid or basic products), especially when these installations are located in inhabited areas. In the event that the Group's environmental responsibility is called into question, resulting from a significant accident or case of pollution, its results and reputation could be adversely affected.

#### Risk management

In 2011, Danone continued to roll out its Global Water Footprint measurement application (DROP), which integrates a measurement of the impact related to water pollution. This application, developed in the Waters Division, should be extended to the other Divisions. In 2011, the Group also developed, in conjunction with Quantis and the *Institut de l'Élevage*, a module applied to dairy farms that will be tested at four subsidiaries in 2012.

A plan to reduce the impact of the installed base of refrigeration systems of the Group has been under way since 2008 ("Bcool") and partnerships with refrigeration distributors/manufacturers, notably in Spain, are showing promising results. Moreover, through the Consumer Good Forum, Danone has pledged not to purchase equipment that does not use natural coolants beginning in 2015 in order to help promote the emergence of breakthrough technologies.

## Financial market risks

### I. Introduction

#### Risk identification

As part of its normal business, the Group is exposed to financial risks, especially foreign currency, financing and liquidity, interest rate, counterparty, and securities-related risks.

Additional information and data, in particular with regard to the Group's residual exposure (after hedging) to these different risks,

are provided in Note 32 of the Notes to the consolidated financial statements.

#### Risk management

The Group's policy consists of (i) minimizing the impact that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet, (ii) monitoring and managing such exposure by promoting centralized management, whenever

the regulatory and monetary frameworks so allow and (iii) using derivative instruments only for the purpose of economic hedging.

Through its Treasury and Financing Department, which is part of the Group Finance Department, the Group possesses the expertise and tools (trading room, front and back office software) necessary to act on different financial markets following standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly treasury report is sent to the Group Finance Department, enabling it to monitor the decisions taken to implement the previously approved management strategies.

## II. Currency risk

### Risk identification

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in the three following situations:

- in relation to its operating activities: the sales and operating expenses of the subsidiaries of the Fresh Dairy Products Division and most of the subsidiaries of the Group's Waters Division are expressed primarily in their country's domestic currency. Certain imports (especially raw materials and finished goods) and exports are, however, expressed in other currencies. Also, due to the limited number of production units in the world, the subsidiaries of the Medical Nutrition and Baby Nutrition Divisions and certain Waters Division subsidiaries frequently use intra-group imports denominated in a currency other than their functional currency. The sales and operating margin of certain Group subsidiaries are therefore exposed to fluctuations in exchange rates against their functional currency;
- in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities;
- when translating into euros the financial statements of subsidiaries denominated in a foreign currency: sales and the trading operating income may be generated in currencies other than the euro (see Section 3.2 *Net income review* for the respective shares of Group sales generated in euros and in other currencies). Consequently, fluctuations in exchange rates of foreign currencies against the euro may have an impact on the Group's income statement. These fluctuations also have an impact on the accounting value in the consolidated balance sheet of assets and liabilities denominated in currencies other than the euro.

In accordance with IAS 39, *Financial instruments: recognition and measurement*, foreign exchange rate fluctuations can have an impact on the Group's results and consolidated shareholders' equity (see Note 32 of the Notes to the consolidated financial statements).

### Risk management

Pursuant to its operational foreign exchange risk hedging policy, the Group's residual exposure (after hedging) was significantly reduced during the fiscal year (see Note 32 of the Notes to the consolidated financial statements).

Pursuant to its financial foreign exchange risk hedging policy, the Group's residual exposure (after hedging) is not significant (see Note 32 of the Notes to the consolidated financial statements).

The Group has established a policy for monitoring and hedging the net situation of certain subsidiaries, with regular assessments of risks and opportunities to use hedging instruments (see Note 32 of the Notes to the consolidated financial statements).

## III. Financing risk and liquidity risk

### Risk identification

The Group does not use indebtedness in either a recurring or a significant way in connection with its operating activities. Operating cash flows are generally sufficient to self-finance the Group's business operations and organic growth.

The Group may, however, in the future, increase its indebtedness to finance acquisitions or as and when required to manage its cash cycle, particularly when dividends are paid to the Company's shareholders.

Its goal remains to maintain debt at a level enabling it to retain flexibility with respect to its financing sources.

The Group's liquidity risk arises mainly from the maturities of its (i) interest-bearing (bonds, bank debt, etc.) and (ii) non-interest-bearing liabilities (liabilities on put options granted to non-controlling interests), and from payments on derivative instruments (see Note 32 of the Notes to the consolidated financial statements).

As part of its debt management strategy, the Group regularly seeks new financing to refinance its existing debt.

More generally, it is possible that, given the current world financial crisis, the Group could be unable to access the financing or refinancing it needs on the credit or capital markets, or to access such finance on satisfactory terms, which could have an adverse impact on its financial situation.

### Risk management

The Group manages its exposure to refinancing risk by: (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium term financing, (iv) maintaining financing sources available at any time, and (v) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts. These rules cannot always be fully applied in countries where centralized or medium-term financing are not available and/or, in some cases, when the existing financing

agreements at a company prior to its acquisition by the Group. In particular, certain Group companies may, for operational reasons, be required to borrow from local sources; from a Group perspective, the amounts borrowed are relatively small, whether considered individually or in total, given the level of operating cash flow of these companies that is generally sufficient to finance their operations and organic growth. However, this local financing exposes the Group to a liquidity risk in these countries, but only in limited amounts.

Further information on the financing structure and on financial security is given in Section 3.4 *Balance sheet and financial security review*.

#### IV. Interest rate risk

##### Risk identification

The Group is exposed to interest rate risk on its financial liabilities and cash and cash equivalents. Its interest-bearing debt exposes it to interest rate fluctuations that impact its financial expenses.

In addition, in accordance with IAS 39, *Financial instruments: recognition and measurement*, interest rate fluctuations may have an impact on the Group's results and consolidated shareholders' equity (see Note 32 of the Notes to the consolidated financial statements).

##### Risk management

The Group has established a policy for monitoring and managing risk to limit the volatility of its financial income and expense.

#### V. Counterparty risk

##### Risk identification

The Group is exposed to counterparty risk, especially on banking counterparties, as part of its financial risk management activities.

As part of its normal activities, the Group has financial institutions as counterparties, mainly to manage its cash and exchange rate and interest rate risks. The failure of these counterparties to comply with one or more of their commitments could adversely affect the Group's financial situation.

##### Risk management

The Group's banking policy focuses on counterparty credit quality as a means to reduce risks (see Note 32 of the Notes to the consolidated financial statements).

#### VI. Securities-related risk

##### Risk identification

##### *Risk related to the Company's shares*

Pursuant to its share buyback policy, and pursuant to the authorizations granted by the Shareholders' General Meeting, the Company may choose to repurchase its own shares. Any fluctuations in the price of the Company's treasury shares repurchased in this manner have no impact on the Group's results. Any decrease in the Company's share price could, however, have an impact on the potential amount paid out in shares in connection with the financing of acquisitions.

##### *Risk related to other shares*

The Group holds equity interests in listed companies. Any significant and/or prolonged decline in the prices of these companies' shares could have an adverse impact on the Group's results.

##### Risk management

The Group has implemented a policy for monitoring this risk.

## Insurance and risk coverage

As regards risks other than financial market risks (which are described in the preceding Section *Financial market risks*), the Group has a global insurance coverage policy that is based on stringent technical assessments and uses insurance products from the world market, depending on availability and local regulations. Thus, this risk coverage is consistent for all companies over which the Group has operational control.

Insurance programs for property damage, business interruption and commercial general liability risk are negotiated at Group level

for all subsidiaries, with leading international insurers. The "all risks except" policies are based on the broadest guarantees available on the market, coupled with deductibles which, while of varying amounts, are relatively low compared to those extended to groups of comparable size to reflect the autonomous management of subsidiaries. The guarantee limits are set based on worst case scenarios and on insurance market availability. These programs were renewed on January 1, 2012 for a term of one year; the total cost of these programs was approximately € 23 million in 2011.

Insurance programs for common risks, which require local management, such as coverage of fleets of vehicles, guarantees for the transportation of merchandise, work-related accidents (in countries in which these accidents are covered by private insurance), and insurance specific to some countries, are negotiated and managed in accordance with local practices and regulations, within the framework of precise directives provided and controlled by the Group. Total premiums came to approximately € 23 million in 2011.

Lastly, insurance programs for potentially significant special risks, which require centralized management, such as the liability of the Group's corporate officers, fraudulent acts, and assorted risks (taking products off the market, credit risk, environmental risk, etc.) are negotiated according to market availability, on the basis of scenarios estimating the probable impact of any claims. The total cost of this category of coverage amounted to approximately € 3 million in 2011.

In addition, in order to optimize its insurance costs and properly control its risks, the Group has a self-insurance policy through its captive reinsurance subsidiary Danone Ré (a fully consolidated Group entity). The self-insurance policy applies to specific risks where the costs can be accurately estimated as the Group is aware of their frequency and financial impact. This concerns essentially (i) coverage of property damage, business interruption, commercial general liability, and transportation for a large majority of the Group's companies (these self-insurance programs are limited to frequent claims with a maximum of € 7.5 million per claim) and, for the French subsidiaries, (ii) payments for death, long-term disability, and education. Moreover, stop-loss insurance protects Danone Ré against any increased frequency of claims. These self-insurance programs are managed by professional insurers under Danone's supervision and the provisions are determined by independent actuaries.

# 2

## Overview of activities, risk factors Risk factors



# Danone's business highlights in 2011 and outlook for 2012



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*Danone's consolidated financial statements and the Notes to the consolidated financial statements are presented in Section 4 Consolidated financial statements. Following the change in accounting principles related to defined benefit pension plans and finalization of accounting for the acquisition of the Unimilk group's companies, 2010 consolidated financial statements have been restated in compliance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and IFRS 3 (Revised), Business combinations. Danone's consolidated financial statements and the Notes to the consolidated financial statements are presented in Section 3.1 Business highlights in 2011. Risk identification and control policy, as well as the major operational risks relating to the Group's business sectors or to the Group's activity and organization, are described in Section 2.7 Risk factors.*

*The Group reports on financial indicators not defined by IFRS. They are defined in Section 3.6 Financial indicators not defined by IFRS:*

- *like-for-like changes in net sales, trading operating income, trading operating margin and net income - Group share;*
- *trading operating income and trading operating margin;*
- *underlying net income – Group share;*
- *free cash flow;*
- *net debt.*

*The Group also uses references that are defined in Section 1.3 References and definitions.*

## 3.1 Business highlights in 2011

### Highlights of 2011

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The highlights below appeared in the principal press releases issued in 2011:

- On April 13, 2011, Danone announced that Jean-Philippe PARE, previously President of Kraft Foods France, will be taking up the position of Executive Vice President, Research and Development, on May 2, also becoming a member of the Executive Committee.
- On August 2, 2011, Danone announced the signature of an agreement with Wockhardt Group to acquire its nutrition business and brands as well as its related industrial operations from Carol Info Service (located in Punjab, India) for a total of approximately € 250 million.
- On September 14, 2011, Danone announced the appointments of Thomas KUNZ and Francisco CAMACHO, respectively as Executive Vice President, Fresh Dairy Products and Executive Vice President, Waters (effective on October 1, 2011).
- On September 21, 2011, Danone announced the successful launch of a € 500 million 5-year bond. Funds raised will enable Danone to diversify its sources of finance and extend the maturity of its debt at favorable market conditions.
- On October 26, 2011, Danone announced the cancellation of 6.6 million treasury shares further to change in covering former stock-option plans.



## Other business activities in 2011

### Research and Development

#### Fresh Dairy Products

In 2011, the Fresh Dairy Products Division continued with its studies, particularly in the areas of (i) bone health, (ii) interactions between microbes in the human intestine and their host, and (iii) the impact of these microbes on human health. This work has been conducted in collaboration with many scientific experts and led to several publications in the specialized press. The Danone Research and Development team also delivered international Symposium (as Microbes For Health) and developed scientific Public-Private partnerships in this area.

#### Waters

In 2011, the Waters Division continued its effort in developing a 100% bio-polymer bottle, following the success of the new *Volvic* bottle in France. Danone has initiated partnerships to explore alternative ways of creating the bottle of the future, both in terms of material and functionality.

The Research and Development team investigations into the effect of mild dehydration have shown some promising results in the area of kidney health, water absorption mechanism, cognitive performance and weight management. In 2011, the Group continues its numerous collaborations in the scientific as with Cantimer for the development of a simple Hydration Measurement device based on saliva osmolarity. Finally the Waters Division continued the research into new formulation strategies to reduce the use of sugar.

#### Baby Nutrition

The central theme of the Research and Development programs for Baby Nutrition is 'Early Nutrition for Health in Later Life'. In 2011, the Research and Development team conducted and published a number of scientific studies showing the effect of diet on programming of the gut microbiota, immune system and metabolism in early life. Specifically for preterm infants, the Baby Nutrition Division launched a new protein supplement, serving a nutritional need to fulfil individual protein requirements in these vulnerable babies. To support the growth of the Group's business in the Asia-Pacific region, Danone opened a brand new research facility in Singapore in April 2011, which will focus on nutrition for mothers' and children's health.

The Research and Development team continued to seek active dialogue with scientific and medical opinion leaders.

#### Medical Nutrition

For Medical Nutrition Research and Development team, 2011 was marked by the clinical trial results for *Souvenaid*, that could improve memory performance in mild Alzheimer's disease patients. In total, more than 40 full papers and 80 conference abstracts were published on pre-clinical and clinical studies performed supporting Danone's programs in neurosciences, muscle metabolism, immunology and gut biology. In 2011, 11 new products were developed by the Medical Nutrition Research and Development teams and launched across the Group's global markets, including *Fortimel Compact Fibre* and new *Neocate LCP*. To strengthen Danone's organization and global presence, a new Research satellite centre was opened in Singapore, in April 2011, together with Baby Nutrition Research and Development.

#### Reduction of carbon footprint

Danone products depend to a large extent on natural ecosystems. It is thus in the Group's best interest to make care for the environment an integral part of its business activities.

Carbon footprint is a global indicator that reflects a wide range of environmental criteria. Danone is committed to reducing its carbon intensity (grams of CO<sub>2</sub> per kilogram of product sold) by an ambitious 30% over the 2008-2012 period.

In keeping with this commitment, Danone cut its carbon intensity by 27.5% from 2008 to 2011 based on constant scope of consolidation and on emissions under Danone's direct responsibility (packaging, industrial activities, logistics and end of life). The Group is maintaining its 30% reduction target for 2012, i.e., over a five-year period.

See also Section 7.5 *Environmental responsibility*.

#### Social and societal responsibility

These activities are described in Sections 7.3 *Employee dialogue, health and safety, training and development* and 7.4 *Corporate social and societal responsibility*.

#### Main financing transactions

On September 21, 2011, Danone announced the successful launch of a € 500 million 5-year bond. Funds raised will enable Danone to diversify its sources of financing and extend the maturity of its debt at favorable market conditions.



On October 26, 2011, Danone announced that it had acquired call options representing around 1.02% of its share capital to cover part of its obligations under former stock-option plans. While continuing to fully cover the obligations under the plans, this transaction enables Danone to reassign the 6.6 million treasury shares held for this purpose to cancellation and thus limit future dilution of its capital. The treasury shares had previously been earmarked for gradual release into circulation on the market as beneficiaries of stock-option plans exercised their options, with the last plans set to expire in October 2017.

### Restatement of 2010 consolidated financial statements

Following the change in accounting principles related to retirement obligations and other long-term benefits and finalization of accounting for the acquisition of the Unimilk group's companies, 2010 consolidated financial statements have been restated in compliance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and IFRS 3 (Revised), *Business combinations*.

### Change in accounting principles for retirement obligations and other long-term benefits

On June 16, 2011, the IASB published the amendments relating to the recognition of defined benefit pension plans detailed in IAS 19, *Employee Benefits*.

Given the mandatory application of these new provisions in 2013 and in order to adopt principle generally applied by international groups, the Group has decided, as from 2011, to (i) apply the "Recognition in other comprehensive income" option to all actuarial gains and losses relating to post-employment defined-benefit plans by recognizing them in Other comprehensive income and (ii) present the financial component of expenses recognized in respect of defined-benefit retirement and other long-term benefits in "Other financial income and expenses" rather than in "Other income and expenses" within "Trading operating income".

### Finalization of the accounting treatment of the acquisition of the Unimilk group's companies

In accordance with revised IFRS 3, *Business combinations*, the Group finalized the accounting treatment of the acquisition of the Unimilk group's companies on November 30, 2011, i.e. within the prescribed time frame of 12 months following the acquisition. The adjustment of the purchase price allocation has resulted in a restatement of the consolidated financial statements for the 2010 fiscal year.

### Restatement of the consolidated income statement

	Year ended December 31			
<i>(in € millions)</i>	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
<b>Net sales</b>	<b>17,010</b>			<b>17,010</b>
Cost of goods sold	(7,959)		2	(7,957)
Selling expense	(4,663)			(4,663)
General and administrative expense	(1,494)			(1,494)
Research and development expense	(209)			(209)
Other income (expense)	(107)	17		(90)
<b>Trading operating income</b>	<b>2,578</b>	<b>17</b>	<b>2</b>	<b>2,597</b>
Other operating income (expense)	(80)			(80)
<b>Operating income</b>	<b>2,498</b>	<b>17</b>	<b>2</b>	<b>2,517</b>
Cost of net debt	(143)			(143)
Other financial income (expense)	134	(11)		123
<b>Income before tax</b>	<b>2,489</b>	<b>6</b>	<b>2</b>	<b>2,497</b>
Income tax expense	(576)	(2)		(578)
<b>Net income from fully consolidated companies</b>	<b>1,913</b>	<b>4</b>	<b>2</b>	<b>1,919</b>
Share of profit of associates	121			121
<b>Net income</b>	<b>2,034</b>	<b>4</b>	<b>2</b>	<b>2,040</b>
• Group share	<b>1,870</b>	<b>4</b>	<b>1</b>	<b>1,875</b>
• Non-controlling interests	<b>164</b>		<b>1</b>	<b>165</b>

## Restatement of the consolidated balance sheet

(in € millions)	As of January 1, 2010				As of December 31, 2010		
	Reported	Change in accounting principle for retirement obligations and other long-term benefits	Restated	Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	Restated
<b>Assets</b>							
Brands	3,903		3,903	4,255		12	4,267
Other intangible assets	355		355	565		(19)	546
Goodwill	10,227		10,227	11,213		98	11,311
Intangible assets	14,485		14,485	16,033		91	16,124
Property, plant and equipment	3,180		3,180	4,032		(222)	3,810
Investments in associates	805	(4)	801	947	(6)		941
Investments in other non-consolidated companies	521		521	125			125
Long-term loans	27		27	42			42
Other long-term financial assets	127		127	138			138
Derivatives - assets	134		134	236			236
Deferred taxes	621	27	648	651	49		700
<b>Non-current assets</b>	<b>19,900</b>	<b>23</b>	<b>19,923</b>	<b>22,204</b>	<b>43</b>	<b>(131)</b>	<b>22,116</b>
Inventories	765		765	975			975
Trade receivables	1,682		1,682	1,924			1,924
Other receivables	645		645	768		(1)	767
Short-term loans	41		41	24		10	34
Short term investments	454		454	1,111			1,111
Cash and cash equivalents	644		644	1,054			1,054
Assets held for sale	176		176	39			39
<b>Current assets</b>	<b>4,407</b>		<b>4,407</b>	<b>5,895</b>		<b>9</b>	<b>5,904</b>
<b>Total assets</b>	<b>24,307</b>	<b>23</b>	<b>24,330</b>	<b>28,099</b>	<b>43</b>	<b>(122)</b>	<b>28,020</b>
<b>Equity and liabilities</b>							
Issued capital	162		162	162			162
Additional paid-in capital	3,596		3,596	3,627			3,627
Retained earnings	8,437		8,437	9,344	4	(97)	9,251
Cumulative translation adjustments	(869)		(869)	31	(1)		30
Accumulated other comprehensive income	256	(59)	197	(8)	(109)		(117)
Treasury shares and DANONE call options <sup>(1)</sup>	(1,027)		(1,027)	(1,216)			(1,216)
<b>Equity - Group share</b>	<b>10,555</b>	<b>(59)</b>	<b>10,496</b>	<b>11,940</b>	<b>(106)</b>	<b>(97)</b>	<b>11,737</b>
Non-controlling interests	54		54	47			47
<b>Equity</b>	<b>10,609</b>	<b>(59)</b>	<b>10,550</b>	<b>11,987</b>	<b>(106)</b>	<b>(97)</b>	<b>11,784</b>
Financing	2,967		2,967	2,941			2,941
Derivatives - liabilities	57		57	147			147
Liabilities related to put options granted to non-controlling interests	3,068		3,068	3,858			3,858
Non-current financial debt	6,092		6,092	6,946			6,946
Provisions for retirements and other long term benefits	219	94	313	248	164		412
Other provisions and non-current liabilities	594	(12)	582	543	(15)	17	545
Deferred taxes	937		937	1,172		(43)	1,129
<b>Non-current liabilities</b>	<b>7,842</b>	<b>82</b>	<b>7,924</b>	<b>8,909</b>	<b>149</b>	<b>(26)</b>	<b>9,032</b>
Current financial debt	1,702		1,702	2,529			2,529
Trade payables	1,981		1,981	2,417			2,417
Other current liabilities	2,173		2,173	2,239		1	2,240
Liabilities directly associated with assets classified as held for sale	-	-	-	18			18
<b>Current liabilities</b>	<b>5,856</b>	<b>-</b>	<b>5,856</b>	<b>7,203</b>	<b>-</b>	<b>1</b>	<b>7,204</b>
<b>Total equity and liabilities</b>	<b>24,307</b>	<b>23</b>	<b>24,330</b>	<b>28,099</b>	<b>43</b>	<b>(122)</b>	<b>28,020</b>

(1) Calls on DANONE shares purchased by the Company.

## Restatement of the consolidated statement of cash flows

	As of December 31			
<i>(in € millions)</i>	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
Net income - Group share	1,870	4	1	1,875
Net income attributable to non-controlling interests	164		1	165
Share of profits of associates	(121)			(121)
Depreciation and amortization	594		(2)	592
Dividends received from associates	52			52
Other components of net income with a cash impact	(78)			(78)
Other components of net income with no cash impact	(82)	(4)		(86)
<b>Cash flows provided by operating activities, excluding changes in net working capital</b>	<b>2,399</b>	<b>-</b>	<b>-</b>	<b>2,399</b>
<b>Cash flows provided by (used in) operating activities</b>	<b>2,476</b>	<b>-</b>	<b>-</b>	<b>2,476</b>
<b>Cash flows provided by (used in) investing activities</b>	<b>(552)</b>			<b>(552)</b>
<b>Cash flows provided by (used in) financing activities</b>	<b>(1,586)</b>			<b>(1,586)</b>
<b>Effect of exchange rate changes</b>	<b>72</b>			<b>72</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>410</b>			<b>410</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>644</b>			<b>644</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,054</b>			<b>1,054</b>
<b>Supplemental disclosures</b>				
Payments during the year of:				
• net interest	112			112
• income tax	433			433

### Legal arbitration proceedings

In October 2009, a class action against Danone Inc. and The Dannon Company Inc. was filed by an individual plaintiff with the Quebec Superior Court, to obtain restitution for consumers from the alleged false advertising of the health benefits of probiotic cultures in Danone's *Activia* and *DanActive* products. This action is based on the Quebec Civil Code and Consumer Protection Law. The petition for authorization to file a class action suit was filed and a certification was held hearing before the Court on January 30 and 31, 2012. The judge will decide within three months of this date whether the plaintiff's suit may go forward. If the action is admitted, a discovery process will be engaged in accordance with applicable procedures in Canada. At present, the Group cannot obtain a reliable assessment of the scope of this action and the potential impact on the Group's earnings and financial position of the resolution of this class action. Therefore, no provision has been recognized in the financial statements as of December 31, 2011.

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

To the best of the Group's knowledge, no other governmental, court or arbitration proceedings are currently under way that are likely to have, or have had in the past 12 months, a material impact on the Group's financial position or profitability.

### Major contracts and related-party transactions

The Group committed to acquiring stakes held by third-party shareholders in certain consolidated companies and associates in the event such shareholders wished to exercise their put options. The exercise price for these options is generally based on the profitability and/or the financial position of the entity in question. As of December 31, 2011, the amount of these commitments was approximately € 3.6 billion; they are recognized on the balance sheet in financial liabilities. The main commitments pertain to Danone Spain for € 2.2 billion, and the selling shareholders of Unimilk group's companies for € 0.9 billion. (see Section 3.4 *Balance sheet and financial security review*).

Related party transactions are described in Note 34 of the Notes to the consolidated financial statements. See also Section 5.4 *Related party transactions*.

## 3.2 Consolidated net income review

(in € millions, except per-share data in €)	Year ended December 31		
	2010 Restated	2011	Change
Sales	17,010	19,318	+7.8% <sup>(1)</sup>
Trading operating income	2,597	2,843	+9.2% <sup>(1)</sup>
Trading operating margin	15.27%	14.72%	+20 bp <sup>(1)</sup>
Underlying Net income - Group share	1,674	1,749	+6.7% <sup>(1)</sup>
Underlying diluted earnings per share	2.72	2.89	+6.5%

(1) Like-for-like.

## Sales

### Consolidated net sales

Consolidated sales increased by 13.6% to € 19.3 billion in 2011. After adjusting for effects of changes to the comparison basis such as exchange rates (-1.7%) and consolidation scope (+7.4%), these sales increased by 7.8%. This organic growth consists of a 3.0% increase in sales volume and a 4.8% advance in the price/mix. The exchange rate changes are mainly due to the weakness of the U.S.

dollar, Argentine peso and Mexican peso. The impact of changes in consolidation scope result mainly from the consolidation of Unimilk group's companies for the entire year.

### Sales by Division

The tables below present 2010 and 2011 sales by Division.

(in € millions)	Year ended December 31			
	2010	2011	Change Like-for-like	Volume growth Like-for-like
<b>Net sales</b>				
Fresh Dairy Products	9,732	11,235	+4.6%	(0.1)%
Waters	2,868	3,229	+15.7%	+8.8%
Baby Nutrition	3,355	3,673	+10.7%	+5.6%
Medical Nutrition	1,055	1,181	+9.4%	+9.9%
<b>Total</b>	<b>17,010</b>	<b>19,318</b>	<b>+7.8%</b>	<b>+3.0%</b>

### Fresh Dairy Products

The Division recorded sales of € 11.2 billion in 2011, up 4.6% on a like-for-like basis relative to 2010. The Unimilk group's companies were fully consolidated for the entire year.

	1 <sup>st</sup> quarter 2011	2 <sup>nd</sup> quarter 2011	3 <sup>rd</sup> quarter 2011	4 <sup>th</sup> quarter 2011
Like-for-like net sales growth	6.5%	5.5%	3.5%	3.0%
Volume growth	2.9%	(0.2)%	(1.5)%	(1.7)%
Price/mix growth	3.6%	5.7%	5.0%	4.7%

The Group is leader in the 39 largest countries where the Division is present, it had a 27% market share in 2011 (from Nielsen).

## Danone Fresh Dairy Products excluding Unimilk

### Sales

Excluding the activity of the Unimilk group's companies, Division sales increased by 4.8% on a like-for-like basis compared to 2010. This increase was achieved through balanced growth in sales volume (+2.1% on a like-for-like basis) and value (+2.7% on a like-for-like basis). The value gains reflect the competitive price increases applied at the beginning of the year in a majority of the countries where the Division is present.

### Main markets

- Latin America and the Africa/Middle East region again posted robust gains in 2011, as they maintained double-digit growth throughout the year.
- Europe remained stable throughout 2011 in a still challenging consumption environment.
- In North America, the Division focused its efforts in 2011 on the development of a position in the greek yogurt segment, a new market segment that accounts for the growth of the category as a whole in 2011. This significant market transition led to modest growth over the entire year.

### Brands and new products

- In 2011, *Activia* and the "Indulgent" brands were the Division's main growth drivers. *Activia's* growth is driven by the continuous renovation and extension of its product line as recently illustrated by the introduction of a new type of container in Spain, or the development of an *Activia* smoothie in Portugal.
- The *Densia* brand (whose product is fortified with calcium and Vitamin D needed for good bone health) continued to grow, with launches during the year in two new countries (Japan and Brazil).

- The Division also continued to develop new products aimed at low-income consumers in developing countries, notably in India with the small-scale launch of a dairy product under the *Fundoos* brand name in 2011 that is both affordable and adapted to the nutritional needs of Indian children.

### Unimilk's contribution

Consolidated for the full year, the Unimilk group's companies contributed € 1.3 billion to Division sales, with 3.6% sales growth relative to 2010 on a like-for-like basis. Unimilk's sales volumes remained stable in 2011, even as the average price per kilogram advanced steadily.

In 2011, Unimilk successfully focused on its priority objectives, such as integrating the Unimilk group's companies into the new Danone-Unimilk entity, improving their profitability and segmenting their brand portfolio.

### Waters

#### Sales

The Waters Division recorded sales of € 3.2 billion in 2011, up 15.7% on a like-for-like basis as compared to 2010. This growth resulted from an 8.8% increase in sales volume and a 6.9% increase in value.

This performance, which was based mainly on the solid trends across the various regions, also benefited from exceptional factors such as very favorable climate conditions in Western Europe and Latin America in the second half of the year, or the temporary increase in demand and inventory replenishment that followed the Japanese earthquake in March.

The strong value gains reflect the Division's improved product mix, with the mature countries returning to positive territory and strong growth in the "Aquadriks" segment, as well as the impact of price increases applied during the year, primarily in emerging market countries.

	1 <sup>st</sup> quarter 2011	2 <sup>nd</sup> quarter 2011	3 <sup>rd</sup> quarter 2011	4 <sup>th</sup> quarter 2011
Like-for-like net sales growth	13.3%	18.9%	7.9%	23.3%
Volume growth	10.7%	10.0%	4.9%	10.1%
Price/mix growth	2.6%	8.9%	3.0%	13.2%

## Main markets and new products

**Mature countries.** Mature countries posted gains throughout the year, reflecting in particular the growth of this category in Western European countries as well as the positive impact on sales of the events that occurred in Japan in the first quarter.

**Emerging countries.** Business in the emerging countries remained very strong, with double-digit growth, notably in Indonesia, Mexico, China and Argentina. One of the key drivers of this growth consists of accelerating the deployment of the Division's flagship brands, notably *Bonafont* in Brazil and Poland and *Mizone* in China and Indonesia.

In the Division's 11 main countries, it had 23% average market share in 2011 (from Nielsen and IRI).

## Baby Nutrition

### Sales

The Division generated sales of € 3.7 billion in 2011, up 10.7% on a like-for-like basis relative to 2010. This growth in 2011 resulted from a 5.6% rise in sales volume and 5.1% increase in value.

The value increases mainly reflect the favorable product mix, generated primarily by growth milks, which posted double-digit gains. It also reflects price increases implemented throughout the year in most markets, following the significant increase in the price of milk powder.

### Main markets

All regions posted gains, with the Asian countries and Africa/Middle East region leading the way through double-digit gains.

In Europe, the United Kingdom, Netherlands and Poland are the main contributors.

The milk segment continued its double-digit growth, whereas the "diversified food" segment recorded a slight decline.

## Medical Nutrition

### Sales

The Division recorded sales of € 1.2 billion in 2011, up 9.4% on a like-for-like basis, as compared to 2010 with a 9.9% increase in sales volume.

### Main markets and new products

The Division's performance remained balanced from a regional perspective, with Western Europe and the new market regions contributing to sales growth in equal measure:

- the bulk of the growth in Western Europe was generated by the United Kingdom, the Netherlands, Italy, France and Spain.
- among the new market regions, China, Turkey and Brazil were the main contributors and achieved double-digit growth.

All product categories posted gains, with the "Pediatrics" category, whose brands include *Neocate* and *Nutrini*, again recording above-average growth relative to the Division as a whole.

The Division is pursuing the development of new products and distribution channels. In 2011, the Division thus developed the distribution of the new brand *Fortifit* (which is designed to slow the loss of muscle mass related to aging) in pharmacies in Austria.

## Sales by geographic area and breakdown by currency other than the euro

The tables below present the breakdown of sales by geographic area in 2010 and 2011.

(in € millions)	Fiscal year ended December 31					
	2010	2011	Change like-for-like	Volume growth like-for-like	Sales breakdown by geographical area in 2010	Sales breakdown by geographical area in 2011
<b>Net sales</b>						
Europe	9,449	10,809	+2.4%	(2.0)%	56%	56%
Asia	2,386	2,862	+20.1%	+15.5%	14%	15%
Rest of the World	5,175	5,647	+13.3%	+6.3%	30%	29%
<b>Total</b>	<b>17,010</b>	<b>19,318</b>	<b>+7.8%</b>	<b>+3.0%</b>	<b>100%</b>	<b>100%</b>

Europe generated € 10.8 billion in sales in 2011, a 2.4% increase on a like-for-like basis as compared to 2010. The four Divisions all made positive contributions to this growth.

Asia generated sales of € 2.9 billion in 2011, up 20.1% on a like-for-like basis as compared to 2010. China and Indonesia continue to make the largest contributions to this growth, mainly through the Waters and Baby Nutrition Divisions. During this

The geographic diversification of the Group's activity is reflected in the currency weightings of the Group's consolidated sales, as non-euro currencies accounted for 66% of the total in 2011, compared with 62% in 2010. They break down as follows:

	2011
Euro	34%
Russian ruble	10%
US dollar	8%
Indonesian ruble	6%
Mexican peso	6%
Chinese yuan	5%
Pound sterling	5%
Argentine peso	5%
Brazilian real	4%
Polish zloty	3%
Canadian dollar	2%
Turkish lira	1%
Other currencies	11%

period, Danone also launched a Fresh Dairy Products activity in Australia and a Baby Nutrition activity in Hong Kong.

The Rest of the World generated sales of € 5.6 billion in 2011, up 13.3% on a like-for-like basis as compared to 2010. Latin America was the main contributor to this growth through the activities of its four Divisions, notably in Mexico, Brazil and Argentina. In 2011, Danone launched a Baby Nutrition activity in Mexico.

## Trading operating income and trading operating margin

### Consolidated trading operating income and trading operating margin

Trading operating income was € 2.843 billion in 2011 versus € 2.597 billion in 2010.

Danone's trading operating margin increased +20 bps like for like to 14.72% in 2011, which saw a steep rise in raw material prices, particularly milk and PET. The trend was especially favorable in the second half, with a +73 bps like-for-like increase compared with 2010.

This like-for-like increase was due primarily to the gradual improvement in Unimilk's margin in 2011, in line with targets announced at the beginning of the integration and was achieved through initiatives that included an improved price/mix and the first benefits of synergies resulting from the company's integration.

The cost of goods sold totaled € 9,541 million in 2011, or 49.4% of consolidated sales, versus € 7,957 million in 2010. The sharp increase reflects the integration of the Unimilk's group companies for the full year. In the rest of the Group, rising raw material prices were offset, first, by ongoing cost-cutting measures, and secondly by competitive price increases, particularly in the first half of the year, in Fresh Dairy Products, Waters and Baby Nutrition.

Selling expense totaled € 5,092 million in 2011, or 26.4% of consolidated sales, versus € 4,663 million in 2010. A&P outlays

rose slightly in 2011, particularly in the second half, which maintained the visibility of Group brands in the media over the year. Expenditure on digital marketing more than doubled compared with 2010. Danone also continued to invest heavily in its sales force.

General and administrative expense totaled € 1,564 million in 2011, or 8.1% of consolidated sales, versus € 1,494 million in 2010.

Research and Development costs totaled € 233 million, or 1.2% of consolidated sales, versus € 209 million in 2010 (see Section 3.1 *Business highlights in 2011*).

In 2011, other operating income and expenses of € (114) million consisted mainly of (i) € (32) million corresponding to the first tranche of the Unimilk integration expenses (Fresh Dairy Products – mainly Russia and Ukraine) in accordance with the budget established at the time of the acquisition and of (ii) € (59) million relating to the costs incurred by the adjustment of the business model and the reorganization of the activities of the Fresh Dairy Products Division in China.

In 2010, other operating income and expenses of € (80) million corresponded mainly to (i) restructuring costs for Tikvesli (Fresh Dairy Products – Turkey) in the amount of € (50) million and (ii) acquisition- and integration-related expenses for Unimilk in the amount of € (28) million.



## Trading operating income and trading operating margin by Division

The tables below present 2010 and 2011 trading operating income and trading operating margin for each Division.

(in € millions)	Year ended December 31				
	2010 Restated	2011	2010 Restated	2011	Change like-for-like
	Trading operating income		Trading operating margin		
Fresh Dairy Products	1,376	1,475	14.14%	13.13%	+19bp
Waters	376	424	13.11%	13.13%	+1bp
Baby Nutrition	637	708	18.98%	19.28%	+24bp
Medical Nutrition	208	236	19.72%	19.98%	+0bp
<b>Total</b>	<b>2,597</b>	<b>2,843</b>	<b>15.27%</b>	<b>14.72%</b>	<b>+20bp</b>

The Fresh Dairy Products Division's trading operating margin was 13.13% in 2011, up 19 basis points on a like-for-like basis, despite significant milk price inflation. This increase was due to the gradual improvement in profit margins at the Unimilk group's companies throughout the year, in line with the objectives announced at the beginning of the year.

The Waters Division trading operating margin was 13.13% in 2011, a 1 basis point increase on a like-for-like basis. The Division had to contend with significant price inflation in PET costs, its leading raw material, which was offset by the impact of cost reduction efforts as well as price increases, notably in the emerging market countries.

The Baby Nutrition Division's trading operating margin was 19.28% in 2011, up 24 basis points relative to 2010. The Division faced substantial cost increases (mainly in the second half) for milk powder, its primary raw material, which were offset through the impact of cost reduction efforts and price increases implemented throughout the year in most markets.

The Medical Nutrition Division's trading operating margin was 19.98% in 2011, stable relative to 2010 (+0 bp) on a like-for-like basis. Cost reduction measures enabled by economies of scale made it possible to finance investments designed to promote the Division's growth such as an expanded sales force.

## Trading operating income and trading operating margin by geographic area

(in € millions)	Year ended December 31				
	2010 Restated	2011	2010 Restated	2011	Change like for like
	Trading operating income		Trading operating margin		
Europe	1,494	1,509	15.82%	13.96%	(41)bp
Asia	450	580	18.84%	20.27%	+131bp
Rest of the World	653	754	12.62%	13.35%	+62bp
<b>Total</b>	<b>2,5987</b>	<b>2,843</b>	<b>15.27%</b>	<b>14.72%</b>	<b>+20bp</b>

The trading operating margin for Europe was 13.96% in 2011, down 41 basis points on a like-for-like basis relative to 2010. This decrease reflected strong inflation in PET prices combined with very limited price increases applied by the Waters Division in the countries of the region, as well as the support for certain markets in the Fresh Dairy Products Division, notably in Spain.

Asia's trading operating margin was 18.84% in 2011, up 131 basis points on a like-for-like basis relative to 2010. The Waters Division activities in China and Indonesia were the main contributors to this

improvement, notably under the positive product mix impact in the "Aquadriks" segment and price increases. The one-time increase in sales following the earthquake in Japan also contributed to the increase in the region's margin in 2011.

The trading operating margin for the Rest of the World was 13.35% in 2011, up 62 basis points on a like-for-like basis relative to 2010. This increase reflects the favorable performances of the Fresh Dairy Products and Waters Divisions in Latin America.

## Financial income (expense)

The Group implemented a financial risk management policy, which is described in Section 2.7 *Risk factors* and whose implementation in 2011 is described for each risk in Note 32 of the Notes to the consolidated financial statements.

In 2011, the financial result totaled € (294) million as compared to € (20) million in 2010 and is broken down as follows:

<i>(in € millions)</i>	Year ended December 31	
	2010 Restated	2011
Interest income on cash, cash equivalents and short term investments	87	67
Interest expense on financial debt	(230)	(241)
<b>Cost of net debt</b>	<b>(143)</b>	<b>(174)</b>
Other financial income	252	7
Other financial expense	(129)	(127)
<b>Other financial income or expense</b>	<b>123</b>	<b>(120)</b>
<b>Financial result</b>	<b>(20)</b>	<b>(294)</b>

In 2011, the cost of net financial debt totaled € (174) million, representing an increase of € (31) million over 2010, due mainly to the cost of the debt of the Unimilk group's companies and, to a lesser extent, the increase in interest rates.

Other financial income totaled € 7 million in 2011 compared with € 252 million in 2010, of which € 237 million corresponded to the capital gain on the disposal of the Group's equity interest in the Russian company Wimm-Bill-Dann.

Other financial expenses comprised bank commissions as well as the cost of hedges of foreign exchange risk related to operations and the ineffective part of such hedges in accordance with IAS 39. In addition, given the change in accounting principles relating to retirement obligations and other long-term benefits (see Note 1.1 of the Notes to the consolidated financial statements), they also include the impact of the accretion of the present value of the obligations net of the expected return on plan assets, which totaled € (18) million in 2010 and € (16) million in 2011.

The net amount of interest paid and received was € (195) million in 2011, compared with € (112) million in 2010.

## Tax rate

The current tax rate was 25.8% for 2011. This tax rate excludes the non-current income statement items and the tax income and expense pertaining to these items.

Moreover, if we include these non-current items, the Group's effective tax rate was 25.7% in 2011 (23.1% in 2010) and the differential with the normal tax rate in France in 2011 and 2010 is provided in Note 10 of the Notes to the consolidated financial statements.

## Underlying net income and underlying fully diluted earnings per share

Underlying net income rose by 4.5% as reported to total € 1,749 million, a like-for-like increase of 6.7%. Underlying fully diluted EPS came to € 2.89, for a rise of 6.5% from the reported figures for 2010 and a 8.8% increase like for like.

The transition (i) from net income – Group share to underlying net income and (ii) from net earnings per share – Group share of the Company to underlying fully diluted earnings per share is shown in the following table:

	Year ended December 31					
	2010 Restated			2011		
<i>(in € millions except percentage)</i>	Underlying	Non-current items	Total	Underlying	Non-current items	Total
<b>Trading operating income</b>	<b>2,597</b>		<b>2,597</b>	<b>2,843</b>		<b>2,843</b>
Other operating income (expense)		(80)	(80)		(114)	(114)
<b>Operating income</b>	<b>2,597</b>	<b>(80)</b>	<b>2,517</b>	<b>2,843</b>	<b>(114)</b>	<b>2,729</b>
Cost of net debt	(143)		(143)	(174)		(174)
Other financial income (expense)	(102)	225	123	(107)	(13)	(120)
<b>Income before tax</b>	<b>2,352</b>	<b>145</b>	<b>2,497</b>	<b>2,562</b>	<b>(127)</b>	<b>2,435</b>
Income tax expense	(592)	14	(578)	(661)	35	(626)
Effective tax rate	25.20%		23.10%	25.80%		25.70%
<b>Net income from fully consolidated companies</b>	<b>1,760</b>	<b>159</b>	<b>1,919</b>	<b>1,901</b>	<b>(92)</b>	<b>1,809</b>
Share of profit of associates	80	41	121	46		46
<b>Net income</b>	<b>1,840</b>	<b>200</b>	<b>2,040</b>	<b>1,947</b>	<b>(92)</b>	<b>1,855</b>
• <b>Group share</b>	<b>1,674</b>	<b>201</b>	<b>1,875</b>	<b>1,749</b>	<b>(78)</b>	<b>1,671</b>
• <b>Non-controlling interests</b>	<b>166</b>	<b>(1)</b>	<b>165</b>	<b>198</b>	<b>(14)</b>	<b>184</b>

	Year ended December 31					
	2010 Restated			2011		
<i>(in € per share except for number of shares)</i>	Underlying	Non-current items	Total	Underlying	Non-current items	Total
Number of shares						
• before dilution	614,433,216	614,433,216	614,433,216	602,202,781	602,202,781	602,202,781
• after dilution	615,990,584	615,990,584	615,990,584	604,049,698	604,049,698	604,049,698
<b>Basic earnings per share - Group share</b>	<b>2.72</b>	<b>0.33</b>	<b>3.05</b>	<b>2.90</b>	<b>(0.13)</b>	<b>2.77</b>
<b>Diluted earnings per share - Group share</b>	<b>2.72</b>	<b>0.33</b>	<b>3.05</b>	<b>2.89</b>	<b>(0.12)</b>	<b>2.77</b>

## Dividend

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Danone will propose to the Shareholders' General Meeting on April 26, 2012 the distribution of a € 1.39 dividend per share, to be paid in cash in respect of the 2011 fiscal year. This amount represents a 6.9% increase from 2010.

The ex-dividend date will be Tuesday, May 8, 2012 and the dividend will be payable as of Friday, May 11, 2012.

### 3.3 Free cash flow

At the date of this Registration Document, the Group is confident that the cash flows generated by its operating activities, its cash and cash equivalents and the funds available under lines of credit will be sufficient to cover the expenditures and investments necessary for its operations, service its debt (including the financing during the year of the exercise of all put options granted to holders of non-controlling interests) and pay dividends.

Free cash flow increased by 9.4% to € 1,874 million representing 9.7% of sales in 2011. Capital expenditure was € 885 million or 6.4% higher than in 2010, at 4.6% of sales.

## Consolidated statement of cash flows

(in € millions)	Year ended December 31	
	2010 Restated <sup>(1)</sup>	2011
Net income - Group share	1,875	1,671
Net income attributable to non-controlling interests	165	184
Share of profits of associates	(121)	(46)
Depreciation and amortization	592	637
Dividends received from associates	52	30
Other components of net income with a cash impact	(78)	(96)
Other components of net income with no cash impact	(86)	63
<b>Cash flows provided by operating activities, excluding changes in net working capital</b>	<b>2,399</b>	<b>2,443</b>
(Increase) decrease in inventories	(63)	(92)
(Increase) decrease in trade receivables	(54)	(125)
Increase (decrease) in trade payables	275	306
Change in other receivables and payables	(81)	73
Change in working capital requirements	77	162
<b>Cash flows provided by (used in) operating activities</b>	<b>2,476</b>	<b>2,605</b>
Capital expenditure	(832)	(885)
Proceeds from disposal of property, plant and equipment	44	152
Net cash outflow on purchases of subsidiaries and financial investments	(327)	(60)
Net cash inflow on sales of subsidiaries and financial investments	562	23
(Increase) decrease in long-term loans and other long-term assets	1	3
<b>Cash flows provided by (used in) investing activities</b>	<b>(552)</b>	<b>(767)</b>
Increase in issued capital and additional paid-in capital	36	37
Purchases of treasury shares (net of disposals) and of DANONE call options <sup>(2)</sup>	(233)	(659)
Dividends paid to Danone shareholders	(737)	(783)
Transactions with non-controlling interests <sup>(3)</sup>	(155)	(214)
Net cash flows on hedging derivatives	(47)	(20)
Bonds issued or raised during the period	442	822
Bonds repaid during the period	(106)	(912)
Increase (decrease) in other current and non-current financial debt <sup>(4)</sup>	(185)	(158)
Increase (decrease) in short term investments	(601)	23
<b>Cash flows provided by (used in) financing activities</b>	<b>(1,586)</b>	<b>(1,864)</b>
<b>Effect of exchange rate changes</b>	<b>72</b>	<b>(1)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>410</b>	<b>(27)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>644</b>	<b>1,054</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,054</b>	<b>1,027</b>
<b>Supplemental disclosures</b>		
Payments during the year of:		
• net interest	112	195
• income tax	433	548

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2 of the Notes to the financial statements.

(2) DANONE call options purchased by the Company.

(3) As of December 31, 2010 and December 31, 2011, this heading comprised dividends paid to non-controlling interests in the amounts of € 110 million and € 197 million respectively.

(4) Commercial paper, subsidiaries' bank financing and liabilities in respect of finance leases.

### Operating cash flow

Cash flow from operating activities was € 2,605 million in 2011, versus € 2,476 million in 2010.

Cash flow from operating activities as a percentage of sales decreased to 13.5% in 2011, versus 14.6% in 2010. Cash flow from operating activities equals cash flows provided by operating activities excluding changes in net working capital. In general, first-half cash flow from operating activities is less than second-half cash flow from operating activities since working capital requirements are greater at the beginning of the year. The reasons for this are

as follows: (i) increase in stockpiled production (in anticipation of a slowdown of activity and the closing of certain plants during summer vacations), (ii) building of beverage inventories (given the increase in consumption during the summer months) and (iii) trade accounts receivable for sales made in May and June (because of seasonal fluctuations).

Other components of net income with an impact on cash, which amounted to an outflow of € 96 million in 2011, represent mainly interest expense accrued as of December 31, 2010 and paid in 2011. Interest expense accrued as of December 31, 2009 and paid in 2010 totaled an outflow of € 78 million.

Other components of net income with no cash impact can be broken down as follows:

<i>(in € millions)</i>	2010 Restated	2011
(Gains) losses on disposal of non-current assets	20	(50)
(Gains) losses on disposal of financial assets	(239)	(1)
Increase in (reversals of) provisions and deferred taxes	(7)	(16)
Expenses related to stock-options and GPS	28	22
Interest expense not yet paid	105	68
Other	7	40
<b>Total</b>	<b>(86)</b>	<b>63</b>

In 2010, the line item "(Gain) or loss on disposals of financial assets" included the pre-tax net capital gain on disposal of € 237 million for the non-consolidated Wimm-Bill-Dann shares.

### Capital expenditures

Capital expenditures reached € 885 million in 2011, compared with € 832 million in 2010, representing 4.9% and 4.7% of consolidated sales, respectively. Some 49% of these expenditures were focused on the Group's priority geographic areas such as Mexico, Indonesia, China, Russia, the United States and Brazil.

These investments consist primarily of production capacity expansion in the Group's main markets such as Mexico, Indonesia, China, Russia, the United States and Brazil. Major investments were also made in 2011 to enhance productivity and thereby offset the impacts of higher raw materials prices. Lastly, expenditures aimed at reducing the Group's carbon footprint increased in 2011 compared with 2010 (see Section 7.5 *Environmental responsibility*).

As it did in 2011, the Group plans to focus its capital spending in 2011 on emerging countries and those with high growth potential. It plans to commit to an investment level of around 4% to 5% of its consolidated sales in 2012 in order to encourage growth, increase volume and achieve geographical expansion.

### Financial investments

Net financial investments came to € 60 million in 2011 (net of acquired cash and cash equivalents) as opposed to € 695 million in 2010, of which € 327 million was in cash.

During the 2011 fiscal year, the Group carried out the following acquisitions resulting in control being obtained:

- acquisition on June 15, 2011 of the entire share capital of Complan Foods Limited (Medical Nutrition – United Kingdom);
- acquisition on September 1, 2011 of the entire share capital of Aldeinha (Waters – Brazil).

These business combinations were recognized on a provisional basis, as the amounts allocated to the identifiable assets acquired, liabilities assumed and goodwill may be adjusted during a maximum period of one year from the respective dates of each such business combination.

These transactions do not result in deferred payment or a contingent payment (earn-out) and did not have a material impact on the consolidated financial statements.

In 2011, the Group carried out the following disposal: the disposal of the 50% equity interest in Aquarius (Waters – China).

## Cash flows provided by financing activities

### Financing activities relating to equity

In 2011, cash flows used in financing activities primarily include the payment of dividends to Danone shareholders and non-controlling interests for € 783 million and € 197 million, respectively.

In addition, in 2011 the Group performed transactions in DANONE shares whose impact on net cash were as follows:

- purchase of shares for € 604 million;
- acquisition of DANONE call options for € 109 million.

Lastly, in 2011, following the exercise of stock-options and the acquisition of Group performance shares by employees and by corporate officers, treasury shares were transferred to these employees, which had a € 54 million positive impact on net cash.

In 2011, the Group also issued bonds for € 822 million while € 912 million bonds matured (see Section 3.4 *Balance sheet and financial security review*).

In 2010, cash flows used in financing activities primarily include the payment of dividends to Danone shareholders and non-controlling interests for amounts of € 737 million and € 110 million,

respectively, and purchases of short-term investments for an amount of € 601 million. Furthermore, the Group repurchased DANONE shares and shares of Danone Spain for € 250 million and € 48 million, respectively.

### Financing activities relating to financial debt

In order to diversify its financing sources and increase the average maturity of its debt, while benefiting from favorable market conditions, the Group launched the following main operations as part of its EMTN (Euro Medium Term Note) program during 2011:

- a Euro bond issue under its EMTN program, on September 27, for a nominal amount of € 500 million, maturing in 2016;
- several private placements for a cumulative nominal amount of € 322 million.

In addition, bonds representing € 912 million under the EMTN program matured in 2011.

In 2010, the Group launched the following two-fold operation in the Euro bond markets: the issuance of new bonds maturing in 2020 and the offer to exchange these newly issued securities for previously issued securities maturing in 2014 and 2015. As a result, the Group raised a nominal net amount of € 344 million in new debt, increased the average maturity of its bonds by 1.4 years and refinanced in advance the majority of the outstanding bonds maturing in May 2011.

## Free cash flow

The transition from operating cash flow to free cash flow is presented in the table below:

(in € millions)	Year ended December 31	
	2010 Restated	2011
Cash flow from operating activities	2,476	2,605
Capital expenditure	(832)	(885)
Disposal of tangible assets	44	152
Transactions fees related to business combinations <sup>(1)</sup>	25	2
<b>Free cash flow</b>	<b>1,713</b>	<b>1,874</b>

(1) These expenses previously classified as investment flows impact cash flow from operating activities as from January 1, 2010 pursuant to IFRS 3 (Revised), Business Combinations.

## 3.4 Balance sheet and financial security review

### Simplified consolidated balance sheet

<i>(in € millions)</i>	As of December 31	
	2010 Restated	2011
<b>Non-current assets</b>	<b>22,116</b>	<b>22,314</b>
<b>Current assets</b>	<b>5,904</b>	<b>6,112</b>
<b>Total assets</b>	<b>28,020</b>	<b>28,426</b>
<b>Equity - Group share</b>	<b>11,737</b>	<b>12,100</b>
Non-controlling interests	47	98
Net debt	7,074	6,633
Net financial debt	3,216	3,011
Gearing based on net debt	60%	55%
Gearing based on net financial debt	27%	25%

### Net debt and net financial debt

The Group's net financial debt totaled € 3,011 million as of December 31, 2011. Sound growth in free cash flow net of dividends and share buybacks, reduced net financial debt by

€ 205 million (excluding € 3,622 million in put options granted to non-controlling interests) to € 3,011 million.

The transition from net debt to financial debt is presented in the table below:

<i>(in € millions)</i>	Year ended December 31	
	2010 Restated	2011
<i>Non-current financial debt <sup>(1)</sup></i>	6,946	7,166
<i>Current financial debt</i>	2,529	1,865
<i>Short term investments</i>	(1,111)	(1,114)
<i>Cash and cash equivalents</i>	(1,054)	(1,027)
<i>Derivatives - assets</i>	(236)	(257)
<b>Net debt</b>	<b>7,074</b>	<b>6,633</b>
<i>Liabilities related to put options granted to non-controlling interests</i>	(3,858)	(3,622)
Non-current financial debt excluded from net financial debt	(3,858)	(3,622)
<b>Net financial debt</b>	<b>3,216</b>	<b>3,011</b>

(1) Including Derivatives - liabilities.



## Shareholder's equity

Shareholders' equity - Group share was € 12,100 million as of December 31, 2011, versus € 11,737 million as of December 31, 2010 (after restatements of 2010 consolidated financial statements – See Section 3.1 *Business highlights in 2011*). Consolidated shareholders' equity was € 12,198 million as of December 31, 2011, versus € 11,784 million as of December 31, 2010 (after restatements of 2010 consolidated financial statements – See Section 3.1 *Business highlights in 2011*).

During the fiscal year 2011, the Group carried out the following transactions in DANONE shares:

- the buyback of 13.3 million shares of DANONE, mainly for the purpose of acquisitions and, to a lesser extent, to hedge the

stock-options and Group performance shares granted to certain employees and corporate officers for a negative amount of € 604 million;

- the dividend for the fiscal year 2010 authorized by the Shareholders' General Meeting on April 28, 2011 for an amount of € 1.30 per ordinary share was paid in cash on May 13, 2011, reducing consolidated equity by € 783 million;
- transactions with non-controlling interests: they implied a reduction of "Retained earnings – Group share" of € 127 million and a reduction of "non-controlling" interests of € 104 million.

## Financing structure and financial security

### Liquidity risk exposure

The Group does not use indebtedness in either a recurring or a significant way in connection with its operating activities. Operating cash flows are generally sufficient to self-finance the Group's business operations and organic growth.

The Group may, however, in the future, increase its indebtedness to finance acquisitions or as and when required to manage its cash cycle, particularly when dividends are paid to the Company's shareholders.

The Group's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources.

Its goal remains to maintain debt at a reasonable level, notably to retain flexibility with respect to its financing sources.

The Group's liquidity risk arises mainly from the maturities of its (i) interest-bearing (bonds, bank debt, etc.) and (ii) non-interest-bearing liabilities (liabilities on put options granted to non-controlling interests), and from payments on derivative instruments.

As part of its debt management strategy, the Group regularly seeks new financing to refinance its existing debt.

More generally, it is possible that, given the current world financial crisis, the Group could be unable to access the financing or refinancing it needs on the credit or capital markets, or to access such finance on satisfactory terms, which could have an adverse impact on its financial situation.

The Group's policy is to secure its access to financing while optimizing its financing cost.

### Financial security management

Under its financing risk management policy, the Group manages its exposure to financing risk by: (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium term financing, (iv) maintaining financing sources available at any time, and (v) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts. These rules cannot always be fully applied in countries where centralized or medium-term financing are not available and/or, in some cases, when the existing financing agreements at a company predate the control obtained by the Group. In particular, certain Group companies may, for operational reasons, be required to borrow from local sources; from a Group perspective, the amounts borrowed are relatively small, whether considered individually or in total, given the level of operating cash flow of these companies that is generally sufficient to finance their operations and organic growth. However, this local financing exposes the Group to a liquidity risk in these countries, but only in limited amounts.

### Group's financing structure and financial security

The Group's financial structure and financial security are managed at the Company level and the financing and security lines are carried by the Company. They consist of:

- Bank financing:
  - a syndicated credit facility (revolving) negotiated in 2011 and established in July 2011, in the amount of € 2 billion, maturing July 28, 2016. As of December 31, 2011, the Group had not drawn on this syndicated facility at all;



- available committed credit facilities: a portfolio of back-up facilities entered into with major credit institutions, with maturities ranging from one to five years, and with a principal amount of € 3.3 billion. As of December 31, 2011 (as well as the previous year), the Group had not drawn on these facilities at all;

Overall, the Group had € 5.3 billion in committed credit facilities, which were unused as of December 31, 2011;

- Capital markets financing:
  - Euro Medium Term Note (EMTN) financing: a € 7 billion program in principal (of which € 3,154 million had been drawn down as of December 31, 2011); since 2011, bonds issued by the Company are disclosed on the Group's web site;
  - Commercial paper: a € 3 billion program, of which € 852 million had been used as of December 31, 2011.

The aforementioned syndicated credit facility, certain bond issues under the EMTN program (as of its renewal in 2007) and certain committed unused credit facilities include a change of control provision.

None of these financing sources is subject to any covenants relating to the maintenance of financial ratios.

Also, as of December 31, 2011, the company's debt issues with a maturity of more than one year are rated A3/Stable by Moody's and A-/Stable by Standard & Poor's. The commercial paper issues are rated A2 by Standard & Poor's.

Moreover, the Group has available net cash through its cash and cash equivalents and short-term investments of € 2.1 billion as of December 31, 2011, compared with € 2.2 billion the previous year.

#### Use of its financing sources

The Group's policy consists of keeping its financing sources available and managing them at the Company level. The Group may need to use (i) its commercial paper program and syndicated credit facility to manage its cash position, notably when paying out the dividend to Danone shareholders (ii) alternatively, its commercial paper and EMTN programs or its syndicated credit facility to optimize its financing cost while still ensuring its financial security, such that the maturity and currency of its financing raised may vary without changing the net debt level or the Group's financial security.

## Liquidity risk measurement

Projected cash outflows linked to the contractual repayment of the principal amount and contractual interest payments on the financial assets and liabilities, including premiums to be paid on derivative financial instruments, recognized in the Group's consolidated balance sheet as of December 31, 2011, are presented below with their contractual maturity dates and based on the assumption of non-renewal:

(in € millions)	Carrying amount on consolidated balance sheet at December 31, 2011	Contractual cash flows 2012	Contractual cash flows 2013	Contractual cash flows 2014	Contractual cash flows 2015	Contractual cash flows 2016 and after	Contractual cash flows of which the date is unknown
Bonds <sup>(1) (2)</sup>	3,373	(217)	(297)	(618)	(603)	(1,638)	–
Commercial Paper <sup>(1) (6)</sup>	852	(852)	–	–	–	–	–
Derivatives – liabilities (fair value) <sup>(1) (4) (5)</sup>	113	–	(113)	–	–	–	–
Financial debt managed at Corporate level	4,338	(1,069)	(410)	(618)	(603)	(1,638)	–
Subsidiaries' bank financing and other financing <sup>(3)</sup>	1,013	(781)	(232)	–	–	–	–
Finance lease commitments <sup>(3) (4)</sup>	58	(15)	(19)	(4)	(3)	(17)	–
<b>Total financing (before flows of financial instruments other than accrued interest)</b>	<b>5,409</b>	<b>(1,865)</b>	<b>(661)</b>	<b>(622)</b>	<b>(606)</b>	<b>(1,655)</b>	<b>–</b>
Liabilities related to put options granted to non-controlling interests <sup>(7)</sup>	3,622	–	–	–	–	–	(3,622)
<b>Total debt (before flows of financial instruments other than accrued interest)</b>	<b>9,031</b>	<b>(1,865)</b>	<b>(661)</b>	<b>(622)</b>	<b>(606)</b>	<b>(1,655)</b>	<b>(3,622)</b>
Interest on above-mentioned debt <sup>(4) (8)</sup>	–	(121)	(116)	(113)	(74)	(127)	–
Flows on derivatives <sup>(4) (5) (8)</sup>	–	(122)	(9)	(1)	1	–	–

(1) Financing managed at the Company level.

(2) Contractual nominal flows.

(3) Contractual nominal and interest flows.

(4) The floating interest rate is calculated on the basis of the rates applicable as of December 31, 2010.

(5) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at the year-end.

(6) The Commercial Paper issuances are backed-up by available confirmed credit lines. See table below.

(7) These options can be exercised at dates specified. No significant cash outflow is considered probable in the short term with respect to any of the put options granted to non-controlling interests. See Note 23 of the Notes to the consolidated financial statements, Section Financial liabilities linked to put options granted to non-controlling interests.

(8) Interest flows are net of accrued interest taken into account in the subtotals above.

The sources of financing available at any time established by the Group are mainly composed of committed unused credit facilities carried by the Company. The Group also has other bank credit facilities carried by certain of its subsidiaries. Changes in the amount available on the basis of outstanding transactions as of December 31, 2011 are shown in the table below:

(in € millions)	Amount available as of December 31, 2011	Amount available as of December 31, 2012	Amount available as of December 31, 2013	Amount available as of December 31, 2014	Amount available as of December 31, 2015	Amount available as of December 31, 2016
Credit facilities <sup>(1)</sup>	5,284	4,784	3,405	2,805	2,155	–
Other credit facilities <sup>(2)</sup>	200	–	–	–	–	–

(1) Nominal amount of the portion of the syndicated credit facility and back-up credit facilities managed at the Company level and not drawn as of December 31, 2011.

(2) Nominal amount of the portion not drawn as of December 31, 2011.

## Financial liabilities linked to put options granted to non-controlling interests

As of December 31, 2011, the non-current financial liabilities relating to these options amounted to € 3,622 million (€ 3,858 million as of December 31, 2010). These financial liabilities do not bear interest.

The main commitment concerns Danone Spain, for € 2,153 million as of December 31, 2011 (€ 2,309 million as of December 31, 2010). These put options apply to nearly all of the 42.19% equity interest held by the non-controlling interests of Danone Spain. The formula used to calculate the amount of this commitment is fixed contractually, based on an average of the Spanish subsidiary's earnings over several years, to which a multiple is then applied. In 2011, this calculation resulted in a decrease in the commitment totaling € 157 million. These put options were granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be tacitly renewed for successive five-year periods. The options are exercisable at any time. In July 2010, the beneficiaries of put options representing more than 70% of the shares of this subsidiary covered by the options agreed to amended terms under which they pledged to exercise their options only after a one-year prior notification period.

As part of the acquisition of Unimilk group's companies, Danone granted put options to former Unimilk shareholders. Contractually, these put options are exercisable in their totality during a period that begins in 2014 and expires on December 31, 2022. They are valued based mainly on an earnings multiple. As of December 31, 2011, the commitment relative to these put options totaled € 856 million (€ 754 million as of December 31, 2010).

The commitment relating to the purchase of the non-controlling interests of the company Aqua (Indonesia – Waters) expired in 2011 and has not been renewed. It stood at € 199 million as of December 31, 2010.

Other put options granted to non-controlling interests are exercisable (i) at any time for a cumulative amount of € 422 million and (ii) from 2013, on different dates, for a cumulative amount of € 191 million.

No significant cash outflow is considered probable in the short term with respect to any of the put options granted to non-controlling interests.

## Off-balance sheet commitments

### Commitments given and commitments received

As of December 31, 2011, the Group's off-balance sheet commitments arising from its operating, financing, and investing activities were as follows:

Commitments given (in € millions)	Total	Amount of financial flows for the year				
		2012	2013	2014	2015	2016 and after
Operating lease commitments <sup>(1)</sup>	(621)	(170)	(112)	(91)	(62)	(186)
Commitments to purchase goods and services <sup>(1)</sup>	(1,454)	(889)	(242)	(159)	(92)	(72)
Capital expenditure commitments <sup>(1)</sup>	(101)	(78)	(11)	(5)	(5)	(2)
Guarantees and pledges given	(110)	(78)	(4)	(1)	-	(27)
Other	(103)	(44)	(14)	(10)	(6)	(29)
<b>Total</b>	<b>(2,389)</b>	<b>(1,259)</b>	<b>(383)</b>	<b>(266)</b>	<b>(165)</b>	<b>(316)</b>

Commitments received (in € millions)	Commitments as of December 31 of each year					
	2011	2012	2013	2014	2015	2016
Credit facilities <sup>(2)</sup>	5,284	4,784	3,405	2,805	2,155	–
Other credit facilities <sup>(3)</sup>	200	–	–	–	–	–
Guarantees and pledges received	68	58	7	–	–	3
Other	24	17	3	2	1	1
<b>Total</b>	<b>6,432</b>	<b>4,859</b>	<b>3,415</b>	<b>2,807</b>	<b>2,156</b>	<b>4</b>

(1) Related to the Group's operations.

(2) Related to the Group's financial investments and to financing the Group's activities. Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2011.

(3) Related to the Group's operational activities. Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2011.

### Other commitments

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business, notably as a result of guarantees given on disposals between 1997 and 2011.

In some cases, damages and interest are sought. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

## 3.5 Outlook for 2012

### Material change in financial or trading position

The Company and its subsidiaries overall have not experienced any material changes in their financial or trading position since the close of the 2011 fiscal year.

To the best of the Company's knowledge, there have been no material events after the reporting period and to the filing date of this Registration Document.

### Profit forecasts or estimates

#### Financial outlook for 2012

For 2012, the Group expects no significant improvement or decline in the macro-economic environment compared to 2011:

- consumer spending to remain under pressure in Western Europe;
- raw material prices to hold at levels similar to those observed at the end of 2011, implying an inflation in the Group's raw material costs remaining strong in the first half and around 5% for the full-year.

Against this backdrop, the Group's priorities will remain the same: developing its product categories, pursuing investment

in countries with high growth potential, particularly those that Danone calls "MICRUB" (Mexico, Indonesia, China, Russia, the United States and Brazil) and supporting operations and brands in Western Europe.

Drawing on its experience of 2010 and 2011, Danone will continue to manage increases and volatility in raw material costs by focusing on sustained productivity and using selective pricing to maintain its competitive edge.

Altogether, targets for the Group for the fiscal year 2012 are the following:

- a 5% to 7% increase in net sales on a like-for-like basis (see definition in Section 3.6 *Financial indicators not defined by IFRS*);

- stable full-year trading operating margin (see definition in Section 3.6 *Financial indicators not defined by IFRS*) like-for-like (see definition in Section 3.6 *Financial indicators not defined by IFRS*);
- a continued rise in free cash flow (see definition in Section 3.6 *Financial indicators not defined by IFRS*), reaching € 2 billion.

These forecasts, outlooks, representations and other forward-looking information included in this Registration Document are based mainly on the data, assumptions and estimates detailed below, and which are deemed reasonable by the Group. They are not historical data and should not be interpreted as guarantees that actual results will be in line with said forecasts. By their very nature, such data, assumptions and estimates, as well as all other factors taken into account in the preparation of such forward-looking representations and information, may happen and are susceptible to change or be amended because of uncertainties notably related to the Group's economic, financial and competitive environment. In addition, the occurrence of certain risks described in Section 2.7 *Risk factors* could have an impact on the Group's activities, financial position, earnings and outlook and on the achievements of its forecasts, outlooks, representations and forward-looking information provided above.

### **Main assumptions underlying the profit forecasts**

The above forecasts were prepared using accounting methods that are consistent with those applied by the Group for the preparation of historical information. They are based on a number of assumptions, including:

- the data was prepared based on projected exchange rates and interest rates determined at the Group level;
- current consumption trends in countries that are important to the Group (including both emerging and mature countries) will continue throughout the year and will not improve or deteriorate significantly;
- raw materials price increases will continue. More specifically, in light of the developments since the beginning of this year, the Group anticipates an inflation in its raw material costs remaining strong in the first half and around 5% for the full-year;
- the Group's revenue growth will continue to be primarily driven by development of its product categories, continuing investment in countries with high growth potential, particularly those that Danone calls "MICRUB" (Mexico, Indonesia, China, Russia, the United States and Brazil), and support of its operations and brands in Western Europe;
- the Group will continue to pursue its policy of focusing on sustained productivity and using selective pricing to offset in part raw materials cost inflation.

## Statutory Auditors' report on the profit forecasts

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To the Chairman of the Board of Directors

In our capacity as statutory Auditors of your Company and in accordance with EC Regulation no. 809/2004, we have prepared this report on Danone's like for like trading operational margin forecasts for year 2012, included in Section 3.5 of this Registration Document.

These forecasts and the significant assumptions on which they are based are your responsibility, in accordance with the provisions of EC Regulation no. 809/2004 and the ESMA recommendations on profit forecasts.

It is our responsibility, on the basis of our procedures, to express an opinion, in accordance with the terms specified in appendix I, point 13.2 of EC Regulation no. 809/2004, as to whether such forecasts have been properly prepared.

We have carried out the procedures we deemed necessary with regard to the professional standards of the French society of auditors (*Compagnie nationale des commissaires aux comptes*) regarding this assignment. This work has comprised an assessment of the procedures implemented by management for the preparation of the forecasts and the implementation of procedures to verify the consistency of the accounting methods used with those applied for the preparation of Danone's consolidated financial statements for the year ended December 31, 2011. Our procedures have also included gathering such information and explanations that we have considered necessary in order to obtain reasonable assurance that the forecasts were properly prepared on the basis of the assumptions as set out.

We would remind you that, since forecasts are, by their very nature, subject to uncertainties, actual results sometimes differ significantly from the forecasts presented and that we do not express any opinion on the likelihood, or otherwise, of the actual results being in line with these forecasts.

In our opinion:

- the forecasts have been properly prepared in accordance with the basis indicated;
- the accounting principles used in the preparation of these forecasts are consistent with the accounting policies applied by Danone for the preparation of its consolidated financial statements for the year ended December 31, 2011.

This report is issued solely for the purposes of filing the 2011 Registration Document with the French securities regulator (*Autorité des marchés financiers* – AMF) and, where relevant, for a public offering in France and in the other countries of the European Union in which a prospectus containing this Registration Document, authorized by the AMF, would be published, and may not be used in any other context.

Neully-sur-Seine and Paris La Défense, March 20, 2012

### The statutory Auditors

#### PricewaterhouseCoopers Audit

Etienne BORIS

Philippe VOGT

#### Ernst & Young et Autres

Jeanne BOILLET

Gilles COHEN

## 2012 financial communication calendar

The financial communications calendar for 2012 is as follows:

April 17, 2012	2012 1 <sup>st</sup> quarter revenues
April 26, 2012	Shareholders Meeting
July 27, 2012	1 <sup>st</sup> half revenues and results
October 18, 2012	2012 3 <sup>rd</sup> quarter revenues

### 3.6 Financial indicators not defined by IFRS

Information published by Danone uses financial indicators that are not defined by IFRS. These are calculated as follows:

**Like-for-like changes** in net sales, trading operating income, trading operating margin and net income - Group share essentially exclude the impact of: (i) changes in exchange rates, with both previous year and current year indicators calculated using the same exchange rates (the exchange rate used is a projected annual rate determined by the Group for the current year), and (ii) changes in consolidation scope, with previous year indicators calculated on the basis of current-year scope. A notable change was the Group's acquisition of control of the Unimilk group' companies on November 30, 2010. Information relating to the 2010 fiscal year used as a basis for calculating the like-for-like changes between 2010 and 2011 reflects the operations of the Unimilk group for the entire 2010 fiscal year and includes, for the first 11 months of 2010, information as prepared by the Unimilk group's management.

**Trading operating income and expense** is defined as the Group operating income excluding other operating income and expense. Other operating income and expense is defined under Recommendation 2009-R.03 of the French CNC, and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to current activities. These mainly include capital gains and losses on disposals of fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major acquisitions, and costs related to major litigation. Since application of IFRS 3 (Revised),

they have also included acquisition fees related to business combinations.

**Trading operating margin** is defined as the trading operating income over net sales ratio.

**Underlying net income** (or current net income - Group share) measures the Group's recurring performance and excludes significant items that, because of their exceptional nature, cannot be viewed as inherent to the Group's current performance. Such non-current income and expense mainly include capital gains and losses on disposals and impairments of non fully-consolidated equity interests and tax income, and expense related to non-current income and expense. Non-current net income - Group share is defined as non-current income and expense excluded from Net income - Group share.

**Underlying fully diluted EPS** is defined as the underlying net income over diluted number of shares ratio.

**Free cash flow** represents cash flows provided or used by operating activities less capital expenditure net of disposals and excluding acquisition costs related to business combinations (since the application of IFRS 3 (Revised)).

**Net financial debt** represents the net debt portion bearing interest. It corresponds to current and non-current financial debt (i) excluding Liabilities related to put options granted to non-controlling interests (ii) net of Cash and cash equivalents, Short term investments and Derivatives - assets.





## Consolidated financial statements

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## 4.1 Consolidated financial statements and Notes to the consolidated financial statements

### Consolidated financial statements

#### Consolidated income statement

(in € millions)	Notes	Year ended December 31	
		2010 Restated <sup>(1)</sup>	2011
<b>Net sales</b>	<b>6</b>	<b>17,010</b>	<b>19,318</b>
Cost of goods sold		(7,957)	(9,541)
Selling expense		(4,663)	(5,092)
General and administrative expense		(1,494)	(1,564)
Research and development expense		(209)	(233)
Other income (expense)	7	(90)	(45)
<b>Trading operating income</b>		<b>2,597</b>	<b>2,843</b>
Other operating income (expense)	8	(80)	(114)
<b>Operating income</b>		<b>2,517</b>	<b>2,729</b>
Interest income		87	67
Interest expense		(230)	(241)
Cost of net debt	9	(143)	(174)
Other financial income (expense)	9	123	(120)
<b>Income before tax</b>		<b>2,497</b>	<b>2,435</b>
Income tax expense	10	(578)	(626)
<b>Net income from fully consolidated companies</b>		<b>1,919</b>	<b>1,809</b>
Share of profit of associates	14	121	46
<b>Net income</b>		<b>2,040</b>	<b>1,855</b>
• Group share		1,875	1,671
• Non-controlling interests		165	184

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

#### Earnings per share

(in € per share except for number of shares)	Notes	Year ended December 31	
		2010 Restated <sup>(1)</sup>	2011
<b>Number of shares</b>			
• before dilution		614,433,216	602,202,781
• after dilution		615,990,584	604,049,698
<b>Basic earnings per share - Group share</b>	<b>11</b>	3.05	2.77
<b>Diluted earnings per share - Group share</b>	<b>11</b>	3.05	2.77

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

## Consolidated statement of comprehensive income

(in € millions)	Notes	Year ended December 31	
		2010 Restated <sup>(1)</sup>	2011
<b>Net income</b>		<b>2,040</b>	<b>1,855</b>
Translation adjustments, net of tax		919	(89)
<i>Actuarial gains and losses on retirement commitments</i>	29	(84)	(27)
<i>Tax effects</i>		34	7
Actuarial gains and losses on retirement commitments not recycled to profit or loss, net of tax		(50)	(20)
Revaluation of hedging derivatives, net of tax		13	15
<i>Revaluation of available-for-sale financial assets</i>		8	(1)
<i>Amount recycled to profit or loss in the current year</i>		(292)	-
<i>Tax effects</i>		7	-
Revaluation of available-for-sale financial assets, net of tax		(277)	(1)
Other comprehensive income, net of tax		1	5
<b>Total other comprehensive income</b>		<b>606</b>	<b>(90)</b>
<b>Total comprehensive income</b>		<b>2,646</b>	<b>1,765</b>
• Group share		2,460	1,617
• Non-controlling interests		186	148

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.



## Consolidated balance sheet

(in € millions)	As of January 1 <sup>st</sup>		As of December 31	
	Notes	2010 Restated <sup>(1)</sup>	2010 Restated <sup>(1)</sup>	2011
<b>Assets</b>				
Brands	12	3,903	4,267	4,258
Other intangible assets	12	355	546	531
Goodwill	12	10,227	11,311	11,289
Intangible assets	12	14,485	16,124	16,078
Property, plant and equipment	13	3,180	3,810	3,916
Investments in associates	14	801	941	1,030
Investments in other non-consolidated companies	15	521	125	123
Long-term loans	16	27	42	53
Other long-term financial assets	17	127	138	166
Derivatives - assets	32	134	236	257
Deferred taxes	24	648	700	691
<b>Non-current assets</b>		<b>19,923</b>	<b>22,116</b>	<b>22,314</b>
Inventories	18	765	975	1,061
Trade receivables	19	1,682	1,924	1,981
Other receivables	20	645	767	820
Short-term loans		41	34	40
Short term investments	21	454	1,111	1,114
Cash and cash equivalents	23	644	1,054	1,027
Assets held for sale	5	176	39	69
<b>Current assets</b>		<b>4,407</b>	<b>5,904</b>	<b>6,112</b>
<b>Total assets</b>		<b>24,330</b>	<b>28,020</b>	<b>28,426</b>

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

<i>(in € millions)</i>	As of January 1 <sup>st</sup>		As of December 31	
	Notes	2010 Restated <sup>(1)</sup>	2010 Restated <sup>(1)</sup>	2011
<b>Equity and liabilities</b>				
Issued capital		162	162	161
Additional paid-in capital		3,596	3,627	3,452
Retained earnings		8,437	9,251	10,192
Cumulative translation adjustments		(869)	30	(23)
Accumulated other comprehensive income		197	(117)	(118)
Treasury shares and DANONE call options <sup>(2)</sup>	22	(1,027)	(1,216)	(1,564)
<b>Equity attributable to owners of the Company</b>		<b>10,496</b>	<b>11,737</b>	<b>12,100</b>
Non-controlling interests	22	54	47	98
<b>Equity</b>		<b>10,550</b>	<b>11,784</b>	<b>12,198</b>
<i>Financing</i>		2,967	2,941	3,431
<i>Derivatives - liabilities</i>		57	147	113
<i>Liabilities related to put options granted to non-controlling interests</i>		3,068	3,858	3,622
Non-current financial debt	23	6,092	6,946	7,166
Provisions for retirements and other long-term benefits	29	313	412	458
Deferred taxes	24	937	1,129	1,108
Other provisions and non-current liabilities	25	582	545	534
<b>Non-current liabilities</b>		<b>7,924</b>	<b>9,032</b>	<b>9,266</b>
Current financial debt	23	1,702	2,529	1,865
Trade payables	26	1,981	2,417	2,706
Other current liabilities	27	2,173	2,240	2,354
Liabilities directly associated with assets classified as held for sale	5	-	18	37
<b>Current liabilities</b>		<b>5,856</b>	<b>7,204</b>	<b>6,962</b>
<b>Total equity and liabilities</b>		<b>24,330</b>	<b>28,020</b>	<b>28,426</b>

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

(2) DANONE call options purchased by the Company.



## Consolidated statement of cash flows

(in € millions)	Notes	Year ended December 31	
		2010 Restated <sup>(1)</sup>	2011
Net income - Group share		1,875	1,671
Net income attributable to non-controlling interests		165	184
Share of profits of associates	14	(121)	(46)
Depreciation and amortization	13	592	637
Dividends received from associates		52	30
Other components of net income with a cash impact		(78)	(96)
Other components of net income with no cash impact		(86)	63
<b>Cash flows provided by operating activities, excluding changes in net working capital</b>	<b>28</b>	<b>2,399</b>	<b>2,443</b>
<i>(Increase) decrease in inventories</i>		(63)	(92)
<i>(Increase) decrease in trade receivables</i>		(54)	(125)
<i>Increase (decrease) in trade payables</i>		275	306
<i>Change in other receivables and payables</i>		(81)	73
Change in working capital requirements		77	162
<b>Cash flows provided by (used in) operating activities</b>	<b>28</b>	<b>2,476</b>	<b>2,605</b>
Capital expenditure		(832)	(885)
Proceeds from disposal of property, plant and equipment		44	152
Net cash outflow on purchases of subsidiaries and financial investments	28	(327)	(60)
Net cash inflow on sales of subsidiaries and financial investments	28	562	23
(Increase) decrease in long-term loans and other long-term assets	16-17	1	3
<b>Cash flows provided by (used in) investing activities</b>	<b>28</b>	<b>(552)</b>	<b>(767)</b>
Increase in issued capital and additional paid-in capital		36	37
Purchases of treasury shares (net of disposals) and of DANONE call options <sup>(2)</sup>	28	(233)	(659)
Dividends paid to Danone shareholders	22	(737)	(783)
Transactions with non-controlling interests <sup>(3)</sup>	22	(155)	(214)
Net cash flows on hedging derivatives		(47)	(20)
Bonds issued or raised during the period	23	442	822
Bonds repaid during the period	23	(106)	(912)
Increase (decrease) in other current and non-current financial debt <sup>(4)</sup>	23	(185)	(158)
Increase (decrease) in short term investments	23	(601)	23
<b>Cash flows provided by (used in) financing activities</b>	<b>28</b>	<b>(1,586)</b>	<b>(1,864)</b>
<b>Effect of exchange rate changes</b>		<b>72</b>	<b>(1)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>410</b>	<b>(27)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>644</b>	<b>1,054</b>
<b>Cash and cash equivalents at end of period</b>		<b>1,054</b>	<b>1,027</b>
<b>Supplemental disclosures</b>			
Payments during the year of:			
• net interest		112	195
• income tax		433	548

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

(2) DANONE call options purchased by the Company.

(3) As of December 31, 2010 and December 31, 2011, this heading comprised dividends paid to non-controlling interests in the amounts of € 110 million and € 197 million respectively.

(4) Commercial paper, subsidiaries' bank financing and liabilities in respect of finance leases.

## Consolidated statement of changes in equity

Notes	Number of shares		Equity (in € millions)								
	Issued	Excluding treasury shares	Issued capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustments	Accumulated other comprehensive income	Treasury shares	Group share	Non-controlling interests	Total equity
<b>As of January 1, 2010 Restated <sup>(1)</sup></b>	<b>646,990,850</b>	<b>613,483,625</b>	<b>162</b>	<b>3,596</b>	<b>8,437</b>	<b>(869)</b>	<b>197</b>	<b>(1,027)</b>	<b>10,496</b>	<b>54</b>	<b>10,550</b>
Total comprehensive income					1,875	899	(314)		2,460	186	2,646
Increase in issued capital	930,990	930,990		31					31	5	36
Decrease in issued capital											
Changes in treasury shares		(3,346,732)						(189)	(189)	4	(185)
Counterpart entry to expenses on stock-options and Group performance shares <sup>(2)</sup>	31				28				28		28
Dividends paid to Danone shareholders					(740)				(740)	3	(737)
Other transactions with non-controlling interests	22				(349)				(349)	(205)	(554)
<b>As of December 31, 2010 - Restated <sup>(1)</sup></b>	<b>647,921,840</b>	<b>611,067,883</b>	<b>162</b>	<b>3,627</b>	<b>9,251</b>	<b>30</b>	<b>(117)</b>	<b>(1,216)</b>	<b>11,737</b>	<b>47</b>	<b>11,784</b>

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

(2) See Note 1.25 on the recognition of charges relating to stock-options and Group performance shares.



	Notes	Number of shares		Equity (in € millions)								
		Issued	Excluding treasury shares	Issued capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustments	Accumulated other comprehensive income	Treasury shares	Group share	Non-controlling interests	Total equity
<b>As of January 1, 2011 Restated <sup>(1)</sup></b>		<b>647,921,840</b>	<b>611,067,883</b>	<b>162</b>	<b>3,627</b>	<b>9,251</b>	<b>30</b>	<b>(117)</b>	<b>(1,216)</b>	<b>11,737</b>	<b>47</b>	<b>11,784</b>
Total comprehensive income						1,671	(53)	(1)		1,617	148	1,765
Increase in issued capital	22	939,160	939,160		33					33	4	37
Decrease in issued capital	22	(6,614,427)		(1)	(208)					(209)		(209)
Changes in treasury shares DANONE call options <sup>(2)</sup>	22, 31		(11,365,935)			(93)			(348)	(441)		(441)
Counterpart entry to expenses on stock-options and Group performance shares <sup>(2)</sup>	31					22				22		22
Dividends paid to Danone shareholders	22					(786)				(786)	3	(783)
Other transactions with non-controlling interests	22					127				127	(104)	23
<b>As of December 31, 2011</b>		<b>642,246,573</b>	<b>600,641,108</b>	<b>161</b>	<b>3,452</b>	<b>10,192</b>	<b>(23)</b>	<b>(118)</b>	<b>(1,564)</b>	<b>12,100</b>	<b>98</b>	<b>12,198</b>

(1) The restatement of the consolidated financial statements published in 2010 is provided in Note 2.

(2) DANONE call options purchased by the Company.

(3) See Note 1.25 on the recognition of charges relating to stock-options and Group performance shares.



## Notes to the consolidated financial statements

The consolidated financial statements of Danone, its subsidiaries and associates (together, the “Group”) as of and for the year ended December 31, 2011 were approved by Danone’s Board of

Directors on February 14, 2012 and will be submitted for approval to the Shareholders’ General Meeting on April 26, 2012.

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## Note 1 Accounting principles

The consolidated financial statements of Danone (the “Company”) and its subsidiaries and associates have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union, which are available on the web site of the European Commission ([http://ec.europa.eu/internal\\_market/accounting/ias/index\\_fr.htm](http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm)). The standards and interpretations applied in the preparation of these consolidated financial statements are also in accordance with IFRS as issued by the IASB (International Accounting Standards Board).

### 1. Changes in accounting principles

#### First-time application of new accounting standards

The following standards, amendments and interpretations are applicable as from January 1, 2011.

##### *Standards, amendments and interpretations, whose application is mandatory as of January 1, 2011.*

- IFRIC 19 on extinguishing financial liabilities with equity instruments, revised IAS 24 on related party disclosures, the amendment to IFRIC 14 on prepayments of a minimum funding requirement, the amendment to IAS 32 on the classification of instruments entitling the holder to receive the entity’s own equity instruments for a fixed amount of foreign currency, the amendment to IFRS 1 on the limited exemption from the obligation to disclose comparative information in accordance with IFRS 7 and the amendment to IFRS 7 on the nature and significance of the risks resulting from financial instruments and credit risk.

The application of these standards, amendments and interpretations did not have a material impact on the Group’s consolidated financial statements for the year ended December 31, 2011.

##### *Standards, amendments and interpretations, whose application is not mandatory as of January 1, 2011 but which may be adopted early.*

- Amendment to IFRS 7 on the disclosure of transfers of financial assets and the amendment to IAS 1 on the presentation of other comprehensive income.

The Group did not exercise the option to adopt in advance these standards, amendments and interpretations and does not expect that they would have a material impact on its results and financial position.

In addition, the IASB has published standards, amendments and interpretations that are applicable as of January 1, 2011, but not yet adopted by the European Union: IFRS 9 on financial instruments,

IFRS 10 on consolidated financial statements, IFRS 11 on joint arrangements, IFRS 12 on the disclosure of interests in other entities and revised IAS 28 on investments in associates and joint ventures. The Group is currently assessing the impact of these standards on its results and financial position.

#### Changes in accounting principles

On June 16, 2011, the IASB published the amendments relating to the recognition of defined benefit pension plans detailed in IAS 19, *Employee benefits*. The main changes include the elimination of the corridor method for recognizing actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions used to calculate commitments (including the return on plan assets) and the requirement to immediately recognize all such actuarial gains and losses in other comprehensive income with no subsequent transfer to profit or loss.

Given the mandatory application of these new provisions in 2013 and in accordance with the option offered by the current version of IAS 19, *Employee benefits*, the Group has decided to stop using the corridor option and to apply the “recognition in other comprehensive income” option as of the 2011 fiscal year, by immediately recognizing all actuarial gains and losses relating to post-employment defined benefit plans in other comprehensive income with no subsequent transfer to profit or loss.

In addition, as from January 1, 2011, expenses recognized in respect of defined benefit retirement and other long-term benefit plans corresponding to the accretion of the present value of the commitments net of the expected return on plan assets will be recognized in “Other financial income and expenses”, given their financial nature, rather than in “Other income and expenses” within “Trading operating income” as was previously the case, and commitments relating to other long-term benefits will be recognized in “Provisions for retirement obligations and other long-term benefits” in the consolidated balance sheet, rather than in “Other provisions and non-current liabilities” as was previously the case.

These changes in accounting and presentation principles enable the financial statements to provide more relevant information and facilitate their comparison with the financial statements of international groups, the majority of which use this option.

In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, this change was applied retroactively to all periods presented, thereby providing users of the consolidated financial statements with a clearer picture of its impact on the Group’s consolidated financial statements and facilitating comparison.

The following restatements were made to:

- the statement of consolidated income:
  - reversal of the amortization of actuarial gains and losses from “Other income and expenses” within “Trading operating income” and of the corresponding tax effect;
  - reclassification of the effects of the accretion of the present value of the expected return on plan assets from “Other income and expenses” within “Trading operating income” to “Other financial income and expenses”;
- the consolidated balance sheet:
  - immediate recognition of all actuarial gains and losses in the reserve account entitled “Accumulated other comprehensive income”, the other side of the entry being to “Provisions for retirement obligations and other long-term benefits”;
  - recognition of the corresponding tax effect also in “Accumulated other comprehensive income”, the other side of the entry being to deferred tax;
  - reclassification of the commitments relating to other long-term benefits from “Other provisions and non-current liabilities” to “Provisions for retirement obligations and other long-term benefits”;
- the consolidated statement of changes in equity: immediate recognition of the changes in all actuarial gains and losses;
- the consolidated statement of cash flows: reclassification of the amortization of actuarial gains and losses net of the corresponding tax effect from “Net income” (attributable to owners of the Company and attributable to non-controlling interests) to “Other components of net income with no cash impact” within “Cash flows provided by operating activities, excluding changes in net working capital”.

The impact of these restatements on the consolidated financial statements published in 2010 is described in Note 2.

## 2. Use of estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions, that affect the reported amounts in the consolidated balance sheet, income statement and notes to the consolidated financial statements. These estimates and assumptions pertain in particular to the valuation of intangible assets, investments in associates, deferred tax assets, financial liabilities relating to commitments to purchase non-controlling interests, provisions for risks and liabilities, provisions for commercial commitments and provisions for retirement obligations. Those assumptions, estimates and appraisals, which are presented in detail in each of the notes related to the above-mentioned items, are made on the basis of available information and conditions at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in an economically and financially volatile context.

In addition to the use of estimates, the Group’s management uses its judgment to define the accounting treatment for certain

activities and transactions, when they are not explicitly addressed in IFRS and related interpretations.

## 3. Consolidation principles

### Fully consolidated companies

All subsidiaries in which the Group holds, directly or indirectly, a controlling interest are fully consolidated. Control over a company exists, when the Group has the capacity to govern the operating and financial policies of such company in order to gain economic benefits. Full consolidation enables the recognition of all assets, liabilities and income statement items relating to the companies concerned in the Group’s consolidated financial statements, after the elimination of intercompany transactions, the portion of the net income and equity attributable to owners of the Company (“Group share”) being distinguished from the portion relating to other shareholders’ interests (“Non-controlling interests”). Intercompany balances and transactions between consolidated entities (including dividends) are eliminated in the consolidated financial statements.

### Associates

All companies in which the Group exercises, directly or indirectly, a significant influence or joint control are accounted for using the equity method. Under this method, the Group recognizes in the carrying amount of the shares held in the associated or jointly-controlled company the acquisition cost of the shares adjusted by its proportionate share of changes in the company’s net assets since its acquisition.

The net income of companies acquired or disposed of during the year is included in the consolidated income statement as from the acquisition date or up until the disposal date.

A list of the main consolidated and associated companies is provided in Note 36.

## 4. Foreign currency translation

### Transactions denominated in foreign currencies

When they are not hedged, transactions denominated in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. At period-end, trade receivables and trade payables denominated in foreign currencies are translated using period-end exchange rates. Foreign exchange gains and losses arising from transactions in foreign currencies are recognized under the line item “Other income and expenses” in the consolidated income statement, except those arising from (i) transactions representing long-term investments in Group companies and (ii) borrowings and financial instruments denominated in foreign currencies, that are used to hedge long-term investments denominated in the same currencies, which are recognized in consolidated equity under the heading “Cumulative translation adjustments”.

When transactions denominated in foreign currencies are hedged, the hedging impact is recognized in the same item as the hedged element. As a result, all such transactions are recognized at the hedged spot rate.

### Translation of the financial statements of companies whose functional currency is other than the euro

The Group's financial statements are presented in euros. The balance sheets of companies, whose functional currency is not the euro are translated into euros using period-end exchange rates, and their income statements are translated using the average exchange rate for the period. The resulting translation adjustments are recognized in consolidated equity under the heading "Cumulative translation adjustments" until the companies to which they relate are sold or liquidated.

## 5. Intangible assets

### Goodwill

When control of a company is acquired, the fair value of the consideration given to the seller is allocated to the acquired identified assets and the acquired liabilities and contingent liabilities assumed, which are measured at fair value. The difference between the consideration given to the seller and the Group's share of the fair value of the acquired identified assets and the liabilities and contingent liabilities assumed represents goodwill. When the option of recognizing non-controlling interests at fair value is applied, a corresponding premium is allocated to goodwill. Goodwill is recognized in the consolidated balance sheet as an asset under "Goodwill". At the end of the first fiscal year following the acquisition of control, business combinations may be recognized on a provisional basis, as the amounts allocated to the identifiable assets acquired, liabilities assumed and goodwill may be amended during a maximum period of one year from the respective dates of each such combination.

On the acquisition of investments accounted for using the equity method, the acquisition price of the shares is allocated on a fair value basis to the identifiable assets acquired and liabilities assumed. The difference between the acquisition price and the Group's share in the fair value of the assets acquired and liabilities assumed represents goodwill. It is recognized in the consolidated balance sheet as part of "Investments in associates".

Goodwill is not amortized but is tested for impairment at least annually (see below).

It is allocated to the Cash Generating Unit (CGU) or group of CGUs most likely to benefit from the synergies of the business combination.

Goodwill arising from the acquisition of a foreign entity is recognized in the functional currency of the entity acquired and translated at the exchange rates prevailing on the closing date.

### Brands and other intangible assets

Acquired brands that are distinguishable, offer significant value, are supported by advertising expenses and have an indefinite useful life are recognized under the heading "Brands" in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and their contribution to earnings. These brands, which are legally protected, are not amortized. Brand names that are deemed to have a finite life are presented under the heading "Other intangible assets" in the consolidated balance sheet. They are amortized on a straight-line basis over their estimated useful life, which does not exceed sixty years.

Acquired technologies, which are generally valued with the assistance of specialist consultants and amortized over the average duration of the patents, are presented in the balance sheet under the heading "Other intangible assets". Acquired development costs meeting the criteria for the recognition of an intangible asset in accordance with IAS 38, *Intangible assets*, are recognized in the balance sheet. They are amortized as from the date on which the corresponding products are put on the market. Other acquired intangible assets are recognized at their acquisition cost under the heading "Other intangible assets" in the balance sheet. They are amortized over their estimated economic life, which does not exceed forty years.

### Impairment reviews of intangible assets

Intangible assets are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. An impairment provision is recognized, when the recoverable value of an intangible asset becomes durably lower than its carrying amount. The recoverable value of an intangible asset corresponds to the higher of market value and value in use.

- market value corresponds to the net selling price, that could be obtained by the Group in an arm's-length transaction, which is generally estimated on the basis of earnings multiples;
- value in use is assessed with reference to expected future discounted cash flows of the Cash Generating Unit ("CGU") or group of CGUs to which the asset belongs. The CGUs or groups of CGUs correspond to subsidiaries or groups of subsidiaries, that are included in the same reportable segment and that generate cash flows largely independent from those generated by other CGUs or groups of CGUs.

Impairment tests on goodwill are performed at the level of the CGU or group of CGUs as a function of the expected return on investment. The cash flows used to determine value in use are derived from the business plans of the CGUs or groups of CGUs, which cover a period of three years and are generally extended, on the basis of the most recent forecasts, by two years to cover a total period of five years, or even eight years in the case of CGUs or groups of CGUs in the Baby Nutrition and Medical Nutrition Divisions. Future cash flows beyond that period are extrapolated using a growth rate to infinity that is specific to each CGU or group

of CGUs. Future cash flows are discounted using a weighted average cost of capital, that is specific to the countries where the CGU or group of CGUs operates.

## 6. Property, plant and equipment

Property, plant and equipment are recognized at cost of acquisition or at construction cost.

Assets acquired under finance leases are recognized as property, plant and equipment in the balance sheet, when, in substance, the terms of the lease transfer to the Group essentially all of the risks and rewards associated with the ownership of the asset. The asset is recognized for an amount that corresponds to the lower of fair value and the discounted value of future lease payments. The assessment of the level of risks and rewards transferred is based on an analysis of the lease agreement. The financial debt associated with the leased asset is recognized as a liability in the consolidated balance sheet under "Non-current financial debt."

Interest on borrowings to finance the construction of property, plant and equipment until such time as they become operational is considered to be an integral part of the cost price of the property, plant and equipment, provided that the criteria of IAS 23, *Borrowing costs* are met.

### Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- buildings: 15 to 40 years;
- plant and equipment: 5 to 15 years;
- other: 3 to 10 years.

### Impairment reviews of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or circumstances indicate that the recoverable value of the asset (or group of assets to which it belongs) may be impaired. The recoverable value corresponds to the higher of market value and value in use. Value in use is estimated on the basis of the discounted cash flows that the asset (or group of assets to which it belongs) is expected to generate over its estimated useful life in the conditions of use determined by the Group. Market value corresponds to the estimated net selling price that could be obtained by the Group in an arm's-length transaction. An impairment provision is recognized when the recoverable value of the asset proves to be lower than its carrying amount.

### Refundable containers

Refundable containers are recognized at acquisition cost. They are depreciated on a straight-line basis, based on available statistics for each company, over the shortest of the following lengths of time:

- physical useful life, taking into account the internal and external breakage rates and wear and tear;

- commercial useful life, taking into account planned or likely modifications of containers.

When the amount of the refund changes, the liability for deposits received is remeasured based on the new amount.

## 7. Investments in associates

Investments in associates are recognized in the consolidated balance sheet at their acquisition cost, adjusted for the Group's share of the changes in the company's net assets since its acquisition. The Group reviews the fair value of its investments in associates, when events or circumstances indicate, that impairment is likely to have occurred. An impairment provision is recognized within "Income (loss) from investments in associates", when the recoverable amount of the investment falls below its carrying amount. This impairment provision may be reversed, if the recoverable amount subsequently exceeds the carrying amount.

The fair value of investments in associates is determined as follows:

- for listed companies, according to a multi-criteria approach based on the share price as of December 31, the financial health of the company and analysts' reports;
- for unlisted companies, by reference where applicable to the value resulting from recent transactions entered into by third parties, put or call options negotiated with third parties or external appraisals.

## 8. Other investments in non-consolidated companies

Other investments in non-consolidated companies are measured as available-for-sale investments within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*. They are recognized at fair value in the consolidated balance sheet, with changes in fair value recognized under consolidated equity in "Accumulated other comprehensive income", except for unrealized losses, that are considered to be significant or prolonged, which are recognized directly in profit or loss in "Other financial income and expenses". For listed companies, fair value is assessed according to a multi-criteria approach, notably using the share price as of the end of the period. For unlisted companies, fair value is assessed based on recent transactions entered into with third parties, put or call options negotiated with third parties or external appraisals. When such elements do not exist, the fair value of investments in unlisted companies is deemed to be equivalent to the acquisition cost of the investments. Gains or losses on disposal of non-consolidated investments are recognized under the line item "Other financial income and expenses" in the consolidated income statement.

## 9. Other long-term financial assets

Other long-term financial assets mainly comprise bond securities that are measured as available-for-sale financial assets within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*. They are stated at fair value in the consolidated

balance sheet, with change in fair value recognized under consolidated equity in “Accumulated other comprehensive income”, except for unrealized losses, that are considered to be significant or prolonged, which are recognized directly in the income statement.

### 10. Long-term loans

Long-term loans are measured at amortized cost using the effective interest rate method within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*.

### 11. Inventories

Inventories and work-in-progress are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method.

### 12. Short-term investments

Short-term investments comprise marketable securities and other short-term investments.

Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are measured as securities held for trading within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement* and are carried at their fair value, with changes in fair value recognized in profit or loss in the line item “Cost of net debt”.

“Other short-term investments” consist of highly liquid investments with a maturity of three months or less at the date of purchase. These investments are measured at their fair value as securities held for trading within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*.

### 13. Cash and cash equivalents

Cash and cash equivalents consist of bank deposits and cash.

### 14. Treasury shares and call options on treasury shares acquired

DANONE shares held by the Company and its fully-consolidated subsidiaries are recognized as a reduction in consolidated equity, under the heading “Treasury shares and DANONE call options”, and are measured at cost.

DANONE call options held by the Company do not constitute financial assets pursuant to IAS 32, *Financial Instruments: Presentation*. They are recognized on acquisition as a deduction from consolidated equity, under the heading “Treasury shares and DANONE call options”. They are measured at cost, i.e. the premium paid plus transaction expenses, and are not subsequently remeasured.

### 15. Grants and subsidies

Investment subsidies are reflected in the balance sheet under the heading “Other provisions and non-current liabilities”. They are released to income (in the line item “Other income and expenses”) on a straight-line basis over the estimated useful lives of the related non-current assets.

Other grants and subsidies are recognized in the line “Other income and expenses” of the income statement in the year during which they are received.

### 16. Deferred taxes

Deferred taxes are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except for the cases specified in IAS 12, *Income Taxes*. Deferred taxes are calculated using the liability method, applying the last enacted income tax rates expected to be applicable when the temporary differences will reverse. Deferred taxes relating to the reserves of fully-consolidated subsidiaries are recognized, when distribution of these reserves is expected in the foreseeable future or when it is probable, that the Group will dispose of the entity concerned.

Deferred tax assets and liabilities are offset, when the tax entity has a legal right to offset.

Deferred tax assets relating to tax-loss carry forwards and temporary differences are recognized in the consolidated balance sheet, when it is more likely than not that these taxes will be recovered.

### 17. Retirement plans and other long-term benefits

#### Defined contribution retirement plans

Contributions due under defined contribution plans are expensed as incurred. These expenses are allocated to different line items in the consolidated income statement.

#### Defined benefit retirement plans

The Group’s obligations relating to retirement indemnities and defined benefit retirement plans are calculated using the projected unit credit method and by taking into account several actuarial assumptions, including employee turnover, salary increases and employees’ expected active lives. The obligation is discounted using a discount rate, that is specific to each country (yield on investment grade corporate bonds), with the exception of countries in the euro zone, for which a single rate is applied.

The carrying amounts of these plans on the consolidated balance sheet within “Provisions for retirement obligations and other long-term benefits” correspond to the actuarial value of the obligations, as defined above, less the fair value of the plan assets (retirement funds to which the Group contributes, for example), adjusted by the cost of prior services not recognized.

Actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions that are used to calculate the obligations (including the estimated return on the plan's assets) are fully recognized within "Other comprehensive income". The recognized costs of defined benefit plans correspond mainly to the total of:

- on the one hand, the cost of services provided during the year and the amortization of the cost of prior services recognized in "Other income and expenses" within "Trading operating income";
- on the other hand, the accretion of the present value of the obligations, net of the expected return on plan assets, recognized within "Other financial income and expenses".

### Other long-term benefits

Other post-employment benefits may be granted by certain Group companies to their employees, such as health cover and long-service awards. The Group's obligations in respect of these benefits are determined by applying a method similar to that used to determine the obligations relating to post-employment defined benefit plans.

The amounts recognized in the balance sheet in respect of these plans within "Provisions for retirement obligations and other long-term benefits" correspond to the present value of the obligations, as detailed above.

The actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions used to calculate obligations are recognized in full within "Other income and expenses" in the consolidated income statement of the fiscal year in which they are incurred.

## 18. Other provisions and non-current liabilities

Other provisions and non-current liabilities comprise mainly:

- provisions, including the portion due in less than one year since it is considered to be not material;
- investment subsidies.

Provisions are recognized when, the Group has a present obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Group. The net outflow must be at least the equivalent of the provision; the timing or amount of the net outflow may be uncertain, but the amount must be estimated in a reliable manner. A provision is reversed as and when the corresponding payments are made or when it no longer appears probable that an outflow of resources will occur.

Investment subsidies are recognized in accordance with the principle described in Note 1.12.

## 19. Derivatives and debt instruments

The Group has applied IAS 39, *Financial Instruments: Recognition and Measurement* since January 1, 2004.

### Derivatives

Derivatives are recognized in the consolidated balance sheet at their fair value. Debt derivatives and hedges of net investments in foreign operations are classified as non-current and foreign exchange derivatives related to operations are classified as current.

When derivatives are designated as fair value hedges, changes in the fair value of both the derivatives and the hedged items are recognized in profit or loss in the same period.

When derivatives are designated as hedges of net investments in foreign operations, changes in the fair value of the derivatives are recognized in equity under "Cumulative translation adjustments."

When derivatives are designated as future cash flow hedges, changes in the value of the effective portion of the derivative are recognized in equity under "Accumulated other comprehensive income". This effective portion is recycled in the income statement, when the hedged item itself is recognized in profit or loss. However, changes in the value of the ineffective portions of derivatives are directly recognized in profit or loss. Changes in the fair value of derivative financial instruments, that do not meet the conditions for classification as hedging instruments are recognized directly in profit or loss for the period.

### Debt instruments

Debt instruments are recognized in the consolidated balance sheet under the amortized cost method, using their effective interest rate, or at their fair value.

When the fair value risk of a debt is hedged by a derivative, the change in fair value of the hedged component of said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to profit or loss, which thereby offsets the change in fair value of the derivative instrument.

When future cash flows of a debt are hedged by a derivative, the change in the fair value of the hedged component of said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to consolidated equity, which thereby offsets the change in fair value of the derivative instrument.

## 20. Put options granted to non-controlling interests

In accordance with IAS 32, *Financial instruments: Presentation*, when non-controlling interests hold put options enabling them to sell their investment in the Group, a financial liability is recognized in an amount corresponding to the option strike price, and the counterpart of the liability arising from these obligations is:

- on the one hand, the reclassification as debt of the carrying amount of the corresponding non-controlling interests;
- on the other, a reduction in the equity attributable to owners of the Company: the difference between the strike price of the options granted and the carrying amount of non-controlling interests is presented as a reduction of “Retained earnings – attributable to owners of the Company.” This item is adjusted at the end of each reporting period to reflect changes in the strike price of the options and the carrying amount of non-controlling interests. In the absence of specific provisions stipulated by IFRS, the Company has applied the recommendations issued by the French Financial Markets Authority (AMF) in November 2009.

The Group is also closely monitoring the work of the IASB and the IFRIC, which could lead to an amendment of specific standards on the treatment of such put options granted to holders of non-controlling interests.

## 21. Net sales and trade receivables

The Group’s sales mainly comprise sales of finished products. They are recognized, when the risks and benefits incident to ownership are transferred.

Sales are stated net of trade discounts and customer allowances, as well as net of costs relating to joint sales agreements, listing or concerning occasional promotional actions invoiced by distributors.

Trade receivables are recognized at their nominal value. Impairment provisions are recognized, when their recovery appears uncertain. The methods used for determining such provisions are based on a historical analysis of overdue payments.

## 22. Advertising costs

Advertising costs are expensed as incurred.

## 23. Research and development costs

Development costs are only recognized under assets in the consolidated balance sheet if all the recognition criteria set by IAS 38, *Intangible Assets* are met before the products are launched on the market. Development costs are generally expensed as incurred due to the very short time between the date on which technical feasibility is demonstrated and the date on which the products are marketed.

## 24. Other operating income and expenses

In accordance with Recommendation 2009-R.03 of the French National Accounting Council (CNC) “relative to the format of financial statements of companies adopting international accounting standards”, other operating income and expenses consist of significant items that, because of their unusual nature, cannot be viewed as inherent to the current activities of the Group. They mainly include capital gains and losses on disposals of consolidated equity interests, impairment charges on goodwill, significant costs relating to strategic restructurings and major acquisitions, acquisition-related costs, when control is obtained and estimated or incurred costs linked to major litigation.

## 25. Stock-options and Group performance shares granted to certain employees and corporate officers

Stock-options granted to employees are measured at fair value on the grant date. Fair value is determined using the Black and Scholes valuation model, based on assumptions determined by management. A corresponding charge is recognized on the “Other income and expenses” line of the income statement and expensed over the vesting period (from two to four years). The corresponding entry to this charge is an equivalent increase in “Retained earnings” within consolidated equity. Expenses incurred in relation to options, that become null and void before they vest, are transferred to the income statement during the period in which the options become null and void.

Group performance shares (GPS) granted to employees and corporate officers are measured at fair value as of the grant date. The fair value of Group performance shares is calculated on the basis of assumptions made by management and recognized in profit or loss under “Other income and expenses,” and spread over the period during which the rights to shares vest, either three or four years. The corresponding entry to this charge is an equivalent increase in “Retained earnings” within consolidated equity. Expenses incurred in relation to performance share grants that become null and void before they vest are transferred to the income statement during the period in which the grants become null and void.

## 26. Earnings per share

Earnings per share are calculated by dividing net income by the average number of shares in issue during the year, after deducting the DANONE treasury shares held by the Company and its fully-consolidated subsidiaries.

Diluted earnings per share are calculated in a similar manner, except that the weighted average number of shares is increased to take into account shares, that could potentially be issued following the exercise of stock-options and the vesting of Group performance shares. Diluted earnings per share do not take into account call options on DANONE shares held by the Company.



## 27. Assets and liabilities held for sale and discontinued operations

Assets held for sale are those assets, whose value will be recovered mainly through a sale considered to be highly likely within the next 12 months, rather than as a result of their continued use.

Assets and liabilities held for sale are presented as separate line items in the consolidated balance sheet of the period during which the decision to sell is made. Consolidated balance sheets of prior periods are not restated.

Discontinued operations are defined in IFRS 5, *Non-current assets held for sale and discontinued operations* as a component of an entity that (i) generates cash flows that are largely independent from cash flows generated by other components (ii) is held for sale or has been sold, and (iii) represents a separate major line of business or geographic area of operations. The Group has determined that, given the way it is organized, its Divisions and geographic areas presented in the segment information correspond to the definition of components given in IFRS 5. The net income and cash flows from assets held for sale and discontinued operations are presented separately on the income statement and statement of cash flows, respectively, for all periods presented.

### Note 2

## Restatement of consolidated financial statements published in 2010

Following the change in accounting principle and income statement presentation of retirement obligations and other long-term benefits (see Note 1) applied retroactively as of January 1, 2010 and the finalization of the accounting treatment of the acquisition of the Unimilk group's companies (see Note 4) applied retroactively as

of December 1, 2010, the consolidated financial statements and notes have been restated in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and revised IFRS 3, *Business Combinations*.

### Restatement of the consolidated income statement

(in € millions)	Year ended December 31			
	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
<b>Net sales</b>	<b>17,010</b>			<b>17,010</b>
Cost of goods sold	(7,959)		2	(7,957)
Selling expense	(4,663)			(4,663)
General and administrative expense	(1,494)			(1,494)
Research and development expense	(209)			(209)
Other income (expense)	(107)	17		(90)
<b>Trading operating income</b>	<b>2,578</b>	<b>17</b>	<b>2</b>	<b>2,597</b>
Other operating income (expense)	(80)			(80)
<b>Operating income</b>	<b>2,498</b>	<b>17</b>	<b>2</b>	<b>2,517</b>
Cost of net debt	(143)			(143)
Other financial income (expense)	134	(11)		123
<b>Income before tax</b>	<b>2,489</b>	<b>6</b>	<b>2</b>	<b>2,497</b>
Income tax expense	(576)	(2)		(578)
<b>Net income from fully consolidated companies</b>	<b>1,913</b>	<b>4</b>	<b>2</b>	<b>1,919</b>
Share of profit of associates	121			121
<b>Net income</b>	<b>2,034</b>	<b>4</b>	<b>2</b>	<b>2,040</b>
• Group share	1,870	4	1	1,875
• Non-controlling interests	164		1	165

## Restatement of earnings per share

<i>(in € per share except for number of shares)</i>	Year ended December 31			
	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
<b>Number of shares</b>				
• before dilution	614,433,216			614,433,216
• after dilution	615,990,584			615,990,584
<b>Basic earnings per share - Group share</b>	<b>3.04</b>	<b>0.01</b>	-	<b>3.05</b>
<b>Diluted earnings per share - Group share</b>	<b>3.04</b>	<b>0.01</b>	-	<b>3.05</b>

## Restatement of the consolidated statement of comprehensive income

<i>(in € millions)</i>	Year ended December 31			
	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
<b>Net income</b>	<b>2,034</b>	<b>4</b>	<b>2</b>	<b>2,040</b>
Translation adjustments, net of tax	920	(1)		919
Actuarial gains and losses on retirement commitments not recycled to profit or loss, net of tax		(50)		(50)
Revaluation of hedging derivatives, net of tax	13			13
Revaluation of available-for-sale financial assets, net of tax	(277)			(277)
Other comprehensive income, net of tax	1			1
<b>Total other comprehensive income</b>	<b>657</b>	<b>(51)</b>	-	<b>606</b>
<b>Total comprehensive income</b>	<b>2,691</b>	<b>(47)</b>	<b>2</b>	<b>2,646</b>
• Group share	2,506	(47)	1	2,460
• Non-controlling interests	185		1	186

## Restatement of the consolidated balance sheet

(in € millions)	As of January 1				As of December 31		
	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	2010 Restated	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
<b>Assets</b>							
Brands	3,903		3,903	4,255		12	4,267
Other intangible assets	355		355	565		(19)	546
Goodwill	10,227		10,227	11,213		98	11,311
Intangible assets	14,485		14,485	16,033		91	16,124
Property, plant and equipment	3,180		3,180	4,032		(222)	3,810
Investments in associates	805	(4)	801	947	(6)		941
Investments in other non-consolidated companies	521		521	125			125
Long-term loans	27		27	42			42
Other long-term financial assets	127		127	138			138
Derivatives - assets	134		134	236			236
Deferred taxes	621	27	648	651	49		700
<b>Non-current assets</b>	<b>19,900</b>	<b>23</b>	<b>19,923</b>	<b>22,204</b>	<b>43</b>	<b>(131)</b>	<b>22,116</b>
Inventories	765		765	975			975
Trade receivables	1,682		1,682	1,924			1,924
Other receivables	645		645	768		(1)	767
Short-term loans	41		41	24		10	34
Short term investments	454		454	1,111			1,111
Cash and cash equivalents	644		644	1,054			1,054
Assets held for sale	176		176	39			39
<b>Current assets</b>	<b>4,407</b>		<b>4,407</b>	<b>5,895</b>		<b>9</b>	<b>5,904</b>
<b>Total assets</b>	<b>24,307</b>	<b>23</b>	<b>24,330</b>	<b>28,099</b>	<b>43</b>	<b>(122)</b>	<b>28,020</b>

(in € millions)	As of January 1				As of December 31		
	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	2010 Restated	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
<b>Equity and liabilities</b>							
Issued capital	162		162	162			162
Additional paid-in capital	3,596		3,596	3,627			3,627
Retained earnings	8,437		8,437	9,344	4	(97)	9,251
Cumulative translation adjustments	(869)		(869)	31	(1)		30
Accumulated other comprehensive income	256	(59)	197	(8)	(109)		(117)
Treasury shares and DANONE call options <sup>(1)</sup>	(1,027)		(1,027)	(1,216)			(1,216)
<b>Equity - Group share</b>	<b>10,555</b>	<b>(59)</b>	<b>10,496</b>	<b>11,940</b>	<b>(106)</b>	<b>(97)</b>	<b>11,737</b>
Non-controlling interests	54		54	47			47
<b>Equity</b>	<b>10,609</b>	<b>(59)</b>	<b>10,550</b>	<b>11,987</b>	<b>(106)</b>	<b>(97)</b>	<b>11,784</b>
Financing	2,967		2,967	2,941			2,941
Derivatives - liabilities	57		57	147			147
Liabilities related to put options granted to non-controlling interests	3,068		3,068	3,858			3,858
Non-current financial debt	6,092		6,092	6,946			6,946
Provisions for retirements and other long term benefits	219	94	313	248	164		412
Other provisions and non-current liabilities	594	(12)	582	543	(15)	17	545
Deferred taxes	937		937	1,172		(43)	1,129
<b>Non-current liabilities</b>	<b>7,842</b>	<b>82</b>	<b>7,924</b>	<b>8,909</b>	<b>149</b>	<b>(26)</b>	<b>9,032</b>
Current financial debt	1,702		1,702	2,529			2,529
Trade payables	1,981		1,981	2,417			2,417
Other current liabilities	2,173		2,173	2,239		1	2,240
Liabilities directly associated with assets classified as held for sale				18			18
<b>Current liabilities</b>	<b>5,856</b>	<b>-</b>	<b>5,856</b>	<b>7,203</b>	<b>-</b>	<b>1</b>	<b>7,204</b>
<b>Total equity and liabilities</b>	<b>24,307</b>	<b>23</b>	<b>24,330</b>	<b>28,099</b>	<b>43</b>	<b>(122)</b>	<b>28,020</b>

(1) DANONE call options purchased by the Company.

## Restatement of the consolidated statement of cash flows

	As of December 31			
<i>(in € millions)</i>	2010 Reported	Change in accounting principle for retirement obligations and other long-term benefits	Allocation of the acquisition price of Unimilk group's companies	2010 Restated
Net income - Group share	1,870	4	1	1,875
Net income attributable to non-controlling interests	164		1	165
Share of profits of associates	(121)			(121)
Depreciation and amortization	594		(2)	592
Dividends received from associates	52			52
Other components of net income with a cash impact	(78)			(78)
Other components of net income with no cash impact	(82)	(4)		(86)
<b>Cash flows provided by operating activities, excluding changes in net working capital</b>	<b>2,399</b>	<b>-</b>	<b>-</b>	<b>2,399</b>
<b>Cash flows provided by (used in) operating activities</b>	<b>2,476</b>	<b>-</b>	<b>-</b>	<b>2,476</b>
<b>Cash flows provided by (used in) investing activities</b>	<b>(552)</b>			<b>(552)</b>
<b>Cash flows provided by (used in) financing activities</b>	<b>(1,586)</b>			<b>(1,586)</b>
<b>Effect of exchange rate changes</b>	<b>72</b>			<b>72</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>410</b>			<b>410</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>644</b>			<b>644</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,054</b>			<b>1,054</b>
<b>Supplemental disclosures</b>				
Payments during the year of:				
• net interest	112			112
• income tax	433			433

## Restatement of the consolidated statement of changes in equity

<i>(in € millions)</i>	Issued capital	Additional paid-in capital	Retained earnings	Cumulative translation adjust- ments	Accumula- ted other compre- hensive income	Treasury shares	Group share	Non- controlling interests	Total equity
<b>As of January 1, 2010 - Reported</b>	<b>162</b>	<b>3,596</b>	<b>8,437</b>	<b>(869)</b>	<b>256</b>	<b>(1,027)</b>	<b>10,555</b>	<b>54</b>	<b>10,609</b>
Change in accounting principle for retirement obligations and other long-term benefits					(59)		(59)		(59)
<b>As of January 1, 2010 - Restated</b>	<b>162</b>	<b>3,596</b>	<b>8,437</b>	<b>(869)</b>	<b>197</b>	<b>(1,027)</b>	<b>10,496</b>	<b>54</b>	<b>10,550</b>
<b>As of December 31, 2010 - Reported</b>	<b>162</b>	<b>3,627</b>	<b>9,344</b>	<b>31</b>	<b>(8)</b>	<b>(1,216)</b>	<b>11,940</b>	<b>47</b>	<b>11,987</b>
Change in accounting principle for retirement obligations and other long-term benefits			4	(1)	(109)		(106)		(106)
Allocation of the acquisition price of Unimilk group's companies			(97)				(97)		(97)
<b>As of December 31, 2010 - Restated</b>	<b>162</b>	<b>3,627</b>	<b>9,251</b>	<b>30</b>	<b>(117)</b>	<b>(1,216)</b>	<b>11,737</b>	<b>47</b>	<b>11,784</b>

## Note 3 Changes in the scope of consolidation

### Acquisitions

#### Acquisitions resulting in control being obtained

During the 2011 fiscal year, the Group carried out the following acquisitions resulting in control being obtained:

- acquisition on June 15, 2011 of the entire share capital of Complan Foods Limited (Medical Nutrition – United Kingdom);
- acquisition on September 1, 2011 of the entire share capital of Aldeinha (Waters - Brazil).

These business combinations were recognized on a provisional basis, as the amounts allocated to the identifiable assets acquired, liabilities assumed and goodwill may be adjusted during a maximum period of one year from the respective dates of each such business combination.

These transactions do not result in deferred payment or a contingent payment (earn-out) and did not have a material impact on the consolidated financial statements.

In 2010, the Group carried out the following acquisitions of controlling interests:

- acquisition on January 5, 2010 of an additional equity interest in Ferminvest (Waters – France), thereby increasing the Group's equity interest from 57% to 100%. Following this transaction, the Group increased its holding in Damavand (Waters – Iran) from 39.89% to 70%. Damavand is a leading Iranian mineral water company;
- acquisition on May 25, 2010 of a 51% equity interest in Chiquita Fruits (France) and acquisition on July 13, 2010 of a 100% equity interest of Immédia (France) by Chiquita. These companies market fruit-juice-based beverages. Their management reports to the Fresh Dairy Products Division;
- acquisition on July 15, 2010 of a 51% equity interest in Narang Beverages (Waters – India), simultaneously with the acquisition of a 30% equity interest in Narang Access (Waters – India) which is consolidated as an associate under equity method. These companies package and market mineral water in India;
- acquisition on July 22, 2010 of a 100% equity interest in Medical Nutrition USA, Inc. (Medical Nutrition – United States);
- acquisition on September 30, 2010 of 51% of ProViva and Lunnarps Mejeri (Sweden). These companies produce and market fruit-juice-based beverages enriched with probiotics. Their managements report to the Fresh Dairy Products Division;
- signing on November 30, 2010 of an agreement with the Unimilk group to combine the Fresh Dairy Products businesses of the two groups in Russia, Ukraine, Kazakhstan and Belarus. Danone acquired control over the new entity (hereinafter referred to as "Danone CIS"), with a 50.9% equity interest. The remaining

shares are held by Unimilk's former shareholders (42%) and the EBRD (7.1%);

- acquisition on December 3, 2010 of a 100% equity interest in Womir Spa (Waters – Poland);
- acquisition on December 23, 2010 of a 94.67% equity interest in YoCream (Fresh Dairy Products – United States). This company produces and markets frozen yogurt in the United States.

The work carried out concerning the allocation of the acquisition prices, in particular as regards the acquisition of the Unimilk group's companies, is described in Note 4.

#### Other acquisitions

The Group did not carry out any other acquisitions in 2011.

During 2010, the Group carried out the following acquisitions that did not result in control being obtained:

- a 50% equity interest in Murray Goulburn (Fresh Dairy Products – Australia), which was accounted for as an associate;
- a 30% equity interest in Narang Access (Waters – India) which is consolidated as an associate under the equity method, simultaneously with the acquisition a 51% equity interest in Narang Beverages (Waters – India);
- an additional equity interest in Aqua d'Or (Waters – Denmark), thereby bringing the overall equity interest to 90%, with the company already fully consolidated as a subsidiary.

#### Disposals

In 2011, the Group carried out the following disposal: disposal of the 50% equity interest in Aquarius (Waters – China, see Note 5).

The main disposals in 2010 involved:

- the equity interest in China Hui Yuan Juice Group Limited, listed on the Hong Kong Stock Exchange, and some companies in the Waters Division;
- the non-consolidated 18.36% equity interest in Russia-based Wimm-Bill-Dann, a company listed in Moscow and New York.

#### Acquisitions in progress

On August 2, 2011 Danone signed an agreement with the Wockhardt group to acquire its nutrition business in order to establish a presence in the Indian baby nutrition and medical nutrition market.

This agreement provided for the acquisition by Danone of the nutrition activity and brands of the Wockhardt group and the industrial assets of Carol Info Service, located in the Punjab region in India, for approximately € 250 million.

Note 4

## Accounting of acquisitions resulting in control being obtained in 2010 and 2011

During the 2011 fiscal year and in accordance with the principles described in Note 1.3, the Group finalized the accounting treatment of the entities acquired in 2010.

### Acquisition of Unimilk group's companies in 2010

On November 30, 2010 Danone signed an agreement with the Unimilk group to combine the Fresh Dairy Products businesses of the two groups in Russia, Ukraine, Kazakhstan and Belarus.

In connection with this agreement, Danone contributed an approximate 36% equity interest of its Fresh Dairy Products subsidiaries in Russia, Ukraine, Kazakhstan and Belarus with a total value of € 346 million and made a cash payment of € 116 million to obtain a 50.9% equity interest in the activities of the Unimilk group. The fair value of the assets contributed to the seller totaled

€ 462 million and was allocated to the identifiable assets acquired and liabilities assumed for a net amount of € 56 million and to residual goodwill of € 406 million. The acquisition costs, which totaled € 22 million, were recognized in the income statement under "Other operating income and expenses." Non-controlling interests were recognized proportionately in the fair value of the assets and liabilities of the acquired entity.

Following this transaction, Danone acquired control over the new entity, Dairy JV CIS Holdings, with a 50.9% equity interest. The remaining shares are held by Unimilk's former shareholders (42%) and the EBRD (7.1%). Danone's equity interest may increase as of 2014 when put options granted to the former shareholders of Unimilk and the EBRD become exercisable. In 2022, Danone may also exercise a call option on all shares that it does not already own at that time.

The net assets acquired from the Unimilk group's companies on November 30, 2010, after the acquisition accounting adjustments made, are as shown in the following table:

(in € millions)	Carrying amount of net assets acquired	Fair value of net assets acquired	
		Preliminary <sup>(1)</sup>	Final <sup>(1)</sup>
Intangible assets	86	278	272
Tangible assets	487	458	235
Non-current assets	573	736	507
Current assets	227	229	238
<b>Total assets</b>	<b>800</b>	<b>965</b>	<b>745</b>
Non-current liabilities	286	366	340
Current liabilities	294	297	296
<b>Total equity and liabilities</b>	<b>581</b>	<b>663</b>	<b>636</b>
Fair value of net assets acquired (at 100%)	220	302	109
Net assets attributable to non-controlling interests		(148)	(53)
Partial goodwill		308	406
<b>Fair value of the consideration paid to the seller</b>		<b>462</b>	<b>462</b>

(1) Preliminary and final fair value as of November 30, 2010.

Intangible assets as of November 30, 2010 corresponded to the fair value of the Prostokvashino, Tema and Biobalance brands. The first is amortizable over 60 years, given the duration of its legal protection; the latter two have indefinite useful lives.

Property, plant and equipment as of November 30, 2010 corresponded mainly to the fair value of the industrial sites estimated on the basis of a replacement cost reduced to allow for obsolescence and downsizing.

Non-current liabilities as of November 30, 2010 consisted mainly of non-current financial liabilities, provisions for risks and liabilities and deferred taxes.

Residual goodwill totaling € 406 million represented mainly the expected synergies with respect to the commercial and industrial activity along with cost savings, geographical coverage and human capital.

Put options granted to shareholders selling the Unimilk group's companies amounted to € 775 million as of November 30, 2010. These put options are described in Note 23.

## Other acquisitions carried out in 2010 and 2011

The other acquisitions carried out in 2010 and resulting in control being acquired did not result in a material adjustment to the allocation of the acquisition price in the financial statements for the 2011 fiscal year.

Details are provided in the following table, separately for each of the two years, of the aggregate net assets acquired (excluding the acquisition of the Unimilk group's companies) in 2010 and 2011:

<i>(in € millions)</i>	2010	2011
Fair value of net assets acquired (at 100%)	100	(7)
Net assets attributable to non-controlling interests <sup>(1)</sup>	(28)	-
Partial goodwill <sup>(2)</sup>	151	41
<b>Fair value of the consideration paid to the seller</b>	<b>223</b>	<b>34</b>

(1) For each of the companies acquired, the non-controlling interests are recognized at their share of the fair value of the assets and liabilities of the acquired entity.

(2) Residual goodwill represents mainly the human capital, the expected synergies in terms of commercial and industrial activity and cost savings, market shares and their growth potential.

The fair value adjustment corresponds to the difference between the fair value of the net assets acquired and their carrying amount. In 2011, the fair value adjustment was not material and related mainly to the recognition of deferred tax. In 2010, it totaled € 44 million and related mainly to the measurement at fair value of the brands and inventories acquired.

The fair value of the consideration paid to the vendor corresponded to € 211 million in 2010, paid in cash, the balance representing the fair value of the shares previously owned, and to € 34 million in 2011.

## Note 5

## Assets and liabilities held for sale

### Disposals

In 2011, the Group sold its 50% equity interest in Aquarius (Waters - China), which was recognized in assets held for sale as of December 31, 2010. The transaction was completed on September 1, 2011 and generated a net capital loss of € (0.5) million, recognized in "Other operating income and expenses".

### Assets and liabilities held for sale

As of December 31, 2011, the Group is in the process of selling part or all of its equity interests of certain companies in the

Fresh Dairy Products and Waters Divisions. The Group believes that it is highly likely these transactions will be completed within the next 12 months. Consequently, the assets and liabilities of these companies, which amount to € 69 million and € 37 million, respectively, were classified as assets and liabilities held for sale as of December 31, 2011.

As of December 31, 2010, the assets and liabilities of certain companies in the Fresh Dairy Products and Waters Divisions were classified as assets and liabilities held for sale and amounted to € 39 million and € 18 million respectively.

In both 2011 and 2010, no business activity was classified as a discontinued operation.



## Note 6 Operating segments

The internal information reviewed and used by the Group's primary operational decision-makers (Chairman and Chief Executive Officer Franck RIBOUD, the two Deputy General Managers, Bernard HOURS and Emmanuel FABER, and the Chief Financial

Officer, Pierre-André TERISSE) is based on the four Divisions and three geographic areas: Europe (Western Europe, Central Europe, and Eastern Europe), Asia (including the Pacific Region), and Rest of World (North and South America, Africa, and the Middle East).

However, geographic data is only available for two key indicators tracked by the primary operational decision-makers internally: sales and trading operating income, as shown below.

(in € millions)							2011
	Fresh Dairy Products	Waters	Baby Nutrition	Medical Nutrition	Total Divisions	Other items <sup>(1)</sup>	Group total
<b>Income statement items</b>							
Sales to third parties <sup>(2)</sup>	11,235	3,229	3,673	1,181	19,318	-	19,318
Trading operating income	1,475	424	708	236	2,843	-	2,843
Operating income	1,377	422	687	236	2,722	7	2,729
Share of profits of associates	36	1	-	-	37	9	46
<b>Cash flow statement items</b>							
Capital expenditure <sup>(3)</sup>	472	244	107	51	874	13	887
Financial investments <sup>(4)</sup>	18	6	-	25	49	-	49
Depreciation and amortization	337	151	94	43	625	12	637
Cash flows provided by operating activities, excluding changes in working capital	1,177	424	641	200	2,442	1	2,443
<b>Balance sheet asset items</b>							
Investments in associates	889	27	-	-	916	114	1,030
Non-current assets	5,281	1,905	9,493	4,663	21,342	972	22,314
Total assets	7,563	2,836	10,922	5,061	26,382	2,044	28,426

(1) Assets included in the "Other items" column include assets held for sale and current and deferred tax assets. The income and expenses included in the "Other items" column represent all the income and expenses that cannot be directly allocated to the Divisions.

(2) Including € 2,102 million in France.

(3) Including € 115 million in France.

(4) None of which related to France; this amount excludes the cash of the acquired companies.

(in € millions)							2010 Restated
	Fresh Dairy Products	Waters	Baby Nutrition	Medical Nutrition	Total Divisions	Other items <sup>(1)</sup>	Group total
<b>Income statement items</b>							
Sales to third parties <sup>(2)</sup>	9,732	2,868	3,355	1,055	17,010	-	17,010
Trading operating income	1,376	376	637	208	2,597	-	2,597
Operating income	1,294	374	643	192	2,503	14	2,517
Share of profits of associates	59	51	-	-	110	11	121
<b>Cash flow statement items</b>							
Capital expenditure <sup>(3)</sup>	447	228	102	46	823	17	840
Financial investments <sup>(4)</sup>	263	33	-	49	345	3	348
Depreciation and amortization	292	148	94	41	575	17	592
Cash flows provided by operating activities, excluding changes in working capital	1,178	401	567	180	2,326	73	2,399
<b>Balance sheet asset items</b>							
Investments in associates	812	27	-	-	839	102	941
Non-current assets	5,195	1,832	9,500	4,646	21,173	943	22,116
Total assets	7,237	2,764	10,779	5,035	25,815	2,205	28,020

(1) Assets included in the "Other items" column include assets held for sale and current and deferred tax assets. The income and expenses included in the "Other items" column represent all the income and expenses that cannot be directly allocated to the Divisions.

(2) Including € 2,037 million in France.

(3) Including € 143 million in France.

(4) € 19 million of which related to France; this amount excludes the cash of the acquired companies.

(in € millions)	2011			
	Europe	Asia	Rest of the World	Total
Net sales	10,809	2,862	5,647	19,318
Trading operating income	1,509	580	754	2,843

(in € millions)	2010 Restated			
	Europe	Asia	Rest of the World	Total
Net sales	9,449	2,386	5,175	17,010
Trading operating income	1,494	450	653	2,597

In 2010 and 2011, the ten countries generating the highest net sales are as follows:

	Year ended December 31	
	2010	2011
France	12%	11%
Russia	5%	11%
Spain	8%	7%
United States	8%	7%
Indonesia	5%	6%
Mexico	6%	5%
China	5%	5%
Argentina	4%	5%
Germany	5%	5%
United Kingdom	5%	5%

## Note 7 Other income and expenses

Other income and expenses can be broken down as follows:

<i>(in € millions)</i>	Year ended December 31	
	2010 Restated	2011
Employee profit-sharing	(105)	(107)
Stock-based compensation	(28)	(22)
Capital gains on disposal of property, plant and equipment and intangible assets	29	86
Restructuring costs	(31)	(29)
Other	45	27
<b>Total</b>	<b>(90)</b>	<b>(45)</b>

The line “Employee profit sharing” relates to the French companies. In 2011, capital gains on the disposal of intangible assets and property, plant and equipment result mainly from the sale of

buildings and non-strategic brands. In 2010, they resulted solely from the sale of buildings.

The line “Other” mainly comprises sundry taxes, translation adjustments and other non-significant items.

## Note 8 Other operating income and expenses

In 2011, other operating income and expenses of € (114) million consist mainly of (i) € (32) million corresponding to the first tranche of the Unimilk integration expenses (Fresh Dairy Products – mainly Russia and Ukraine) in accordance with the budget established at the time of the acquisition and of (ii) € (59) million relating to the costs incurred by the adjustment of the business model and the reorganization of the activities of the Fresh Dairy Products Division in China.

In 2010, other operating income and expenses of € (80) million corresponded mainly to (i) restructuring costs for Tikvesli (Fresh Dairy Products – Turkey) in the amount of € (50) million and (ii) acquisition- and integration-related expenses for Unimilk in the amount of € (28) million.

## Note 9 Cost of net financial debt and other financial income and expenses

Net financial result breaks down as follows:

<i>(in € millions)</i>	Year ended December 31	
	2010 Restated	2011
Interest income on cash, cash equivalents and short term investments	87	67
Interest expense on financial debt	(230)	(241)
<b>Cost of net debt</b>	<b>(143)</b>	<b>(174)</b>
Other financial income	252	7
Other financial expense	(129)	(127)
<b>Other financial income or expense</b>	<b>123</b>	<b>(120)</b>
<b>Financial result</b>	<b>(20)</b>	<b>(294)</b>

In 2011, the cost of net financial debt totaled € (174) million, representing a variation of € (31) million over 2010, due mainly to the cost of the debt of the Unimilk group's companies and, to a lesser extent, the increase in interest rates.

Other financial income totaled € 7 million in 2011 compared with € 252 million in 2010, of which € 237 million corresponded to the capital gain on the disposal of the Group's equity interest in the Russian company Wimm-Bill-Dann.

Other financial expenses comprised bank commissions as well as the cost of hedges of foreign exchange risk related to operations and the ineffective part of such hedges in accordance with IAS 39. In addition, given the change in accounting principles relating to retirement obligations and other long-term benefits (see Note 1.1), they also include the impact of the accretion of the present value of the obligations net of the expected return on plan assets, which totaled € (18) million in 2010 and € (16) million in 2011.

The net amount of interest paid and received was € (195) million in 2011, compared with € (112) million in 2010.

## Note 10 Income tax

### Analysis of the tax charge

Income before tax and the income tax expense break down as follows:

<i>(in € millions, except percentage)</i>	Year ended December 31	
	2010 Restated	2011
Income before tax of French companies	389	111
Income before tax of non French companies	2,109	2,324
<b>Income before tax</b>	<b>2,497</b>	<b>2,435</b>
Income tax (expenses) income of French companies	18	(14)
Income tax (expenses) income of non French companies	(519)	(542)
<b>Income tax (expenses) income</b>	<b>(501)</b>	<b>(557)</b>
Deferred taxes (expenses) income of French companies	(56)	(4)
Deferred taxes (expenses) income of non French companies	(21)	(65)
<b>Deferred taxes (expenses) income</b>	<b>(77)</b>	<b>(69)</b>
<b>Income tax and deferred taxes (expenses) income</b>	<b>(578)</b>	<b>(626)</b>
<b>Effective income tax rate</b>	<b>23.1%</b>	<b>25.7%</b>

Danone forms a tax group with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital enabling taxable profits and losses to be offset subject to certain limits and conditions. Some of the subsidiaries that elected to participate in the French tax group have signed a tax sharing agreement with Danone, in conformity with French regulations. Similar tax grouping schemes exist in other countries, in particular in the United States, the Netherlands, the United Kingdom and Germany.

The tax rate applicable to the French subsidiaries eligible for the additional 5% contribution introduced by the new Finance Act was amended as of December 31, 2011, for a period of two years, from 34.43% to 36.10%. Nevertheless, the current and deferred tax rate applicable to these companies was maintained at 34.43% since the use of their tax losses carried forward is forecast beyond this two-year period.

Payments in relation to income taxes amounted to € 548 million in 2011 and € 433 million in 2010.

## Effective income tax rate

The effective income tax rate was 25.7% in 2011 (23.1% in 2010). The difference between the effective tax rate and the statutory tax rate in France (34.43% in 2011 and 2010) can be detailed as follows:

	Year ended December 31	
	2010 Restated	2011
Statutory tax rate in France	34.4%	34.4%
Effect of foreign tax rate differential	(8.3%)	(11.4%)
Effect of gains/losses on disposal and impairment charges	2.8%	0.5%
Effect of tax corrections – taxes without basis	(0.2%)	(0.5%)
Effect of permanent differences	1.3%	1.1%
Effect of other differences <sup>(1)</sup>	(6.9%)	1.6%
<b>Effective income tax rate</b>	<b>23.1%</b>	<b>25.7%</b>

(1) Including loss carryforwards recognition.

## Territorial economic contribution

In accordance with the provisions of the press release issued by the French National Accounting Board (*Conseil National de la Comptabilité: CNC*) on January 14, 2010, the Group has exercised its judgment regarding the classification of the Business Value-Added Contribution (*Contribution sur la valeur ajoutée des entreprises: CVAE*) component. The Group considered that since

the base of the CVAE is the difference between revenue and expenses, it comes within the scope of IAS 12, *Income Taxes*. Accordingly, the CVAE component has been recognized within income tax since January 1, 2010.

In 2011, the amount totaled € 13 million, compared with € 12 million in 2010.

## Note 11 Earnings per share

### Distributable reserves of the parent company Danone

The distributable reserves of subsidiaries and associated companies may differ from their reported retained earnings as a consequence of consolidation adjustments applied to their separate financial statements and of the laws applicable in the countries where these entities operate.

In accordance with French law, dividends can only be paid out of the net income for the year and the accumulated distributable reserves of the parent company. As of December 31, 2011, tax-free distributable earnings of the parent company, Danone, amounted to € 1,348 million (€ 1,699 million as of December 31, 2010).

## Earnings per share

The reconciliation between basic and diluted earnings per share is as follows:

	Net income - Group share (in € millions)	Weighted average number of shares outstanding	Earnings per share - Group share (in €)
<b>2010 - Restated</b>			
<b>Before dilution</b>	<b>1,875</b>	<b>614,433,216</b>	<b>3.05</b>
Stock-based compensation		1,557,368	-
<b>After dilution</b>	<b>1,875</b>	<b>615,990,584</b>	<b>3.05</b>
<b>2011</b>			
<b>Before dilution</b>	<b>1,671</b>	<b>602,202,781</b>	<b>2.77</b>
Stock-based compensation		1,846,916	
<b>After dilution</b>	<b>1,671</b>	<b>604,049,698</b>	<b>2.77</b>

## Note 12 Intangible assets

### Change in the carrying amount of intangible assets

Changes in the carrying amount of intangible assets can be detailed as follows:

(in € millions)	Goodwill	Brands with indefinite useful life	Other	Total
<b>Gross value</b>				
<b>As of January 1, 2010</b>	<b>10,227</b>	<b>3,903</b>	<b>674</b>	<b>14,804</b>
Capital expenditure	-	-	34	34
Disposals	-	-	(33)	(33)
Changes in consolidation scope	557	143	202	902
Changes in consolidation method	-	2	-	2
Translation adjustments	556	219	14	789
Reclassification to assets held for sale	(14)	-	(1)	(15)
Impairment	(12)	-	-	(12)
Other	(3)	-	28	25
<b>As of December 31, 2010 - Restated</b>	<b>11,311</b>	<b>4,267</b>	<b>918</b>	<b>16,496</b>
<b>Depreciation</b>				
<b>As of January 1, 2010</b>	<b>-</b>	<b>-</b>	<b>(319)</b>	<b>(319)</b>
Charge for the year (net of disposals)	-	-	(66)	(66)
Changes in consolidation scope	-	-	(4)	(4)
Translation adjustments	-	-	(8)	(8)
Other	-	-	25	25
<b>As of December 31, 2010 - Restated</b>	<b>-</b>	<b>-</b>	<b>(372)</b>	<b>(372)</b>
<b>Carrying amount</b>				
<b>As of December 31, 2010 - Restated</b>	<b>11,311</b>	<b>4,267</b>	<b>546</b>	<b>16,124</b>

<i>(in € millions)</i>	Brands with indefinite useful life		Other	Total
	Goodwill			
<b>Gross value</b>				
<b>As of January 1, 2011 - Restated</b>	<b>11,311</b>	<b>4,267</b>	<b>918</b>	<b>16,496</b>
Capital expenditure	-	-	45	45
Disposals	-	-	(8)	(8)
Changes in consolidation scope	38	-	-	38
Translation adjustments	(57)	2	(9)	(64)
Impairment	(16)	(20)	-	(36)
Other	13	9	14	36
<b>As of December 31, 2011</b>	<b>11,289</b>	<b>4,258</b>	<b>960</b>	<b>16,507</b>
<b>Depreciation</b>				
<b>As of January 1, 2011 - Restated</b>	<b>-</b>	<b>-</b>	<b>(372)</b>	<b>(372)</b>
Charge for the year (net of disposals)	-	-	(61)	(61)
Changes in consolidation scope	-	-	-	-
Translation adjustments	-	-	3	3
Other	-	-	1	1
<b>As of December 31, 2011</b>	<b>-</b>	<b>-</b>	<b>(429)</b>	<b>(429)</b>
<b>Carrying amount</b>				
<b>As of January 1, 2011 - Restated</b>	<b>11,311</b>	<b>4,267</b>	<b>546</b>	<b>16,124</b>
<b>As of December 31, 2011</b>	<b>11,289</b>	<b>4,258</b>	<b>531</b>	<b>16,078</b>

The amortization charge for other intangible assets is allocated to different line items in the income statement consistent with the utilization of the underlying assets.

### Goodwill

Net goodwill decreased by € (22) million in 2011 due to:

- negative translation adjustments on the goodwill of companies in the Baby Nutrition and Fresh Dairy Products Divisions totaling € (27) million and € (24) million respectively;
- offset by the goodwill recognized following the acquisitions resulting in control being obtained in 2011: Complian (Medical Nutrition – United Kingdom) and Aldeinha (Waters – Brazil).

In 2010, the main changes were related to the € 479 million positive translation adjustments on goodwill for companies in the Baby Nutrition and Medical Nutrition Divisions and the recognition of goodwill totaling € 406 million (after finalization of the allocation of the acquisition price) resulting from the acquisition of control of Unimilk (Fresh Dairy Products – mainly Russia and Ukraine).

### Brands with indefinite useful lives

This item corresponds to non-amortized brands recognized in connection with business combinations since 1989. To the brands recognized on the acquisition of Numico at the end of 2007 (mainly *Nutricia*, *Milupa* and *Dumex*) have been added the Unimilk group's brands (*Tema* and *Bio Balance*) as well as the *YoCream* brand.

Aside from movements due to changes in scope (see Notes 3 and 4), the movement in 2011 can be attributed primarily to translation adjustments on the brands held by the Baby Nutrition and Medical Nutrition Divisions in the respective amounts of € 10 million and € (5) million.

The movement in 2010 can be attributed primarily to translation adjustments on the brands held by the Baby Nutrition and Medical Nutrition Divisions in the respective amounts of € 178 million and € 35 million.

### Other intangible assets

Other intangible assets consist mainly of the amortizable *Prostokvashino* brand, recognized in 2010 following the acquisition of the Unimilk group's companies, for € 192 million.

The line "Capital expenditure" amounted to € 45 million in 2011 and mainly applied to the Medical Nutrition and Fresh Dairy Products Divisions for € 17 million and € 14 million, respectively.



### Impairment reviews for intangible assets

In 2011, a new CGU, Danone CIS, was formed to reflect the merging of Danone's fresh dairy products businesses with those of the Unimilk group in Russia, Ukraine, Kazakhstan and Belarus.

As of December 31, 2011, the main intangible assets related to the Baby Nutrition and Medical Nutrition Divisions, with 84% of the total carrying amount of goodwill and brands with indefinite useful lives, split between three groups of CGUs. The Group's other main CGUs are the Danone CIS CGU and the Southern Europe CGU within the Fresh Dairy Products Division and the Danone Waters France CGU within the Waters Division representing 4%, 2% and 3% respectively of the total carrying amount of goodwill and brands with indefinite useful lives.

The carrying amount of goodwill, brands and other non-amortized intangible assets is reviewed at least annually and when certain events or circumstances indicate that their value may be impaired. These events or circumstances are linked to significant,

unfavorable and lasting changes that have an impact on the economic environment and the assumptions or targets set at the time of acquisition. As stated in Note 1.5, the recoverable amount of the CGU or group of CGUs is determined based on fair value, estimated generally using multiples of earnings, or on value in use determined principally on the basis of the expected discounted cash flows for the CGU or group of CGUs concerned.

When value in use is determined based on expected discounted cash flows, the long-term growth rate and the discount rate used vary depending on the geographical area where the CGU or group of CGUs operate, and in particular on the maturity of the markets.

As was the case in earlier fiscal years, the discount rates used by the Group are based on the Weighted Average Cost of Capital method, according to which the cost of debt and the cost of equity are weighted based on their respective proportions in the business sector concerned. The Group's discount rate is adjusted, if necessary, by a country risk premium related to the scope of the CGU being tested.

The Group reviewed the value of intangible assets with indefinite useful lives as of December 31, 2011. The CGUs or groups of CGUs for which the carrying amount of goodwill or intangible assets with indefinite useful lives is material are as follows:

(in € millions)	Carrying amount of goodwill and brands with indefinite useful lives		Sector multiples of operating income before amortization and impairment <sup>(5)</sup>	Long-term growth rate <sup>(6)</sup>		Discount rate after tax <sup>(6)</sup>	
	2010 Restated	2011		2010	2011	2010	2011
<b>Dairy</b>							
Danone CIS CGU <sup>(1)</sup>	558	557		na	2.5%	na	11.0%
Southern Europe CGU <sup>(2)</sup>	376	376		0.5%	-	7.9%	-
Other CGUs <sup>(3)</sup>	727	709		0.5 à 2%	1 à 2.5%	7 à 11%	8 à 12%
<b>Total Dairy</b>	<b>1,661</b>	<b>1642</b>	<b>x 11 on average</b>				
<b>Waters</b>							
Danone Eaux France	428	428		0%	1.0%	7.9%	7.9%
Other CGUs <sup>(4)</sup>	342	348		1 à 2.5%	1 à 2.5%	8 à 10%	8 à 14%
<b>Total Waters</b>	<b>770</b>	<b>776</b>	<b>x 11 on average</b>				
Baby Nutrition							
Baby Nutrition Asia	3,099	3,216		2.5%	2.5%	8.1%	8.1%
Baby Nutrition Rest of the World	5,817	5,665		2.5%	2.5%	8.2%	8.2%
<b>Total Baby Nutrition</b>	<b>8,916</b>	<b>8,881</b>					
<b>Total Medical Nutrition</b>	<b>4,231</b>	<b>4,248</b>		<b>2.5%</b>	<b>2.5%</b>	<b>7.5%</b>	<b>7.5%</b>
<b>Group total, excluding associates</b>	<b>15,578</b>	<b>15,547</b>					

(1) The Danone CIS CGU comprises mainly Russia and Ukraine.

(2) The Southern Europe CGU comprises Spain, Italy, Portugal and the Canary Islands.

(3) More than 20 GCUs, of which the main ones are the United States and South Africa CGUs, which had goodwill and intangible assets with indefinite useful lives with a value of € 89 million and € 118 million respectively as of December 31, 2011.

(4) Comprises mainly the Waters Asia CGU for € 144 million.

(5) These multiples are determined on the basis of the average of transactions in the sector concerned observed since 2005.

(6) For those CGUs whose recoverable amount is determined on the basis of their value in use.



### Groups of CGUs in the Baby Nutrition and Medical Nutrition Divisions

As of December 31, 2011, these three groups of CGUs represented 84% of the carrying amount of goodwill and brands with indefinite useful lives and the aggregate of their recoverable amounts exceeded by € 5.9 billion the aggregate of their carrying amounts: the recoverable amount exceeded the carrying amount by € 4 billion in the case of the Baby Nutrition Asia group of CGUs, by € 1.1 billion in the case of the Baby Nutrition Rest of the World group of CGUs and by € 0.8 billion in the case of the Medical Nutrition group of CGUs.

In addition, as of December 31, 2011, a sensitivity analysis of the value in use within the three groups of CGUs (Baby Nutrition Asia, Baby Nutrition Rest of the World and Medical Nutrition) shows the following changes in value:

- a 0.5% increase in the discount rate would lower the aggregate recoverable amount of the three CGUs by € 1.6 billion;
- the recoverable amount would equal the carrying amount for a 1.7% increase in the discount rate for the Medical Nutrition group of CGUs, for a 2.4% increase in the discount rate for the Baby Nutrition Rest of the World group of CGUs, and for a 23.8% increase in the discount rate for the Baby Nutrition Asia group of CGUs;
- a 0.5% decrease in the long-term growth rate would lower the aggregate recoverable amount of the three CGUs by € 1.3 billion;

the recoverable amount of each CGU would continue to exceed the carrying amount;

For the three CGUs, the recoverable amount would equal the carrying amount at a negative long-term growth rate;

- a 100-basis-point reduction in the margin would lower the aggregate recoverable amount of the three CGUs by € 0.8 billion.

The recoverable amount would equal the carrying amount for a 400-basis-point margin decrease for the Medical Nutrition group of CGUs, for a 350-basis-point decrease for the Baby Nutrition Rest of the World group of CGUs, and for a 1,500-basis-point decrease for the Baby Nutrition Asia group of CGUs.

### Other CGUs

As of December 31, 2011, the CGUs in the Fresh Dairy Products and Waters Divisions represented 16% of the carrying amount of goodwill and brands with indefinite useful lives and comprise more than 30 CGUs located in various geographic regions and countries.

Following the review of the value of intangible assets with indefinite useful lives in these CGUs, the Group recognized an impairment provision of € 16 million following the restructuring of Danone China (Fresh Dairy Products – China) as of December 31, 2011.

As of December 31, 2010, an impairment provision of € 12 million had been recognized following the restructuring of Tikvesli (Fresh Dairy Products – Turkey).

## Note 13 Property, plant and equipment

Changes in the carrying amount of property, plant and equipment can be detailed as follows:

<i>(in € millions)</i>	Land	Buildings	Machinery and equipment	Refundable containers	Other	Capital assets in progress	Total
<b>Gross amount</b>							
<b>As of January 1, 2010</b>	<b>249</b>	<b>1,572</b>	<b>4,176</b>	<b>172</b>	<b>504</b>	<b>310</b>	<b>6,983</b>
Capital expenditure <sup>(1)</sup>	4	42	164	49	37	516	812
Disposals	(13)	(87)	(185)	(29)	(42)	(4)	(360)
Reclassification of assets held for sale	(3)	(10)	(9)	-	-	-	(22)
Changes in consolidation scope	3	77	130	1	39	28	278
Translation adjustments	10	66	186	15	33	19	329
Other	8	74	268	27	66	(386)	57
<b>As of December 31, 2010 - Restated</b>	<b>258</b>	<b>1,734</b>	<b>4,730</b>	<b>235</b>	<b>637</b>	<b>483</b>	<b>8,077</b>
<b>Depreciation</b>							
<b>As of January 1, 2010</b>	<b>(32)</b>	<b>(722)</b>	<b>(2,621)</b>	<b>(103)</b>	<b>(323)</b>	<b>(2)</b>	<b>(3,803)</b>
Charge for the year and impairment	(3)	(83)	(328)	(41)	(69)	(7)	(531)
Disposals	4	50	144	27	39	-	264
Reclassification of assets held for sale	-	1	1	-	-	-	2
Changes in consolidation scope	-	(1)	(6)	-	(1)	-	(8)
Translation adjustments	-	(20)	(93)	(9)	(21)	-	(143)
Other	-	(5)	-	(3)	(40)	-	(48)
<b>As of December 31, 2010 - Restated</b>	<b>(31)</b>	<b>(780)</b>	<b>(2,903)</b>	<b>(129)</b>	<b>(415)</b>	<b>(9)</b>	<b>(4,267)</b>
<b>Carrying amount</b>							
<b>As of December 31, 2010 - Restated</b>	<b>227</b>	<b>954</b>	<b>1,827</b>	<b>106</b>	<b>222</b>	<b>474</b>	<b>3,810</b>

(1) Includes assets acquired under finance leases.

<i>(in € millions)</i>	Land	Buildings	Machinery and equipment	Refundable containers	Other	Capital assets in progress	Total
<b>Gross amount</b>							
<b>As of January 1, 2011 - Restated</b>	<b>258</b>	<b>1,734</b>	<b>4,730</b>	<b>235</b>	<b>637</b>	<b>483</b>	<b>8,077</b>
Capital expenditure <sup>(1)</sup>	5	52	122	65	36	586	866
Disposals	-	(88)	(203)	(39)	(39)	(1)	(370)
Reclassification of assets held for sale	-	(4)	(16)	-	(1)	(3)	(24)
Changes in consolidation scope	(2)	(5)	(6)	(3)	-	-	(16)
Translation adjustments	-	(11)	(55)	-	(18)	(12)	(96)
Other	13	85	309	(1)	80	(482)	4
<b>As of December 31, 2011</b>	<b>274</b>	<b>1,763</b>	<b>4,881</b>	<b>257</b>	<b>695</b>	<b>571</b>	<b>8,441</b>
<b>Depreciation</b>							
<b>As of January 1, 2011 - Restated</b>	<b>(31)</b>	<b>(780)</b>	<b>(2,903)</b>	<b>(129)</b>	<b>(415)</b>	<b>(9)</b>	<b>(4,267)</b>
Charge for the year and impairment	(2)	(88)	(358)	(53)	(78)	(3)	(582)
Disposals	1	41	163	33	36	-	274
Reclassification of assets held for sale	-	-	1	-	-	-	1
Changes in consolidation scope	1	4	5	1	-	-	11
Translation adjustments	-	3	29	(1)	10	1	42
Other	-	4	(12)	1	2	1	(4)
<b>As of December 31, 2011</b>	<b>(31)</b>	<b>(816)</b>	<b>(3,075)</b>	<b>(148)</b>	<b>(445)</b>	<b>(10)</b>	<b>(4,525)</b>
<b>Carrying amount</b>							
<b>As of December 31, 2011</b>	<b>243</b>	<b>947</b>	<b>1,806</b>	<b>109</b>	<b>250</b>	<b>561</b>	<b>3,916</b>

(1) Includes assets acquired under finance leases.

The line "changes in consolidation scope" corresponds to the disposal of Aquarius (Waters – China).

As of December 31, 2011, the gross and net carrying amounts of assets acquired under finance leases amounted to € 196 million and € 106 million respectively (€ 174 million and € 102 million respectively as of December 31, 2010).

The depreciation charge for property, plant and equipment amounted to € 582 million in 2011 (€ 531 million in 2010). It is allocated to different lines in the income statement based on the nature and utilization of the underlying assets.

The other changes correspond mainly to the commissioning of property, plant and equipment under construction as of January 1 of the fiscal year concerned.



## Note 14 Investments in associates

### Changes in the carrying amount of investments in associates

The carrying amount of investments in associates is as follows:

<i>(in € millions)</i>	Net goodwill	Group's share in net assets and income	Total
<b>As of January 1, 2010 - Restated</b>	<b>280</b>	<b>521</b>	<b>801</b>
Acquisitions during the year and capital increase	10	9	19
Disposals and other changes in consolidation scope	(10)	(3)	(13)
Share of profit of associates	-	82	82
Dividends paid	-	(56)	(56)
Translation adjustments	48	66	114
Other	-	(6)	(6)
<b>As of December 31, 2010 - Restated</b>	<b>328</b>	<b>613</b>	<b>941</b>
Acquisitions during the year and capital increase	-	14	14
Disposals and other changes in consolidation scope	-	-	-
Share of profit of associates	-	51	51
Dividends paid	-	(32)	(32)
Translation adjustments	17	39	56
<b>As of December 31, 2011</b>	<b>345</b>	<b>685</b>	<b>1,030</b>

The net assets of associates include the identifiable intangible assets and residual goodwill resulting from the consolidation of their own subsidiaries.

As of December 31, 2011, as was the case as of December 31, 2010, investments in associates mainly comprised the Group's 20% equity interest in Yakult (Fresh Dairy Products – Japan).

In 2010, disposals and changes in scope corresponded mainly to the sale of the Group's equity interest in China Hui Yuan Juice Group Limited and to the acquisitions of equity interests in Narang Access and Murray Goulburn. The other changes included the impact of Yakult's change in accounting method in respect of IAS 19, *Employee Benefits* (see Note 2).

### Income (loss) from investments in associates

The line item "Share of profit of associates" breaks down as follows:

<i>(in € millions)</i>	Year ended December 31	
	2010 Restated	2011
Share of profits of associates	82	51
Impairment charges	(1)	-
Gains (losses) on disposal and other	40	(5)
<b>Total</b>	<b>121</b>	<b>46</b>

The line item "Gains (losses) on disposals and other" consists mainly of the withholding tax applied to the dividends paid by Yakult.

As of December 31, 2010, the line item "Gains (losses) on disposals and other" consisted mainly of the capital gain on disposal of the shares of China Hui Yuan Juice Group Limited, made up primarily of cumulative translation adjustments recycled through profit or loss.

## Significant financial information pertaining to associates

Significant financial information, as it relates to the main investments in associates as of December 31, 2010 and December 31, 2011 is as follows (at 100% and for a full year):

(in € millions)	2010				2011			
	Net sales	Net income	Shareholders' equity	Statement of financial position total	Net sales	Net income	Shareholders' equity	Statement of financial position total
Yakult <sup>(1)</sup>	1,345	83	2,301	3,636	1,427	81	2,617	4,058

(1) Data according to Japanese GAAP.

As Yakult is a listed company and has a March 31 year end, the amounts shown in the above table are determined as of December 31, 2011 for Group consolidation purposes, on the basis of the last financial statements published (2010: half-yearly financial statements; 2011: half-yearly financial statements).

## Impairment reviews for investments in associates

The Group reviews the fair value of its investments in associates whenever events or circumstances indicate that they may be impaired.

As of December 31, 2011, the fair value of investments in associates was estimated at € 1,409 million (€ 1,285 million as of December 31, 2010).

No significant impairment provision was recognized in 2011.

## Note 15 Other investments in non-consolidated companies

### Carrying amount of other investments in non-consolidated companies

The following table presents the carrying amount of the main investments in non-consolidated companies held by the Group and not accounted for as associates:

(in € millions)	% interest in 2010	Year ended December 31	
		2010	2011
ONA/SNI <sup>(1)</sup>	2.7%	66	66
Other	-	59	57
<b>Total</b>		<b>125</b>	<b>123</b>

(1) The ONA securities became SNI securities as of December 31, 2010. The previously held ONA securities were de-listed from the Rabat (Morocco) Stock Exchange in 2010. ONA then merged with SNI.

### Impairment reviews of other investments in non-consolidated companies

As indicated in Note 1.8, other investments in non-consolidated companies are measured as available-for-sale investments within the meaning of IAS 39, *Financial Instruments: recognition and measurement*, i.e. at fair value. The fair value of the SNI shares is

determined based on the partner's share purchase commitment. As of December 31, 2011, the value of investments in non-consolidated companies totaled € 123 million including € 66 million of unrealized capital gains recognized in "Accumulated other comprehensive income" within consolidated equity (€ 125 million and € 68 million respectively as of December 31, 2010).

## Note 16 Long-term loans

As of December 31, 2011, long-term loans amounted to € 53 million, compared to € 42 million as of December 31, 2010. This change was due mainly to Unimilk.

The fair value of long-term loans is considered to be equal to their carrying amount.

## Note 17 Other long-term financial assets

As of December 31, 2011, other long-term financial assets amounted to € 166 million, compared to € 138 million as of December 31, 2010 and comprised mainly bond and money market securities totaling € 100 million held as the counterpart to certain “damage and healthcare” provisions. As detailed in Note 1.9, these investments are treated as available-for-sale in

accordance with IAS 39, *Financial Instruments: recognition and measurement*. The fair value of these investments, calculated based on listed prices on active markets, totaled € 100 million including € 2 million of unrealized capital gains recognized in “Accumulated other comprehensive income” within equity.

## Note 18 Inventories

Net inventories break down as follows:

<i>(in € millions)</i>	2010 Restated	2011
Goods purchased for resale	14	46
Raw materials and supplies	433	472
Semi-finished goods and work in progress	54	50
Finished goods	483	505
Non-refundable containers	47	49
Impairment	(57)	(62)
<b>Inventories, net</b>	<b>975</b>	<b>1,061</b>

The increase in inventories as of December 31, 2011 was due mainly to the increase in the Group’s activity.

## Note 19 Trade receivables

Trade receivables break down as follows:

<i>(in € millions)</i>	2010 Restated	2011
Trade account receivables	1,936	1,992
Notes receivable	51	51
Impairment	(63)	(62)
<b>Trade account receivables, net</b>	<b>1,924</b>	<b>1,981</b>

The increase in trade receivables as of December 31, 2011 was due mainly to the increase in the Group's activity.

Changes in the impairment provision are as follows:

<i>(in € millions)</i>	2010 Restated	2011
<b>As of January 1</b>	<b>51</b>	<b>63</b>
Charges (net of reversals)	7	15
Utilization	(1)	(13)
Translation adjustments and other changes	6	(3)
<b>As of December 31</b>	<b>63</b>	<b>62</b>

The Group believes its exposure to concentration of credit risk is limited due to the number of customers located in diverse geographic areas and the fact that its main customers are in the mass retail sector. Despite the current economic environment, the Group believes that it is not exposed to significant credit risk, nor is it dependent on any single customer. In 2011, sales to the Group's largest customer represented approximately 5% of the Group's total sales (6% in 2010).

The fair value of trade receivables is considered to be equivalent to their carrying amount due to their short-term maturity.

As of December 31, 2011, the amount of trade receivables more than 30 days overdue for which no impairment charge had been recognized represented 3% of total trade receivables and was not therefore material.

## Note 20 Other receivables

Net other receivables break down as follows:

<i>(in € millions)</i>	2010 Restated	2011
State and local authorities	398	402
Social security bodies and non-operating receivables	176	273
Prepaid expenses	86	93
Derivatives - assets	-	7
Other	107	45
<b>Total</b>	<b>767</b>	<b>820</b>

The line item "Derivative - assets" line item corresponds to the fair value of currency hedges related to operations.

The fair value of other receivables is considered to be equal to their carrying amount due to the high degree of liquidity of these items.

## Note 21 Short-term investments

Short-term investments break down as follows:

<i>(in € millions)</i>	2010	2011
Money market funds	765	634
Negotiable debt securities	76	-
Other short-term investments	270	480
<b>Total</b>	<b>1,111</b>	<b>1,114</b>

The Group invests mainly in shares in money market funds (open-end investment companies - OEIC) or short-term money market funds (OEIC), which are highly liquid, diversified and not subject to ratings. Negotiable debt instruments and other short-

term instruments are purchased from leading financial institutions (see Note 32 to the consolidated financial statements).

As specified in Note 1.12, short-term investments are held as trading securities, in accordance with IAS 39, *Financial Instruments: recognition and measurement*.

## Note 22 Information on changes in consolidated equity

The changes in consolidated equity are primarily attributable to:

- the change in the number of DANONE shares in issue;
- dividend payments to DANONE shareholders;
- transactions with non-controlling interests;
- other gains and losses recognized directly in equity.

### Change in the number of shares in issue

#### Capital increase

In 2011, as part of a French company savings plan (*Plan d'Épargne Entreprise*) the Group carried out a capital increase representing 939,160 new shares (see Note 31).

#### Transactions and changes affecting DANONE shares

During the fiscal year 2011, the Group carried out the following transactions in DANONE shares:

- the buyback of 13.3 million of DANONE shares, mainly for the purpose of acquisitions and, to a lesser extent, to hedge the stock-options and Group performance shares granted to certain employees and corporate officers (see Note 28);
- the acquisition of 6.6 million DANONE call options to hedge part of the ongoing stock-option plans granted to certain employees and corporate officers, as a replacement for their existing hedging by treasury shares (see Note 28).



The changes in treasury shares in terms of transactions and use during 2011, broken down by the objective targeted by the Company, are as follows:

(Number of shares)	As of December 31, 2010	Movements in the year				As of December 31, 2011
		Purchases <sup>(1)(2)</sup>	Other transactions <sup>(3)</sup>	Reallocations <sup>(1)</sup>	Cancellations <sup>(1)</sup>	
Acquisitions	16,077,177	12,737,770	-	(105,822)	-	28,709,125
Hedging of stock-options and Group performance shares	14,996,775	563,042	(1,934,877)	(6,508,605)	-	7,116,335
Share cancellations	-	-	-	6,614,427	(6,614,427)	-
<b>Treasury shares</b>	<b>31,073,952</b>	<b>13,300,812</b>	<b>(1,934,877)</b>	<b>-</b>	<b>(6,614,427)</b>	<b>35,825,460</b>
<b>Shares held by Danone Spain</b>	<b>5,780,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,780,005</b>
<b>Total shares held by the Group</b>	<b>36,853,957</b>	<b>13,300,812</b>	<b>(1,934,877)</b>	<b>-</b>	<b>(6,614,427)</b>	<b>41,605,465</b>

(1) Purchases and allocations (reallocations and cancellations) made as part of authorizations given by the Shareholders' General Meeting.

(2) Purchases allocated to hedge stock-options were made by exercising DANONE call options. The average price of other purchases made in 2011 was € 46.42 per share.

(3) Transfer of treasury shares following the exercise of stock-options by employees.

These transactions resulted in a € 348 million reduction under the heading Treasury shares attributable to owners of the Company in consolidated equity. The reduction mainly reflects:

- DANONE share purchases, for a negative amount of € 604 million;
- the cancellation of 6.6 million shares for € 209 million, which was recorded as a reduction in Share capital and Additional paid-in capital and therefore had no impact on consolidated equity.

Changes due to transactions involving DANONE call options in 2011 were as follows:

(Number of options)	As of December 31, 2010	Movements during the year			As of December 31, 2011
		Purchases	Matured options	Options exercised	
DANONE call options	-	6,614,427	-	563,042	<b>6,051,385</b>

### Dividends paid to danone shareholders

The dividend for the fiscal year 2010 authorized by the Shareholders' General Meeting on April 28, 2011 for an amount of € 1.30 per ordinary share was paid in cash on May 13, 2011, reducing consolidated equity by € 783 million.

### Transactions with non-controlling interests

With the acquisition of Unimilk group's companies fully recognized in the financial statements (see Note 4), the transaction's definitive impact on consolidated equity as of December 31, 2010 is an additional reduction of € 97 million in Retained earnings – Group share, taking the total reduction to € 349 million.

Changes in consolidated equity relating to transactions with non-controlling interests in respect of 2010 break down as follows:

<i>(in € millions)</i>	2010 Restated		
Effects of transactions with non-controlling interests recorded in equity	Retained earnings - Group share	Non-controlling interests	Total equity
Acquisition of control of Unimilk group's companies <sup>(1)</sup>	256	142	398
Dividends paid to non-controlling interests	-	(110)	(110)
Reclassification in debt of change in carrying amount of non-controlling interests	-	(235)	(235)
Impact of difference between exercise price of options and carrying amount of non-controlling interests	(607)	-	(607)
Impact of put options granted to non-controlling interests <sup>(2)</sup>	(607)	(235)	(842)
Other	2	(2)	-
<b>Total</b>	<b>(349)</b>	<b>(205)</b>	<b>(554)</b>

(1) The acquisition of control of the Unimilk group's companies is described in Note 4. The impacts observed in other comprehensive income reflect the contribution to selling Unimilk shareholders of a share of interests in Danone's subsidiaries in Russia, Ukraine, Kazakhstan and Belarus (approximately 36%) and the recognition of non-controlling interests associated with the acquisition of control of the Unimilk group's companies (representing approximately 49% of Unimilk group's companies and 36% of Danone subsidiaries in Russia, Ukraine, Kazakhstan and Belarus).

(2) See Note 1.20 and Note 23 relative to the recognition and value, respectively, of the put options granted to non-controlling interests.

Financial liabilities linked to put options granted to non-controlling interests increased by € 790 million during the fiscal year 2010, of which € 842 million relates to the revaluation of these commitments. The difference corresponds to the payments made during the

period. Of this € 842 million, € 754 million relates to the recognition of put options granted to the former shareholders of Unimilk.

Changes in consolidated equity linked to transactions with non-controlling interests during the fiscal year 2011 break down as follows:

<i>(in € millions)</i>	2011		
Effects of transactions with non-controlling interests recorded in equity	Retained earnings - Group share	Non-controlling interests	Total equity
Dividends paid to non-controlling interests	-	(197)	(197)
Reclassification in debt of change in carrying amount of non-controlling interests	-	98	98
Impact of difference between exercise price of options and carrying amount of non-controlling interests	138	-	138
Impact of put options granted to non-controlling interests <sup>(1)</sup>	138	98	236
Other	(11)	(5)	(16)
<b>Total</b>	<b>127</b>	<b>(104)</b>	<b>23</b>

(1) See Note 1.20 and Note 23 relating to respectively accounting and fair value of options granted to non-controlling interests.

The € 236 million increase in consolidated equity linked to the effects of put options granted to non-controlling interests relate mainly to the commitment to buy back the non-controlling interests of the company Aqua (Indonesia – Waters) which expired in 2011 and has not been renewed (€ 136 million attributable to owners of the Company and € 63 million attributable to non-controlling interests).

### Other gains and losses recognized in equity

Changes in other gains and losses recognized in equity attributable to owners of the Company decreased by € 1 million in 2011. In 2010, the € 314 million reduction mainly reflected the disposal of Wimm-Bill-Dann shares.

## Note 23 Current and non-current financial debt and structure of net debt

The change in the structure of net debt from 2010 to 2011 is analyzed below:

(in € millions)	As of December 31, 2010 Restated	Bond issue or net increase of other item	Bond repayment or net decrease of other item	Transfer to current portion	Translation adjustments	Other	As of December 31, 2011
<b>Derivative instruments - assets (i)</b>	<b>236</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>257</b>
Cash and cash equivalents	1,054	-	(15)	-	(1)	(11)	1,027
Short term investments	1,111	-	(23)	-	19	7	1,114
<b>Cash and cash equivalents and short term investments (ii)</b>	<b>2,165</b>	<b>-</b>	<b>(38)</b>	<b>-</b>	<b>18</b>	<b>(4)</b>	<b>2,141</b>
Short-term bonds	894	-	(912)	235	-	-	217
Other current financial debt	1,635	-	(100)	342	1	(229)	1,648
<b>Current financial debt</b>	<b>2,529</b>	<b>-</b>	<b>(1,013)</b>	<b>577</b>	<b>1</b>	<b>(229)</b>	<b>1,865</b>
Long-term bonds	2,514	822	-	(235)	55	-	3,155
Other non-current financial debt	427	-	(58)	(342)	18	230	276
Financing	2,941	822	(58)	(577)	72	230	3,431
Derivatives - liabilities	147	-	-	-	(45)	11	113
Liabilities related to put options granted to non-controlling interests	3,858	-	-	-	-	(236)	3,622
<b>Non-current financial debt</b>	<b>6,946</b>	<b>822</b>	<b>(58)</b>	<b>(577)</b>	<b>27</b>	<b>5</b>	<b>7,166</b>
<b>Financial debt (iii)</b>	<b>9,475</b>	<b>822</b>	<b>(1,071)</b>	<b>-</b>	<b>28</b>	<b>(224)</b>	<b>9,031</b>
<b>Net debt (iii) - (ii) - (i)</b>	<b>7,074</b>	<b>821</b>	<b>(1,033)</b>	<b>-</b>	<b>10</b>	<b>(240)</b>	<b>6,633</b>

### Main financing transactions

In order to diversify its financing sources and increase the average maturity of its debt, while benefiting from favorable market conditions, the Group launched the following main operations as part of its EMTN (Euro Medium Term Note) program (see Note 32) during 2011:

- a Euro bond issue under its EMTN program, on September 27, for a nominal amount of € 500 million, maturing in 2016;
- several private placements for a cumulative nominal amount of € 322 million.

In addition, bonds representing € 912 million under the EMTN program matured in 2011.

In 2010, the Group launched the following two-fold operation in the Euro bond markets: the issuance of new bonds maturing in 2020 and the offer to exchange these newly issued securities for previously issued securities maturing in 2014 and 2015. As a result, the Group raised a nominal net amount of € 344 million in new debt, increased the average maturity of its bonds by 1.4 years and refinanced in advance the majority of the outstanding bonds maturing in May 2011.

### Financial liabilities linked to put options granted to non-controlling interests

As stated in Note 1.20, the exercise price of the put options granted to non-controlling interests is reflected as a non-current financial liability in the consolidated balance sheet. As of December 31, 2011, the non-current financial liabilities relating to these options amounted to € 3,622 million (€ 3,858 million as of December 31, 2010). These financial liabilities do not bear interest.

The main commitment concerns Danone Spain, for € 2,153 million as of December 31, 2011 (€ 2,309 million as of December 31, 2010). These put options apply to nearly all of the 42.19% equity interest held by the non-controlling interests of Danone Spain. The formula used to calculate the amount of this commitment is fixed contractually, based on an average of the Spanish subsidiary's earnings over several years, to which a multiple is then applied. In 2011, this calculation resulted in a decrease in the commitment totaling € 157 million. These put options were granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be tacitly renewed for successive five-year periods. The options are exercisable at any time. In July 2010, the beneficiaries of put options representing more than

70% of the shares of this subsidiary covered by the options agreed to amended terms under which they pledged to exercise their options only after a one-year prior notification period.

As part of the acquisition of Unimilk group's companies, Danone granted put options to former Unimilk shareholders. Contractually, these put options are exercisable in their totality during a period that begins in 2014 and expires on December 31, 2022. They are valued based mainly on an earnings multiple. As of December 31, 2011, the commitment relative to these put options totaled € 856 million (€ 754 million as of December 31, 2010).

The commitment relating to the purchase of the non-controlling interests of the company Aqua (Indonesia – Waters) expired in 2011 and has not been renewed. It stood at € 199 million as of December 31, 2010.

Other put options granted to non-controlling interests are exercisable (i) at any time for a cumulative amount of € 422 million and (ii) from 2013, on different dates, for a cumulative amount of € 191 million.

No significant cash outflow is considered probable in the short term with respect to any of the put options granted to non-controlling interests.

## Note 24 Deferred taxes

As explained in Note 1.16, deferred taxes mainly arise from the temporary differences recognized between the carrying amounts and the tax bases of assets and liabilities. The significant components of deferred tax assets and liabilities are as follows:

<i>(in € millions)</i>	2010 Restated	2011
Intangible and tangible assets	(1,124)	(1,177)
Tax loss carryforwards	424	503
Provisions for retirements and other long term benefits	94	108
Employee profit-sharing provisions	19	18
Restructuring provisions	4	5
Other	154	126
<b>Net deferred taxes</b>	<b>(429)</b>	<b>(417)</b>
Deferred tax assets	700	691
Deferred tax liabilities	(1,129)	(1,108)
<b>Net deferred taxes</b>	<b>(429)</b>	<b>(417)</b>

As of December 31, 2011, the deferred taxes recognized in respect of tax losses mainly related to France and to the United States.

The change in net deferred taxes recorded in the consolidated balance sheet can be detailed as follows:

<i>(in € millions)</i>	2010 Restated	2011
<b>As of January 1</b>	<b>(316)</b>	<b>(429)</b>
Changes recognized in other comprehensive income	94	20
Changes recognized in profit or loss	(77)	(69)
Changes in consolidation scope	(78)	1
Other	(52)	60
<b>As of December 31</b>	<b>(429)</b>	<b>(417)</b>

### Tax losses carried forward

As of December 31, 2011, tax losses carried forward amounted to € 1,960 million (€ 1,545 million as of December 31, 2010) and the corresponding deferred tax assets amounted to € 632 million (€ 491 million as of December 31, 2010). They mainly resulted

from losses on disposals and from the losses of the tax groups in France and the Netherlands.

As of December 31, 2011, based on the expected taxable income of all Group companies and tax groups that have generated tax loss carry forwards, the Group believes that it is more likely than not that € 446 million (€ 180 million as of December 31, 2010) of

these tax losses will not be used. The Group reviews the unutilized tax losses and the deferred tax assets recognized as of each closing date.

The Company and its subsidiaries may be subject to tax audits. A provision is recognized in the financial statements whenever it is probable that a tax reassessment will be made.

## Note 25 Other provisions and non-current liabilities

“Other provisions and non-current liabilities” break down as follows:

<i>(in € millions)</i>	2010 Restated	Increase	Decrease (utilized)	Decrease (not utilized)	Translation adjustment	Other	2011
Restructuring provisions	25	19	(9)	(3)	1	(5)	28
Other provisions for risks and charges	511	109	(65)	(80)	(3)	25	497
Investment subsidiaries	9	-	-	-	-	-	9
<b>Total</b>	<b>545</b>	<b>128</b>	<b>(74)</b>	<b>(83)</b>	<b>(2)</b>	<b>20</b>	<b>534</b>

“Other provisions for risks and charges” consist mainly of provisions for legal, financial and tax risks as well as provisions for multi-year variable compensation granted to some employees.

Changes to “Other provisions and non-current liabilities” for 2011 result from the following factors:

- increases result primarily from lawsuits against the Company and its subsidiaries in the course of their normal business dealings;
- decreases occur when corresponding payments are made or when the risk is considered extinguished. Unused decreases

relate mainly to reassessments and situations where some risks, notably tax risks, cease to exist;

- other changes correspond primarily to reclassifications and changes in scope.

As described in Note 1.18, “Other provisions and non-current liabilities” includes the short-term portion with a term of less than one year (€ 42 million as of December 31, 2011, compared with € 30 million the previous year).

## Note 26 Trade payables

Trade payables break down as follows:

<i>(in € millions)</i>	2010 Restated	2011
Trade account payables	2,372	2,634
Notes payable	45	72
<b>Total</b>	<b>2,417</b>	<b>2,706</b>

The fair value of trade payables is considered to be close to their carrying amount given their short-term maturities.

The increase in trade payables in 2011 is mainly due to the increase in activity.

## Note 27 Other current liabilities

Other current liabilities break down as follows:

<i>(in € millions)</i>	2010 Restated	2011
Year-end rebates payable to customers	862	891
Personnel, including social charges	471	496
Taxes payable	252	306
State and local authorities	157	172
Refundable containers	86	88
Customer deposits	36	43
Derivatives - liabilities	44	33
Prepayments from customers	5	17
Other	327	308
<b>Total</b>	<b>2,240</b>	<b>2,354</b>

The "Derivative- liabilities" line item corresponds to the fair value of currency hedges related to operations.

The fair value of other current liabilities is considered to be equal to their carrying amount given their short-term maturities.

## Note 28 Information on changes in consolidated cash flows

### Cash flows provided by (used in) operating activities

Other components of net income with an impact on cash, which amounted to an outflow of € 96 million in 2011, represent mainly

interest expense accrued as of December 31, 2010 and paid in 2011. Interest expense accrued as of December 31, 2009 and paid in 2010 totaled an outflow of € 78 million.

Other components of net income with no cash impact can be broken down as follows:

<i>(in € millions)</i>	2010 Restated	2011
(Gains) losses on disposal of non-current assets	20	(50)
(Gains) losses on disposal of financial assets	(239)	(1)
Increase in (reversals of) provisions and deferred taxes	(7)	(16)
Expense related to stock-options and GPS	28	22
Interest expense not yet paid	105	68
Other	7	40
<b>Total</b>	<b>(86)</b>	<b>63</b>

In 2010, the line item "(Gain) or loss on disposals of financial assets" included the pre-tax net capital gain on disposal of € 237 million for the non-consolidated Wimm-Bill-Dann shares.

### Cash flows provided by (used in) investing activities

In 2011, financial investments consist mainly of the acquisition of Complian (Medical Nutrition – United Kingdom) and Aldeinha

(Waters - Brazil). The main disposal concerned Aquarius (Waters - Asia) (see Note 5).

In 2010, financial investments related mainly to the acquisition of shares in Unimilk group's companies (€ 116 million), YoCream (Fresh Dairy Products, USA), Medical Nutrition Inc. (Medical Nutrition, USA), Chiquita and Immédia (Fresh Dairy Products, France). The net cash inflow on sales of subsidiaries and financial investments essentially related to sales of shares held in Wimm-Bill-Dann and China Hui Yuan.

### Cash flows provided by (used in) financing activities

In 2011, cash flows used in financing activities primarily include the payment of dividends to Danone shareholders and non-controlling interests for € 783 million and € 197 million, respectively.

In addition, in 2011 the Group performed transactions in DANONE shares whose impact on net cash were as follows:

- Purchase of shares for € 604 million (see Note 22);
- Acquisition of DANONE call options for € 109 million

Lastly, in 2011, following the exercise of stock-options and the acquisition of Group performance shares by beneficiaries, treasury shares were transferred to these beneficiaries (see Note 22), which had a € 54 million positive impact on net cash.

In 2010, cash flows used in financing activities primarily include the payment of dividends to Danone shareholders and non-controlling interests for amounts of € 737 million and € 110 million, respectively, and purchases of short-term investments for an amount of € 601 million. Furthermore, the Group repurchased DANONE shares and shares of Danone Spain for € 250 million and € 48 million, respectively.

## Note 29 Retirement obligations and other long-term benefits

The Group contributes to employee retirement benefit schemes in conformity with the laws and usual practices of countries where its subsidiaries operate. As a result of contributions paid under such schemes to private or state sponsored pension funds, the Group has no actuarial liability in that respect.

The Group is also responsible for supplementary retirement plans, contractual commitments for termination and retirement indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds or through provisions

### Actuarial assumptions

To perform the actuarial estimates, basic assumptions have been determined for each country and assumptions specific to the entities have been taken into account, in particular relating to staff turnover. The main actuarial assumptions adopted for the calculation of the commitments are as follows:

	Europe (excluding United Kingdom)		United Kingdom		North America		Asia Pacific		Rest of the World	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Discount rate	3.5% - 10%	3.5% - 4.90%	5.40%	4.80%	5.65% - 5.80%	4.75%	1% - 9.25%	1% - 9.25%	6% - 7.5%	6% - 7.5%
Expected return on plan assets <sup>(1)</sup>	3% - 6.40%	4% - 5.52%	6.23%	5.50%	8.25%	7.50%	9%	9%	8.40%	8.40%
Salary growth rate	2.8% - 5%	3% - 5%	3% - 3.9%	3.50%	4.50%	4.50%	3% - 9%	8% - 9%	4% - 4.5%	2.75% - 9%
Retirement age	55-67 years	55-67 years	65 years	65 years	62-63 years	63 years	55-60 years	55-60 years	60-65 years	57-60 years

(1) The expected rate of return on plan assets is determined using the historical rates of return on the investment portfolio.

The real return on plan assets was € 9 million in 2011.

For the subsidiaries located in the euro zone, the 2011 discount rate was determined by reference to the iBoxx euro zone index. The iBoxx index used was 4.5% for long-term commitments.

A 0.50% decrease in the discount rate applied to 2011 would increase the Group's gross commitment by approximately € 67 million. Conversely, a 0.50% increase in the discount rate would reduce the Group's gross commitment by approximately € 62 million.

### Commitments related to defined benefit plans for which provisions are recognized on the balance sheet

The following table reconciles the obligations of Group companies' plans with the provision recognized in the consolidated balance sheet as of December 31, 2011 and 2010. The commitments relating to the French subsidiaries are presented separately from the foreign subsidiaries due to their materiality.

(in € millions)	2010		2011	
	France	Other countries	France	Other countries
Defined benefit obligation	375	488	397	509
Fair value of plan assets	(222)	(242)	(215)	(244)
<b>Defined benefit obligation in excess of plan assets</b>	<b>153</b>	<b>246</b>	<b>182</b>	<b>265</b>
Unrecognized past service costs		(3)		(3)
<b>Net accrued obligation</b>	<b>153</b>	<b>243</b>	<b>182</b>	<b>262</b>

As of December 31, 2011, the projected benefit obligation relating to partially or fully funded plans amounted to € 704 million (€ 678 million as of December 31, 2010). The projected benefit obligation related to the French subsidiaries took into account

the impact of new taxes applicable as of 2010, as provided in the *Loi de Financement de la Sécurité Sociale 2010* (LFSS) (2010 Social Security Funding Act). This impact was treated as a change in the actuarial assumptions.

Changes in provisions for defined benefit plans can be detailed as follows:

(in € millions)	Defined benefit obligation	Fair value of plan assets	Unrecognized past service costs	Net accrued obligation
<b>As of January 1, 2010 - Restated</b>	<b>743</b>	<b>(440)</b>	<b>(2)</b>	<b>301</b>
Service cost	23	-	-	23
Interest cost	40	-	-	40
Return on plan assets	-	(22)	-	(22)
Other	-	-	-	-
Expense for the year	63	(22)	-	41
Payments made to retirees	(50)	32	-	(18)
Contributions to plan assets	-	(18)	-	(18)
Actuarial gains and losses	91	(7)	(-)	84
Translation adjustments	11	(4)	(1)	6
Other	5	(4)	-	-
<b>As of December 31, 2010 - Restated</b>	<b>863</b>	<b>(464)</b>	<b>(3)</b>	<b>396</b>



<i>(in € millions)</i>	Defined benefit obligation	Fair value of plan assets	Unrecognized past service costs	Net accrued obligation
<b>As of January 1, 2011 - Restated</b>	<b>863</b>	<b>(464)</b>	<b>(3)</b>	<b>396</b>
Service cost	28	-	-	28
Interest cost	40	-	-	40
Return on plan assets	-	(24)	-	(24)
Other	1	-	-	1
Expense for the year	69	(24)	-	45
Payments made to retirees	(45)	25	-	(20)
Contributions to plan assets	-	(12)	-	(12)
Actuarial gains and losses	12	15	-	27
Translation adjustments	6	(3)	-	3
Other	1	4	-	5
<b>As of December 31, 2011</b>	<b>906</b>	<b>(459)</b>	<b>(3)</b>	<b>444</b>

Changes since 2007 to provisions for net accrued obligations recognized on the balance sheet are as follows:

<i>(in € millions)</i>	As of December 31				
	2007 Reported <sup>(1)</sup>	2008 Reported <sup>(1)</sup>	2009 Reported <sup>(1)</sup>	2010 Restated <sup>(2)</sup>	2011 <sup>(2)</sup>
Defined benefit obligation	684	635	743	863	906
Fair value of plan assets	(443)	(404)	(440)	(464)	(459)
Actuarial gains and losses <sup>(3)</sup> and past service costs	(51)	(23)	(84)	(3)	(3)
<b>Net accrued obligation</b>	<b>190</b>	<b>208</b>	<b>219</b>	<b>396</b>	<b>444</b>

(1) Partial recognition of actuarial gains and losses in application of corridor option (see Note 1).

(2) Full recognition of actuarial gains and losses (see Note 1).

(3) Actuarial gains and losses have been fully recognized in 2010 and 2011.

## Defined benefit plan assets

The Group's investment policy for plan assets depends, for each company, upon the employees' age structure and the expected return on the different class of assets.

<i>(in percentage)</i>	As of December 31	
	2010	2011
<b>Main class assets of plan assets</b>		
Debt securities	58%	60%
Shares	24%	24%
Real estate and other class assets	18%	16%

As of December 31, 2011, debt securities comprised approximately 60% of plan assets. The plan assets are diversified and, in particular, exposure to a given sovereign credit risk is limited. Moreover, these plan assets do not include any financial instrument issued by the Group.

Finally, the real average return on plan assets in France was 4.69% in 2011, compared with 5.05% in 2010.

The total amount of contributions that will be made to plan assets in 2012 is estimated at € 30 million.

### Obligations related to other long-term benefits for which provisions are recognized on the balance sheet

Other long-term benefits were reclassified from “Other non-current provisions and liabilities” to “Provisions for retirement obligations and other long-term benefits” (see Note 1).

The provision amount recognized on the balance sheet for these other long-term benefits was € 14 million as of December 31, 2011, compared with € 15 million the previous year.

### Defined contribution plans

The total amount of contributions paid in to defined contribution plans was € 36 million in 2011 (compared with € 29 million as of December 31, 2010).

## Note 30 Personnel and compensation

Group personnel costs (including payroll taxes and related charges) amounted to € 2,694 million in 2011 (€ 2,506 million in 2010).

As of December 31, 2011 and 2010, the number of employees at fully-consolidated entities could be broken down as follows:

	2010	2011
Europe	45,985	45,059
Asia	24,638	24,670
Rest of the World	30,371	32,156
<b>Group total</b>	<b>100,995</b>	<b>101,885</b>

## Note 31

### Stock-options and Group performance shares granted to certain employees and corporate officers, Company saving plans

#### Group performance shares

##### Plan characteristics

Since the Shareholders' Combined Ordinary and Extraordinary General Meeting of April 22, 2010, the Board of Directors has been authorized to grant DANONE shares to certain Group senior managers and executives. These grants are subject to performance conditions adapted to the specific nature of the Group's activity being achieved, namely consolidated sales and free cash flow growth over two consecutive years at constant scope and exchange rates. The share allocations now replace

the stock-options that the Board of Directors had previously been authorized to grant.

If the performance conditions are satisfied, the share allocations become definitive and are delivered in the form of Company shares following a vesting period of three to four years, to which a holding period of two years may be added during which the acquired shares may not be sold.

Under the authorization granted by the Shareholders' Combined Ordinary and Extraordinary General Meeting of April 22, 2010, the Board of Directors granted 696,311 Group performance shares on April 28, 2011 and another 17,350 Group performance shares on October 20, 2011.

As of December 31, 2011, the main characteristics of the Group performance share plans are presented in the table below:

Date of Shareholders' General Meeting	Date of the Board Meeting granting GPS	Number of Group performance shares <sup>(1)</sup>	Number of Group performance shares granted	Initial grant		Acquired shares
				Number of Group performance shares lapsed or forfeited as of December 31, 2011	Number of Group performance shares potentially acquired <sup>(2)</sup> as of December 31, 2011	Number of Group performance shares actually acquired as of December 31, 2011
April 22, 2010	April 22, 2010	2,587,963	644,565	(39,341)	605,224	-
April 22, 2010	April 28, 2011	2,587,963	696,311	(30,875)	665,436	-
April 22, 2010	October 20, 2011	2,587,963	17,350	-	17,350	-
<b>Total</b>			<b>1,358,226</b>	<b>(70,216)</b>	<b>1,288,010</b>	<b>-</b>

(1) Authorized as a % of statutory capital.

(2) Group performance shares not yet vested for which the performance conditions were satisfied on December 31 (their acquisition will only occur after the vesting period expires).

As of December 31, 2011, a total of 1,229,737 Group performance shares were still eligible for allocation under the authorization granted by the Shareholders' General Meeting of April 22, 2010.

### Change in number of Group performance shares outstanding

Changes during the year were as follows:

(Number of shares)	2010	2011
<b>Balance as of January 1</b>	-	-
Performance shares granted	644,565	1,358,226
Performance shares acquired	-	-
Performance shares forfeited/lapsed	(3,359)	(70,216)
<b>Balance as of December 31</b>	<b>641,206</b>	<b>1,288,010</b>

As indicated in Note 1.25, Group performance shares are measured at fair value as of the plan allocation date, based on assumptions determined by management. Group performance shares allocated in 2011 were valued mainly on the basis of the following assumptions:

French plan	2010	2011
Risk-free interest rate	1.35%	2.70%
Expected life	3 years	3 years
Expected resale restriction period	2 years	2 years
Refinancing rate	4.80%	4.80%
Expected dividend (Increase per year)	increase by 10%	increase by 10%
International plan	2010	2011
Risk-free interest rate	1.35%	2.70%
Expected life	4 years	4 years
Expected resale restriction period	-	-
Refinancing rate	4.80%	4.80%
Expected dividend (Increase per year)	increase by 10%	increase by 10%

The risk-free interest rate corresponds to the iBoxx index for maturities of 1 to 3 years in the euro zone. The refinancing rate corresponds to the employees' borrowing rate during the period.

The weighted average value of the shares allocated in 2011 was € 43.22 per share.

## Stock-options

### Plan characteristics

Up until the Shareholders' Combined Ordinary and Extraordinary General Meeting of April 22, 2010, the Board of Directors was authorized to grant DANONE stock-options to certain Group senior managers and executives. These options were granted with an exercise price that could not be lower than the minimum price authorized under French law, they vested after a period of between two and four years and expired no later than eight years from the grant date.

The main characteristics of the stock-option plans as of December 31, 2011 are as follows, after taking into account:

- the two-for-one stock splits that occurred in June 2000, June 2004 and June 2007;
- adjustments made (subsequent to the capital increase on June 25, 2009) on the one hand retrospectively, to the number of stock-options, and on the other hand, to the exercise prices of the plans in existence at that date. The adjustment coefficient was determined (in accordance with Article L. 225-149-1 of the French Commercial Code) by comparing DANONE's stock price of € 46.33 before detachment of the preferential subscription rights attached to the capital increase with the price of € 43.71 after detachment of this right.

Date of Shareholders' General Meeting	Number of authorized options <sup>(1)</sup>	Number of options granted	Adjusted exercise price (in €)	Number of options lapsed or forfeited as of December 31, 2011	Number of options exercised as of December 31, 2011	Number of outstanding options as of December 31, 2011
May 29, 2001	8,000,000	7,850,678	27.9	(1,121,330)	(6,729,348)	-
April 11, 2003	8,000,000	6,612,085	30.2 – 35.4	(667,770)	(3,339,437)	2,604,878
April 22, 2005	6,000,000	4,772,226	39.0 – 57.5	(511,026)	(28,374)	4,232,826
April 26, 2007	6,000,000	5,854,441	34.9 – 56.6	(818,542)	-	5,035,899
April 23, 2009	6,000,000	20,400	40.9	(1,200)	-	19,200
<b>Total</b>		<b>25,109,830</b>		<b>(3,119,868)</b>	<b>(10,097,159)</b>	<b>11,892,803</b>

(1) The number of options authorized has not been adjusted by the coefficient mentioned above.

The capital increase on June 25, 2009 and changes made to the stock-option plans in existence at that date had no impact on the expense determined in accordance with IFRS 2 for these plans.

The Shareholders' General Meeting decided that the authorization to grant Group performance shares (see above) cancelled, with respect to the currently unused portion, the authorization given by the Shareholders' General Meeting of April 23, 2009 in its 30<sup>th</sup> resolution to grant stock-options and/or subscription options.

As of December 31, 2011, outstanding stock-options can be detailed as follows:

Range of exercise price	Number of options	Average remaining life (in number of years)	Outstanding		Exercisable <sup>(1)</sup>	
			Weighted average exercise price (in €)	Number of options	Weighted average exercise price (in €)	Number of options
€ 27 to € 32	1,028,510	0.3	31.8	1,028,510	31.8	1,028,510
€ 33 to € 39	3,973,510	3.7	35.1	3,973,510	35.1	3,973,510
€ 40 to € 48	1,891,725	2.4	46.8	1,891,725	46.8	1,891,725
€ 49 to € 58	4,999,058	3.8	55.7	-	-	-
<b>Total</b>	<b>11,892,803</b>			<b>6,893,745</b>		

(1) Option are considered as exercisable when their exercise price is lower than DANONE average share price.

The average price of DANONE shares in 2011 was € 47.41.

## Change in the number of outstanding stock-options

Changes in outstanding stock-options were as follows:

<i>(Number of options)</i>	2010	2011
<b>Balance as of January 1</b>	<b>16,562,462</b>	<b>14,179,527</b>
Options granted	-	-
New options granted following capital increase	-	-
Options exercised	(1,815,368)	(1,934,877)
Options forfeited/lapsed	(567,567)	(351,847)
<b>Balance as of December 31</b>	<b>14,179,527</b>	<b>11,892,803</b>

## Valuation of stock-option and Group performance share plans

The 2011 expense for stock-option plans was € 11 million (€ 25 million in 2010), and the 2011 expense with respect to Group performance shares was € 11 million (€ 3 million in 2010). These expenses are recorded on the consolidated income statement under "Other income (expenses)" and as a counterpart of the "Retained earnings" line on the consolidated balance sheet.

## Company savings plan

Employees of the Group's French entities can, on an annual basis, purchase new shares of the Company as part of a Company savings plan. The purchase price of the shares corresponds

to 80% of the average DANONE share price over the 20 days preceding the meeting of the Board of Directors that approves the plan. The benefit granted to the employees is calculated based on the fair value of the shares on the grant date, which corresponds to the date employees were informed of the plan, taking into account the restriction on these shares over a 5-year period and the market parameters that are applicable to employees, in particular the borrowing rate. In 2011, 939,160 new shares were issued through a share capital increase; the fair value of the shares was calculated based on a DANONE share price of € 44.74, a 2.70% risk-free interest rate and a 4.8% employees' 5-year borrowing rate. This accounting treatment is compliant with the notice issued by the French National Accounting Council (*Conseil National de la Comptabilité* – CNC) on December 21, 2004.

## Note 32

## Financial market risks and derivative instruments

In the course of its activity, the Group is exposed to financial risks, notably foreign exchange, financing and liquidity risks, interest rate risks, counterparty and securities risks.

The Group's policy consists of (i) minimizing the impact, that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet, (ii) monitoring and managing such exposure by promoting centralized management, whenever the regulatory and monetary frameworks so allow and (iii) using derivative instruments only for the purpose of economic hedging.

Through its Treasury and Financing Department, which is part of the Group Finance Department, the Group possesses the expertise and tools (trading room, front and back office software) necessary to act on different financial markets following standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly treasury report is sent to the Group Finance Department, enabling it to monitor the decisions taken to implement the previously approved management strategies.

The Group is also exposed to price volatility and to a potential shortage of the commodities, that it purchases, mainly to produce its finished products. To manage this exposure, the Group has implemented a commodity purchasing policy, "*Market Risk Management*". The impact of a price change in the two main commodity categories on the Group's annual cost of purchases is presented below in the section headed, "Commodities risk."

### Foreign exchange risk

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in the three following situations:

- in relation to its operating activities: the sales and operating expenses of the subsidiaries of the Fresh Dairy Products Division and most of the subsidiaries of the Group's Waters Division are expressed primarily in their country's domestic currency. Certain imports (especially raw materials and finished goods) and exports are, however, expressed in other currencies. Also, due to the limited number of production units in the world, the subsidiaries of the Medical Nutrition and Baby Nutrition Divisions and certain

Waters Division subsidiaries frequently use intra-group imports denominated in a currency other than their functional currency. The sales and operating margin of certain Group subsidiaries are therefore exposed to fluctuations in exchange rates against their functional currency.

- in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities.
- when translating into euros the financial statements of subsidiaries denominated in a foreign currency: sales and the trading operating income may be generated in currencies other than the euro. Consequently, fluctuations in exchange rates of foreign currencies against the euro may have an impact on the Group's income statement. These fluctuations also have an impact on the accounting value in the consolidated balance sheet of assets and liabilities denominated in currencies other than the euro.

#### Portfolio of foreign exchange derivative financial instruments related to operations

The following table shows the net nominal amount of the derivative financial instruments established for these main currencies as of December 31, 2011 and 2010:

(in € millions)						As of December 31				
	2010					2011				
(Sales)/Purchases of currencies	GBP	USD <sup>(3)</sup>	AUD <sup>(3)</sup>	RUB <sup>(3)</sup>	MXN <sup>(3)</sup>	GBP	USD <sup>(3)</sup>	AUD <sup>(3)</sup>	RUB <sup>(3)</sup>	MXN <sup>(3)</sup>
Net forward contracts <sup>(1)</sup>	(189)	280	70	(115)	(140)	(267)	314	(6)	(158)	(149)
Currency options, net <sup>(2)</sup>	(263)	(15)	–	–	–	(281)	(63)	179	–	–
<b>Total</b>	<b>(453)</b>	<b>265</b>	<b>70</b>	<b>(115)</b>	<b>(140)</b>	<b>(547)</b>	<b>251</b>	<b>173</b>	<b>(158)</b>	<b>(149)</b>

(1) Notional amount based on closing spot rates.

(2) Notional amount based on the strike price. Includes in- and out-of-the-money options.

(3) Transactions denominated with the euro or other currencies as counterpart.

The fair value of currency derivative instruments related to operations totaled € 25.4 million and € 44 million as of December 31, 2011 and 2010, respectively.

#### Exposure to foreign exchange risk related to operations

Consistent with its policy of hedging operating foreign exchange risk, the Group's post-hedging residual exposure is significantly reduced throughout the year.

The Group uses forward currency contracts and currency options to reduce its exposure.

As of December 31, 2011, the main hedged currencies in terms of value include the British pound, U.S. dollar, Australian dollar, Russian ruble and Mexican peso.

The Group mainly applies cash flow hedge accounting.

Based on pending transactions as of December 31, 2011, the Group's residual exposure (after hedging of exchange risks on its highly probable commercial operating transactions) is significantly reduced for 2012.

#### Sensitivity of equity and net income to changes in the fair value of currency derivative instruments related to operations

A change in the fair value of the derivative financial instruments hedging the operating foreign exchange risk, induced by a change in foreign exchange rates, could impact the Group's equity and net income: the impact recognized in profit or loss relates to the time value and swap point variations, when they are excluded from the hedging relation, as well as to transactions to which hedge accounting is not applied.

A 10% fluctuation of the euro against the following currencies as of the closing date, applied to outstanding transactions, would have resulted in an increase (decrease) in equity and net income of the Group by the following amounts (at constant volatility and interest rates):

(in € millions)	As of December 31			
	2010		2011	
	Equity	Gain (loss)	Equity	Gain (loss)
<b>10% increase in EUR</b>				
GBP	41	(5)	33	3
USD <sup>(1) (2)</sup>	15	(1)	7	3
AUD <sup>(1) (2)</sup>	(6)	-	-	-
RUB <sup>(1) (2)</sup>	9	-	14	-
MXN <sup>(1) (2)</sup>	2	-	2	-
<b>10% decrease in EUR</b>				
GBP	(29)	(3)	(37)	(3)
USD <sup>(1) (2)</sup>	(15)	(1)	(11)	(1)
AUD <sup>(1) (2)</sup>	8	-	-	-
RUB <sup>(1) (2)</sup>	(11)	-	(17)	-
MXN <sup>(1) (2)</sup>	(2)	-	(2)	-

(1) In the case of transactions denominated in currencies other than the EUR, the increase or decrease in the EUR is applied simultaneously to the base currency and the secondary currency.

(2) Transactions denominated with the EUR or other currencies as counterpart.

These instruments and the hedged items typically have maturities of less than 1 year. Consequently the cash flows will for the most part be reflected in the income statement in 2012.

### Exposure to foreign exchange risks related to financing, currency translations and assets

The Group has established a policy for monitoring and hedging the net situation of certain subsidiaries, with regular assessments of risks and opportunities to use hedging instruments.

The Group's policy consists of maintaining the debt and/or surplus cash of Danone and its subsidiaries in their respective functional currencies. Furthermore, in compliance with its policy of managing risks centrally, the Group may manage multi-currency borrowings and surplus cash.

As part of these policies, the Group therefore uses cross-currency swaps.

The Group generally uses cash flow hedge accounting for these instruments. As of December 31, 2011 and 2010, the nominal amounts of these instruments were as follows:

(in € millions)	As of December 31	
	2010	2011
Fair value hedge	501	454
Net investment hedge	585	544
Trading <sup>(1)</sup>	-	29
<b>Total</b>	<b>1,086</b>	<b>1,027</b>

(1) For foreign exchange risk related to financing and to net investment in foreign operations, hedge accounting might not be applied to minor amounts. In such case, both derivatives and underlying are revalued and change in value is recorded in the consolidated income statement.

A change in the fair value of these derivative financial instruments induced by a change in foreign exchange rates at the closing date would not have a significant impact on the Group's equity or net income (changes in the foreign exchange rates of the financial instruments are offset by changes in the foreign exchange rates on loans and borrowings in hedged currencies or on net foreign investments).

### Liquidity risk

#### Liquidity risk exposure

The Group does not use indebtedness in either a recurring or a significant way in connection with its operating activities.

Operating cash flows are generally sufficient to self-finance the Group's business operations and organic growth.

The Group may, however, in the future, increase its indebtedness to finance acquisitions or as and when required to manage its cash cycle, particularly when dividends are paid to the Company's shareholders.

The Group's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources.

Its goal remains to maintain debt at a reasonable level, notably to retain flexibility with respect to its financing sources.

The Group's liquidity risk arises mainly from the maturities of its (i) interest-bearing (bonds, bank debt, etc.) and (ii) non-interest-bearing liabilities (liabilities on put options granted to non-controlling interests), and from payments on derivative instruments.

As part of its debt management strategy, the Group regularly seeks new financing to refinance its existing debt.

More generally, it is possible that, given the current world financial crisis, the Group could be unable to access the financing or refinancing it needs on the credit or capital markets, or to access such finance on satisfactory terms, which could have an adverse impact on its financial situation.

The Group's policy is to secure its access to financing while optimizing its financing cost.

### Financial security management

Under its financing risk management policy, the Group manages its exposure to financing risk by: (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium term financing, (iv) maintaining financing sources available at any time, and (v) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts. These rules cannot always be fully applied in countries where centralized or medium-term financing are not available and/or, in some cases, when the existing financing agreements at a company predate the control obtained by the Group. In particular, certain Group companies may, for operational reasons, be required to borrow from local sources; from a Group perspective, the amounts borrowed are relatively small, whether considered individually or in total, given the level of operating cash flow that is generally sufficient to finance their operations and organic growth. However, this local financing exposes the Group to a liquidity risk in these countries, but only in limited amounts.

### Group's financing structure and financial security

The Group's financial structure and financial security are managed at the Company level and the financing and security lines are carried by the Company. They consist of:

- Bank financing:
  - a syndicated credit facility (revolving) negotiated in 2011 and established in July 2011, in the amount of € 2 billion, maturing July 28, 2016. As of December 31, 2011, the Group had not drawn on this syndicated facility at all;

- available committed credit facilities: a portfolio of back-up facilities entered into with major credit institutions, with maturities ranging from one to five years, and with a principal amount of € 3.3 billion. As of December 31, 2011 (as well as the previous year), the Group had not drawn on these facilities at all;

Overall, the Group had € 5.3 billion in committed credit facilities, which were unused as of December 31, 2011.

- Capital markets financing:
  - Euro Medium Term Note (EMTN) financing: a € 7 billion program in principal (of which € 3,154 million had been drawn down as of December 31, 2011); since 2011, bonds issued by the Company are disclosed on the Group's web site;
  - Commercial paper: a € 3 billion program, of which € 852 million had been used as of December 31, 2011.

The aforementioned syndicated credit facility, certain bond issues under the EMTN program (as of its renewal in 2007) and certain committed unused credit facilities include a change of control provision.

None of these financing sources is subject to any covenant relating to the maintenance of financial ratios.

Also, as of December 31, 2011, the company's debt issues with a maturity of more than one year are rated A3/Stable by Moody's and A-/Stable by Standard & Poor's. The commercial paper issues are rated A2 by Standard & Poor's.

Moreover, the Group has available net cash through its cash and cash equivalents and short-term investments of € 2.1 billion as of December 31, 2011, compared with € 2.2 billion the previous year.

### Use of its financing sources

The Group's policy consists of keeping its financing sources available and managing them at the Company level. The Group may need to use (i) its commercial paper program and syndicated credit facility to manage its cash position, notably when paying out the dividend to Danone shareholders (ii) alternatively, its commercial paper and EMTN programs or its syndicated credit facility to optimize its financing cost while still ensuring its financial security, such that the maturity and currency of its financing raised may vary without changing the net debt level or the Group's financial security.

### Liquidity risk measurement

Projected cash outflows linked to the contractual repayment of the principal amount and contractual interest payments on the financial assets and liabilities, including premiums to be paid on derivative financial instruments, recognized in the Group's consolidated



balance sheet as of December 31, 2011, are presented below with their contractual maturity dates and based on the assumption of non-renewal:

<i>(in € millions)</i>	Carrying amount on consolidated balance sheet at December 31, 2011	Contractual cash flows 2012	Contractual cash flows 2013	Contractual cash flows 2014	Contractual cash flows 2015	Contractual cash flows 2016 and after	Contractual cash flows of which the date is unknown
Bonds <sup>(1) (2)</sup>	3,373	(217)	(297)	(618)	(603)	(1,638)	–
Commercial Paper <sup>(1) (6)</sup>	852	(852)	–	–	–	–	–
Derivatives – liabilities (fair value) <sup>(1) (4) (5)</sup>	113	–	(113)	–	–	–	–
Financial debt managed at Corporate level	4,338	(1,069)	(410)	(618)	(603)	(1,638)	–
Subsidiaries' bank financing and other financing <sup>(3)</sup>	1,013	(781)	(232)	–	–	–	–
Finance lease commitments <sup>(3) (4)</sup>	58	(15)	(19)	(4)	(3)	(17)	–
<b>Total financing (before flows of financial instruments other than accrued interest)</b>	<b>5,409</b>	<b>(1,865)</b>	<b>(661)</b>	<b>(622)</b>	<b>(606)</b>	<b>(1,655)</b>	<b>–</b>
Liabilities related to put options granted to non-controlling interests <sup>(7)</sup>	3,622	–	–	–	–	–	(3,622)
<b>Total debt (before flows of financial instruments other than accrued interest)</b>	<b>9,031</b>	<b>(1,865)</b>	<b>(661)</b>	<b>(622)</b>	<b>(606)</b>	<b>(1,655)</b>	<b>(3,622)</b>
Interest on above-mentioned debt <sup>(4) (8)</sup>	–	(121)	(116)	(113)	(74)	(127)	–
Flows on derivatives <sup>(4) (6) (8)</sup>	–	(122)	(9)	(1)	1	–	–

(1) Financing managed at the Company level.

(2) Contractual nominal flows.

(3) Contractual nominal and interest flows.

(4) The floating interest rate is calculated on the basis of the rates applicable as of December 31, 2010.

(5) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at the year-end.

(6) The Commercial Paper issuances are backed-up by available confirmed credit lines. See table below.

(7) These options can be exercised at dates specified. No significant cash outflow is considered probable in the short term with respect to any of the put options granted to non-controlling interests. See Note 23 Section Financial liabilities linked to put options granted to non-controlling interests.

(8) Interest flows are net of accrued interest taken into account in the subtotals above.

The sources of financing available at any time established by the Group are mainly composed of committed unused credit facilities carried by the Company. The Group also has other bank credit

facilities carried by certain of its subsidiaries. Changes in the amount available on the basis of outstanding transactions as of December 31, 2011 are shown in the table below:

<i>(in € millions)</i>	Amount available as of December 31, 2011	Amount available as of December 31, 2012	Amount available as of December 31, 2013	Amount available as of December 31, 2014	Amount available as of December 31, 2015	Amount available as of December 31, 2016
Credit facilities <sup>(1)</sup>	5,284	4,784	3,405	2,805	2,155	–
Other credit facilities <sup>(2)</sup>	200	–	–	–	–	–

(1) Nominal amount of the portion of the syndicated credit facility and back-up credit facilities managed at the Company level and not drawn as of December 31, 2011.

(2) Nominal amount of the portion not drawn as of December 31, 2011.

## Interest rate risk

### Interest rate risk exposure

Through its interest-bearing debt, the Group is exposed to the risk of interest rate fluctuations that affect the amount of its financial expense.

The Group has implemented a policy to monitor and manage this risk for the purpose of limiting the volatility of its net financial income or expense.

The Group uses derivative financial instruments in addition to loans occasionally maintained at fixed rates to reduce its exposure to short-term interest rate fluctuations. These derivatives are mainly

interest rate swaps and caps and sometimes collars. All these instruments are plain vanilla.

As of December 31, 2011, the fair value of these instruments was € (7) million, compared with € (6) million the previous year.

#### Sensitivity of net income to changes in the cost of net debt resulting from changes in short-term interest rates

As of December 31, 2011, 61% of the Group's consolidated gross debt, or 106% of its consolidated net debt <sup>(1)</sup>, after taking

into account interest rate hedges in effect and active <sup>(2)</sup>, is hedged against an increase in short-term interest rates. As of December 31, 2011, in terms of its consolidated net debt, the Group is therefore exposed to the risk of a decline in short-term rates. The impact on the cost of debt, calculated over a full year, of a change in the short-term interest rate applied to the net debt at year-end, after taking into account the interest rate hedges at that date, is presented in the table below:

	Year ended December 31	
	2010	2011
(in € millions)	Gain (loss)	Gain (loss)
Increase of 50 bp	3	1
Decrease of 50 bp	(3)	(1)

(1) Includes (i) fixed-rate borrowings, (ii) interest rate swaps (net) as well as (iii) active option hedges. An option hedge is considered to be active when it is in the money if the increase in short-term rates does not exceed 50 bp compared to interest rates as of the closing date.

(2) The net debt used to measure the Group's sensitivity to changes in interest rates corresponds to financial debt net of marketable securities and cash and cash equivalents. It excludes the financial liabilities linked to put options granted to non-controlling interests insofar as these are not interest-bearing.

#### Sensitivity of equity and net income to changes in the fair value of interest rate derivatives

As of December 31, 2011 and 2010, interest rate derivatives were all contracted for the purpose of managing interest rate risk and either qualify as hedges or not under IAS 39.

A change in the fair value of interest rate derivatives induced by a change in the yield curve recognized as of the reporting date

would have the following impact on the Group's equity and net income:

- impacts recognized in other comprehensive income relate to the effective portion of the instruments qualifying as hedges of future cash flows;
- impacts recognized in profit or loss relate to the ineffective portion of the instruments qualifying as hedges of future cash flows, as well as to the impact of the change in fair value of the instruments not qualifying as hedges.

A change of 50 basis points in interest rates applied to the entire yield curve as of the reporting date and to outstanding transactions as of December 31, 2011 and 2010 would have resulted in an increase (decrease) in equity and net income of the following amounts (at constant foreign exchange rates and volatility):

	Year ended December 31			
	2010		2011	
(in € millions)	Equity	Gain (loss)	Equity	Gain (loss)
Increase of 50 bp				
Interest rate options <sup>(1)</sup>	-	-	-	-
Interest rate swaps <sup>(2)</sup> , other	6	-	4	-
<b>Sensitivity, net</b>	<b>6</b>	<b>-</b>	<b>4</b>	<b>-</b>
Decrease of 50 bp				
Interest rate options <sup>(1)</sup>	-	-	-	-
Interests rate swaps <sup>(2)</sup> , other	(4)	-	(3)	(1)
<b>Sensitivity, net</b>	<b>(4)</b>	<b>-</b>	<b>(3)</b>	<b>(1)</b>

(1) Caps and Cap spreads.

(2) Fixed-rate payer and receiver swaps.

## Counterparty and credit risk

### Counterparty risk exposure

The Group is exposed to counterparty risk, notably banking risk, in the context of its financial management.

The Group's overall exposure to counterparty risk has been significantly reduced through the centralization of financial risks and implementation of centralization applications as well as its cash management policy of minimizing and managing surpluses.

The Group's banking policy aims to emphasize the importance to its counterparties' credit rating quality by concentrating its

transactions among first-tier counterparties that (i) have credit ratings for more than 90% of the deposits as of December 31, 2011 at least in the Single A category; (ii) possess international branch networks and (iii) provide financing. Moreover, in order to invest its short-term surpluses, the Group mainly invests in money market funds issued by open-end investment companies (OEIC) and short-term money-market funds (OEIC), which are not rated. These funds are very liquid and diversified.

Finally, in certain countries, the Group may be obliged to conduct transactions with local banks, that have lower credit ratings, although the amount concerned is not material.

The Group's exposure with regard to its bank counterparties and arising from interest rate derivatives and cross-currency swaps (net exposure, for each of the banks, in relation to interest rate derivatives and cross-currency swaps) as of December 31, 2011 can be broken down by credit rating category as follows:

(% of total fair value as of December 31) <sup>(1)</sup>	As of December 31	
	2010	2011
Counterparty's rating (Standard & Poor's)		
AA	31%	34%
A	69%	66%

(1) Net amount, when positive, of the positive and negative fair values by counterparty, of the outstanding interest rate derivatives and currency swaps as of December 31.

The Group's exposure with regard to its bank counterparties and arising from the currency derivatives hedging operational foreign exchange risk (net exposure, for each of the banks, in relation to currency derivatives) as of December 31, 2011 can be broken down by credit rating category as follows:

(% of total fair value as of December 31) <sup>(1)</sup>	As of December 31	
	2010	2011
Counterparty's rating (Standard & Poor's)		
AA	9%	17%
A	91%	83%

(1) Net amount when positive, of the positive and negative fair values by counterparty, of the outstanding foreign exchange rate derivatives as of December 31.

### Credit risk exposure

Credit risk represents the risk of financial loss for the Group if a customer or counterparty should fail to meet its contractual payment obligations. The customer payment time is generally 30 days and the Group's main customers are essentially in the mass retail sector where credit risk is considered low. The percentage of overdue trade receivables for which no impairment charge has been recorded is shown in Note 19.

## Securities risk

### Risk related to treasury shares

As of December 31, 2011, the Company directly or indirectly held 41.6 million treasury shares (see Note 22), which are recognized as a deduction from consolidated equity for the amount of their cost price.

Also as of December 31, 2011, the Company directly held 6.1 million options to purchase DANONE shares in connection with certain stock-option plans granted to some employees (see Note 22). These options are recognized as a deduction from consolidated equity for the amount of their cost price (premium paid plus transaction fee).

### Risk related to other shares

As of December 31, 2011, other shares in non-consolidated companies were recognized on the balance sheet at € 123 million (€ 125 million as of December 31, 2010 – see Note 15).

### Commodities risk

The Group's raw materials needs mainly involve:

- materials needed for the production of food products and beverages, notably milk and fruit ("food raw materials"). In value, milk represents the leading raw material purchased by the Group. These purchases consist mainly of liquid milk, for which the operating subsidiaries generally enter into supply agreements with local producers or cooperatives. The liquid milk price is set locally, over contractual periods that vary from one country to the next. The main other food raw materials are fruit-based preparations and sugar;
- the materials needed for product packaging, notably plastics and cardboard ("packaging"). Packaging material purchases are managed through global or regional purchasing programs aimed at optimizing competencies and volume effects. Prices are affected by global and regional supply and demand, economic cycles and production capacities and oil prices. The main packaging materials purchased by the Group are plastics, including PET, and cardboard.

Energy raw materials represent a limited portion of the Group's purchases.

Price changes for the main raw materials can substantially influence the volatility of the Group's earnings. In that regard, the

Group manages raw materials cost inflation through the following measures, ranked in order of importance:

- purchases made locally to the extent possible, as local markets are often less volatile;
- establishment of a purchasing policy ("Market Risk Management") that consists of defining rules for securing physical supply and price-setting with suppliers and/or in financial markets when they exist. The monitoring of exposures and of the implementation of this policy is handled by the Group's central buyers for each raw materials category. The buyers typically negotiate forward agreements with suppliers, with the understanding that there are no financial markets that make it possible to fully hedge the price volatility of the Group's main raw materials;
- enhance productivity and reduce production costs, for example by streamlining packaging;
- amortizing fixed expense through increased concentration and volumes;
- depending on the markets and products, adjusting sales prices while ensuring the Group's competitive position.

### Sensitivity of net income to changes in prices of the two main categories of raw materials purchased by the Group

The table below measures the impact of changes in the annual cost of purchases of (i) milk and milk-based ingredients and (ii) plastic materials on the Group's operating income for 2010 and 2011, assuming a 5% increase or decrease each year in the prices for these items, simultaneously in all countries where the Group has production activities.

	Year ended December 31	
	2010	2011
<i>(in € millions)</i>	Gain (loss)	Gain (loss)
Increase of 5%		
Fluid milk, powdered milk and other milk-based ingredients	(107)	(149)
Plastics, including PET	(49)	(64)
Decrease of 5%		
Fluid milk, powdered milk and other milk-based ingredients	107	149
Plastics, including PET	49	64

## Reconciliation of the consolidated balance sheet by class and accounting category

(in € millions)	Assets recorded at fair value	Assets held for sale	Loans and financial assets	Liabilities recorded at fair value	Liabilities recorded at amortized cost	Carrying amount in consolidated balance sheet	Fair value	Fair value level
<b>As of December 31, 2011</b>								
<b>Financial assets</b>								
Investments in other non-consolidated companies	-	123	-	-	-	123	123	1-3 <sup>(3)</sup>
Long-term loans	-	-	53	-	-	53	53	
Other long-term financial assets	-	166	-	-	-	166	166	1-3 <sup>(4)</sup>
Derivatives – assets <sup>(1)</sup>	257	-	-	-	-	257	257	2
Trade receivables <sup>(2)</sup>	-	-	1,981	-	-	1,981	1,981	
Other receivables <sup>(2)</sup>	-	-	820	-	-	820	820	
Short-term loans <sup>(2)</sup>	-	-	40	-	-	40	40	
Short term investments	1,114	-	-	-	-	1,114	1,114	1-2
Cash and cash equivalents	1,027	-	-	-	-	1,027	1,027	1
<b>Carrying amount of the categories</b>	<b>2,398</b>	<b>289</b>	<b>2,894</b>	<b>-</b>	<b>-</b>	<b>5,581</b>	<b>5,581</b>	
<b>Financial liabilities</b>								
Financing	-	-	-	505	2,926	3,431	3,762	2
Derivatives – liabilities <sup>(1)</sup>	-	-	-	113	-	113	113	2
Liabilities related to put options granted to non-controlling interests	-	-	-	3,622	-	3,622	3,622	3
Current financial debt	-	-	-	167	1,699	1,866	1,866	2
Trade payables <sup>(2)</sup>	-	-	-	-	2,706	2,706	2,706	
Other current liabilities <sup>(2)</sup>	-	-	-	-	2,354	2,354	2,354	
<b>Carrying amount of the categories</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,407</b>	<b>9,685</b>	<b>14,092</b>	<b>14,423</b>	
<b>As of December 31, 2010</b>								
<b>Financial assets</b>								
Investments in other non-consolidated companies	-	125	-	-	-	125	125	1-3 <sup>(3)</sup>
Long-term loans	-	-	42	-	-	42	42	
Other long-term financial assets	-	138	-	-	-	138	138	1-3 <sup>(4)</sup>
Derivatives – assets <sup>(1)</sup>	236	-	-	-	-	236	236	2
Trade receivables <sup>(2)</sup>	-	-	1,924	-	-	1,924	1,924	
Other receivables <sup>(2)</sup>	-	-	767	-	-	767	767	
Short-term loans <sup>(2)</sup>	-	-	34	-	-	34	34	
Short term investments	1,111	-	-	-	-	1,111	1,111	1-2
Cash and cash equivalents	1,054	-	-	-	-	1,054	1,054	1
<b>Carrying amount of the categories</b>	<b>2,401</b>	<b>263</b>	<b>2,767</b>	<b>-</b>	<b>-</b>	<b>5,431</b>	<b>5,431</b>	
<b>Financial liabilities</b>								
Financing	-	-	-	678	2,263	2,941	3,129	2
Derivatives – liabilities <sup>(1)</sup>	-	-	-	147	-	147	147	2
Liabilities related to put options granted to non-controlling interests	-	-	-	3,858	-	3,858	3,858	3
Current financial debt	-	-	-	-	2,529	2,529	2,529	2
Trade payables <sup>(2)</sup>	-	-	-	-	2,417	2,417	2,417	
Other current liabilities <sup>(2)</sup>	-	-	-	-	2,240	2,240	2,240	
<b>Carrying amount of the categories</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,683</b>	<b>9,449</b>	<b>14,132</b>	<b>14,320</b>	

(1) Financial instruments used to hedge debt and net investments in foreign operations, see above Sections relating to respectively Interest rate risk exposure and exposure to foreign exchange risks related to financing, currency translations and assets.

(2) Fair value corresponds to book value as those elements are short term.

(3) See Note 15.

(4) See Note 17.

In accordance with IFRS 7, *Financial Instruments: Disclosures*, valuation levels shown in this table can be defined as follows:

#### Level 1

Fair value is based on (unadjusted) prices listed on active markets for identical assets and liabilities.

#### Level 2

Fair value is based on data other than listed prices as per level 1, which is observable for the asset or liability concerned, directly or indirectly.

#### Level 3

Fair value is based on data relating to the asset or liability which is not based on observable data on active markets.

For derivative financial instruments representing assets or liabilities and that qualify as cash flow hedges, the Group uses measurement techniques that include data observable on the market, notably for interest rate swaps, forward purchases and sales or currency options. The model integrates diverse data such as spot and forward exchange rates and the yield curve.

### Income and expenses related to derivative financial instruments hedging future cash flows

The recognition of the fair value of derivatives qualifying as cash flow hedges has the following impact on the Group's income statement:

(in € millions)	Year ended December 31	
	2010	2011
Change in fair value of instruments classified as cash flow hedges - ineffective portion <sup>(1) (2)</sup>	(4)	(10)
Cash flow hedges – effective portion deferred to equity in prior period and recognized in profit or loss during current period <sup>(3) (4)</sup>	(98)	37

(1) Effect on financial income.

(2) Includes changes in (i) the time value of currency options and interest rate options and (ii) the deferral/recognition of currency swaps excluded from hedging.

(3) Effect on operating income or financial income.

(4) Includes (i) the effective portion of forward foreign exchange transactions and interest rate hedges and (ii) the intrinsic value of currency options and interest rate options.

## Note 33 Legal and arbitration proceedings

In October 2009, a class action against Danone Inc. and The Dannon Company Inc. was filed by an individual plaintiff with the Quebec Superior Court, to obtain restitution for consumers from the alleged false advertising of the health benefits of probiotic cultures in Danone's *Activia* and *DanActive* products. This action is based on the Quebec Civil Code and Consumer Protection Law. The petition for authorization to file a class action suit was filed and given a certification hearing before the Court on January 30 and 31, 2012. The judge will decide within three months of this date whether the plaintiff's suit may go forward. If the action is admitted, a discovery process will be engaged in accordance with applicable procedures in Canada. At present, the Group cannot obtain a reliable assessment of the scope of this action and the

potential impact on the Group's earnings and financial position of the resolution of this class action. Therefore, no provision has been recognized in the financial statements as of December 31, 2011.

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated (see Note 25).

To the best of the Group's knowledge, no other governmental, court or arbitration proceedings are currently under way that are likely to have, or have had in the past 12 months, a material impact on the Group's financial position or profitability.

## Note 34 Related party transactions

The main related parties are the associated companies, the members of the Executive Committee and the members of the Board of Directors.

### Associated companies

Associated companies are those companies over which the Group exercises significant influence and that are accounted for using the equity method. Transactions with associated companies are usually performed at arm's length.

The table below analyzes the amount of receivables and payables with associated companies as of December 31, 2010 and 2011:

(in € millions)	2010	2011
Short-term and long-term loans	-	-
Operating receivables	11	49
Operating payables	-	-

### Members of the executive committee and of the board of directors

The table below presents compensation paid to members of the Executive Committee and of the Board of Directors for 2010 and 2011:

(in € millions)	2010	2011
Compensation paid <sup>(1)</sup>	22.7	18.1
Post-employment benefits <sup>(2)</sup>	1.3	1.5
Termination benefits	-	2.0
Fair value of Group performance shares granted <sup>(3)</sup>	6.5	7.6

(1) Fixed and variable compensations; annual and pluri-annual (before social charges).

(2) Amount paid to Directors related to retirement benefits in connection with their past function in the Group.

(3) Représente l'intégralité de la juste valeur estimée à la date d'attribution en application d'IFRS2. Voir Notes 1.25 et 31.

Compensation paid in respect of 2011 includes:

- € 17.7 million in compensation paid to members of the Executive Committee and corporate officers (including € 12.0 million in variable compensation);
- € 0.4 million in attendance fees (to which corporate officers are not entitled) and paid to Directors.

In addition, as of December 31, 2011, the share of the Group's total commitment with respect to retirement benefits for members of the Executive Committee and corporate officers was € 47.3 million, it being noted that this amount includes the new expenses applicable beginning as of 2010 (in accordance with the provisions of the 2010 French Social Security Funding Act). This amount was € 41.8 million as of December 31, 2010.

Isabelle SELLIER, Chairman of J.P. Morgan France, is a member of Danone's Board of Directors. On July 28, 2011, the Company

entered into a syndicated credit agreement with J.P. Morgan and several other banking institutions that calls for the establishment of a revolving, € 2 billion credit facility with a 5-year term.

The syndicated credit agreement calls for interest payments as well as for a usage fee based on the portion of the credit that is used and a non-usage fee equal to one percentage point of the spread in the event that the credit is not used.

J.P. Morgan's commitment in its capacity as a lender on the syndicated credit is € 210 million, or 10.5% of the total, the same percentage as the other top tier banking institutions participating in the syndicated credit. In 2011, the Company paid J.P. Morgan a total of € 810,133 in commissions related to these credit lines (commissions related to the establishment of the credit and non-usage fee).

## Note 35 Off-balance sheet commitments

### Commitments given and commitments received

As of December 31, 2011, the Group's off-balance sheet commitments arising from its operating, financing, and investing activities were as following:

Commitments given (in € millions)	Total	Amount of financial flows for the year				
		2012	2013	2014	2015	2016 and after
Operating lease commitments <sup>(1)</sup>	(621)	(170)	(112)	(91)	(62)	(186)
Commitments to purchase goods and services <sup>(1)</sup>	(1,454)	(889)	(242)	(159)	(92)	(72)
Capital expenditure commitments <sup>(1)</sup>	(101)	(78)	(11)	(5)	(5)	(2)
Guarantees and pledges given	(110)	(78)	(4)	(1)	-	(27)
Other	(103)	(44)	(14)	(10)	(6)	(29)
<b>Total</b>	<b>(2,389)</b>	<b>(1,259)</b>	<b>(383)</b>	<b>(266)</b>	<b>(165)</b>	<b>(316)</b>

Commitments received (in € millions)	Commitments as of December 31 of each year					
	2011	2012	2013	2014	2015	2016
Credit facilities <sup>(2)</sup>	5,284	4,784	3,405	2,805	2,155	-
Other credit facilities <sup>(3)</sup>	200	-	-	-	-	-
Guarantees and pledges received	68	58	7	-	-	3
Other	24	17	3	2	1	1
<b>Total</b>	<b>6,432</b>	<b>4,859</b>	<b>3,415</b>	<b>2,807</b>	<b>2,156</b>	<b>4</b>

(1) Related to the Group's operations.

(2) Related to the Group's financial investments and to financing the Group's activities. Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2011.

(3) Related to the Group's operational activities. Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2011.

### Other commitments

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business, notably as a result of guarantees given on disposals between 1997 and 2011.

In some cases, damages and interest are sought. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

## Note 36

### List of main consolidated and associated companies as of December 31, 2011

As of December 31, 2011, 241 companies were included in the scope of consolidation (242 in 2010), of which 225 were fully consolidated (226 in 2010) and 16 were consolidated as associates (16 in 2010).

#### Main companies fully consolidated for the first time in 2011

- Danone Baby Nutrition Mexico (Baby Nutrition – Mexico);
- Danone Baby Food CO (HK) Ltd (Baby Nutrition – Hong Kong);

- Nutricia Canada (Medical Nutrition – Canada);
- Gordian (Medical Nutrition – Netherlands);
- Complan Foods Limited (Medical Nutrition – United Kingdom);
- Aldeinha (Waters – Brazil).

#### Companies consolidated as associates for the first time in 2011

- Danone Logistics Romania ME (Fresh Dairy Products – Romania).



### Companies no longer consolidated fully or as associates as of december 31, 2011

- Danone Mozambique Limitada (Fresh Dairy Products – Mozambique);
- Aquarius (Waters – China);
- Danone Beheer B.V. (Baby Nutrition – Netherlands);
- Nutrition USA, Inc (Baby Nutrition – Netherlands);
- Festine (Asia – Singapore);
- Jinja Investments (Asia – Singapore);
- Novalc (Asia- Singapore);
- Weight Watchers JV (Asia – China).

### Fully consolidated companies

Main fully consolidated companies	Country	Group's control	Percent
			Interest
DANONE	France	Parent company	
<b>FRESH DAIRY PRODUCTS</b>			
DANONE DJURDJURA ALGERIE	Algeria	100.00	100.00
DANONE ARGENTINA	Argentina	99.45	99.45
DANONE GESMBH	Austria	100.00	100.00
N.V DANONE SA	Belgium	100.00	100.00
DANONE LTDA	Brazil	100.00	100.00
DANONE SERDIKA	Bulgaria	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANONE CHILE	Chile	100.00	100.00
DANONE CHINA	China	100.00	100.00
DANONE ALQUERIA	Colombia	93.00	93.00
DANONE	Croatia	100.00	100.00
DAIRY JV (CIS) HOLDINGS (CYPRUS) LIMITED	Cyprus	57.50	50.94
DANONE A.S	Czech Republic	100.00	100.00
DANONE DAIRY FARM	Egypt	100.00	100.00
DANONE DAIRY EGYPT	Egypt	100.00	100.00
DANONE FINLAND	Finland	100.00	100.00
DANONE PRODUITS FRAIS	France	100.00	100.00
DANSOURCE	France	100.00	100.00
STONYFIELD FRANCE	France	100.00	100.00
DANONE CHIQUITA FRUITS	France	51.00	51.00
DANONE GMBH	Germany	100.00	100.00
DANONE GREECE	Greece	100.00	100.00
DANONE GUATEMALA	Guatemala	100.00	100.00
DANONE KFT	Hungary	100.00	100.00
DANONE INDIA	India	100.00	100.00
DANONE	Indonesia	100.00	100.00
PT DANONE DAIRY INDONESIA	Indonesia	100.00	100.00
DANONE SAHAR	Iran	70.00	70.00
DANONE LTD	Ireland	100.00	100.00
DANONE SPA	Italy	100.00	100.00
DANONE JAPAN (Ex CALPIS AJINOMOTO DANONE)	Japan	100.00	100.00
DANONE BERKUT LLP	Kazakhstan	90.00	45.85
DANONE	Kazakhstan	100.00	50.94
DERIVADOS LACTEOS	Mexico	60.00	60.00
DANONE DE MEXICO	Mexico	100.00	100.00
DANONE NEDERLAND BV	Netherlands	100.00	100.00
DANONE CIS HOLDINGS BV	Netherlands	87.79	87.79

Main fully consolidated companies	Country	Group's control	Percent
			Interest
DANONE SP Z.O.O	Poland	100.00	100.00
DANONE PORTUGAL SA	Portugal	97.61	55.95
DANONE SRL	Romania	100.00	100.00
DANONE INDUSTRIA	Russia	100.00	50.94
DANONE VOLGA	Russia	90.78	46.25
UNIMILK <sup>(1)</sup>	Russia	98.61	50.19
UNIMILK UKRAINE	Ukraine	86.00	50.19
ALSAFI DANONE COMPANY	Saudi Arabia	50.10	50.10
DANONE ADRIATIC	Serbia	100.00	100.00
DANONE SPOL S.RO	Slovakia	100.00	100.00
DANONE	Slovenia	100.00	100.00
MAYO	South Africa	70.00	70.00
DANONE SOUTHERN AFRICA LTD	South Africa	100.00	100.00
DANONE KOREA	South Korea	100.00	100.00
DANONE S.A.	Spain	58.36	57.81
DANONE CANARIES (ILTESA)	Spain	83.51	48.27
DANONE AB	Sweden	100.00	100.00
PROVIVA AB	Sweden	51.00	51.00
LUNNARPS AB	Sweden	100.00	51.00
DANONE	Switzerland	100.00	100.00
DANONE DAIRY THAILAND	Thailand	100.00	100.00
DANONE TIKVESLI	Turkey	100.00	100.00
DANONE	Ukraine	100.00	50.94
DANONE DNIPRO (formerly RODICH)	Ukraine	100.00	50.94
DANONE LTD	United Kingdom	100.00	100.00
DANONE (FORT MASSIS)	Uruguay	100.00	100.00
DANNON COMPANY	USA	100.00	100.00
STONYFIELD FARM	USA	85.65	85.04
SWIRL CO	USA	99.77	99.77
YOCREAM	USA	100.00	99.77
DANONEBEL	Belarus	100.00	50.94

(1) The consolidated company consists of several legal entities.

			Percent
Main fully consolidated companies	Country	Group's control	Interest
<b>WATERS</b>			
DANONE TESSALA BOISSONS	Algeria	100.00	100.00
AGUAS DANONE DE ARGENTINA	Argentina	100.00	100.00
DANONE WATER BENELUX	Belgium	100.00	100.00
DANONE WATER BRESIL (formerly ICOARA)	Brazil	100.00	100.00
DANONE PREMIUM BRANDS	China	100.00	100.00
ROBUST DRINKING WATER <sup>(1)</sup>	China	92.00	92.00
ROBUST <sup>(1)</sup>	China	92.00	92.00
SHENZHEN HEALTH DRINKS <sup>(1)</sup>	China	100.00	100.00
AQUA D'OR	Denmark	90.00	90.00
SEAT (Société d'Exploitation d'Activités Touristiques) <sup>(2)</sup>	France	100.00	100.00
SA DES EAUX MINÉRALES D'ÉVIAN	France	100.00	100.00
VOLVIC	France	100.00	100.00
DANONE WATERS DEUTSCHLAND	Germany	100.00	100.00
DANONE NARANG BEVERAGES	India	51.00	51.00
AQUA (PT TIRTA INVESTAMA) <sup>(1)</sup>	Indonesia	74.00	74.00
DAMAVAND	Iran	69.98	70.00
AGA PUREZA <sup>(1)</sup>	Mexico	50.00	50.00
CGA	Mexico	100.00	100.00
BONAFONT	Mexico	100.00	100.00
ZYWIEC ZDROJ	Poland	100.00	100.00
WOMIR SPA	Poland	100.00	100.00
AGUAS FONT VELLA Y LANJARON	Spain	94.42	78.71
ÉVIAN VOLVIC SUISSE	Switzerland	99.67	100.00
DANONE HAYAT	Turkey	100.00	100.00
DANONE WATERS (UK & IRELAND)	United Kingdom	100.00	100.00
SALUS	Uruguay	94.11	94.11
DANONE WATERS OF AMERICA	USA	100.00	100.00

(1) The consolidated company consists of several legal entities

(2) SEAT operates the Evian casino. In that capacity, it is subject to the control of the French Ministry of the Interior and all regulations applicable to gaming activities in casinos.



Main fully consolidated companies	Country	Group's control	Percent Interest
<b>BABY NUTRITION</b>			
KASDORF SA	Argentina	100.00	100.00
NUTRICIA BAGO SA <sup>(1)</sup>	Argentina	51.00	51.00
NUTRICIA AUSTRALIA PTY LTD. <sup>(1)</sup>	Australia	100.00	100.00
MILUPA GMBH	Austria	100.00	100.00
N.V. NUTRICIA BELGIË <sup>(1)</sup>	Belgium	100.00	100.00
SUPPORT PRODUTOS NUTRICIONAIS LTDA. <sup>(1)</sup>	Brazil	100.00	100.00
INTERNATIONAL NUTRITION CO. LTD. SHANGHAI	China	100.00	100.00
DANONE BABY NUTRITION COLOMBIA	Colombia	100.00	100.00
NUTRICIA A.S. <sup>(1)</sup>	Czech Republic	100.00	100.00
NUTRICIA DEVA A.S.	Czech Republic	100.00	100.00
NUTRICIA BABY OY LTD	Finland	100.00	100.00
DANONE BABY NUTRITION AFRICA & OVERSEAS (formerly Heldinvest 4)	France	100.00	100.00
BLEDINA	France	100.00	100.00
MILUPA GMBH <sup>(1)</sup>	Germany	100.00	100.00
NUTRICIA GRUNDSTUCKSVERWALTUNG	Germany	100.00	100.00
CENTRAL LABORATORIES FRIEDRICHSDORF GMBH	Germany	100.00	100.00
NUMIL HELLAS S.A. <sup>(1)</sup>	Greece	100.00	100.00
DANONE BABY FOOD CO. (HK) LTD.	Hong Kong	100.00	100.00
NUMIL HUNGARY TÁPSZERKERESKEDELNI KFT. <sup>(1)</sup>	Hungary	100.00	100.00
PT NUTRICIA INDONESIA SEJAHTERA	Indonesia	100.00	100.00
PT SARI HUSADA	Indonesia	99.97	99.97
PT SUGIZINDO	Indonesia	100.00	99.97
MASHHAD MILK POWDER INDUSTRIES COMPANY	Iran	60.00	60.00
NUTRICIA IRELAND LTD. <sup>(1)</sup>	Ireland	100.00	100.00
DANONE FINANCIAL SERVICES SA	Switzerland	100.00	100.00
MELLIN S.P.A.	Italy	100.00	100.00
NUTRICIA KAZAKHSTAN LLP	Kazakhstan	100.00	100.00
NUTRITIA SIA AMAIJA LATVIA <sup>(1)</sup>	Latvia	100.00	100.00
UAB NUTRICIA BALTICS <sup>(1)</sup>	Lithuania	100.00	100.00
DUMEX (MALAYSIA) SDN. BHD.	Malaysia	100.00	100.00
DANONE BABY NUTRITION MEXICO, SA. DE CV.	Mexico	100.00	100.00
NUTRICIA EXPORT B.V.	Netherlands	100.00	100.00
NUTRICIA CUIJK B.V.	Netherlands	100.00	100.00
NUTRICIA NEDERLAND B.V. <sup>(1)</sup>	Netherlands	100.00	100.00
DANONE TRADING BV <sup>(1)</sup>	Netherlands	100.00	100.00
DANONE RESEARCH B.V.	Netherlands	100.00	100.00
NUTRICIA LTD. (NEW ZEALAND) <sup>(1)</sup>	New Zealand	100.00	100.00
NUTRICIA POLSKA SP. Z.O.O. <sup>(1)</sup>	Poland	100.00	50.00
NUTRICIA ZAKLADY PRODUKCYNE SP. Z.O.O.	Poland	99.96	49.98
MILUPA COMERCIAL S.A. <sup>(1)</sup>	Portugal	100.00	100.00
MILUPA S.R.L.	Romania	100.00	100.00
OJSC ISTRA NUTRICIA BABY FOOD	Russia	99.69	99.69
LLC NUTRICIA RUSSIA <sup>(1)</sup>	Russia	100.00	99.91
NUTRICIA SLOVAKIA S.R.O. <sup>(1)</sup>	Slovakia	100.00	100.00
NUMIL NUTRICIÓN S.R.L.	Spain	100.00	100.00
MILUPA S.A.	Switzerland	100.00	100.00
DUMEX LTD. THAILAND <sup>(1)</sup>	Thailand	98.91	98.91
NUMIL TURKEY TRY <sup>(1)</sup>	Turkey	100.00	100.00

			Percent
Main fully consolidated companies	Country	Group's control	Interest
NUTRICIA UKRAINE LLC	Ukraine	100.00	100.00
NUTRICIA LTD. <sup>(1)</sup>	United Kingdom	100.00	100.00
DANONE VIETNAM COMPAGNY LTD	Vietnam	100.00	100.00
<b>MEDICAL NUTRITION</b>			
ADVANCED MEDICAL NUTRITION	Argentina	100.00	100.00
NUTRICIA NAHRUNGSMITTEL GMBH & CO AG	Austria	100.00	100.00
NUTRICIA CANADA	Canada	100.00	100.00
NUTRICIA PHARMACEUTICAL COMPAGNY WUXI	China	100.00	100.00
NUTRICIA COLOMBIA LTDA	Colombia	100.00	100.00
NUTRICIA A/S	Denmark	100.00	100.00
NUTRICIA CLINICAL OY LTD.	Finland	100.00	100.00
NUTRICIA NUTRITION CLINIQUE S.A.S.	France	100.00	100.00
PFRIMMER NUTRICIA GMBH	Germany	100.00	100.00
NUTRICIA CLINICAL LIMITED	Hong Kong	100.00	100.00
NUTRICIA CLINICAL LIMITED Export	Hong Kong	100.00	100.00
PT NUTRICIA MEDICAL NUTRITION	Indonesia	100.00	100.00
NUTRICIA ITALIA S.P.A.	Italy	100.00	100.00
DANONE MEDICAL NUTRITION MEXICO S.A. DE C.V.	Mexico	100.00	100.00
GORDIA N	Netherlands	100.00	100.00
NV NUTRICIA	Netherlands	100.00	100.00
NUTRICIA NORGE AS	Norway	100.00	100.00
NUTRICIA SRL	Spain	100.00	100.00
NUTRICIA NORDICA AB	Sweden	100.00	100.00
NUTRICIA SA	Switzerland	100.00	100.00
SCIENTIFIC HOSPITAL SUPPLIES INTERNATIONAL LTD	United Kingdom	100.00	100.00
COMPLAN FOODS LIMITED	United Kingdom	100.00	100.00
NUTRICIA NORTH AMERICA INC.	USA	100.00	100.00

(1) *Belong to the Baby Nutrition and Medical Nutrition Divisions*



Main fully consolidated companies	Country	Group's control	Percent Interest
<b>HOLDING AND FINANCIAL COMPANIES</b>			
DANONE FINANCE INTERNATIONAL	Belgium	100.00	100.00
BIALIM BELGIQUE	Belgium	100.00	100.00
DANONE SERVICES BENELUX	Belgium	100.00	100.00
DANONE ASIA HOLDINGS (formerly FEDDIAN)	China	100.00	100.00
ASIA HOST	China	100.00	100.00
DANONE ASIA PACIFIC MANAGEMENT	China	100.00	100.00
DANONE DANEMARK	Denmark	100.00	100.00
INTERNATIONAL NUTRITION CO. LTD. A/S	Denmark	100.00	100.00
INC SHANGHAI (HOLDING) LTD. A/S COPENHAGEN	Denmark	100.00	100.00
DUMEX NUTRITION LTD. A/S	Denmark	100.00	100.00
NUTRICIA AMERICAS N.V.	Netherlands Antilles	100.00	100.00
CIE GERVAIS DANONE	France	100.00	100.00
PRODUITS LAITIERS FRAIS EST EUROPE	France	100.00	100.00
FIRMINVEST IG	France	100.00	100.00
DANONE RESEARCH	France	100.00	100.00
HOLDING INTERNATIONALE DE BOISSONS	France	100.00	100.00
DANONE BABY AND MEDICAL HOLDING	France	100.00	100.00
PRODUITS LAITIERS FRAIS NORD EUROPE	France	100.00	100.00
DANONE DAIRY ASIA	France	100.00	100.00
PRODUITS LAITIERS FRAIS SUD EUROPE	France	100.00	100.00
DANONE CORPORATE FINANCE SERVICES	France	100.00	100.00
DANONE DAIRY AMERICAS	France	100.00	100.00
DAN INVESTMENTS	France	100.00	100.00
DANONE PENSIONS MANAGEMENT	Germany	100.00	100.00
STONYFIELD EUROPE	Ireland	100.00	96.99
NUTRICIA INFANT NUTRITION LTD.	Ireland	100.00	100.00
DANONE RE	Luxembourg	100.00	100.00
PLF LICENSING SARL	Luxembourg	100.00	100.00
DANONE HOLDING DE MEXICO	Mexico	100.00	100.00
DANONE FINANCE NETHERLANDS	Netherlands	100.00	100.00
NUTRICIA POLAND B.V.	Netherlands	50.00	50.00
NUTRICIA INTERNATIONAL B.V.	Netherlands	100.00	100.00
DANONE BABY AND MEDICAL NUTRITION BV	Netherlands	100.00	100.00
DANONE MEDICAL NUTRITION INTERNATIONAL BV	Netherlands	100.00	100.00
DANONE MEDICAL NUTRITION HOLDING BV	Netherlands	100.00	100.00
DANONE BABY AND MEDICAL NUTRITION NEDERLAND BV	Netherlands	100.00	100.00
INFANT NUTRITION MANAGEMENT 1 BV	Netherlands	100.00	100.00
INFANT NUTRITION MANAGEMENT 2 BV	Netherlands	100.00	100.00
INFANT NUTRITION MANAGEMENT 3 BV	Netherlands	100.00	100.00
WINSTON HOLDINGS	Singapore	100.00	100.00
INTERNATIONAL NUTRITION CO PTE. LTD.	Singapore	100.00	100.00
MYEN	Singapore	100.00	100.00
CALVON	Singapore	100.00	100.00
DANONE PROBIOTICS	Singapore	100.00	100.00
DANONE DAIRY INVESTMENTS INDONESIA	Singapore	100.00	100.00
DANONE ASIA	Singapore	100.00	100.00
PLF IBERIA	Spain	100.00	100.00
WATER LATAM	Spain	100.00	100.00

Main fully consolidated companies	Country	Group's control	Percent
			Interest
DAIRY LATAM	Spain	100.00	100.00
DANONE HOLDINGS UK (EUR)	United Kingdom	100.00	100.00
NUTRICIA (COW & GATE, MILUPA) HOLDINGS LTD.	United Kingdom	100.00	100.00
UK HOLDINGS CAP LTD.	United Kingdom	100.00	100.00
DANONE WATER HOLDINGS INC.	USA	100.00	100.00
DANONE FOODS	USA	100.00	100.00
DANONE HOLDINGS	USA	100.00	100.00
DANONE MEDICAL NUTRITION NORTH AMERICA, INC	USA	100.00	100.00

### Companies consolidated as associates

Main fully consolidated companies	Country	Group's control	Percent
			Interest
<b>FRESH DAIRY PRODUCTS</b>			
DANONE MURRAY GOULBURN PTY LIMITED	Australia	50.00	50.00
GRAMEEN DANONE FOODS	Bangladesh	21.43	21.43
MICROPHARMA LIMITED	Canada	26.85	26.85
YAKULT DANONE INDIA	India	50.00	50.00
GLENISK	Ireland	36.90	35.79
STRAUSS DAIRY	Israel	20.00	20.00
YAKULT HONSHA	Japan	20.02	20.02
CENTRALE LAITIÈRE	Morocco	84.32	30.71
TOECA INTERNATIONAL COMPANY	Netherlands	49.00	49.00
DANONE LOGISTICS ROMANIA ME	Romania	50.00	50.00
STIAL/SOCOGES	Tunisia	50.00	50.00
YAKULT VIETNAM	Vietnam	20.00	20.00
<b>WATERS</b>			
SOTHERMA	Morocco	29.99	29.99
KIRIN MC DANONE WATERS	Japan	25.00	25.00
NARANG ACCESS	India	29.99	29.99
<b>BISCUITS</b>			
BAGLEY LATINO AMERICA	Argentina	49.00	49.00



## 4.2 Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of Danone;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2011 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention on the Notes 1.1 and 2 to the consolidated financial statements which describe the change of accounting treatment regarding the accounting of defined benefit plans and other long-term benefits granted to employees.

### II. Justification of assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Your company is committed to acquiring the shares held by shareholders of certain consolidated subsidiaries, should the latter wish to exercise their put options. In the absence of any specific provision under IFRS on this subject, we have verified that the accounting treatment applied and described in the Note 1.20 to the consolidated financial statements was compliant with the principles of IFRS as adopted by the European Union, applicable to date.

We also reviewed the methods adopted by your company for the valuation of the debt recorded in connection with these put options based on the information available to date. We have verified that the Note 23 to the consolidated financial statements contains appropriate information on these put options and the assumptions used by your Company.

- Your company performed at the closing date an impairment test on assets with an indefinite useful life, and also assessed whether there was any indication of impairment of other long-term assets according to the conditions described in the Notes 1.5 and 1.6 to the consolidated financial statements. We have reviewed the conditions of implementation of this impairment test and of indication of impaired value, and verified that the Notes 12 and 13 to the consolidated financial statements give appropriate information, in particular in relation to sensitivity analysis.

As indicated in the Note 1.2 to the consolidated financial statements, this impairment test is based on estimates that are by nature uncertain, and the realization of which is likely to postpone, possibly in a significant way, forward-looking data that is used, notably in a context of economic and financial volatility.



- As mentioned in the first part of this report, the Note 1.1 to the consolidated financial statements describes the change of accounting treatment applied this year relating to the accounting of defined benefit plans and other long-term benefits granted to employees. In accordance to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, balance sheet corresponding information presented has been restated to take into account retrospectively the application of this new treatment. Consequently, corresponding information differs from the consolidated financial statements published for the year 2010. As part of our assessment of accounting principles applied by your company, we have reviewed the proper restatement of the consolidated financial statements for the year 2010 and related information provided in the Notes 1.1 and 2 to the consolidated financial statements.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris-La Défense, March 19, 2012

#### The Statutory Auditors

##### Ernst & Young et Autres

Jeanne BOILLET

Gilles COHEN

##### PricewaterhouseCoopers Audit

Étienne BORIS

Philippe VOGT

### 4.3 Fees paid by the Group to the Statutory Auditors and members of their network

The table below presents the fees net of tax paid to the Statutory Auditors for their services rendered in 2010 and 2011:

	PricewaterhouseCoopers				Ernst & Young et Autres			
	Fees 2011		Fees 2010		Fees 2011		Fees 2010	
	(in € million)	(in percentage)	(in € million)	(in percentage)	(in € million)	(in percentage)	(in € million)	(in percentage)
<b>Audit</b>								
<b>Statutory audits, certifications and review of individual and consolidated financial statements</b>	<b>4.6</b>	<b>76%</b>	<b>3.9</b>	<b>56%</b>	<b>3.3</b>	<b>94%</b>	<b>2.7</b>	<b>90%</b>
<i>Danone SA</i>	0.8	13%	0,7	10%	0.5	14 %	0.5	17%
<i>Fully consolidated subsidiaries</i>	3.8	63%	3.2	46%	2.8	80%	2.2	73%
<b>Other services directly related to the audit <sup>(1)</sup></b>	<b>0.6</b>	<b>10%</b>	<b>2.5</b>	<b>25%</b>	<b>0.1</b>	<b>3%</b>	<b>0.2</b>	<b>7%</b>
<i>Danone SA</i>	0.2	4%	1.7	25%	0.1	3 %	0.0	0%
<i>Fully consolidated subsidiaries</i>	0.3	6%	0.8	10%	0.0	0 %	0.2	7%
<b>Audit</b>	<b>5.2</b>	<b>86%</b>	<b>6.4</b>	<b>81%</b>	<b>3.4</b>	<b>97%</b>	<b>2.9</b>	<b>97%</b>
<b>Other services provided by the Auditors Networks to the fully consolidated subsidiaries</b>								
Legal, Tax, social	0.5 <sup>(2)</sup>	8%	0.6	9%	0.1	3%	0.1	3%
Other	0.4 <sup>(3)</sup>	6%	0.0	0%	0.0	0 %	0.0	0%
<b>Other services</b>	<b>0.9</b>	<b>14%</b>	<b>0.6</b>	<b>9%</b>	<b>0.1</b>	<b>3%</b>	<b>0.1</b>	<b>3%</b>
<b>Total</b>	<b>6.1</b>	<b>100%</b>	<b>7.0</b>	<b>100%</b>	<b>3.5</b>	<b>100%</b>	<b>2.9</b>	<b>100%</b>

(1) Services provided in 2011 include due diligences related to the Statutory Auditors engagements performed during the acquisition of entities for € 0.3 million (PricewaterhouseCoopers). In 2010, these services included due diligence as well for € 0.15 million (Ernst & Young) and € 1.9 million (PricewaterhouseCoopers).

(2) This amount is related to tax services only provided by the Network to some foreign Group subsidiaries. These service are mainly related to the issuance of tax certifications as required by local authorities (Turkey and Mexico) as well as the review of technical tax positions adopted by some foreign subsidiaries.

(3) This amount includes mainly a service of assistance and training on non financial fields provided in 2011 by the Network to some Russian Group subsidiaries in the context of Unimilk integration process within Danone Group.



# Financial statements of the parent company Danone and other corporate documents

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## 5.1 Financial statements of the parent company Danone

### Income statement

<i>(in € millions)</i>	Notes	Year ended December 31	
		2010	2011
Net sales		347	417
Other income		1	1
<b>Total operating income</b>	<b>10</b>	<b>348</b>	<b>418</b>
Personnel costs	12	(183)	(302)
Other operating expenses		(307)	(302)
<b>Total operating expenses</b>	<b>11</b>	<b>(490)</b>	<b>(604)</b>
<b>Net operating expenses</b>		<b>(142)</b>	<b>(186)</b>
Income from equity interests	13	925	921
Interest and similar income		21	56
Interest and similar expenses		(231)	(268)
Other financial income (expenses)		143	7
<b>Net financial income</b>	<b>13</b>	<b>858</b>	<b>716</b>
<b>Income before non-recurring items and tax</b>		<b>716</b>	<b>530</b>
<b>Net non-recurring income (expenses)</b>	<b>14</b>	<b>67</b>	<b>(8)</b>
Income tax	15	127	109
<b>Net income</b>		<b>910</b>	<b>631</b>

## Balance sheet

### Assets

As of December 31					
		2010	2011		
(in € millions)	Notes	Net amount	Gross amount	Depreciation, amortization and provisions	Net amount
Intangible assets		21	55	(33)	22
Tangible assets		6	25	(18)	7
Equity interests		17,270	17,045	(25)	17,020
Other long-term financial assets		1,963	2,632	-	2,632
<b>Financial assets</b>	<b>3</b>	<b>19,233</b>	<b>19,677</b>	<b>(25)</b>	<b>19,652</b>
<b>Non-current assets</b>		<b>19,260</b>	<b>19,757</b>	<b>(76)</b>	<b>19,681</b>
Receivables	4	140	150	-	150
Marketable securities	5	513	383	-	383
Cash and cash equivalents					
<b>Current assets</b>		<b>653</b>	<b>533</b>	<b>-</b>	<b>534</b>
Deferrals and prepaid expenses		66	95	-	95
<b>Total assets</b>		<b>19,979</b>	<b>20,385</b>	<b>(76)</b>	<b>20,309</b>

### Equity and liabilities

As of December 31				
		2010	2011	
(in € millions)	Notes	(After allocation)	(Before allocation)	(After allocation)
Share capital		162	161	161
Additional paid-in capital		3,424	3,249	3,249
Revaluation reserve		4	4	4
Reserves		3,781	3,781	3,781
Retained earnings		3,812	3,864	3,602
Net income for the year		-	631	-
Regulated provisions				
<b>Equity</b>	<b>6</b>	<b>11,183</b>	<b>11,690</b>	<b>10,797</b>
Provisions for risks and liabilities	7	-	96	96
Bonds	8	3,281	3,218	3,218
Other financial debt	8	2,680	2,859	2,859
Other liabilities	9	2,806	2,397	3,290
Deferrals and accrued expenses		29	49	49
<b>Total equity and liabilities</b>		<b>19,979</b>	<b>20,309</b>	<b>20,309</b>

(1) Subject to an allocation approval which will be submitted to shareholders' vote during Shareholder's General Meeting of April 26, 2012.

## 5.2 Notes to the financial statements of the parent company Danone

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## Note 1 Highlights of the year

Since October 2009, Danone has no longer granted stock-options to certain employees and corporate officers of the Company and its subsidiaries and in their place grants shares subject to performance conditions.

In order to satisfy its legal obligations, Danone holds treasury shares specifically allocated to hedge stock-option plans and performance share plans. The intention is that these treasury shares will be gradually put back into circulation on the market as and when beneficiaries exercise stock-options until the expiry of the plans still in force, i.e. until October 2017, and as and when performance shares are granted.

In order to limit the dilutive effect on earnings per share, Danone decided to hedge part of these stock-options by the acquisition of DANONE call options, as a substitute for the treasury shares held. During the last quarter of 2011, Danone thus acquired 6.6 million DANONE call options for a total of € 108 million in order to hedge a portion of the 12.6 million stock-options not yet exercised. These

DANONE call options have the same characteristics as the stock-options hedged (i.e. the same exercise price and maturity).

The 6.6 million treasury shares held until then to hedge stock-options were cancelled on December 13, 2011 following agreement from the Company's Board of Directors.

Danone also allocated 1.2 million of its treasury shares to hedge performance share allocation plans.

In accordance with Regulation 2008-15 of the French Accounting Regulation Committee (*Comité de la réglementation comptable – CRC*), Danone recognized a provision for risks and liabilities in respect of the stock-option plans and performance share allocation plans. The portion of the provision in respect of the stock-option plans relates only to the plans hedged by DANONE call options since the plans hedged by treasury shares have exercise prices systematically higher than the acquisition cost of the treasury shares held as hedge.

As of December 31, 2011, this provision for risks and liabilities totaled € 95 million since the rights vesting period had expired in the case of the majority of the plans hedged by DANONE call options.

## Note 2 Accounting principles

The Company's financial statements are prepared in accordance with French statutory and regulatory provisions and generally accepted accounting principles.

The main methods used are detailed below.

### Tangible and intangible assets

Tangible and intangible assets are valued at acquisition cost (including acquisition-related costs) and are amortized or depreciated on a straight-line basis according to their estimated use duration as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other tangible assets	4 to 10 years
Software	1 to 3 years

### Financial assets

These are comprised of equity interests, the long-term possession of which is deemed to be useful for the Company's activity, notably because it enables the Company to exercise an influence on or control over the issuing company. Investments that do not meet this definition are classified as other long-term financial assets.

Equity interests are recognized at acquisition cost, including acquisition-related costs, which are amortized over five years as of

the date of acquisition. For tax purposes, these assets are subject to accelerated tax amortization rates. An impairment provision is recognized when the recoverable amount of equity interests falls below their carrying amount on a permanent basis. Recoverable amount is determined using various criteria including market value, value in use based on expected discounted cash flows and revalued equity. The assumptions, estimates or appraisals used to determine the net realizable value are made on the basis of available information and conditions at the end of the financial

period presented. Actual amounts may differ from these estimates, particularly in an economically and financially volatile context.

Impairment provisions are recognized as other financial income (expenses), with the exception of reversals of impairments in connection with investment disposals, which are recognized as non-recurring items. Gains or losses on the disposals of equity interests are recognized as non-recurring income (expenses).

Other long-term financial assets include the DANONE shares held in connection with the authorizations given by the Shareholders' General Meeting.

### DANONE treasury shares and DANONE call options

Repurchased DANONE shares are recognized at acquisition cost, excluding acquisition-related costs.

Repurchased DANONE shares are recognized as financial assets (when repurchased to be cancelled or in connection with corporate acquisitions) or as marketable securities (when repurchased to provide the shares required under stock-option plans or performance share allocation plans).

On disposal, the cost of the DANONE shares sold is calculated by allocation category in accordance with the weighted average cost method, this cost being calculated individually for each plan for the shares held to hedge stock-option plans or performance share allocation plans.

In the case of shares recognized as financial assets that are not to be cancelled, an impairment provision is recorded when their recoverable amount (assessed at the average price for the last month of the fiscal year) falls below their carrying amount.

In the case of treasury shares allocated to plans that cannot be exercised (the market value of DANONE shares is less than the option exercise price in the case of the stock-option plans or it is probable that the performance conditions will not be met in the case of the performance share allocation plans), a provision for impairment is recognized when the recoverable amount of the shares (assessed at the average price for the last month of the fiscal year) is less than their carrying amount.

In the case of treasury shares allocated to plans that can be exercised (the market value of DANONE shares exceeds the option exercise price in the case of the stock-option plans or it is probable that the performance conditions will be met in the case of the performance share allocation plans), a provision for impairment is not recognized since a provision for risks and liabilities is recognized in respect of these plans.

This provision for risks and liabilities corresponds:

- in the case of stock-option plans, to the difference between the portfolio value of the shares allocated to these plans and the exercise price set under the terms of the plan if lower;
- in the case of performance share allocation plans, to the portfolio value of the shares allocated to said plans.

The provision is booked pro rata to the rights vesting period. It is recognized in personnel costs in the income statement.

The DANONE call options ("calls") are allocated in full to hedge stock-option plans. The premiums paid in respect of these options are recognized in marketable securities.

In the case of call options allocated to plans that cannot be exercised (the market value of DANONE shares is less than the option exercise price set under the terms of the plan), a provision for impairment is recognized when the recoverable amount of the call options is less than their carrying amount.

In the case of call options allocated to plans that can be exercised (the market value of DANONE shares exceeds the option exercise price set under the terms of the plan), a provision for impairment is not recognized: a provision for risks and liabilities is recognized in respect of these plans.

This provision corresponds to the difference between the exercise price set under the terms of the stock-option plan as of December 31 and the premium paid plus the forward price of the share.

The provision is booked pro rata to the rights vesting period. It is recognized in personnel costs in the income statement.

### Receivables

Receivables are stated at their nominal value. An impairment provision is recorded when the recoverable amount is less than the carrying amount.

### Transactions in foreign currencies

Expenses and income in foreign currencies are recorded at their exchange value in euros at the date of the transaction. Liabilities, receivables and cash denominated in foreign currencies are recorded in the balance sheet at their exchange value in euros at the year-end rate. The differences resulting from the translation of foreign currency liabilities and receivables at this latter rate are recorded in the balance sheet in the line items "Deferrals and prepaid expenses" and "Deferrals and accrued expenses." A provision for risk is recognized for non-hedged unrealized exchange losses.

### Marketable securities

The gross value of marketable securities corresponds to the acquisition cost excluding acquisition-related costs. When the market value of each category of securities of the same nature is lower than the acquisition cost, a provision for impairment is recognized equal to the difference. Please refer to Section DANONE treasury shares and DANONE call options for further information about treasury shares and DANONE call options reclassified as marketable securities.



## Bonds

Bonds constitute amounts borrowed by Danone under the terms of its EMTN (Euro medium Term Note) program from the debt and capital markets through public issuances and private placements, denominated in euros or foreign currencies. Bonds denominated in foreign currencies may be maintained in those currencies or swapped into euros. Bonds are recognized at their nominal value. Foreign currency bonds that are not swapped are translated at the closing exchange rate whereas foreign currency bonds that have been swapped continue to be translated at their historical exchange rate.

## Derivatives

Danone hedges part of its bonds denominated in foreign currencies by cross-currency swaps. For each bond hedged, Danone applies hedge accounting, which involves recognizing at the historical rate (hedged rate resulting from the implementation of the cross-currency swap) the interest relating to the bond and the cross-currency swap. Since Danone is not ultimately exposed to foreign exchange risk on repayment of the bonds, said bonds

are not revalued at the closing rate. Conversely, unhedged bonds are revalued at the closing rate at each balance sheet date.

In addition, Danone Corporate Finance Services, a wholly-owned subsidiary, also carries out interest rate hedging transactions in respect of certain borrowings and commercial paper held by Danone SA.

## Provisions for risks and charges

Provisions are recognized for identified risks and liabilities of uncertain timing or amount, when the Company has an obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Company.

Please refer to Section DANONE treasury shares and DANONE call options for further information about provisions against stock-option plans and performance share allocation plans.

## Retirement commitments

Supplementary retirement commitments and gratuity payments borne by the Company are included in off-balance sheet commitments.

## Note 3

## Financial assets

<i>(in € millions)</i>	As of December 31, 2010	Increases	Decreases	Reclassifications	As of December 31, 2011
Equity interests	17,300	6	(261)	-	17,045
Loans	1,241	327	(236)	-	1,332
Treasury shares	716	610	(210)	179	1,295
Other	6	-	(1)	-	5
Provisions	(30)	-	5	-	(25)
<b>Total (net)</b>	<b>19,233</b>	<b>943</b>	<b>(703)</b>	<b>179</b>	<b>19,652</b>

Detailed information about equity interests is provided in Note 20 on securities held in portfolio as of December 31, 2011.

The € 6 million increase in equity interests resulted from Dan investment's capital increase.

The decrease in equity interests was due mainly to the capital reductions of Danone Singapore Holdings and Danone Asia totaling € 51 million and € 210 million respectively.

The change in loans was due mainly to:

- new yen loans to Danone Finance International totaling JPY 32 billion (€ 283 million) and a JPY 13 billion (€ 101 million) repayment of a yen loan to Danone Finance International;
- repayments of euro loans to Danone Belgium, Danone Poland, and Zywiec Zdroj Pologne totaling € 111 million.



The yen loans outstanding as of December 31, 2011 are translated at the closing rate which generated translation differences as shown in the following table:

Nominal value in foreign currency (in JPY millions)	Historical cost (in € millions)	Translation difference arising as of December 31, 2011 (in € millions)	Carrying amount as of December 31, 2011 (in € millions)
43,000	381	48	429

The change in the treasury shares held by the Company corresponds to the repurchase of € 610 million of treasury shares under the terms of the authorization given by the Shareholders' General Meeting of April 28, 2011, the reclassification as marketable securities of € 11 million of treasury

shares hedging performance share allocation plans, the transfer of 6,238,516 shares from marketable securities with a view to their cancellation and the cancellation of 6,614,427 shares for € 210 million under the terms of the December 13, 2011 capital reduction.

## Note 4 Receivables

This item includes mainly € 82 million of receivables (due within less than one year) owed by the Company's subsidiaries and equity interests.

## Note 5 Marketable securities

This item comprises 7,116,335 treasury shares hedging stock-option plans (€ 223 million) and performance share allocation plans (€ 42 million), premiums paid for the acquisition of DANONE call options ("calls": € 98 million) and investments made by the Company in the danone.communities fund (€ 20 million). danone.communities is an open-ended investment company, the aim of which is to finance certain social projects through an investment with a return that is very close to the money-market rate.

The change in the value of marketable securities corresponds to:

- the € 12 million reclassification from financial assets in respect of the treasury shares reallocated to hedge performance share plans;
- a € 50 million reduction in treasury shares following the exercise of stock-options by beneficiaries;
- the transfer to financial assets of 6,238,516 shares (€ 190 million) with a view to their cancellation under the terms of the December 13, 2011 capital reduction;
- premiums paid (€ 98 million) on DANONE call options.

## Note 6 Equity

<i>(in € millions except for number of shares)</i>	As of December 31, 2010 (After allocation)	Movements during the year			As of December 31, 2011 (Before allocation)
		Net income	Capital reduction	Other movements	
Issued capital	162	-	(2)	1	161
As number of shares	647,921,840	-	(6,614,427)	939,160	642,246,573
Additional paid-in capital	3,424	-	(208)	33	3,249
Legal reserve	16	-	-	-	16
Other reserves	3,769	-	-	-	3,769
Retained earnings	3,812	-	-	52	3,864
Net income for the year	-	631	-	-	631
Regulated provisions	-	-	-	-	-
<b>Total equity</b>	<b>11,183</b>	<b>631</b>	<b>(210)</b>	<b>86</b>	<b>11,690</b>

On December 13, 2011 the Company's capital was reduced by 6,614,427 shares by the cancellation of shares resulting in a € 2 million reduction in the issued capital and a € 208 million reduction in additional paid-in capital.

The other movements comprise mainly the creation on May 5, 2011 of 939,160 new shares under the terms of the employee

share ownership plan, resulting in an increase in issued capital (€ 1 million) and in additional paid-in capital (€ 33 million) and the allocation of the dividend in respect of the treasury shares to retained earnings (€ 52 million).

As of December 31, 2011, the Company's issued capital consisted of 642,246,573 ordinary shares with a par value of € 0.25.

## Note 7 Provisions for risks and liabilities

Provisions for risks and liabilities totaled € 96 million as of December 31, 2011. They comprised mainly the provision recognized during the period in respect of stock-option plans hedged by DANONE call options and performance share

allocation plans, which totaled € 95 million as of December 31, 2011. This provision was recognized in personnel costs in the income statement.

## Note 8 Bonds and other financial debt

As of December 31, 2011, bonds totaled € 3,218 million compared with € 3,281 million as of December 31, 2010.

Of this total, € 2,714 million was at fixed rates and € 504 million was at variable rates.

In addition, a certain number of these bonds are denominated in foreign currencies: if these bonds have been swapped into euros, they are stated at historical cost in Danone SA's financial statements as shown in the following table:

Currency	Nominal value in foreign currency <i>(in currency millions)</i>	Historical cost <i>(in € millions)</i>
Czech koruna	1,188	47
Yen	23,900	146
Swiss franc	425	261

If these bonds have not been swapped, they are translated at the closing rate; these comprise yen bonds as shown below:

Currency	Nominal value in foreign currency (in currency millions)	Historical cost (in € millions)	Translation difference arising as of December 31, 2011 (in € millions)	Carrying amount as of December 31, 2011 (in € millions)
Yen	43,000	381	48	429

Other financial debt consisted mainly of a € 2 billion medium-term fixed-rate loan from Danone Finance International and commercial paper with a nominal value of € 852 million.

Of these bonds and other financial debt, € 1,095 million matures in less than one year, € 4,053 million in one to five years, and € 929 million in more than five years.

## Note 9 Other liabilities

As of December 31, 2011, this item consisted primarily of the Company's liabilities to subsidiaries and equity interests, including a € 2.2 billion short-term intercompany advance from Danone

Finance International. In the balance sheet after allocation, this item also included the € 893 million dividend to be paid in respect of fiscal year 2011.

It also comprised trade payables, which may be analyzed by due date as follows:

(in € millions)	Outstandings	< or equal to 30 days	Between 31 and 60 days	> 60 days
As of December 31, 2011	19.6	11.9	7.3	–

It also comprised the following accrued charges:

(in € millions)	As of December 31	
	2010	2011
Services provided	59	55
Personnel costs	64	72
Social charges	11	12
Tax liabilities	3	2
Financial liabilities	2	3
<b>Total</b>	<b>139</b>	<b>144</b>

The majority of other liabilities have a maturity of less than one year.

## Note 10 Operating income

Operating income mainly comprises the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries. It totaled € 418 million for the year ended December 31, 2011, compared with € 348 million for the year ended December 31, 2010.

This increase was due mainly to the billing of support services provided by Danone to Compagnie Gervais Danone totaling € 43 million, of which € 24 million related to the 2011 fiscal year and € 19 million related to the 2010 fiscal year. These services will, in future, be recognized on the basis of the services provided in the fiscal year concerned.

## Note 11 Operating expenses

Operating expenses mainly include personnel costs, rental charges, and fees paid to external service providers, and totaled € 604 million for the year ended December 31, 2011, compared

with € 490 million for the year ended December 31, 2010. This increase was due mainly to personnel costs (see Note 12).

## Note 12 Compensation and personnel

### Compensation of employees

Gross employee compensation and the related social charges totaled € 303 million in 2011 (€ 183 million in 2010).

The € 120 million increase was due mainly to the recognition of the provision in respect of the stock-option plans and performance share allocation plans totaling € 95 million, as described in Section Highlights of the year and in Note 7.

### Compensation of members of management bodies and of the board of directors

The compensation of members of management bodies amounted to € 13.9 million in 2011.

The attendance fees paid to Directors amounted to € 0.4 million, gross, in 2011 and are recorded in the line item "Other operating expenses."

### Average number of employees during the fiscal year

	2010		2011	
	(number)	(percentage)	(number)	(percentage)
Executives	542	79	575	80
Supervisors and technicians	111	16	112	15
Clerical staff	37	5	38	5
<b>Total</b>	<b>690</b>	<b>100</b>	<b>725</b>	<b>100</b>

## Note 13 Net financial income

Financial income mainly comprises the dividends received from the Company's equity interests. In 2011, these dividends amounted to € 921 million as against € 925 million in 2010.

Financial expenses include primarily interest payments of:

- € 109 million on short- and medium-term loans from Danone Finance International;

- € 141 million on bonds;
- € 18 million on commercial paper.

In 2010, other financial income (expenses) consisted mainly of a € 144 million merger surplus following the global transfer of the assets and liabilities of Danone Finance to Danone on December 1, 2010.

## Note 14 Net non-recurring income (expense)

In 2011, the net non-recurring expense of € 8 million consisted mainly of an expense of € 12 million resulting from the regularization of the 2010 tax group following the decision to cap the share of the expenses and charges on the dividends received by Produits Laitiers Frais Nord Europe and Produits Laitiers Frais Sud Europe.

In 2010, net non-recurring income consisted mainly of € 42 million resulting from the recognition of a receivable arising from the carry back of prior year tax losses and of € 23 million relating to the write-back of accelerated tax amortization recognized in respect of the acquisition costs of Danone Baby and Medical Nutrition BV.

## Note 15 Income tax

### Tax group

Danone forms a tax group with the French subsidiaries in which it holds, directly or indirectly, a stake of more than 95%. Within the tax group, the subsidiaries and pay their tax to Danone as if they were taxed separately in compliance with the rules set by the French tax authorities. The saving (or additional charge) - based

on the difference between the sum of tax charges recorded by the different subsidiaries of the tax group and the tax charge resulting from the computation of the consolidated tax results of the tax group - is recognized in Danone's profit and loss statement in the "income taxes" line . The amount booked in this line for 2011 exclusively relates to this difference.

The companies belonging to the tax group in 2011 were:

Danone	Danone Corporate Finance Services
Arcil	Holding Internationale de Boissons
Blédina	Menervag
Celaco	Danone Baby and Medical Holding
Compagnie Gervais Danone	Heldinvest 3
Danone Produits Frais France	Produits Laitiers Frais Est Europe
Danone Dairy Asia	Produits Laitiers Frais Nord Europe
Danone Baby Nutrition Africa et Overseas	Produits Laitiers Frais Sud Europe
Danone Research	Société Anonyme des Eaux Minérales d'Evian
Dan Investment	Société des Eaux de Volvic
Et Votre Corps Sourit	Step St Just
DanSource	Stonyfield France
Health at Work	Nutricia France
Nutricia Nutrition Clinique sas	Ferminvest

As of December 31, 2011, tax loss carry-forwards generated within the tax group in France amounted to € 819 million, compared to € 539 million as of December 31, 2010.

Items likely to result in a reduction of future tax liabilities consist mainly of accrued charges. They totaled € 16.6 million and would therefore have an impact of € 5.7 million on future tax charges.

In accordance with the provisions of Article 39.4 of the French Tax Code (*Code Général des Impôts – CGI*), € 473,131 in respect of car depreciation and rental was disallowed for tax purposes in 2011.

The application of Article 39.5 of the CGI did not result in any amounts being disallowed for tax purposes.

## Note 16 Financial situation and net debt

As of December 31, 2011, the Company's net debt totaled approximately € 8.2 billion, corresponding to € 8.2 billion of financial debt. Net debt increased by € 0.5 billion during the 2011

fiscal year, due mainly to the € 0.4 billion increase in a short-term loan from Danone Finance and commercial paper.

## Note 17 Off-balance sheet commitments

The Company or certain of its direct or indirect subsidiaries have undertaken to acquire the shares held by third-party shareholders in certain companies in which the Company has a direct or indirect stake, should such shareholders wish to exercise their put options. The exercise price of these options is generally based on the profitability and financial position of the company concerned at the exercise date of the put option. As of December 31, 2011, the financial commitments given by the Company and all of its consolidated subsidiaries were estimated at € 3.6 billion. No significant cash outflow is considered probable in the short term in respect of these options.

As of December 31, 2011, rental commitments and commitments relating to purchases of services amounted to € 87.6 million and € 26.7 million, respectively.

Gross commitments relating to guaranteed supplementary retirement benefits, valued using the actuarial method, amounted to approximately € 321 million as of December 31, 2011 and € 116 million after taking into account the funds' available assets, compared with a net commitment of € 95 million as of

December 31, 2010. The € 21 million increase is attributable primarily to the fall in interest rates used for the actuarial calculations. More specifically, as regards the retirement plan reserved for certain Group executives, the Company's net commitment amounted to € 102 million, i.e. a gross commitment of € 285 million and available assets of the fund totaling € 183 million. In addition, as of December 31, 2011, the total commitment by the Company in respect of corporate officers' (*mandataires sociaux*) and Executive Committee members' retirement benefits amounted to € 47.8 million.

In addition, indemnification payments to members of the Executive Committee in certain cases where they cease their terms of office or functions were set at twice the annual gross compensation (fixed, variable, and in-kind) they received over the 12 months preceding the date on which they cease their functions and, in the case of the Company's three corporate officers, the Board of Directors decided on February 14, 2012 that the payment of these indemnities would be subject to the achievement of certain performance objectives.

The Company implemented cross currency swaps to hedge its bonds denominated in foreign currencies; the currency swaps portfolio as of December 31, 2011 broke down as follows:

	Notional amount in currency (in currency millions)	Notional amount in euros (in € millions)
EUR/CHF	425	260,7
EUR/CZK	1,394	47,3
EUR/JPY	23,900	145,9

Commitments received by the Company concern € 5 billion in available committed credit facilities.

Finally, Danone acted as joint and several guarantor for its subsidiary Danone Finance International in respect of the syndicated credit facility totaling € 2 billion.

The Company and certain of its subsidiaries are parties to a variety of legal and arbitration proceedings arising in the ordinary course of business. Some of these proceedings involve claims for damages, and liabilities are provided for when a loss is probable and can be reliably estimated.

## Note 18 Related party transactions

	As of December 31	
<i>(in € millions)</i>	2010	2011
Other receivables	103	85
Other liabilities	1,801	2,220
Financial liabilities	2,007	2,007
Operating income	337	390
Financial income	943	959
<b>Total income</b>	<b>1,280</b>	<b>1,349</b>
Operating expenses	(80)	(68)
Financial expenses	(95)	(109)
<b>Total expenses</b>	<b>(175)</b>	<b>(177)</b>

## Note 19 Subsidiaries and affiliates as of December 31, 2011

<i>(in € millions)</i>	Capital <sup>(1)</sup>	Other shareholders' equity <sup>(1)(3)</sup>	Percentage of capital held (as %)	Carrying amount of shares held		Maximum authorized amount of guarantees and endorsements given by the Company	Sales for last fiscal year <sup>(2)</sup>	Income (or loss) for last fiscal year <sup>(2)</sup>	Dividends received by the Company during the fiscal year
				Gross	Net				
<b>Subsidiaries (at least 50% of the share capital held by the Company)</b>									
<b>French holdings</b>									
Danone Corporate Service	142	51	100	179	179	500		(6)	
Compagnie Gervais Danone	843	1,585	100	473	473			543	803
Danone Baby and Medical Holding	12,369	15	100	12,366	12,366			67	31
Dan investment	6		100	6					
Holding Internationale de Boissons	174	847	100	966	966			37	
<b>Foreign holdings</b>									
Danone Singapore Holdings	136	24	61	108	108				
Danone Asia	458	(106)	72	441	441			130	
Danone Services Benelux	181	272	100	400	400			5	
Danone Finance Netherlands	8	35	100	94	68				
Danone Finance International	965	4,924	33	2,013	2,013	2,000		224	88
<b>Affiliates (at least 10% to 50% of the capital held by the Company)</b>									
None									

(1) The amounts relating to foreign companies are translated at the year-end rate.

(2) The amounts relating to foreign companies are translated at the average rate for the year.

(3) Excluding results for the year.



**Note 20** Securities held in portfolio as of December 31, 2011

<i>(in € millions except number of shares)</i>	As of December 31, 2011	
	Number of shares	Carrying amount
<b>French holdings</b>		
Danone Corporate Finance Service	8,874,994	179
Compagnie Gervais Danone	33,440,074	473
Danone Baby and Medical Holding	12,369,171,277	12,366
Dan investment	300,000	6
Holding Internationale de Boissons	86,768,722	966
<b>Total French holdings</b>		<b>13,990</b>
<b>Foreign holdings</b>		
Danone Singapore Holdings	144,830,596	108
Danone Asia	701,114,726	441
Danone Services Benelux	72,464	400
Danone Finance Netherlands	800,000	68
Danone Finance International	4,034,154	2,013
<b>Total foreign holdings</b>		<b>3,030</b>
<b>Total equity interests</b>		<b>17,020</b>
<b>Long-term investments and other long-term financial assets</b>		
Treasury shares	28,709,125	1,295
<b>Total long-term investments and other long-term financial assets</b>		<b>1,295</b>
<b>Total</b>		<b>18,315</b>



## Note 21

## Results and other significant information relating to the last five years

	2007 <sup>(2)</sup>	2008	2009	2010	2011
<b>Capital at balance sheet date</b>					
Issued capital (in €)	128,212,865	128,450,536	161,747,713 <sup>(1)</sup>	161,980,460	160,561,643
Number of shares issued	512,851,460	513,802,144	646,990,850 <sup>(1)</sup>	647,921,840	642,246,573
<b>Operations and results for the year (in € millions)</b>					
Net sales	290	305	294	347	417
Income before taxes, amortization, depreciation and provisions	3,843	(501)	472	791	530
Income tax (profit)	230	131	113	126	109
Income after taxes, amortization, depreciation and provisions	4,046	850	564	910	631
Earnings distributed	564	617	776	842	893
<b>Earnings per share (in € per share)</b>					
Income after taxes, but before amortization, depreciation and provisions	7.94	(0.72)	0.90	1.42	1.00
Income after taxes, amortization, depreciation and provisions	7.89	1.65	0.87	1.40	0.98
Dividend paid per share	1.10	1.20	1.20	1.30	1.39
<b>Personnel</b>					
Average number of employees for the year	692	661	668	690	725
Payroll expenses (in € millions)	131	114	121	123	236
Benefits paid (social security, social benefit schemes, etc.) (in € millions)	55	54	60	60	66

(1) Includes the impact of the capital increase of June 25, 2009.

(2) The stock underwent a 2:1 stock split in June 2007.

## 5.3 Statutory Auditor's report on the annual financial statements

### Statutory Auditors' report on the financial statements

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To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying financial statements of Danone S.A.;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

#### I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2011 and of the results of its operations for the year then ended in accordance with French accounting principles.

#### II. Justification of assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- equity interests are recorded as assets in your company's balance sheet for a book value of € 17,020 million. Note 2 to the financial statements describes the methods adopted for accounting for these shares as well as the methods used to calculate impairment losses. We performed sample tests to confirm that these methods were applied correctly and we reviewed the methods used to determine the amount of the impairment losses. We have assessed the data and assumptions on which these estimates are based, that are uncertain by nature, and the realization of which is likely to postpone, possibly in a significant way, forward-looking data that are used, notably in a context of economic and financial volatility;
- as stated in Note 17 of the Notes to the financial statements, your company or certain of its direct or indirect subsidiaries have undertaken to acquire the shares held by third-party shareholders in certain companies in which your company has a direct or indirect stake, should such shareholders wish to exercise their put option. We reviewed the methods used by your company to calculate these financial commitments based on the information currently available. We have assessed the data and assumptions on which these estimates are based and the resulting valuations.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.



### III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Regarding the information provided in accordance with the requirements of article L. 225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits granted to the directors and officers (*mandataires sociaux*) and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris-La-Défense, March 19, 2012

#### The Statutory Auditors

##### PricewaterhouseCoopers Audit

Etienne BORIS

Philippe VOGT

##### Ernst & Young et Autres

Jeanne BOILLET

Gilles COHEN

## 5.4 Related party transactions

### Related Party Transactions

(Pursuant to Article L. 225-38 of the French Commercial Code)

The following related party transactions, which the Company entered into during previous fiscal years, continued to apply during 2011:

1. At its July 21, 2004 meeting, the Board of Directors, pursuant to the Nomination and Compensation Committee's proposal, updated the conditions under which the employment agreement of Mr. Franck RIBOUD (which had been suspended on August 26, 1994 when he was appointed as an executive director and officer (*mandataire social*) of the Company) would be resumed if his term of office ended, for whatever reason, and established that:
  - the amount of time during which he has exercised his duties as an executive director and officer for the benefit of the Company will be entirely taken into account with respect to seniority and his resulting rights within the framework of his employment agreement;
  - the Company undertakes to offer him a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee;
  - the annual compensation that will be paid out to him cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of his employment agreement;
  - he will benefit from the Company's defined benefit pension plan based on his seniority as an executive director and officer and his seniority under the employment agreement.
2. At its April 26, 2007 meeting, the Board of Directors of the Company, within the framework of the danone.communities project, authorized the signing of a cooperation agreement established between the Company, the danone.communities open-ended investment company (*Société d'Investissement à Capital Variable – SICAV*), the danone.communities venture capital fund (*Fonds Commun de Placements à Risques – FCPR*), and companies of the Crédit Agricole Group (namely IDEAM (absorbed in 2011 by Amundi) and Crédit Agricole Private Equity, respectively management companies for the SICAV and the FCPR, it being specified that as of the date of this meeting, Mr. Jean LAURENT, Director of the Company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group). This agreement governs the relations between the Company and other entities

that have taken part in the danone.communities project, and in particular provides for the subscription of shares of the SICAV by the Company for a maximum amount of € 20 million, as well as the annual financial contribution by the Company of a maximum amount of € 1.5 million for the first fiscal year, it being specified that this amount must be revised annually by the Board of Directors of the Company.

The Board of Directors' meeting of February 14, 2011 had set the Company's annual financial contribution for 2011 at a maximum of € 4 million (the Company's total financial contributions toward danone.communities for 2011 reached € 3.97 million).

The Board of Directors' meeting of February 14, 2012 set the Company's annual financial contribution at a maximum of € 5 million. Franck RIBOUD, Emmanuel FABER and Bernard HOURS abstained from voting on this matter, as all three are Directors of the SICAV danone.communities.

3. At its October 19, 2007 meeting, the Board of Directors authorized the Company to grant a joint and several guarantee to the benefit of its subsidiaries Danone Finance, Danone Finance International (and all other direct or indirect subsidiaries that would become additional borrowers to the facilities agreement entered into by the Company on December 7, 2007) with respect to all of their commitments in principal, interest, and accessory payments and, more generally with respect to any payments due in their capacity as additional borrowers, and up to a limit of a maximum principal amount of € 4 billion. This bank facility consisted of two tranches, the first of € 2.3 billion having expired in December 2010 and the second for € 1.7 billion that was set to expire in December 2012.

This guarantee was terminated as of October 22, 2010 with respect to Danone Finance (as it was no longer a party to the facilities agreement) and was maintained unchanged with respect to Danone Finance International.

This guarantee was not implemented in 2011 and ended on July 29, 2011, on the day that the facilities agreement was terminated, as a result of the conclusion of a new syndicated facilities agreement (see point 10 below).

4. The Board of Directors' meeting of February 13, 2008 confirmed the commitment the Company undertook with respect to each of the four executive directors and officers relative to the payment of a pension under the defined benefit pension plan in the form of an annuity (with a reversion option), calculated based on the following elements:

the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last three entire years of activity within the Group. The length of service taken into account would include the period corresponding to the term of office;

- in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity;
- the amount of the annuity that would be paid to Franck RIBOUD and Jacques VINCENT would correspond to 2% of this calculation basis per year of seniority (this amount will however be subject to a ceiling of 65% of this calculation basis), minus the full amount of pension rights that Franck RIBOUD and Jacques VINCENT are entitled to and have acquired over the course of their professional careers, including the supplementary pension plan fully funded by the Company;
- the amount of the annuity that would be paid to Emmanuel FABER and Bernard HOURS would correspond to (i) 1.5% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche located between 3 and 8 French Social Security ceiling levels (*3 et 8 plafonds de la Sécurité Sociale*), and (ii) 3% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche that is higher than these 8 ceiling levels (this amount will however be limited on the basis of a maximum seniority of 20 years) minus the full amount of pension rights that Emmanuel FABER and Bernard HOURS have acquired due to the implementation of the supplementary pension plan fully funded by the Company.

The person concerned is eligible to benefit from this pension plan only if he was performing his duties within the Group at the time of retirement (it being specified that in the event the person leaves the Group before reaching the age of 55, all the rights acquired will be lost, and that in the event such officer is laid off after the age of 55, the benefit derived from this plan will be preserved, on condition that the person does not take up a salaried position).

These agreements remained in force in 2011 and were not implemented, with the exception of the one involving Mr. Jacques VINCENT, who exercised his rights to retirement benefits effective April 1, 2010 (after 40 years within the Group). The annuity which has been paid to him during the 2011 fiscal year with respect to this agreement amounted to € 885,477.

5. The Board of Directors' meeting of February 13, 2008 authorized an amendment to the employment agreements concluded with Mr. Emmanuel FABER and Mr. Bernard HOURS, for the purpose of determining the conditions under which their respective employment agreements would be resumed (it being specified that such employment agreements were suspended when they were appointed as executive directors and officers of the Company), assuming that their term of office

had ended, for whatever reason. These amendments provide both executives, in an identical way, with the assurance that:

- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of the Company will be entirely taken into account with respect to seniority and to their resulting rights within the framework of their employment agreement;
  - the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee;
  - the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement;
  - they will benefit from the Company's defined benefit pension plan based on their seniority as an executive director and officer and their seniority under the employment agreement;
  - the contractual indemnity due in the event of a breach of the employment agreement will be cancelled.
6. The Board of Directors' meeting of February 13, 2008 approved the principle and methods for the rights to an indemnity for each of the Company's three executive directors and officers.

The Board of Directors' meeting of February 10, 2010 amended the indemnification rights of Mr. Franck RIBOUD, Chairman and Chief Executive Officer, Mr. Emmanuel FABER, Deputy General Manager, and Mr. Bernard HOURS, Deputy General Manager, in certain events involving the termination of their term of office, it being specified that for Bernard HOURS, the renewal of these conditions under strictly identical terms has been decided by the Board of Directors at its February 14, 2011 meeting.

These amendments were approved at the Company's April 22, 2010 Shareholders' General Meeting for Mr. Franck RIBOUD and Mr. Emmanuel FABER and, at the April 28, 2011 Shareholders' General Meeting for Mr. Bernard HOURS, in accordance with the following conditions:

**(i) Amount of the Indemnity**

The person concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts

exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

### (ii) Cases of payment of the Indemnity

The Indemnity will be due to the person concerned only in the event that his term of office as an executive director and officer is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct (*faute grave*), i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence (*faute lourde*), i.e. extremely gross negligence committed by the person with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly holds more than 50% of the Company's capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office as an executive director and officer ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or resigns from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

### (iii) Performance conditions governing payment of the Indemnity

The amount paid under the indemnity will be based on:

a) the average organic growth in the Danone group's sales (the "Group CICA") over the five fiscal years preceding the date of

termination of the term of office of the executive director and officer (the "Reference Period"); and

b) the average organic growth in the sales generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group CICA and the Panel CICA are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically take its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the Indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICAs, the person concerned will be allocated 50% of the Indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICAs, no Indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will

be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

**(iv) Payment of the Indemnity**

The amount of the Indemnity will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the Indemnity have been met.

7. The Board of Directors' meeting of February 10, 2010 amended the suspended employment agreements of Mr. Franck RIBOUD, Mr. Emmanuel FABER and Mr. Bernard HOURS, it being specified that for Mr. Bernard HOURS, the renewal of these conditions under identical terms has been decided by the Board of Directors at its February 14, 2011 meeting.

These agreements were therefore amended in order that:

- the Indemnity for Breach of the Employment Agreement is (i) subject to a limit of two years' fixed and variable gross compensation and (ii) in the event of the payment of both the Indemnity for Breach of the Employment Agreement and the indemnity due in certain instances of the termination of the term of office of an executive director and officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment agreement;
- the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the executive director and officer;
- in the event only of the termination of his term of office caused by a change of control, the person concerned may, provided he is not guilty of serious misconduct or gross negligence, request the cancellation of his employment agreement in the form of lay-off within three months from the date of the termination of his term of office as an executive director and officer (i.e. the date on which his employment agreement is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of an executive director and officer, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically amended.

The portion of the Indemnity for Breach of the Employment Agreement which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment agreements of Mr. Emmanuel FABER and Mr. Bernard HOURS was amended such that it can only be exercised by the Company and result in the payment of consideration in the event of resignation.

8. The Board of Directors' Meeting of February 10, 2010 authorized the Company to grant a guarantee or a security for the various financial transactions to be carried out by its subsidiary Danone Corporate Finance Services, up to an overall ceiling of € 500 million per year. The Board of Directors renewed this authorization on the same terms at its February 14, 2011 meeting. This guarantee has not been implemented to date.

**Lastly, three new related party agreements were entered into by the Company in 2011 (excluding those already approved by the April 28, 2011 Shareholders' General Meeting) and at the beginning of 2012:**

9. At its April 28, 2011 meeting, the Board of Directors authorized the Company, as part of the renewal of the December 7, 2007 syndicated facilities agreement, to grant a joint and several guarantee to the benefit of its subsidiary Danone Finance International (and all other direct or indirect subsidiaries that might directly accede as additional borrowers to the syndicated facilities agreement entered into by the Company on July 28, 2011 (described in point 10 below)), with respect to all of their commitments in principal, interest, accessory payments and generally with respect to all payments due in their capacity as additional borrowers, up to a maximum principal amount of € 2 billion. If the guarantee is implemented, Danone Finance International shall pay the Company, as consideration for the guarantee, an annual fee calculated on the basis of the average amount borrowed during the corresponding calendar year.

Since Danone Finance International did not draw down any amount on this new syndicated facilities agreement in 2011, this guarantee was not implemented during the year.

10. On July 27, 2011 Board of Directors unanimously authorized the Company to enter into a syndicated facilities agreement and all related contractual documents with J.P. Morgan Europe Limited and J.P. Morgan Limited (hereinafter "J.P. Morgan"), Mrs. Isabelle SEILLIER, Chairman of J.P. Morgan for France, abstaining from voting.

On July 28, 2011, the Company therefore signed a syndicated facilities agreement with J.P. Morgan and several other banks. This agreement provides for the establishment of a € 2 billion (multi-currency) revolving credit line, combined with a € 300 million "swingline" facility, up to a maximum principal amount of € 2 billion. The agreement has a five-year term, with the possibility of renewal up to two additional years subject to banks' approval. This agreement replaces the one signed on December 7, 2007, which was set to expire in December 2012.



Interest due by the Company on the amounts used with respect to this syndicated facilities agreement, are calculated using market rates (EURIBOR or EONIA), plus a margin and potential mandatory costs under certain conditions.

A utilisation fee is added to the interest due based on the credit portion used and, if the facility is not entirely drawn down, the Company owes a non-utilisation fee equivalent to a percentage of the margin.

Finally, the Company paid customary fees to the banks as part of the establishment of the syndicated facilities agreement.

No amount was drawn down from this syndicated facilities agreement in 2011.

J.P. Morgan's commitment as a lender under the syndicated facilities agreement represents € 210 million, or 10.5% of the total, i.e. the same percentage as the other banks having the first rank in the facilities agreement.

Fees and interest owed by the Company to J.P. Morgan are determined on a strict pro-rated basis relative to its commitments under the syndicated facilities agreement and are therefore equivalent to fees and interest due to the other banks having a first rank in the facilities agreement. In 2011, the Company paid J.P. Morgan a total of € 810,133 in fees related to this facilities agreement (fees related to the establishment of the credit and non-utilisation fees).

11. At its December 13, 2011 meeting, the Board of Directors – through a unanimous vote with Isabelle SEILLIER abstaining – authorized the Company to enter into an advisory agreement with J.P. Morgan Limited related to an acquisition project (still pending and not disclosed as of the publication date of this document).

Under the terms of this advisory agreement, which was signed on February 10, 2012, J.P. Morgan Limited will act as a financial advisor and agrees to assist the Company in analyzing the business plan and coordinating the due diligence work pertaining to the target, structuring and defining the transaction terms and conditions, and negotiating the financial aspects of the documents needed to complete the transaction.

The advisory agreement specifies that the Company shall pay J.P. Morgan Limited, in consideration for that company's advisory service and subject to the successful completion of the transaction, a fee representing 0.12% of the total value – estimated at the date of the agreement – of the assets whose acquisition is currently being considered.

The amount of the fee that will be paid, if applicable, by the Company to J.P. Morgan Limited will be disclosed in the special report of the Statutory Auditors, which will be prepared and presented to the Shareholders' General Meeting to be held in 2013.

**These transactions are described in the Statutory Auditors' special report (see below).**

## Other transactions

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The Company has entered into intra-group agreements with its subsidiaries and affiliates relative to transactions in the ordinary course of business. These agreements generally relate to the sale and purchase of products, the supply of remunerated administrative services pursuant to agreements on management fees, such as treasury and financing management services, as well as on the

licensing of intangible rights. These agreements are customary agreements and were concluded under normal conditions, in accordance with the Company's commercial practices.

No loans or guarantees have been granted or constituted by the Company or its subsidiaries for the benefit of the members of the Executive Committee.



## Statutory Auditors' report on related party agreements and commitments

To the Shareholders,

In our capacity as statutory auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French commercial code (*code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French commercial code concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

### 1. Agreements and commitments submitted for approval by the General Meeting of Shareholders

#### 1.1 Agreements and commitments authorized during the year

In accordance with Article L. 225-40 of the French commercial code, we have been advised of the following related party agreements and commitments which received prior authorization from your Board of Directors.

##### 1.1.1 With Danone Finance International, indirectly held at 100% by your company

###### Nature, purpose and conditions

The Board of Directors' meeting of April 28, 2011 authorized your Company, as part of the renewal of the December 7, 2007 syndicated facilities agreement, to grant a joint and several guarantee to the benefit of its subsidiary Danone Finance International and all other direct or indirect subsidiaries that might directly accede as additional borrowers to the syndicated facilities agreement entered into by your Company on July 28, 2011, with respect to all of their commitments in principal, interest, accessory payments and generally with respect to all payments due in their capacity as additional borrowers, up to a maximum principal amount of € 2 billion. If the guarantee is implemented, Danone Finance International shall pay your Company, as consideration for the guarantee, an annual fee calculated on the basis of the average amount borrowed during the corresponding calendar year.

Since Danone Finance International did not draw down any amount on this new syndicated facilities agreement in 2011, this guarantee was not implemented during the year.

##### 1.1.2 With J.P. Morgan Group

Person concerned

Mrs. Isabelle SEILLIER, Director of your company and Chairman for France of J.P. Morgan group.

###### a) Nature:

###### Syndicated facility agreement

###### Purpose and conditions:

The Board of Directors' meeting of July 27, 2011 unanimously authorized your Company to enter into a syndicated facilities agreement and all related contractual documents with J.P. Morgan Europe Limited and J.P. Morgan Limited (hereinafter "J.P. Morgan"), Mrs. Isabelle SEILLIER, Chairman of J.P. Morgan for France, abstaining from voting.

On July 28, 2011, your Company therefore signed a syndicated facilities agreement with J.P. Morgan and several other banks. This agreement provides for the establishment of a € 2 billion (multi-currency) revolving credit line, combined with a € 300 million "swingline" facility, up to a maximum principal amount of € 2 billion. The agreement has a five-year term, with the possibility of renewal up to two additional years subject to banks' approval. This agreement replaces the one signed on December 7, 2007, which was set to expire in December 2012.

Interest due by your Company on the amounts used with respect to this syndicated facilities agreement, are calculated using market rates (EURIBOR or EONIA), plus a margin and potential mandatory costs under certain conditions.

A utilisation fee is added to the interest due based on the credit portion used and, if the facility is not entirely drawn down, your Company owes a non-utilisation fee equivalent to a percentage of the margin.

Finally, your Company paid customary fees to the banks as part of the establishment of the syndicated facilities agreement.

No amount was drawn down from this syndicated facilities agreement in 2011.

J.P. Morgan's commitment as a lender under the syndicated facilities agreement represents € 210 million, or 10.5% of the total, i.e. the same percentage as the other banks having a first rank in the facilities agreement.

Fees and interest owed by your Company to J.P. Morgan are determined on a strict pro-rated basis relative to its commitments under the syndicated facilities agreement and are therefore equivalent to fees and interest due to the other banks having a first rank in the facilities agreement.

In 2011, your Company paid J.P. Morgan a total of € 810,133 in fees related to this facilities agreement (fees related to the establishment of the credit and non-utilisation fees).

**b) Nature:**

*Advisory agreement*

**Purpose and conditions:**

The Board of Directors' meeting of December 13, 2011 – through a unanimous vote with Isabelle SEILLIER abstaining – authorized your Company to enter into an advisory agreement with J.P. Morgan Limited related to an acquisition project (still pending and not disclosed as of the publication date of this document).

Under the terms of this advisory agreement, which was signed on February 10, 2012, J.P. Morgan Limited will act as a financial advisor and agrees to assist your Company in analyzing the business plan and coordinating the due diligence work pertaining to the target, structuring and defining the transaction terms and conditions, and negotiating the financial aspects of the documents needed to complete the transaction.

The advisory agreement specifies that your Company shall pay J.P. Morgan Limited, in consideration for that company's advisory service and subject to the successful completion of the transaction, a fee representing 0.12% of the total value – estimated at the date of the agreement – of the assets whose acquisition is currently being considered.

The amount of the fee that will be paid, if applicable, by your Company to J.P. Morgan Limited will be disclosed in the special report of the Statutory Auditors, which will be prepared and presented to the Shareholders' General Meeting to be held in 2013.

## 2. Agreements and commitments already approved by the General Meeting of Shareholders

### 2.1 Agreements and commitments approved in prior years

#### 2.1.1 Whose implementation continued during the year

In accordance with Article R. 225-30 of the French commercial code, we have been advised that the implementation of the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years continued during the year.

##### 2.1.1.1 Cooperation agreement

*Companies concerned*

Danone, SICAV danone.communities, FCPR danone.communities, companies of the Crédit Agricole Group.

*Nature, purpose and conditions*

The Board of Directors' meeting of April 26, 2007, within the framework of the danone.communities project, authorized the signing of a cooperation agreement established between your Company, the danone.communities open-ended investment company (Société d'Investissement à Capital Variable – SICAV), the danone.communities venture capital fund (Fonds Commun de Placements à Risques – FCPR), and companies of the Crédit Agricole Group (namely IDEAM (absorbed in 2011 by Amundi) and Crédit Agricole Private Equity, respectively management companies for the SICAV and the FCPR, it being specified that as of the date of this meeting, Mr. Jean LAURENT, Director of your Company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group). This agreement governs the relations between your Company and other entities that have taken part in the danone.communities project, and in particular provides for the subscription of shares of the SICAV by your Company for a maximum amount of € 20 million, as well as the annual financial contribution by your Company of a maximum amount of € 1.5 million for the first fiscal year, it being specified that this amount must be revised annually by the Board of Directors of your Company.

The Board of Directors' meeting of February 14, 2011 had set your Company's annual financial contribution for 2011 at a maximum of € 4 million (your Company's total financial contributions toward danone.communities for 2011 reached € 3.97 million).

The Board of Directors' meeting of February 14, 2012 set your Company's annual financial contribution at a maximum of € 5 million. Franck RIBOUD, Emmanuel FABER and Bernard HOURS abstained from voting on this matter, as all three are Directors of the SICAV danone.communities.

#### **2.1.1.2 Commitments with respect to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the payment of a pension under the defined benefit pension plan**

##### *Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer), Emmanuel FABER (Deputy General Manager), Bernard HOURS (Deputy General Manager) and Jacques VINCENT (formerly Deputy General Manager).

##### *Nature, purpose and conditions*

The Board of Directors' meeting of February 13, 2008 confirmed the commitment your Company undertook with respect to each of the four executive directors and officers relative to the payment of a pension under the defined benefit pension plan in the form of an annuity (with a reversion option), calculated based on the following elements:

- the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last entire three entire years of activity within the Group. The length of service taken into account would include the period corresponding to the term of corporate office,
- in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity,
- the amount of the annuity that would be paid to Franck RIBOUD and Jacques VINCENT would correspond to 2% of this calculation basis per year of seniority (this amount will however be subject to a ceiling of 65% of this calculation basis), minus the full amount of pension rights that Franck Riboud and Jacques Vincent are entitled to and have acquired over the course of their professional careers, including the supplementary pension plan fully funded by your Company,
- the amount of the annuity that would be paid to Emmanuel FABER and Bernard HOURS would correspond to (i) 1.5% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche located between 3 and 8 French Social Security ceiling levels, and (ii) 3% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche that is higher than these 8 ceiling levels (this amount will however be limited on the basis of a maximum seniority of 20 years), minus the full amount of pension rights that Emmanuel FABER and Bernard HOURS have acquired due to the implementation of the supplementary pension plan fully funded by your Company.
- the person concerned is eligible to this pension plan only if he was performing his duties within the Group at the time of retirement (it being specified that in the event the person leaves the Group before reaching the age of 55, all the rights acquired will be lost, and that in the event such officer is laid off after the age of 55, the benefit derived from this plan is preserved, on the condition that the person does not take up a salaried position).

These agreements remained in force in 2011 and were not implemented, with the exception of the one involving Mr. Jacques VINCENT, who exercised his rights to retirement benefits effective April 1, 2010. The annuity which has been paid to him during the 2011 fiscal year with respect to this agreement amounted to € 885,477.

#### **2.1.2 Which were not implemented during the year**

In addition, we have been advised that the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years were not implemented during the year.

##### **2.1.2.1 Guarantees and securities granted**

###### *a) Companies concerned*

Danone Corporate Finance Services.

###### *Nature, purpose and conditions*

The Board of Directors' Meeting of February 10, 2010 authorized your Company to grant a guarantee or a security for the various financial transactions to be carried out by its subsidiary Danone Corporate Finance Services, up to an overall ceiling of € 500 million per year. The Board of Directors renewed this authorization on the same terms at its February 14, 2011 meeting. This guarantee has not been implemented to date.

*b) Companies concerned*

Danone Finance International.

**Nature, purpose and conditions**

The Board of Directors' meeting of October 19, 2007 authorized your Company to grant a joint and several guarantee to the benefit of its subsidiaries Danone Finance and Danone Finance International (and all other direct or indirect subsidiaries that would become additional borrowers to the facilities agreement entered into by your Company on December 7, 2007) with respect to all of their commitments in principal, interest, and accessory payments and, more generally with respect to any payments due in their capacity as additional borrowers, and up to a limit of a maximum principal amount of € 4 billion. This bank facility consisted of two tranches, the first of € 2.3 billion having expired in December 2010 and the second for € 1.7 billion that was set to expire in December 2012.

This guarantee was terminated as of October 22, 2010 with respect to Danone Finance (as it was no longer a party to the facilities agreement) and was maintained unchanged with respect to Danone Finance International.

This guarantee was not implemented in 2011 and ended on July 29, 2011, on the day that the facilities agreement was terminated, as a result of the conclusion of a new syndicated facilities agreement (see paragraph 1.1.1 above).

**2.1.2.2 Commitments with respect to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the conditions under which their employee agreements would be resumed following the expiration of their term of corporate office**

*a) Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer)

**Nature, purpose and conditions**

The Board of Directors' meeting of July 21, 2004, pursuant to the Nomination and Compensation Committee's proposal, updated the conditions under which the employment agreement of Mr. Franck RIBOUD (which had been suspended on August 26, 1994 when he was appointed as an executive director and officer (*mandataire social*) of your Company) would be resumed if his term of office ended, for whatever reason, and established that:

- the amount of time during which he has exercised his duties as an executive director and officer for the benefit of your Company will be entirely taken into account with respect to seniority and his resulting rights within the framework of his employment agreement;
- your Company undertakes to offer him a position involving duties comparable to those currently exercised by the members of your Company's Executive Committee;
- the annual compensation that will be paid out to him cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of his employment agreement;
- he will benefit from your Company's defined benefit pension plan based on his seniority as an executive director and officer and his seniority under the employment agreement.

*b) Persons concerned*

Emmanuel FABER (Deputy General Manager) and Bernard HOURS (Deputy General Manager)

**Nature, purpose and conditions**

The Board of Directors' meeting of February 13, 2008 authorized an amendment to the employment agreements concluded with Emmanuel FABER and Bernard HOURS, for the purpose of determining the conditions under which their respective employment agreements would be resumed (it being specified that such employment agreements were suspended when they were appointed as executive directors and officers of your Company), assuming that their term of office had ended, for whatever reason. This amendment provides both executives, in an identical way, with the assurance that:

- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of your Company will be entirely taken into account with respect to seniority and to their resulting rights within the framework of their employment agreement,
- your Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of your Company's Executive Committee,
- the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement,
- they will benefit from your Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement,
- the contractual indemnity due in the event of a breach in the employment agreement will be cancelled.



**2.1.2.3 Commitment with regard to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the conditions applicable to indemnities paid to them in certain cases of termination of their respective terms of corporate office**

*Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer) and Emmanuel FABER (Deputy General Manager).

*Nature, purpose and conditions*

The Board of Directors' meeting of February 10, 2010 amended the principle and methods for the right to an indemnity for each of your Company's three executive officers and directors authorized by the Board of Directors' meeting of February 13, 2008 in accordance with the following conditions:

**(i) Amount of the Indemnity**

The person concerned will receive, by way of indemnity ("the Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

**(ii) In the event of payment of the Indemnity**

The Indemnity will be due to the person concerned only in the event that his term of office is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct, i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence, i.e. extremely gross negligence committed by the person with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in your Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly, holds more than 50% of your Company's capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or resigns from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

**(iii) Performance conditions governing payment of the Indemnity**

The amount paid under the Indemnity will be based on:

- a)** the average organic growth in the Danone group's sales (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b)** the average organic growth in the sales generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the Indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the Indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no Indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

#### (iv) Payment of the Indemnity

The amount of the Indemnity will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the Indemnity have been met.

#### 2.1.2.4 Amendments made to the suspended employment agreements of the Chairman and Chief executive Officer and of the Deputy General Managers

##### *Persons concerned*

Franck RIBOUD (Chairman and Chief Executive Officer), Emmanuel FABER (Deputy General Manager) and Bernard HOURS (Deputy General Manager).

##### *Nature, purpose and conditions*

The Board of Directors' meeting of February 10, 2010 amended the suspended employment agreements of Franck RIBOUD, Emmanuel FABER and Bernard HOURS, it being specified that for Bernard HOURS, the renewal of these conditions under identical terms has been decided by the Board of Directors at its February 14, 2011 meeting.

These agreements were therefore amended in order that:

- the Indemnity for Breach of the Employment Agreement is (i) subject to a limit of two years' fixed and variable gross compensation and (ii) in the event of the payment of both the Indemnity for Breach of the Employment Agreement and the indemnity due in certain instances of the termination of the term of office of an executive director and officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment agreement;
- the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the executive director and officer; and
- in the event only of the termination of his term of office caused by a change of control, the person concerned may, provided he is not guilty of serious misconduct or gross negligence, request the cancellation of his employment agreement in the form of lay-off within three months from the date of the termination of his term of office as an executive director and officer (i.e. the date on which his employment agreement is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of an executive director and officer, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically amended.



The portion of the Indemnity for Breach of the Employment Agreement which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment agreements of Emmanuel FABER and Bernard HOURS was amended such that it can only be exercised by the Company and result in the payment of consideration in the event of resignation.

## 2.2 Agreements and commitments approved during the year

In addition, we have been advised of the implementation during the year of the following agreements and commitments which were approved by the General Meeting of Shareholders on April 28, 2011 based on the statutory auditors' report dated March 16, 2011.

### 2.2.1 With Bernard HOURS, Deputy General Manager of your Company

#### *Nature, purpose and conditions*

The Board of Directors' meeting of February 14, 2011 decided, at the renewal of Bernard HOURS' term of office which was submitted to the vote of the General Meeting of Shareholders of April 28, 2011, to renew under strictly identical conditions his indemnification rights in certain events involving the termination of his term of office, which had been decided by the Board of Directors' meeting of February 10, 2010 and approved by the General Meeting of Shareholders on April 22, 2010.

These conditions are identical to those described in paragraph 2.1.2.3 relative to the commitments with regards the indemnification rights conditions of Frank RIBOUD and Emmanuel FABER.

Neuilly-sur-Seine and Paris-La-Défense, March 19, 2012

#### The Statutory Auditors

##### **PricewaterhouseCoopers Audit**

Etienne BORIS

Philippe VOGT

##### **Ernst & Young et Autres**

Jeanne BOILLET

Gilles COHEN



## 5.5 Information originating from third parties, expert opinions and declarations of interest

Nil.

# 5

## Financial statements of the parent company Danone and other corporate documents



# Corporate governance

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## 6.1 Board of Directors

### Organization of the Board of Directors

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The Board of Directors is responsible for administering the Company.

Each Director must hold at least 4,000 shares, which must be held as registered shares.

Pursuant to the Company's articles of incorporation and by-laws, the duration of Directors' terms of office is three years, and may be renewed. The term of office of any Director who is an individual expires automatically at the conclusion of the Shareholders' General Meeting that votes on the previous year's financial statements and that is held in the year during which such Director has turned or will turn 70. Nevertheless, pursuant to a decision of the Shareholders' General Meeting, this age limit does not apply to one or more Directors who may remain in office or who may be reappointed one or more times, so long as the number of Directors concerned by this provision does not exceed one-fourth of the number of Directors in office.

All Directors' terms of office are staggered, thereby facilitating regular renewal of the Board by the shareholders (i) due to the fact that the articles of incorporation and by-laws provide for relatively short terms of three years and (ii) because by spreading the expiration dates of the various terms of office, the Shareholders' General Meeting is able to vote each year on the terms of office of several Directors (based on the current composition of the Board: the terms of office of six Directors will expire at the conclusion of the Shareholders' General Meeting convened to vote on the financial statements for fiscal year 2011, the terms of office of two Directors will expire at the conclusion of the Shareholders' General Meeting convened to vote on the financial statements for fiscal year 2012 and the terms of office of the remaining six Directors will expire at the conclusion of the Shareholders' General Meeting that will be convened to vote on the financial statements for fiscal year 2013).

## Composition of the Board of Directors

As of February 29, 2012, the following persons are the 14 members of the Board of Directors:

Name	Age	Principal position <sup>(1)</sup>	Starting date of Director's term	Expiration date of Director's term (date of Shareholders' General Meeting)
Franck RIBOUD	56	Chairman and Chief Executive Officer of Danone	1992	2013
Emmanuel FABER	48	Vice-Chairman of the Board of Directors and Deputy General Manager of Danone	2002	2013
Bernard HOURS	55	Vice-Chairman of the Board of Directors and Deputy General Manager of Danone	2005	2014
Bruno BONNELL <sup>(2)</sup>	53	Chairman of Sorobot SAS	2002	2014
Richard GOBLET D'ALVIELLA <sup>(2)</sup>	63	Executive Chairman of Sofina SA	2003	2015 <sup>(3)</sup>
Yoshihiro KAWABATA	63	Senior Managing Director – Head of the International Affairs department and manager of the Management Support division of Yakult Honsha Co., Ltd.	2010	2014
Christian LAUBIE	73	Member of the French Board of Auditors (Haut Conseil du Commissariat aux Comptes)	1985	2012 <sup>(4)</sup>
Jean LAURENT <sup>(2)</sup>	67	Chairman of the Board of Directors of Foncière des Régions	2005	2015 <sup>(3)</sup>
Hakan MOGREN <sup>(2)</sup>	67	Company director	2003	2012 <sup>(4)</sup>
Benoît POTIER <sup>(2)</sup>	54	Chairman and Chief Executive Officer of Air Liquide SA	2003	2015 <sup>(3)</sup>
Guyllaine SAUCIER <sup>(2)</sup>	65	Company director	2009	2012 <sup>(4)</sup>
Isabelle SEILLIER	52	Chairman of J.P. Morgan, France	2011	2014
Jean-Michel SEVERINO <sup>(2)</sup>	54	Managing Partner, "Investisseur and Partenaire Conseil"	2011	2014
Jacques VINCENT	65	Chairman of Compassionart	1997	2014

(1) Each Director's term of office and duties are detailed in the Notes to the Registration Document (see Section 11.2 Positions and responsibilities of the Directors and the nominees to the Board of Directors).

(2) Director deemed independent by the Board of Directors on the recommendation of the Nomination and Compensation Committee, in accordance with the AFEP-MEDEF Code (see Section 6.1 Board of Directors).

(3) Provided his term of office is renewed by the Shareholders' General Meeting of April 26, 2012.

(4) The terms of office as Directors of Mr. Christian LAUBIE, Mr. Hakan MOGREN and Mrs. Guyllaine SAUCIER will expire at the conclusion of the Shareholders' General Meeting of April 26, 2012.

As of February 29, 2012, the Board of Directors also includes an honorary member, who has an advisory role: Mr. Michel DAVID-WEILL, who was appointed Honorary Vice-Chairman of the Board of Directors at the conclusion of the Shareholders' General Meeting of April 28, 2011.

As part of the effort to continuously improve governance of the Group, and in accordance with the recommendations of the Nomination and Compensation Committee, it will be proposed that the Shareholders' General Meeting of April 26, 2012 approve

the appointments of Mrs. Mouna SEPEHRI, Mr. Jacques-Antoine GRANJON and Mrs. Virginia STALLINGS as new Directors (see Section 9.3 Comments on the resolutions submitted to the Shareholders' General Meeting concerning the Board's report).

The Board also acknowledged the fact that the terms of office as Director of Messrs. Christian LAUBIE and Hakan MOGREN and Mrs. Guyllaine SAUCIER were not to be renewed.

## Rules of independence for members of the Board of Directors

Each year, after reviewing the opinion of the Nomination and Compensation Committee, the Board of Directors considers the individual situation of each Director having regard to the corpus of the AFEP-MEDEF Code independence rules.

This Code considers a Director to be independent if he/she “has no relationship of any type with the Company, its Group or its management that could compromise his/her ability to freely exercise his/her judgment”, and sets forth the following independence criteria. A Director is deemed independent if:

- *he/she is not, and during the previous five years has not been, an employee or corporate officer of the Company, or an employee or director of its parent company or of a company within its consolidation scope;*
- *he/she is not a corporate officer of a company in which the Company directly or indirectly holds a directorship or in which an employee appointed for such purpose or a corporate officer of the Company (currently or who has held such position within the previous five years) holds a directorship;*
- *he/she is not a customer, supplier, investment bank or commercial bank:
 
  - *that is significant to the Company or its Group;*
  - *or for which the Company or its Group represents a significant part of its business;**
- *he/she does not have close family ties with a corporate officer;*
- *he/she has not been one of the Company’s auditors during the previous five years;*
- *he/she has not been a Director of the Company for more than 12 years.”*

### Review of Directors’ independence

As it does every year, the Board of Directors, on the recommendation of its Nomination and Compensation Committee, reviewed the independence of each Director. In addition to the Directors who are also corporate officers (Messrs. Emmanuel FABER, Bernard HOURS and Franck RIBOUD), the Directors who are not independent are Mrs. Isabelle SEILLIER (a senior manager of the J.P. Morgan Chase banking group, one of the banks with which the Group regularly does business), Mr. Yoshiro KAWABATA (due

to the agreement that the Company concluded with Yakult Honsha pursuant to which the Company undertook to use its best efforts to ensure that the candidate proposed by the Yakult Honsha group would be appointed to the Company’s Board of Directors), Mr. Jacques VINCENT (a former corporate officer of the Company) and Mr. Christian LAUBIE (who has been a Director for more than 12 years).

In addition, when it reviewed the candidacies for directorships, the Board of Directors considered the situation of Mrs. Mouna SEPEHRI, Mr. Jacques-Antoine GRANJON and Mrs. Virginia STALLINGS having regard to the AFEP-MEDEF Code independence rules. It concluded that Mrs. Mouna SEPEHRI, Mr. Jacques-Antoine GRANJON and Mrs. Virginia STALLINGS should be deemed independent Directors because they meet all of the independence criteria applied by the Board. Details of the Board’s review of the independence criteria applicable to these candidates are provided in the Board’s report to the Shareholders’ General Meeting.

Provided that the appointments of Mrs. Mouna SEPEHRI, Mr. Jacques-Antoine GRANJON and Mrs. Virginia STALLINGS as new Directors are approved by the Shareholders’ General Meeting of April 26, 2012, all of the foregoing changes to the composition of the Board will:

- (i) increase its independence: the rate of independent Directors would reach 57% in fiscal year 2011 compared with 50% in fiscal year 2011;
- (ii) increase the number of women on the Board: the percentage of women will increase from 14% to 21% (i.e., 3 of 14 Directors);
- (iii) reduce the average age of the Board (the average age of Directors will thus fall from 59.6 years to 56.3 years and the average duration of Directors’ tenure in office will fall from 9.3 years to 6.5 years) while retaining, in order to preserve the diversity of the Board, several non-executive Directors who have extensive knowledge of the Group (in particular, Mr. Jacques VINCENT, who has been a Director since 1997) or who will turn 70 during their term of office (Mr. Jean LAURENT).

The Board is committed to continue, in the future, to make proposals to the Shareholders’ General Meeting that improve its governance in terms of both independence and diversity of its composition.

## Board of Directors' internal rules and regulations

The Board of Directors' internal rules and regulations, which set out the Directors' rights and obligations and the method of operation of the Board of Directors, were adopted at the Board of Directors' meeting of 25 April 2002.

Following each of the self-assessments carried out in 2003, 2007, 2008 and 2010, the Board of Directors amended the internal rules and regulations (see Section *Self-assessment of the Board of Directors*). The Board of Directors' meetings of February 14, 2011 and February 14, 2012 amended the internal rules and regulations once again to take into account best practices in governance (see Section *Directors' Code of Ethics* below).

The main provisions of the Board of Directors' internal rules and regulations are summarized below.

**Responsibilities of the Board of Directors.** The Board of Directors is a collegial body in which all Directors have the same powers and duties, and in which decisions are made collectively. It is responsible to the shareholders as a whole. It meets at least five times each year and establishes operating rules for itself and its various Committees.

The Board of Directors sets the Company's business policies and ensures that they are implemented. It votes on all decisions concerning the Company's major strategic, economic, social, financial and technological policies.

At each Board meeting, the Chairman reports on transactions concluded since the previous meeting and on significant projects in progress that may be concluded before the next meeting. Each year, the Board reviews the key points of the management report, as well as the resolutions to be submitted to the Shareholders' General Meeting. Furthermore, at least once every six months, the Executive Management informs the Board of Directors of the Company's financial position, cash position and commitments.

Between Board meetings, the Directors receive all necessary information concerning events or transactions of significance to the Group. More generally, the Directors may at any time request from the Chairman all information and documents they deem necessary to perform their duties.

**Limits on the powers of the Chief Executive Officer.** The list of transactions for which the internal rules and regulations require the Chief Executive Officer to obtain prior Board approval is found in Section 6.5 *Powers of the Chief Executive Officer*.

**Board of Directors' meetings.** In accordance with statutory and regulatory provisions and the Board of Directors' internal rules and regulations, Directors who attend Board meetings by videoconference or other means of telecommunication are deemed to be present for the purposes of calculating the quorum and majority. However, this method of attendance is not permissible when the Board decides on whether to approve the Company's corporate and consolidated financial statements or when it prepares the management report, including the Group management report.

**Committees of the Board of Directors.** The Board of Directors may create one or more specialized Committees and determine their composition and powers. The Committees perform their duties under the Board of Directors' responsibility. These Committees may not interfere in the Company's management or reduce or limit the powers of the Chairman and Chief Executive Officer, the Deputy General Managers or the Board of Directors. On matters within its jurisdiction, each Committee submits proposals, recommendations and opinions, and reports to the Board of Directors on its activities.

The Committees are comprised solely of Directors. Their members are appointed by the Board of Directors on the recommendation of the Nomination and Compensation Committee. They are appointed in their individual capacity and may not, in turn, appoint a proxy to represent them. The Committee Chairs are appointed by the Board of Directors on the recommendation of the Nomination and Compensation Committee.

**Compensation of Board of Directors members.** The Shareholders' General Meeting determines the total maximum amount of attendance fees to be divided among the Directors. Directors who are members of the Executive Committee do not receive attendance fees.

**Directors' Code of Ethics.** The Board's internal rules and regulations include a Directors' Code of Ethics. Under this Code, the Directors are bound by a general confidentiality obligation regarding the decisions of the Board and of the committees, as well as with respect to confidential information. Each Director is required to act in the interest of and on behalf of all shareholders. In performing his/her duties, each Director must act independently of any interest other than the corporate interest of the Group and its shareholders. Each Director must at all times ensure that his/her personal situation does not create a conflict of interests with the Group. Any Director who has a conflict of interests must report it to the Board so that it may make a decision thereon, and must refrain from taking part in any vote on the relevant matter.

Following the Board of Directors' meeting of February 14, 2011, the provisions of the internal rules and regulations were bolstered with respect to the following three points:

- *awareness of Directors' rights and obligations:* at the time he/she takes office, each Director must be aware of the general and specific obligations incumbent on their position;
- *directors' confidentiality obligation:* the Directors' general confidentiality obligation was extended to all information and documents of which they may become aware in the course of performing their duties;
- *duty to report conflicts of interest:* each Director must provide a sworn statement describing whether or not he/she has any conflicts of interest, including potential conflicts of interest: (i) at the time he/she takes office; (ii) annually, in response to the Company's request when it prepares its Registration Document;

(iii) at any time, if requested by the Chairman of the Board of Directors; and (iv) within ten business days of the occurrence of any event that causes the Director's previously filed statements to become inaccurate, in whole or in part.

Moreover, at its meeting of February 14, 2012 the Board of Directors strengthened and detailed the Directors' obligations regarding their commitment to the Board as follows: Directors must limit the number of their appointments as a director or chairman of Committees of the board of directors of other companies in such a manner as to ensure they are able to commit fully to the Danone Board. Furthermore, should a Director wish to accept a new appointment within a French or foreign listed company, he or she must inform the Chairman of the Board of Directors and the Chairman of the Nomination and Compensation Committee.

**Transactions involving the Company's securities.** The relevant securities include the Company's shares and all financial instruments linked to the shares.

In general, the members of the Board of Directors are bound by a duty to exercise due care and diligence, as well as an obligation to exercise particular care with respect to any personal transactions involving the Company's securities.

In particular, Directors may not engage in speculative or short-term transactions involving the Company's securities.

Furthermore, they may not engage in transactions involving the Company's securities in the following cases:

- if they have information that, when published, is likely to affect the price of the securities;
- during periods explicitly indicated by the Company, in particular, during the month preceding preliminary announcements of the Company's annual and semi-annual results, or during the two-week period prior to publication of the Company's quarterly sales figures.

In addition, the members of the Board of Directors must not use any instruments to hedge DANONE shares or any financial instruments linked to DANONE shares (in particular, stock-options or rights to allotments of free DANONE shares). This rule also applies to all transactions engaged in by persons who have ties to the Directors (within the meaning of the laws in force).

**Assessment of the Board of Directors' performance.** The Board's performance is assessed every two years. This assessment may be a self-assessment, an assessment by the Nomination and Compensation Committee or an assessment by a third party organization (see Section *Self-assessment of the Board of Directors*).

At its February 14, 2012 meeting, in its annual report on its operations, the Board of Directors reviewed progress to date in implementing the recommendations made as a result of the self-assessment carried out in December 2010. It decided to carry out another self-assessment at the end of 2012.

## Preparation and organization of the Board of Directors' work

### Work performed by the Board of Directors in 2011

Actions undertaken to improve the efficiency of the Board of Directors' work continued in 2011.

The Board of Directors met five times in 2011 (compared to seven times in 2010). The average length of each meeting was 3½ hours (compared to three hours in 2010).

The Directors' attendance record, expressed as their attendance rate at meetings, was 94% (compared with 91% in 2010). No Director had an individual attendance rate at Board meetings of less than 80%.

**1. The following recurring matters** were reviewed and discussed by the Board of Directors in 2011:

**(i) Monitoring major policies and day-to-day management:** detailed review of the Group's business activities, submitting annual budgets, approving corporate and consolidated annual financial statements, reviewing the semi-annual financial statements and financial communications (in particular, when the annual and semi-annual financial statements are published), acquisitions and sales of assets or equity interests, reviewing the Group's financial position

(debt, off-balance sheet commitments, equity levels, liquidity, hedging of financial risks, ratings), reviewing the Statutory Auditors' approach to their work, authorizations for commercial paper issuance programs, financial commitments (security interests and guarantees), annual authorization to Executive Management with respect to the Group's bond issuance program (EMTN), updating the Group's bond issuance program (EMTN), receiving regular information on the Group's risk management and internal control systems and reviewing the Group's risks by overseeing the work of the Audit Committee, annual capital increases reserved to employees, allotting Group Performance Units and Group performance shares (including setting, each year, the performance objectives for the following year and verifying that such objectives were met the previous year), monitoring the Company's share price and shareholder structure, setting the dividend, approving the Group's yearly contributions to danone.communities and the Danone Ecosystem Fund;

**(ii) Operation of corporate bodies:** monitoring corporate governance issues, receiving regular reports on the meetings of the three Board Committees (Audit Committee, Nomination and Compensation Committee and Social Responsibility



Committee), which are submitted to the Board following each of their meetings, determining all components of the compensation of each of the Company's three corporate officers, approving the various Board reports and proposed resolutions submitted for shareholder approval, preparing the Shareholders' General Meeting;

**(iii) Group strategy:** reviewing the objectives of the Group's transformation (i.e., exposure to emerging markets, prioritizing certain key countries, etc.) and its various impacts on the Group (in terms of organization, human resources, operations, adaptation of the Group's products to local demand, etc.), considering the annual strategic presentations made to the Board by each member of the Executive Committee at a dedicated one-day event held off-site in December. These presentations are always followed by an exchange with the Directors.

In addition, Directors attend several working days in Evian, where an annual seminar is held for all of the Group's executives throughout the world, and during which the strategies of the Group's various Divisions are reviewed and discussed.

**2. The following specific matters** were reviewed by the Board of Directors in 2011:

**(i) Transactions and the Group's accounting and financial position**

- review of year-end closing transactions in connection with the 2011 financial statements, including a review of the accounting treatment of Unimilk's integration, and oversight of accounting transactions in connection with the put options granted to non-controlling shareholders;
- share buyback transactions completed in 2011;
- acquisition of call options on DANONE shares to hedge a portion of former stock-option plans granted to certain employees and corporate officers and cancellation of treasury shares upon completion of the transaction;
- regular monitoring of the Group's debt (changes, amount, composition and repayment dates);
- review of the restructuring of the Group's debt, including renewal of a syndicated bank loan of € 2 billion;
- review of the authorization for Danone's guarantee in the total amount of € 500 million for commitments of Danone Corporate Finance Services (in connection with its risk management transactions);
- review of the authorization, granted in accordance with the requirements for regulated agreements, for Danone's guarantee for a maximum amount of € 2 billion for commitments of Danone Finance International (and any other subsidiary that may directly have access to the syndicated loan as a borrower);
- in connection with the Shareholders' General Meeting of April 26, 2012, review of the resolution submitted to the Shareholders' Meeting concerning the renewal of the Group performance shares plan.

**(ii) Corporate governance**

- in connection with the Shareholders' General Meeting of April 28, 2011:
  - review of the composition of the Board and of Executive Management, renewal of the term of office of Mr. Bernard HOURS as Deputy General Manager, proposal to appoint Mrs. Isabelle SEILLIER and Mr. Jean-Michel SEVERINO as Directors;
  - review of the composition of the Nomination and Compensation Committee, in particular the decision to replace Mr. Michel DAVID-WEILL with Mr. Yoshiro KAWABATA as a member of the Committee, and to appoint Mr. Jean LAURENT as Chair of this Committee as of April 28, 2011;
  - review of the composition of the Social Responsibility Committee, in particular the decision to appoint Mr. Jean-Michel SEVERINO to that Committee as of April 28, 2011;
  - amendments to the internal rules and regulations of the Board and of the Nomination and Compensation Committee;
  - review and authorization of regulated agreements involving certain executives;
- in connection with the Shareholders' General Meeting of April 26, 2012:
  - review of the composition of the Board vis-à-vis its renewal and member recruitment policies, in particular the number of women and of independent members, resulting in the proposal to renew the terms of office of Messrs. Richard GOBLET D'ALVIELLA, Jean LAURENT and Benoît POTIER, and to appoint Mrs. Mouna SEPEHRI, Mr. Jacques-Antoine GRANJON and Mrs. Virginia STALLINGS to positions on the Board;
  - review of the composition of the Nomination and Compensation Committee, and in particular the decision to replace Mr. Hakan MOGREN (which term of office is not renewed at the conclusion of the Shareholders' General Meeting of April 26, 2012) with Mr. Benoît POTIER;
  - review of the composition of the Audit Committee, and in particular, in compliance with the Nomination and Compensation Committee's recommendations, the decision to appoint Mr. Jean-Michel SEVERINO and Mrs. Mouna SEPEHRI as members of this Committee (following the non-renewal of the directorships of Mr. Christian LAUBIE and Mrs. Guylaine SAUCIER), and the appointment of Mr. Jean-Michel SEVERINO as the Chairman of the Audit Committee and a financial expert. In this framework, the expertises and skills of new members of the Audit Committee have been reviewed;
  - concerning Mr. Jean-Michel SEVERINO, a former Inspector General of Finance, the Board noted that in his previous positions (notably as Vice-President for East Asia at the World Bank and as the Chief Executive Officer of the French Development Agency (*Agence Française de Développement*)) he had developed solid expertise in accounting and finance

as well as in internal control and risk management issues. The Board also valued his excellent knowledge of emerging markets. The Board also noted that due to his appointment one year ago as a Director and member of the Social Responsibility Committee, Mr. Jean-Michel SEVERINO is well acquainted with the issues facing the Group;

- concerning Mrs. Mouna SEPEHRI, the Board noted that for the last 16 years she has been closely involved in the development of the Renault group and in its major acquisitions and strategic partnerships. The Board also considered that her expertise in the corporate functions delegated to the Chief Executive's Office, and legal affairs in particular, would enhance the Audit Committee's skills;
- amendments to the internal rules and regulations of the Board, the Audit Committee and the Social Responsibility Committee;
- review and authorization of regulated agreements;
- review of changes to the composition of the Executive Committee;
- annual review of the Board's operation.

#### (iii) Restructuring, disposals and acquisitions

- the acquisition in progress of the baby and medical nutrition business of the Indian group Wockhardt;
- overseeing the acquisition of Unimilk group's companies: monitoring their integration into the new Danone-Unimilk entity and improving its performances in fiscal year 2011.

#### (iv) Corporate Social Responsibility (CSR)

- review of the Group's situation and policy concerning gender equality at work and pay equality;
- review of the Group's four strategic priorities (Health, For All, Nature, People);
- creation of a Livelihoods fund (which finances carbon setoff projects) and the decision to invest € 10 million in this fund;
- monitoring the activities of danone.communities and the Danone Ecosystem Fund.

### Organization of Board of Directors' meetings

The corporate officers always attend Board of Directors' meetings. The Company's external Directors meet only when the internal Directors are present to ensure that all Board members have access to the same amount of information and to reinforce the collegial nature of the Board.

When the Board sets the compensation of corporate officers, they are present at the time of the Board's deliberations but, in accordance with the law, they do not take part in the vote. However, no corporate officer attends any meeting of the Nomination and Compensation Committee during which his/her own compensation is discussed.

### Self-assessment of the Board of Directors

In accordance with its internal rules and regulations, every two years, the Board of Directors conducts a self-assessment (most recently in 2007, 2008 and December 2010), which covers the Board itself and each of its Committees.

- The Board's self-assessment in 2007 led the Board of Directors to adopt a new set of internal rules and regulations. Following that assessment, it was decided *inter alia* to more completely inform the Directors on the Group's strategy and its acquisition and disposal transactions (see Section 6.5 *Powers of the Chief Executive Officer*).
- The Board's self-assessment in 2008 led the Board of Directors to amend its internal rules and regulations in order to *inter alia* (i) clarify the rules concerning information to be provided to the Board on the Company's financial position (i.e., at least once every six months, which was already the practice) and (ii) definitively prohibit the Directors from using any hedging instruments in connection with the Company's shares. In addition, following this self-assessment, a dedicated one-day event was initiated for presenting and discussing strategic plans and the budget.
- Lastly, another self-assessment of the Board and its various Committees was conducted during the second half of 2010, and the results thereof were reviewed at the Board's meeting in December 2010. Based thereon, the Board of Directors decided the following changes:
  - **operation of the Board:** to improve the interactive nature of the Board, and to ensure that all substantive matters of importance to the Group are addressed regularly, the Board set up annual meetings on specific topics: (i) The Group's strategic policies will be reviewed at annual presentations to the Board by the Executive Committee; (ii) the matters handled by each Committee will be reviewed by the Board once a year; and (iii) a report on the results of businesses acquired by the Group will be made from time to time, following Board authorization of the acquisition;
  - **training/information provided to Directors:** an integration procedure will be set up for new Directors, pursuant to which they may be assigned a "mentor Director". The sole role of the mentor is to facilitate new members' integration into the Board during a period of one year from the time of their appointment. A procedure to improve the training provided to Directors and to integrate new Board members will also be put in place as part of an integration process. This integration process includes site visits and meetings with the operational managers of the Group's various Divisions or central departments;
  - **composition of the Board:** the Board is committed to and will continue, in the future, to pursue improved governance in its proposals submitted to Shareholders' General Meetings, in terms of its independence and diversity of its composition.

To date, the following improvements have been implemented:

- Mr. Bruno BONNELL agreed to act as the mentor for Mrs. Isabelle SEILLIER and Mr. Jean-Michel SEVERINO;

- a three-day study program, which, in all cases, includes visits to the sites of the Fresh Dairy Products Division, was set up to speed up new Directors' integration and to broaden all Board members' knowledge of the main issues and opportunities specific to that business. The first session took place in January 2012;
- a procedure providing for annual feedback to the Board on the work performed by the various Committees is being set up. For example, in December 2011, the Nomination and Compensation Committee and the Social Responsibility Committee presented their first annual report on the work they had carried out during the year;
- the Board regularly reviewed Unimilk's performance since its acquisition in November 2010 and the progress of its integration into the Group;
- concerning the composition of the Board, and subject to approval by the Shareholders' General Meeting of the resolutions, the percentage of women on the Board will increase from 14% to 21% and the proportion of independent Directors will increase from 50% to 57%.

### Directors' attendance fees

The Shareholders' General Meeting of April 23, 2009 increased from € 500,000 to € 600,000 the maximum total yearly amount of attendance fees to be divided by the Board of Directors among its members. This total amount was increased solely to take into account an increase in the number of Directors and Board meetings and the creation of a new Committee (the Social Responsibility Committee).

Directors who are also members of the Executive Committee and/or corporate officers do not receive attendance fees.

The gross amount of attendance fees payable in 2011 was € 410,000 (compared to € 472,000 in 2010).

A Director who is a member only of the Board of Directors receives compensation that includes a fixed component of € 10,000 per year and a variable component of € 2,000 for each Board meeting he/she attends. In addition, Directors who are also members of one of the three Committees created by the Board of Directors receive compensation of € 4,000 for each Committee meeting he/she attends. The Chairs of these Committees receive € 8,000 per meeting. Honorary Directors do not receive attendance fees.

### Conflicts of interest

To the Company's knowledge, (i) there are no family ties between the Company's corporate officers, and (ii) during the last five years, no corporate officer has been convicted of fraud, declared bankruptcy, been placed in receivership or liquidation, been officially and publicly accused and/or penalized by any statutory or regulatory authority, or been deprived by a court of the right to hold a position in a company's administrative, management or supervisory bodies or to participate in a company's management or business operations.

To the Company's knowledge, there are no potential conflicts of interest between any Director's duties to the Company and their private interests and/or other duties, with the exception of Mrs. Isabelle SEILLIER. In the case of Mrs. SEILLIER, after the matter was reviewed by the Nomination and Compensation Committee, the Board, at its meeting in February 2011, reviewed her candidacy for appointment as a Director and took note of the existence of a potential conflict of interest due to her position as an executive of the J.P. Morgan Chase banking group, which is one of the banks with which the Danone group regularly does business. Due to the foregoing, the Board's internal rules and regulations were amended to increase Directors' reporting obligations with respect to conflicts of interests (see above Section concerning changes to the Board of Directors' internal rules and regulations). Furthermore, in accordance with the law and the internal rules and regulations, since her appointment, Mrs. Isabelle SEILLIER has not participated in any discussions or votes on decisions that create a conflict of interest for her.

Moreover, regulated agreements concluded with the J.P. Morgan Chase group are the subject of specific disclosure in the Board's report to the Shareholders' General Meeting of April 26, 2012.

Possible conflicts of interest involving the persons proposed for appointment as Directors at the Shareholders' General Meeting of April 26, 2012 were reviewed by the Nomination and Compensation Committee and described in the Board's report (see Section 9.3 *Comments on the resolutions submitted to the Shareholders' General Meeting* concerning the Board's report).

As of the date of this Registration Document, no corporate officer is a party to a service agreement with the Company or any of its subsidiaries that provides him/her with any specific benefits.

## 6.2 Audit Committee

### Composition of the Audit Committee

As of February 29, 2012, the Audit Committee comprises the following three Directors, two of whom have been deemed to be independent by the Board of Directors:

- Guylaine SAUCIER, the Committee Chair and an independent Director, who was appointed in April 2009 as a member of the Audit Committee and in April 2010 as Committee Chair. The Nomination and Compensation Committee found that Mrs. Guylaine SAUCIER met the criteria for being considered one of the Committee's "financial experts", on the basis of both her education and her experience in the accounting and financial fields (in particular, she is Chair of the Areva group's Audit Committee). Mrs. Guylaine SAUCIER has also acquired expertise in internal control and risk management as a member of the Risk Management Committee of the Banque de Montréal;
- Richard GOBLET D'ALVIELLA, an independent Director, was appointed to this Committee in April 2003. Mr. Richard GOBLET D'ALVIELLA is Executive Chairman of the financial company Sofina SA. He is also a member of the Audit Committee of Caledonia Investments and a member of Eurazeo's Audit Committee;
- Christian LAUBIE, a Director, was appointed to the Audit Committee in January 2001. Mr. Christian LAUBIE is also one of the Audit Committee's "financial experts". He is a member of the French Board of Auditors and was the Company's Chief Financial Officer from 1980 to 2001.

The composition of this Committee will change at the conclusion of the Shareholders' General Meeting of April 26, 2012 because the terms of office as Director of Mrs. Guylaine SAUCIER and Mr. Christian LAUBIE will not be renewed.

Mr. Jean-Michel SEVERINO, an independent Director, will be appointed to the Committee and will be its Chairman following the Shareholders' General Meeting of April 26, 2012. He will also be designated the "Committee's financial expert" within the meaning of Article L. 823-19 of the French Commercial Code.

Mrs. Mouna SEPEHRI will be appointed a member of the Committee subject to approval of her appointment as a Director by the Shareholders' General Meeting of April 26, 2012, in her capacity as an independent Director.

The Committee will then comprise solely independent Directors (as a reminder, the AFEP-MEDEF Code only requires that two thirds of the Committee members should be independent Directors).

### Internal rules and regulations of the Audit Committee

At its meeting of December 15, 2006, the Board of Directors adopted internal rules and regulations for the Audit Committee, which specify its responsibilities. Since then, the Board of Directors has regularly updated these internal rules and regulations:

- in 2007, the Board of Directors amended the internal rules and regulations to clarify the allocation of responsibilities between the Audit Committee and the Social Responsibility Committee;
- in 2009, the Board of Directors approved a new version of this Committee's internal rules and regulations to reflect statutory and regulatory changes concerning audit committees;
- at its meeting of December 14, 2010, the Board of Directors adopted a revised version of the internal rules and regulations to bring them into compliance with recent legislative amendments (concerning the liability of Board members for the work of the Committee) and to comply with the recommendations made by the AMF (the French securities regulator) working group on audit Committees in its report issued on July 22, 2010;
- at its meeting of February 14, 2012, the Board of Directors amended the internal rules and regulations in order to specify: (i) that at least two thirds of the members of this Committee must be independent within the meaning of the AFEP-MEDEF Code, (ii) that the other members shall not be corporate officers, nor have an employment contract with the Company or any of its fully-consolidated subsidiaries and finally that (iii) at least one member of the Committee must be independent and have the particular financial and accounting expertise required having regard to the governance criteria adopted by the Group, in this case the AFEP-MEDEF Code.

The internal rules and regulations provide that the Audit Committee is responsible, in particular, for:

- reviewing the Company's corporate and consolidated financial statements before they are submitted to the Board of Directors. The Audit Committee (i) ensures the relevance and consistency of the accounting policies the Company applies; (ii) reviews the accounting treatment of complex and/or unusual transactions; (iii) reviews the scope of consolidation; (iv) reviews the policy

for monitoring off-balance sheet commitments; (v) reports to the Board of Directors on options for the year-end accounts closing; (vi) in conjunction with Executive Management, reviews press releases on results; and (vii) twice a year receives a report on significant disputes involving the Group and any accounting provisions booked therefor;

- managing the selection process for the Company's Statutory Auditors by supervising the call for bids launched by the Executive Management, in particular making proposals for the appointment, renewal and compensation of the Statutory Auditors, reviewing the results of their work and audits and ensuring their independence. In accordance with the recommendations of the AMF working group, at its meeting of December 14, 2010, the Board of Directors supplemented the internal rules and regulations to provide for a joint review by the Audit Committee and the Statutory Auditors of the protective measures the Statutory Auditors adopt to mitigate potential risks to their independence, and ensure that they comply with statutory and regulatory provisions concerning the conflicts set out in the Statutory Auditors' Code of Ethics;
- ensuring that structures and systems are in place to identify and evaluate the risks that the Group faces, monitoring the effectiveness of such systems and verifying that major risks

faced by the Group are properly taken into account and are the subject of action plans;

- ensuring that an internal control system is in place and monitoring its effectiveness, and reviewing the report of the Chairman of the Board of Directors on the composition, preparation and organization of the Board's work, as well as the internal control and risk management procedures established by the Company;
- approving the internal audit plan and overseeing its implementation.

In performing its duties, the Audit Committee may regularly interview the corporate officers, the Executive Management of the Group and of the subsidiary companies, in particular the Executive Vice-President for Risk, Control and Audit, the Statutory Auditors and senior managers of the Group (in particular, managers in charge of preparing the financial statements, risk management, internal control, internal audits, legal, tax, treasury and financing affairs and ethics compliance). At the Committee's request, these interviews may take place without the presence of representatives of the Company's Executive Management. In addition, the Audit Committee may request opinions from independent external advisors, in particular on legal and accounting matters, and may request any internal or external audits.

## Activities of the Audit Committee in 2011

In 2011, the Audit Committee met five times (compared with six times in 2010). Its members' attendance rate at meetings was 100% (compared with 90% in 2010).

In 2011, the Committee's work focused primarily on the following matters:

- the Group's financial position;
- review of the Group's annual and semi-annual financial statements. In all cases, this review involves (i) a presentation of the Group's financial position by the Chief Financial Officer; (ii) a presentation by the Statutory Auditors of their audit approach; (iii) a joint presentation by the Chief Financial Officer, the Executive Responsible for preparing the financial statements of the Group's financial position and the Statutory Auditors of the main accounting options chosen; (iv) a review of the Group's principal disputes; and (v) hearing the conclusions of the Statutory Auditors;
- review of changes to the accounting treatment of put options granted to holders of non controlling interests prior to January 1, 2010;
- review of the preparatory work for closing the 2011 and half-yearly financial statements;
- the accounting treatment of Unimilk, including overseeing the acquisition accounting thereof and the accounting for the put options granted to the non-controlling shareholders of that group;
- changes to the Group's consolidation scope;
- review of the drafts press releases on the annual and semi-annual results. At such time, the Committee ensures that the financial information presented to the markets is consistent with the financial statements, and that the process of preparing the press releases included a review thereof by the Statutory Auditors;
- presentation of the proposed dividend distribution to be submitted to a vote of the shareholders;
- review of the resolutions concerning financial authorizations submitted for the approval of the Shareholders' General Meeting of April 28, 2011;
- review of the Group's crisis management system;
- presentation of the risk management systems, including a half-yearly review of all of the Group's financial risks, and presentation of a regular update to the Group's risk map;
- presentation of the main risks faced by the Group, in particular through special presentations and discussions with the operational managers in charge of such risks;
- monitoring the effectiveness of the internal control systems;
- approval of the Group's internal audit plan, and review of the principal results of audits conducted during the year and the summary thereof;
- reviewing the section of the Chairman's report on internal control;

- pre-approval policy for assignments by the Statutory Auditors (other than statutory audit assignments), thereby ensuring their independence (including a half-yearly review of their fees);
- operation of the Committee, and establishing its program and priorities for 2011 and 2012 financial years.

The Audit Committee reviews the consolidated financial statements at a meeting held at least four days before the Board meeting that will approve the financial statements.

A report on each Audit Committee meeting is made at the next Board of Directors meeting. The purpose of these reports is to keep the Board fully informed, thereby facilitating its decisions.

## 6.3 Nomination and Compensation Committee

### Composition of the Nomination and Compensation Committee

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As of February 29, 2012, the Nomination and Compensation Committee comprises the following three Directors, two of whom have been deemed to be independent by the Board of Directors:

- Jean LAURENT, the Committee Chair and an independent Director, a member since April 2005 and Committee Chair since April 2011;
- Yoshihiro KAWABATA, a Director, and a Committee member since April 2011;

- Hakan MOGREN, an independent Director, and a Committee member since April 2005.

The composition of this Committee will change following the Shareholders' General Meeting of April 26, 2012, when Mr. Hakan MOGREN, whose term of office as a Director will not be renewed, is expected to be replaced by Mr. Benoît POTIER, an independent Director and Chairman and Chief Executive Officer of Air Liquide. The revised composition of the Nomination and Compensation Committee will thus comply with the requirements of the AFEP-MEDEF Code as two thirds of its members will be independent.

### Internal rules and regulations of the Nomination and Compensation Committee

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At its meeting of December 15, 2006, the Board of Directors adopted internal rules and regulations for the Nomination and Compensation Committee, which specify its various responsibilities.

In particular, the Nomination and Compensation Committee is responsible for:

- making proposals to the Board of Directors for appointments to the Board of Directors;
- preparing the Board of Directors' review of corporate governance issues;
- assessing the Board of Directors and the Audit Committee, at their request;
- proposing criteria for establishing all components of the compensation of the Company's corporate officers;

- making proposals on granting corporate officers stock-options or allotments of free shares of the Company subject to performance conditions;
- proposing the allocation of attendance fees among the Directors;
- more generally, at the Board of Directors' request, making recommendations on the Group's compensation policy.

For all matters concerning the appointment of executives (other than compensation issues), the Chairman and Chief Executive Officer participates in the Committee's work.

Based on the recommendations of the Nomination and Compensation Committee, at its meeting of February 10, 2009, the Board of Directors amended the Committee's internal rules and regulations, which now provide that:

- the Committee's aforementioned preparation of the Board of Directors review of corporate governance issues would henceforth be done annually;

- the presentation on the compensation policy for members of the Group's Executive Committee (other than the corporate officers), which the Committee makes each year, would henceforth require the presence of one or more corporate officers (which was already the case in practice);
- the Nomination and Compensation Committee would henceforth undergo a regular assessment of its performance.

Based on the recommendations of the Nomination and Compensation Committee, at its meeting of February 14, 2011,

the Board of Directors amended the Committee's internal rules and regulations, in particular to provide that:

- the Committee would henceforth also assess the operation of the Social Responsibility Committee, at that Committee's request, as it was already authorized to do for the Audit Committee and the Board of Directors;
- the specific confidentiality clause for this Committee was deleted and replaced with the clause in the Board's internal rules and regulations, which was itself clarified and reinforced, and which applies to the Board and all Committees.

## Activities of the Nomination and Compensation Committee in 2011

In 2011, the Nomination and Compensation Committee met four times (compared to six times in 2010). Its members' attendance rate at meetings was 100% (as in 2010).

A report on each Nomination and Compensation Committee meeting is made at the next Board of Directors meeting.

In 2011, the Nomination and Compensation Committee focused primarily on the following matters:

1. Concerning Executive Management and the compensation of its members:
  - organization of Executive Management and, more specifically, the renewal of Mr. Bernard HOURS' term as Deputy General Manager (in conjunction with the renewal of his term of office as Director, which was approved by the Shareholders' General Meeting of April 28, 2011);
  - review of the process and practices in effect within the Group in terms of the succession plan for the Group's Executive Management and key positions in the companies of the Group;
  - review of the Group's variable compensation policy (including a review of the balance of the benefits granted to the various categories of beneficiaries of options) and the weighting between the long-term programs (Group performance shares) and medium-term programs (Group Performance Units);
  - review of all components of the compensation of each of the three corporate officers and of the other members of the Executive Committee. In particular, the Committee reviewed the following variable compensation programs:
    - (i) the short-term program (variable annual compensation) granted subject to performance conditions;
    - (ii) the medium-term program (Group Performance Units), including a review of whether performance objectives were met in 2010, and setting performance objectives for 2011; and
    - (iii) the long-term program (Group performance shares), including a review of the obligation of the corporate officers and the other members of the Executive Committee to hold their shares;

2. Concerning the composition of the Board of Directors:

- in connection with the Shareholders' General Meeting of April 28, 2011:
  - proposals to the Board concerning the composition of the Board of Directors i.e.: (i) the renewal of the terms of office of Mr. Bruno BONNELL, Mr. Bernard HOURS, Mr. Yoshihiro KAWABATA and Mr. Jacques VINCENT; (ii) the appointment of Mrs. Isabelle SEILLIER and Mr. Jean-Michel SEVERINO as Directors; and (iii) acknowledging that Mr. Jacques NAHMIAS (a Director since 1981) and Mr. Michel DAVID-WEILL (a Director since 1970) did not wish to have their terms of office renewed;
  - recommendation to appoint Messrs. Emmanuel FABER and Bernard HOURS as Vice-Chairmen of the Board of Directors;
  - review of the system of honorary Directors for the purpose of simplifying governance of the Board by reserving eligibility for honorary directorships solely to the Chairman and Vice-Chairman or Vice-Chairmen in office at the time of their retirement from the Board. On this basis, the Committee proposed the appointment of Mr. Michel DAVID-WEILL as honorary Vice-Chairman of the Board. The honorary directorships of Messrs. Jean-Claude HAAS and Yves BOËL expired at the conclusion of the Shareholders' General Meeting of April 28, 2011;
  - study of the composition of the Board in terms *inter alia* of diversity, competence, expertise, independence, internationalization, number of women and turnover (in terms of both age and seniority). Thereafter, the Committee made recommendations on a medium-term recruitment and renewal policy for Board members. These recommendations were based on the results of the self-assessment carried out by the Board in the second half of 2010. The Committee recommended, in particular, that the number of women and the independence of the Board continue to increase in future years.

- In connection with the Shareholders' General Meeting of April 26, 2012:
    - implementing the selection process of members of the Board of Directors, as discussed during three meetings of the Committee, including: (i) reviewing the general guidelines as to the evolution of the composition of the Board; (ii) recommending a medium-term recruitment and renewal policy for its members, notably taking into consideration the objective of increasing the number of women and the independence of the Board; (iii) determining selection criteria for candidacies; and (iv) examining each application both in regard to the determined selection criteria and to the different assumptions on the evolution of the Board and each of its committees;
    - in this context, the Committee recommended:
      - renewal of the terms of office of Messrs. Richard GOBLET D'ALVIELLA, JEAN LAURENT and Benoît POTIER;
      - appointment of Mrs. Mouna SEPEHRI, Mr. Jacques-Antoine GRANJON and Mrs. Virginia STALLINGS as Directors. The Committee deemed that each one met all of the independence criteria applied to the Board members, i.e., the criteria set forth in the AFEP-MEDEF Code;
      - in this respect, the Committee acknowledged that the terms of office as Directors of Messrs. Christian LAUBIE, Hakan MOGREN and Mrs. Guylaine SAUCIER would not be renewed when they expired on conclusion of the Shareholders' General Meeting of April 26, 2012;
      - provided the Shareholders' General Meeting of April 26, 2012 adopts all resolutions concerning changes to the composition of the Board, taking note of the changes to the Board, in particular in terms of independence, the number of women and turnover;
      - recommendation of the Committee to the Board to continue, in the future, to submit proposals to the Shareholders' General Meeting that would improve governance, in particular with respect to the independence of Directors and the diversity of the composition of the Board;
      - in-depth review of the provisions of the AFEP-MEDEF Code, the amendments thereto and, more specifically, an individual, yearly review of the independence of each Director and the existence or not of conflicts of interest, including potential conflicts of interest. Details of the review of the independence criteria applicable to these candidates and of their individual expertise and skills are provided in the Board's report to the Shareholders' General Meeting.
- 3.** Concerning the composition of the various Committees:
- in connection with the Shareholders' General Meeting of April 28, 2011:
    - review of changes in the composition of the Social Responsibility Committee, and the proposal to appoint Mr. Jean-Michel SEVERINO as an additional member of the Committee;
    - review of changes in the composition of the Nomination and Compensation Committee, and the proposal to appoint Mr. Yoshihiro KAWABATA as a member of the Committee to replace Mr. Michel DAVID-WEILL;
    - amendments to the internal rules and regulations of the Nomination and Compensation Committee and of the Board of Directors.
  - in connection with the Shareholders' General Meeting of April 26, 2012:
    - review of changes in the composition of the Nomination and Compensation Committee, and the proposal to appoint Mr. Benoît POTIER as a member of the Committee to replace Mr. Hakan MOGREN;
    - review of changes in the composition of the Audit Committee, and the proposal to appoint Mr. Jean-Michel SEVERINO as a member and Chair of the Committee and its financial expert, and to appoint Mrs. Mouna SEPEHRI as a member of the Committee;
    - review of the proposed amendments to the internal rules and regulations of the Board of Directors, the Audit Committee and the Social Responsibility Committee.
- 4.** Concerning the components of long-term compensation (Group performance shares): review of the various factors and conditions relative to Group performance shares, the authorization for which is the subject of a resolution to the Shareholders' General Meeting of April 26, 2012.



## 6.4 Social Responsibility Committee

At its meeting of December 15, 2006, the Board of Directors created a third specific governance body, the Social Responsibility Committee.

### Composition of the Social Responsibility Committee

As of February 29, 2012, the Social Responsibility Committee comprises the following four Directors, three of whom have been deemed to be independent by the Board of Directors:

- Jean LAURENT, the Committee Chair, an independent Director and a Committee member and Chair since February 2007;
- Bruno BONNELL, an independent Director and a Committee member since February 2007;

- Emmanuel FABER, a Director and the Deputy General Manager, a Committee member since February 2007;
- Jean-Michel SEVERINO, an independent Director and a Committee member since April 2011.

The Board has no plans to change the composition of this Committee.

### Internal rules and regulations of the Social Responsibility Committee

At its meeting of February 14, 2007, the Board of Directors adopted internal rules and regulations for this Committee, which detail its responsibilities and method of operation.

At its meeting of December 17, 2009, the Board of Directors amended the internal rules and regulations, which stipulate that henceforth the Social Responsibility Committee will undergo a regular assessment of its performance.

Moreover, in February, 2012 the Board of Directors amended the internal rules and regulations to specify that at least two thirds of the Committee's members should be independent within the meaning of the AFEP-MEDEF Code (and no longer just the majority).

In particular, the Social Responsibility Committee is responsible for:

- reviewing the main environmental risks and opportunities for the Group in relation to its objectives and activities;
- reviewing the social policies of the Group, their objectives and the results obtained;

- reviewing the reporting, evaluation and control systems in order to enable the Group to produce reliable information regarding non-financial matters;
- reviewing all non-financial information published by the Group, in particular concerning social and environmental matters;
- annually reviewing the summary of the ratings given to the Company and its subsidiaries by non-financial rating agencies;
- ensuring application of the Ethical Codes adopted by the Group.

In addition, in the area of socially responsible investments, the Committee is responsible for:

- evaluating the impact of these investments for the Group;
- reviewing application of the rules established by the Group concerning social investments and programs in areas related to the Group's activities;
- ensuring that the Company's interests are protected, with particular focus on preventing any conflicts of interest between these investments and the rest of the Group's activities.

## Activities of the Social Responsibility Committee

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In 2011, the Social Responsibility Committee met four times (compared with three times in 2010). Its members' attendance rate at meetings was 100% (as in 2010).

In 2011, the Committee's work focused on:

- reviewing the Group's four social initiatives (i.e., Health, For All, Nature and People). The Committee decided to devote a portion of each meeting to studying one of these four initiatives;
- reviewing the Group's ongoing social projects and, more specifically, reviewing the activities of the funds created by Danone, i.e., danone.communities and the Danone Ecosystem Fund;
- the creation of the Livelihoods fund together with several investors, which invests in projects that create social and environmental value and generate carbon credits;
- the amount paid by the Company as its annual financial contribution to danone.communities (see Sections 5.4 *Related party transactions* and 7.4 *Social and societal responsibility*, Information on the danone.communities Fund, and the special report of the Statutory Auditors in Section 5.4 *Related party transactions*);
- the amount paid by the Company as its financial contribution to the Danone Ecosystem Fund (see Sections 5.4 *Related party transactions* and 7.4 *Social and societal responsibility*, Information on the Danone Ecosystem Fund, and the special report of the Statutory Auditors in Section 5.4 *Related party transactions*);

- reviewing the various challenges created by the transformation of the Group in terms of human resources;
- reviewing the Group's situation and policies with respect to gender equality at work and pay equality and the various projects initiated to improve women's professional situation in the Group;
- the Group's rating in non-financial matters.

In addition, in 2009, the Committee carried out a first assessment of its activities, which led to a reflection on the Committee's positioning, in particular in relation to the Audit Committee. As a result, the Committee decided to have its activities assessed again by all of the Directors, the results of which were reviewed in 2010. This assessment confirmed the Committee's contribution to the Group's strategy, because the Committee enables a better understanding of changes that affect the Group's business, as well as consumer expectations in the face of new issues (in particular, environmental, health and social policy issues).

Following this assessment, it was decided (i) to improve coordination in reviewing Group risks with the Audit Committee and (ii) to provide feedback on its work to the Board in a more concrete manner. Furthermore, the Committee's duties were expanded to include (i) implementation of the Group's aforementioned four social initiatives and verifying the actual impact of the transformation process on corporate management, and (ii) the accuracy and reliability of the Group's non-financial communications.

A report on each Social Responsibility Committee meeting is made at the next Board of Directors meeting. The purpose of these reports is to keep the Board fully informed, thereby facilitating its decisions.

## 6.5 Powers of the Chief Executive Officer

On April 25, 2002, the Board of Directors decided not to separate the positions of Chairman of the Board of Directors and Chief Executive Officer in order to maintain cohesiveness between the powers of the Board of Directors and those of Executive Management, thereby avoiding diluting the powers and responsibility of the Company's Chairman.

That decision was confirmed by the Board of Directors on February 10, 2010, which deemed that:

- not separating these positions had not resulted in an excessive centralization of powers because Executive Management includes two Deputy General Managers;
- the Board of Directors deemed a majority of Directors to be independent on the basis of its application of the AFEP-MEDEF

Code (including all members of the Audit Committee and two-thirds of the members of the Nomination and Compensation Committee and Social Responsibility Committee);

- most significant transactions within the purview of the Chief Executive Officer require prior approval of the Board of Directors.

Since then, provided the April 26, 2012 Shareholders' General Meeting adopts the resolutions concerning the composition of the Board, its independence rate, strictly applying the criteria of the AFEP-MEDEF Code, will increase from 50% to 57%, the independence rate of the Audit Committee will increase from 66% to 100%, and the independence rate of the Nomination and Compensation Committee will remain at 66%.

## Limits on the powers of the Chief Executive Officer

The Board of Directors approves (i) strategic investment projects and (ii) all transactions, such as acquisitions or disposals, that may significantly impact the Group's results, its balance sheet structure or its risk profile. In particular, the Chairman and Chief Executive Officer must obtain the Board of Directors' prior authorization for the following transactions:

Types of transactions	Authorization limits
Acquisitions or sales of securities and/or assets, partnerships or joint ventures (for cash or by a contribution of assets, completed in one or more installments)	Limit of € 250 million applicable to: <ul style="list-style-type: none"> <li>• acquisitions, partnerships and joint ventures: for the Group's share in each investment</li> <li>• disposals: payment received for the Group's share</li> </ul>
All off-balance sheet commitments made by the Group	Limit of € 100 million for the Group's share
Other investments	Any significant overrun of the amount set in the annual budget
Internal restructuring	Any restructuring in which the total cost of the Group's share exceeds € 50 million

## 6.6 Executive Committee

Under the authority of Mr. Franck RIBOUD, the Executive Committee is responsible for the Group's operational management. It implements the strategy defined by the Board of Directors, approves budgets, ensures the consistency of actions undertaken

by each of the subsidiaries and Divisions and, depending on the results achieved, decides on action plans to be implemented. The Executive Committee meets at least once a month.

As of February 29, 2012, the following are the ten members of the Executive Committee:

Name	Age	Principal position within the Group	Starting date of term <sup>(1)</sup>
Franck RIBOUD	56	Chairman and Chief Executive Officer	1996
Emmanuel FABER	48	Vice-Chairman of the Board of Directors and Deputy General Manager	2000
Bernard HOURS	55	Vice-Chairman of the Board of Directors and Deputy General Manager	2001
Thomas KUNZ	54	General Manager, Fresh Dairy Products <sup>(2)</sup>	2004
Felix MARTIN GARCIA	51	General Manager, Baby Nutrition	2008
Muriel PENICAUD	56	General Manager, Human Resources	2008
Pierre-André TERISSE	45	Chief Financial Officer	2008
Flemming MORGAN	56	General Manager, Medical Nutrition	2009
Jean-Philippe PARE	53	General Manager, Research and Development <sup>(3)</sup>	2011
Francisco CAMACHO	46	General Manager, Danone Waters <sup>(4)</sup>	2011

(1) Date of appointment to the Executive Committee.

(2) Mr. Thomas KUNZ was formerly General Manager, Danone Waters since 2004, and was appointed General Manager, Fresh Dairy Products, on October 1, 2011 to replace Mr. Jordi CONSTANS.

(3) Mr. Jean-Philippe PARE was appointed General Manager, Danone Research and Development, on May 2, 2011.

(4) Mr. Francisco CAMACHO was appointed General Manager, Danone Waters, on October 1, 2011.

## 6.7 Application of the AFEP-MEDEF Corporate Governance Code for listed companies

The Company complies with the corporate governance system applicable in France, in accordance with the provisions described in this Section.

Pursuant to the Act of July 3, 2008, at its meeting of December 18, 2008, the Board of Directors studied the provisions of the AFEP-MEDEF Code and decided that the Group would refer to this Code of Governance (this decision was published in a press release issued on December 19, 2008). This code is available on the MEDEF website ([www.medef.fr](http://www.medef.fr)).

## 6.8 Additional information

The obligations of corporate officers to hold their DANONE shares received by exercising stock-options or from Group performance shares are described in Section 6.10 *Compensation and benefits paid to executives*.

The principles and rules adopted by the Board of Directors to determine the compensation and benefits of all types provided to corporate officers are discussed in Section 6.10 *Compensation and benefits paid to executives*.

The steps that shareholders must take in order to attend the Shareholders' General Meeting are summarized in Section 9.1 *Shareholders' General Meetings*.

The information required by Article L. 225-100-3 of the French Commercial Code is set out in Section 8.9 *Market for the Company's shares*.

Lastly, on February 14, 2012, the Board of Directors approved the report prepared pursuant to Article L. 225-37 of the French Commercial Code.

## 6.9 Information on transactions entered into with members of the Company's Administrative, Management and Supervisory bodies

See Section 5.4 *Related party transactions*.

## 6.10 Compensation and benefits paid to executives

### Compensation policy for executives

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The Nomination and Compensation Committee met several times in 2011 and at the beginning of 2012 to review the compensation policy of corporate officers (*mandataires sociaux*) and members of the Executive Committee.

This compensation policy was presented to the members of the Nomination and Compensation Committee in a reference file based on a study produced by a specialized firm and observing the practices on two main markets (France and Europe). It was developed through an approach organized in levels of responsibility corresponding to the job content and relative to market practices. In addition, this policy is based on collective principles that are

applicable to approximately 1,500 executives and senior managers worldwide including all the General Managers.

The retained principles can be broken down into two parts: an annual compensation and a pluri-annual compensation.

#### Annual compensation

This annual compensation consists in:

- fixed compensation;

- short-term variable compensation, granted subject to performance conditions, determined based on economic, societal and managerial objectives and calculated with reference to objective and quantified criteria:
  - for the Chairman and Chief Executive Officer, Franck RIBOUD, as well as for Emmanuel FABER, Deputy General Manager and Bernard HOURS, Deputy General Manager, this variable compensation comprises:
    - (i) a variable economic portion, computed with reference to Group objectives (in terms of sales, trading operating margin, free cash flow and underlying fully diluted earnings per share), as communicated to the financial markets;
    - (ii) a variable societal portion, computed with reference to the Group's societal objectives (which are derived from labor parameters such as safety at work, employee training and the development of talents, and from environmental parameters such as carbon footprint reduction);
    - (iii) a variable portion computed with reference to objectives linked to the expansion of the Group's activity (product innovation, market share, expansion in new geographic areas and implementation of strategic axes).
  - for members of the Executive Committee who manage a Division:
    - (i) a variable economic portion, based on objectives set in the budget of the relevant Division (in terms of sales, trading operating income, operating free cash flow and underlying fully diluted earnings per share);
    - (ii) a variable societal portion, based on the societal objectives set for the Division concerned (which are derived from labor parameters such as safety at work, employee training and the development of talents, and from environmental parameters such as carbon footprint reduction);
    - (iii) a variable portion computed with reference to objectives linked to the expansion of the Division's activity (product innovation, market share, expansion in new geographic areas and implementation of strategic axes).
  - for the other members of the Executive Committee:
    - (i) a variable economic portion, computed with reference to Group objectives (in terms of sales, trading operating margin, free cash flow and underlying fully diluted earnings per share), as communicated to the financial markets;
    - (ii) a variable societal portion, computed with reference to the Group's societal objectives;
    - (iii) a variable portion calculated with reference to objectives linked to the expansion of the Group's activity.

### Pluri-annual compensation

This pluri-annual compensation consists of:

- medium-term variable compensation in the form of GPUs (Group Performance Units described in Section 7.2 *Employee benefits*) which payment is subject to pluri-annual performance conditions over a three-year period. The GPUs were introduced in 2005 with the objective of aligning more closely the compensation of corporate officers, members of the Executive Committee and 1,500 executives and senior managers with the Group's overall economic performance in the medium term. GPUs are allocated upon the decision of the Board of Directors every year. At the end of a three-year period, the beneficiaries receive compensation in the amount of € 30 per unit allocated if the Group has achieved, for each of the three years in question, all of the established objectives. This compensation is decreased to € 20 per GPU if the objectives were achieved only two years out of the three and to € 0 per GPU if the objectives were achieved only one year out of the three or were never achieved;
- long-term variable compensation in the form of GPS (Group performance shares described in Section 7.2 *Employee benefits*). GPS are Company shares subject to performance conditions. GPS were introduced in 2010 by the Shareholders' General Meeting held in April 2010 (to replace the stock-option program that was consequently closed). GPS are valued and recognized in the Group's accounts in accordance with IFRS 2, *Share-based Payment* (see Notes 1.25 and 31 of the Notes to the consolidated financial statements).

The proportion of medium- and long-term variable compensation increases with the level of responsibility of the executives and senior managers concerned.

The compensation of Mr. Franck RIBOUD, Chairman and Chief Executive Officer, Mr. Emmanuel FABER, Deputy General Manager, and Mr. Bernard HOURS, Deputy General Manager, is determined by the Board of Directors on the basis of recommendations made by the Nomination and Compensation Committee. The compensation of the other members of the Group's Executive Committee is presented to the Nomination and Compensation Committee.

## Agreements, plans and indemnities applicable to corporate officers

The table below shows the various agreements, plans and indemnities applicable to the Group's corporate officers:

Name	Employment contract <sup>(1)</sup>		Supplementary retirement plan <sup>(2)</sup>		Indemnities or benefits due or possibly due as a result of cessation or change in function <sup>(3)</sup>		Indemnities relating to a no-compete clause <sup>(4)</sup>	
	Yes	No	Yes	No	Yes	No	Yes	No
Franck RIBOUD Chairman and Chief Executive Officer Date of first appointment: 1992 Date appointment ends: 2013	X		X		X			X
Emmanuel FABER Deputy General Manager Date of first appointment: 2002 Date appointment ends: 2013	X		X		X		X	
Bernard HOURS Deputy General Manager Date of first appointment: 2005 Date appointment ends: 2014	X		X		X		X	

(1) The employment contracts of Mr. Franck RIBOUD, Mr. Emmanuel FABER and Mr. Bernard HOURS have been suspended, see Section 5.4 Related party transactions.

(2) These supplementary retirement plans are described in Section 5.4 Related party transactions.

(3) The indemnities payable in the event of certain cases of the cessation of the corporate mandate of executive directors and officers are detailed in Section 5.4 Related party transactions. In the event that these office holders are dismissed, no contractual indemnity would be payable. The indemnities provided for in the collective agreement (Group collective status) would be due, however. The application conditions of these indemnities are set out in Section 5.4 Related party transactions.

(4) This clause enables the Group, solely in the event of the resignation of the officer concerned, either to activate the clause for a period of 18 months in exchange for financial compensation equivalent to 50% of the officer's fixed and variable compensation, or to release him from the clause with no financial compensation. See Section 5.4 Related party transactions.

### Corporate officers' termination indemnities

When renewing the three officers' term of office (ie Mr. Franck RIBOUD and Mr. Emmanuel FABER at the Shareholders' General Meeting of April 22, 2009 and for Mr. Bernard HOURS at the Shareholders' General Meeting of April 28, 2010) their compensation terms were approved by the shareholders of the company. Thus, and in accordance with the law, payment of these indemnities has now been made subject to performance conditions. In addition, and in compliance with the French corporate governance AFEP-MEDEF Code, these indemnities are subject to a limit and are to be paid only in certain cases.

Comprehensive information about the indemnification conditions of the Company's three corporate officers is provided in Section 5.4 Related party transactions.

### Suspension of employment contract of the chairman and chief executive officer

Upon the renewal of Franck RIBOUD's term of office as Chairman and Chief Executive Officer and following the publication of the AFEP-MEDEF Code, the Board of Directors meeting of February 10, 2010, pursuant to the recommendation of the Nomination and Compensation Committee, considered that Franck RIBOUD's employment contract should be maintained (although it should remain suspended), due to his age, personal situation and long period of service as a Group employee. The Board considered this system relevant for executives with at least ten years of seniority within the Group, to encourage internal promotion and the sustainable management that the Company is striving to implement, as terminating the employment contract could, on the contrary, deter internal candidates from accepting positions as a corporate officer.



## Compensation paid to executives for 2011

For the 2011 fiscal year, the gross aggregate amount of direct and indirect compensation paid to all members of the Board of Directors and members of the Executive Committee amounted to € 18.1 million.

This amount includes:

- (i) the compensation paid to members of the Executive Committee and the corporate officers totaling € 17.7 million (including € 12.0 million with respect to the variable portion), and

- (ii) € 0.4 million of Directors' attendance fees (to which the corporate officers are not entitled).

As of December 31, 2011, the three corporate officers (Messrs. Franck RIBOUD, Emmanuel FABER and Bernard HOURS) short-term variable compensation represented on average 59% of the annual monetary compensation due, and may not under any circumstances exceed 65% of their annual monetary compensation. In addition, during that same period, GPS granted annually to the three corporate officers represented in total less than 0.015% of the Company's share capital.

The aggregate amount of compensation and GPS granted to each corporate officer in the 2011 and 2010 fiscal years is broken down as follows:

(in €) Name	Compensation due		Value of GPS granted <sup>(1)</sup>			Total
	2010	2011	2010	2011	2010	2011
Franck RIBOUD	4,397,370	4,340,670	1,497,688	1,716,560	5,895,058	6,057,230
Emmanuel FABER	2,428,870	2,390,732	966,250	1,201,592	3,395,120	3,592,324
Bernard HOURS	2,450,870	2,450,732	966,250	1,287,420	3,417,120	3,738,152

(1) In 2010 and 2011, grant of GPS solely. See Note 1.22 of the Notes to the consolidated financial statements for the valuation of the GPS in accordance with IFRS 2.



The aggregate amount of annual compensation due and paid, as well as any benefits in kind awarded in the 2011 fiscal year to members of the Board of Directors is broken down as follows:

(in €)	2011								
	Fixed compensation <sup>(1)</sup>		Variable annual compensation		Benefits in kind <sup>(2)</sup>		Attendance fees <sup>(3)</sup>	Total annual compensation	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid	Amounts due and paid	Amount due	Amount paid
Name									
Franck RIBOUD	1,050,000	1,050,000	1,786,050	1,842,750	4,620	4,620	-	2,840,670	2,897,370
Emmanuel FABER	681,500	681,500	864,612	1,009,250	4,620	4,620	-	1,550,732	1,695,370
Bernard HOURS	681,500	681,500	864,612	1,031,250	4,620	4,620	-	1,550,732	1,717,370
Jacques VINCENT <sup>(4)</sup>							20,000	20,000	20,000
Bruno BONNELL							34,000	34,000	34,000
Michel DAVID-WEILL <sup>(5)</sup>							23,000	23,000	23,000
Richard GOBLET D'ALVIELLA							40,000	40,000	40,000
Yoshihiro KAWABATA							26,000	26,000	26,000
Christian LAUBIE <sup>(6)</sup>							38,000	38,000	38,000
Jean LAURENT							76,000	76,000	76,000
Hakan MOGREN							36,000	36,000	36,000
Jacques NAHMIAS <sup>(5)</sup>							9,000	9,000	9,000
Benoît POTIER							18,000	18,000	18,000
Guyline SAUCIER							60,000	60,000	60,000
Isabelle SEILLIER							11,000	11,000	11,000
Jean-Michel SEVERINO							19,000	19,000	19,000

(1) Gross amount. The amounts due correspond to amounts allocated in respect of the fiscal year concerned. The amounts paid correspond to amounts effectively paid during the fiscal year and include amounts due in respect of the preceding fiscal year.

(2) Benefits in kind correspond to the Company car pool and chauffeurs made available to all Executive Committee members.

(3) Gross amount due during the year before withholding at source. The three executive directors and officers are not entitled to attendance fees.

(4) The amount paid to Jacques VINCENT under the retirement plan for which he qualifies as a result of his previous work for the Group was € 0.88 million in 2011 for his 40 years' service within the Group.

(5) The Directors' term of office of Mr. Michel DAVID WEILL and Mr. Jacques NAHMIAS ended after the Shareholders' General Meeting of April 28, 2011.

(6) The amount paid to Christian LAUBIE under the retirement plan for which he qualifies as a result of his previous work for the Group was € 0.61 million in 2011 for his 40 years' service within the Group.

The aggregate amount of pluri-annual compensation due and paid in the 2011 fiscal year to the corporate officers is broken down as follows:

(in €)	Pluri-annual variable compensation <sup>(1)</sup>		Value of GPS granted <sup>(2)</sup>	Total pluri-annual compensation
	Amount due	Amount paid		
Name				
Franck RIBOUD	1,500,000	1,500,000	1,716,560	3,216,560
Emmanuel FABER	840,000	750,000	1,201,592	2,041,592
Bernard HOURS	900,000	750,000	1,287,420	2,187,420

(1) Pluri-annual variable compensation due corresponds to GPS granted in 2011. The amounts paid in 2011 were in respect of GPU granted in 2008 in light of the achievement of performance conditions in 2008, 2009 and 2010.

(2) Represents the full fair value estimated on the grant date in accordance with IFRS 2. See Notes 1.25 and 31 of the Notes to the consolidated financial statements.

(3) On the basis of the amounts of pluri-annual, variable compensation due and the value of the GPS.

## Compensation paid to executives for 2010

The aggregate amount of annual compensation due and paid out, as well as any benefits in kind awarded during the 2010 fiscal year to the members of the Board of Directors, is broken down as follows:

(in €)	2010								
	Fixed compensation <sup>(1)</sup>		Variable annual compensation		Benefits in kind <sup>(2)</sup>		Attendance fees <sup>(3)</sup>	Total annual compensation	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid	Amounts due and paid	Amount due	Amount paid
Franch RIBOUD	1,050,000	1,050,000	1,842,750	1,842,750	4,620	4,620	-	2,897,370	2,897,370
Jacques VINCENT <sup>(4)</sup>	1,094,688	1,094,688	0	786,240	1,155	1,155	16,000	1,111,843	1,882,083
Emmanuel FABER	665,000	665,000	1,009,250	875,000	4,620	4,620	-	1,678,870	1,544,620
Bernard HOURS	665,000	665,000	1,031,250	875,000	4,620	4,620	-	1,700,870	1,544,620
Bruno BONNELL							36,000	36,000	36,000
Michel DAVID-WEILL							68,000	68,000	68,000
Richard GOBLET D'ALVIELLA							40,000	40,000	40,000
Christian LAUBIE <sup>(5)</sup>							44,000	44,000	44,000
Jean LAURENT							72,000	72,000	72,000
Hakan MOGREN							48,000	48,000	48,000
Jacques NAHMIAS							22,000	22,000	22,000
Benoît POTIER							40,000	40,000	40,000
Yoshihiro KAWABATA							22,000	22,000	22,000
Guyllaine SAUCIER							64,000	64,000	64,000

(1) Gross amount. The amounts due correspond to amounts allocated in respect of the fiscal year concerned. The amounts paid correspond.

(2) Benefits in kind correspond to the Company car pool and chauffeurs made available to all Executive Committee members.

(3) Gross amount due during the year before withholding at source. The four executive directors and officers are not entitled to attendance fees.

(4) Jacques VINCENT decided to retire as of April 1, 2010. On that date, his role as Deputy General Manager and his employment contract both ended. Under the terms of the collective agreement applicable to all Danone employees, he received a retirement indemnity representing 7 months of his fixed and variable compensation (a gross amount of € 904,688), for his 40 years' service within the Group. For the period from January 1 to April 1, 2010, he received a gross base salary of € 190,000. The amount paid to Jacques VINCENT in respect of the pension from which he benefits due to his 40 years of past service within the Group totaled € 660,000 in 2010.

(5) The amount paid to Christian LAUBIE in respect of the pension plan from which he benefits due to his past service with the Group totaled € 610,000 in 2010 for his 40 years' service within the Group.

The aggregate amount of pluri-annual compensation due and paid out, as well as any benefits in kind awarded during the 2010 fiscal year to the members of the Board of Directors, is broken down as follows:

(in €)		Pluri-annual variable compensation <sup>(1)</sup>	Value of GPS granted <sup>(3)</sup>	Total pluri-annual compensation <sup>(4)</sup>
Name	Amount due	Amount paid		
Franck RIBOUD	1,500,000	1,500,000	1,497,688	2,997,688
Jacques VINCENT <sup>(2)</sup>	-	2,255,000	-	-
Emmanuel FABER	750,000	405,000	966,250	1,716,250
Bernard HOURS	750,000	405,000	966,250	1,716,250

(1) Pluri-annual variable compensation due corresponds to GPS granted in 2010. The amounts paid in 2010 were in respect of GPU granted in 2007 in light of the achievement of performance conditions in 2007, 2008 and 2009.

(2) Jacques VINCENT decided to retire as of April 1, 2010. Therefore, following the rules for GPU for 2008 and 2009, he received the sum of € 750,000 for the GPU awarded in 2008 and the sum of € 500,000 for the GPU awarded in 2009. He was not allotted any GPS in 2010.

(3) Represents the full fair value estimated on the grant date in accordance with IFRS 2. See Notes 1.25 and 31 to the consolidated financial statements.

(4) On the basis of the amounts of pluri-annual, variable compensation due and the value of the GPS.

Lastly, the conditions under which the three corporate officers of the Company are paid indemnities in certain cases of termination of their terms of office are described in Section 5.4 *Related party*

*transactions*. The other members of the Executive Committee benefit from similar commitments from the Company in certain cases of termination of their duties.

## Target short-term variable compensation for executives in respect of 2012

At its meeting on February 14, 2012 the Board of Directors, pursuant to the recommendation of the Nomination and Compensation Committee, set the target short-term variable compensation to be paid subject to performance conditions in

2013 in respect of the 2012 fiscal year in accordance with the policy described in the section relating to annual compensation i.e. € 1,417,500 for Franck RIBOUD and € 564,000 for Emmanuel FABER and Bernard HOURS.

## Stock-options and Group performance shares granted to executives

### Policy for granting stock-options and Group performance shares

Since the Shareholders' General Meeting of April 22, 2010, grants of DANONE shares subject to performance conditions (Group performance shares "GPS") have replaced grants of stock-options. The GPS and the stock-options are described in Section 7.2 *Employee benefits*.

The Board of Directors grants GPS annually on the basis of an amount determined globally, as recommended by the Group's Nomination and Compensation Committee.

As of December 31, 2011, the members of the Executive Committee benefited from (i) exercisable stock-options for an aggregate of 2,723,060 shares and (ii) 322,200 GPS which could be delivered to them.

The first GPS related shares granted in 2010 will be delivered, subject to continued employment (the performance conditions having been met – see Section 7.2 *Employee benefits*) (i) as from 2013 in the case of the "3+2" plan for beneficiaries subject to French social security contributions and (ii) as from 2014 in the case of the "4+0" plan for other beneficiaries.

The first GPS related shares granted in 2011 will be delivered, subject to continued employment and performance conditions, (i) as from 2014 in the case of the "3+2" plan for beneficiaries subject to French social security contributions and (ii) as from 2015 in the case of the "4+0" plan for other beneficiaries.

### Obligation to hold shares resulting from stock-options or Group performance shares (GPS)

- All corporate officers and other Executive Committee members are subject to an obligation to hold the shares in the Company they receive resulting from the exercise of stock-options. In accordance with Article L. 225-185 of the French Commercial Code, the Chairman and Chief Executive Officer and the Deputy General Managers must hold (in registered form) a certain number of shares resulting from the exercise of options granted under each stock-option plan approved from January 1, 2007 until such time as the termination of their functions.

Accordingly, the Board of Directors has decided (i) that this commitment to hold a portion of the shares would apply to a number of shares corresponding to 35% of the capital gain upon acquisition, net of tax and social security contributions, realized on all of the shares resulting from an exercise of stock-options by the executive concerned under this plan; and (ii) to subject all other members of the Executive Committee to this obligation to hold shares under the same conditions.

The Board of Directors has also reexamined and confirmed these obligations to hold shares derived from the exercise of stock-options by Messrs. RIBOUD, FABER and HOURS, upon the renewal of their respective terms as Director at the Shareholders' General Meetings of April 22, 2010 and April 28, 2011.

- All corporate officers and other Executive Committee members are also subject to an obligation to hold the shares in the Company they receive derived from Group performance shares. They must hold (in registered form) a number of shares derived from each GPS plan granted as from July 26, 2010 (until termination of their corporate functions) corresponding to 35% of the capital gains upon acquisition, net of tax and social security contributions, which would be realized if all shares resulting from each GPS plan granted to the director were sold. The Board meeting of February 14, 2011 confirmed this obligation to hold shares for Mr. Bernard HOURS upon the renewal of his term.

Given the significant level of the obligations to hold shares both for all corporate officers and other Executive Committee members are subject to, and following the recommendation of the Nomination and Compensation Committee, the Board deemed inadequate to impose an obligation to purchase a certain number of shares by the end of the retention period of their performance shares.

The amounts recognized as compensation and other benefits for all Directors and members of the Executive Committee are detailed in Note 34 of the Notes to the consolidated financial statements and in Notes 12 and 17 to the financial statements of the parent company, Danone.

### Stock-options exercised

In accordance with Article L. 225-184 of the French Commercial Code, the exercise of stock-options on Company shares by the three corporate officers during the 2011 fiscal year (in respect of stock-options granted prior to the closure of the stock-option program in 2010) is detailed below:

Name	Date of Board of Directors meeting granting the options	Options exercised	
		Number of options	Exercise price (in €)
Franck RIBOUD	04/15/2004	212,000	31.80
Emmanuel FABER	04/11/2003	32,850	27.87
	04/11/2003	5,838	27.87
Bernard HOURS	04/15/2004	96,850	31.80
	04/15/2004	9,150	31.80

## Group performance shares (GPS) granted

In accordance with Article L. 225-197-4 of the French Commercial Code, Group performance shares granted during the 2011 fiscal year to the three corporate officers are detailed below:

Name	Date of Board of Directors meeting granting the GPS	Value of GPS granted <sup>(1)</sup> (in €)	Number of GPS <sup>(2)</sup>	Vesting date
Franck RIBOUD	04/28/2011	1,716,560	40,000	04/29/2014
Emmanuel FABER	04/28/2011	1,201,592	28,000	04/29/2014
Bernard HOURS	04/28/2011	1,287,420	38,750	04/29/2014

(1) Represents the full fair value estimated on the grant date in accordance with IFRS 2. See Notes 1.25 and 31 to the consolidated financial statements.

(2) As a percentage of the share capital as of December 31, 2011, these grants represent 0.006% for Franck RIBOUD, 0.004% for Emmanuel FABER and 0.005% for Bernard HOURS.

## Record of stock-options granted to corporate officers

The stock-options granted to the three corporate officers, under stock-option plans that have not yet expired, are detailed below:

### Characteristics of the options granted

Date of Shareholders' General Meeting authorizing the options	05/29/2001	04/11/2003	04/11/2003	04/22/2005	04/22/2005	04/26/2007	04/26/2007
Date of Board of Directors meeting granting the options	04/11/2003	04/15/2004	04/22/2005	04/27/2006	04/26/2007	04/29/2008	04/23/2009
Total number of options granted	3,908,538	3,976,442	2,411,983	2,045,853	2,633,517	2,762,403	2,704,611
Vesting date	04/11/2005	04/15/2006	04/22/2007	04/26/2010	04/25/2011	04/28/2011	04/22/2013
Expiration date	04/11/2011	04/15/2012	04/22/2013	04/26/2014	04/25/2015	04/28/2016	04/22/2017
Exercise price of options granted (in euros per share)	27.87	31.8	35.43	46.92	57.54	53.9	34.85

### Number of options granted from plans not yet expired

Franck RIBOUD	212,000	318,000	212,000	212,000	424,000	212,000	164,300
Emmanuel FABER	120,000	106,000	56,535	56,180	56,180	106,000	82,150
Bernard HOURS	84,800	106,000	56,535	56,180	56,180	106,000	82,150

## Record of Group performance shares granted to corporate officers

The GPS granted to the three corporate officers are detailed below:

### Characteristics of the GPS granted

Date of Shareholders' General Meeting authorizing the GPS	04/22/2010	04/22/2010
Date of Board of Directors meeting granting the GPS	07/26/2010	04/28/2011
Total number of GPS granted	644,565	696,311
Acquisition date	07/27/2013	04/29/2014
Vesting date	07/27/2015	04/29/2016

### Number of GPS granted

Franck RIBOUD	38,750	40,000
Emmanuel FABER	25,000	28,000
Bernard HOURS	25,000	30,000

## Obligations in respect of executives' pension plans

Corporate officers are covered by a defined benefit pension plan provided to certain managers who are classified as Senior Managers in the Group (see Section 7.2 *Employee benefits*). This pension plan was closed to new members as of December 31, 2003.

In accordance with the recommendations of the AFEP-MEDEF Code, eligibility for these pension arrangements is subject to the following conditions:

- the group of potential beneficiaries is larger than just the corporate officers. In fact, as of December 31, 2011, more than 180 executives who were classified as senior managers and who were members of the French pension plan as of December 31, 2003 remained eligible for membership of said plan (excluding beneficiaries who had already liquidated their rights);
- this eligibility is subject to the corporate officer concerned being employed by the Group on the date of his retirement (it being specified that in the event of said corporate officer leaving the Group before the age of 55, his rights are forfeited and that, in the event of dismissal after the age of 55, he continues to be eligible to benefit from the plan provided that he does not take salaried employment elsewhere);
- beneficiaries must have at least five years' service within the Group. In the case of Franck RIBOUD, Bernard HOURS and Emmanuel FABER, their length of service is 30 years, 26 years and 14 years respectively;
- this benefit is taken into account when the total compensation of each corporate officer is set;
- the basis of calculation of this retirement guarantee corresponds to the average of the base salaries and variable compensation received by each beneficiary during the last three complete years of service within the Group (the term of the corporate office included);
- the increase in the potential rights each year should represent only a limited percentage of the beneficiary's compensation. Thus:
  - (i) the amount of the annuity that would be paid to Franck RIBOUD would correspond to 2% of this calculation base per

year of service (this amount will, however, be capped at 65% of the calculation base), minus the full amount of the pension rights acquired by Franck RIBOUD during his professional life, including the Company's non-contributory supplementary pension plan;

- (ii) the amount of the annuity which would be paid to Emmanuel FABER and Bernard HOURS would correspond to (i) 1.5% per year of service (including the period corresponding to the term of office) of this calculation base, for the tranche located between three and eight times the French social security ceiling, and (ii) 3% per year of service (the term of the corporate office included) of this calculation base, for the tranche that is higher than 8 times the ceiling (this amount will, however, be capped on the basis of a maximum period of service of 20 years), minus the full amount of the pension rights acquired by Emmanuel FABER and Bernard HOURS resulting from the implementation of the Company's non-contributory supplementary pension plan;
- (iii) for each corporate officer, in the event of retirement without satisfying the conditions necessary for obtaining the full rate of social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity.

As of December 31, 2011, the portion of the total amount of the Group's obligation which relates to the Company's corporate officers under this pension plan amounted to € 47.3 million, which takes into account the impact of the new charges applicable as of 2010, as provided in the *Loi de Financement de la Sécurité Sociale 2010* (LFSS) (2010 Social Security Funding Act). Please refer also to Note 34 of the Notes to the consolidated financial statements.

The total amount paid by the Company with respect to this pension plan for the benefit of members of the Board of Directors (based on their functions exercised within the Group), amounted to € 1.5 million in 2011 and currently concerns Christian LAUBIE and Jacques VINCENT, each of them for their 40 year's service within the Group.

As regards the eligibility of each of the Company's three corporate officers, see Section 5.4 *Related party transactions*.

## Transactions performed in 2011 on Company shares by the corporate officers and members of the Executive Committee

Name	Function	Security type	Nature of transaction	Date of transaction	Gross unit price (in €)	Number of securities	Total gross value (in €)
Franck RIBOUD	Chief Executive Officer	Shares	Exercise of stock-options	11/08/2011	31.80	212,000	6,741,600
A person linked to Mr. Franck RIBOUD		Shares	Disposal	11/04/2011	49.1439	13,510	663,934,089
		Shares	Disposal	11/14/2011	48.6467	35,000	1,702,634.50
Emmanuel FABER	Deputy General Manager	Shares	Exercise of stock-options	03/11/2011	27.87	32,850	915,529.50
		Shares	Disposal	03/11/2011	44.382	32,850	1,457,948.70
		Shares	Exercise of stock-options	03/16/2011	27.87	5,838	162,705.06
Bernard HOURS	Deputy General Manager	Shares	Exercise of stock-options	04/18/2011	31.80	96,850	3,079,830.00
		Shares	Disposal	04/18/2011	48.3733	96,850	4,684,954.11
		Shares	Exercise of stock-options	05/13/2011	31.80	9,150	290,970.00
Jordi CONSTANS FERNANDEZ	Executive Committee member	Shares	Exercise of stock-options	03/18/2011	27.87	5,260	146,596.20
		Shares	Exercise of stock-options	06/01/2011	31.80	13,356	424,720.80
		Shares	Disposal	06/01/2011	51.04	13,356	681,690.24
		Shares	Disposal	06/15/2011	51.00	5,260	268,260.00
Thomas KUNZ	Executive Committee member	Other <sup>(1)</sup>	Subscription	05/05/2011	10.00	2,500	25,000.00
		Shares	Exercise of stock-options	12/08/2011	31.80	12,720	404,496.00
		Shares	Disposal	12/08/2011	48.4229	12,720	615,939.29
		Shares	Exercise of stock-options	12/08/2011	30.22	42,400	1,281,328.00
		Shares	Disposal	12/08/2011	48.307	30,400	1,468,532.80
Felix MARTIN GARCIA	Executive Committee member	Shares	Exercise of stock-options	03/11/2011	27.87	4,400	122,628.00
		Shares	Disposal	03/11/2011	44.29	4,400	194,876.00
		Shares	Exercise of stock-options	06/27/2011	31.80	4,500	143,100.00
		Shares	Disposal	06/27/2011	52.0466	4,500	234,209.70
Muriel PENICAUD	Executive Committee member	Other <sup>(1)</sup>	Subscription	05/05/2011	10.00	2,500	25,000.00
Jean-Philippe PARE	Executive Committee member	Shares	Exercise of stock-options	12/15/2011	31.80	8,904	283,147.2
Isabelle SEILLIER	Director	Shares	Purchase	06/08/2011	49.89	4,000	199,560.00

Name	Function	Security type	Nature of transaction	Date of transaction	Gross unit price (in €)	Number of securities	Total gross value (in €)
Pierre-André TERISSE	Executive Committee member	Other <sup>(1)</sup>	Subscription	05/05/2011	10.00	2,500	25,000.00
Jacques VINCENT	Director	Shares	Exercise of stock-options	05/02/2011	35.43	37,000	1,310,910.00
		Shares	Disposal	05/02/2011	49.5801	37,000	1,834,463.70

(1) A subscription in the context of annual share capital increases reserved for employees of the Company and its French subsidiaries, with the subscription being carried out through a temporary FCPE ("fonds relais", of which the part value was €10 in 2011). This FCPE was, at the end of the capital increase, merged into the main FCPE "Fonds Danone".

Corporate officers of the Company must hold a certain number of shares obtained from the exercise of options granted under each option grant plan as from January 1, 2007 until their corporate function ends. This obligation to hold shares was extended by

the Board of Directors to the other members of the Executive Committee (see paragraph above on the obligation to hold the Company's shares resulting from stock-options or Group performance shares).

## 6.11 Internal control

(Article L. 225-37 paragraph 6 of the French Commercial Code)

### General organization of internal control

#### Internal control objectives and guidelines used

Internal control is a process put in place by Danone's General Management, line management and employees that is designed to provide reasonable assurance, albeit not absolute certainty, that the following main objectives are being met:

- accuracy of financial information;
- compliance with applicable laws, regulations, and internal policies;
- effectiveness and efficiency of internal processes, including those related to the protection of the Group's assets.

Danone uses a referential based on the reference framework implementation guidelines suggested in 2007 by the French Financial Markets Authority (*Autorité des marchés financiers*), completed by its guide, and updated in mid-2010. This reference framework relates to risk management and internal control systems, and touches on monitoring processes and the preparation of the accounting and financial information, as well as risk management processes. This reference framework is in turn consistent with the Committee of Sponsoring Organizations (COSO) I and II guidelines, which have also inspired the Danone internal guidelines.

Danone's internal control system is adapted to the Group's strategic orientations and consistent with its international and decentralized organization.

#### Scope of internal control

Danone's internal control system applies to subsidiaries controlled by the Group. As of December 31, 2011, 152 Group-owned entities located in 58 countries and accounting for 93% of Danone's consolidated net sales were evaluated under Danone's internal control system (DANgo – "*Danone Governing and Operating Processes*"), thus representing seven more entities but a reduction in the sales coverage as a result of the acquisition of Unimilk, whose integration is under way.

The subsidiaries of the Baby Nutrition and Medical Nutrition Divisions, acquired at the end of 2007, continued to roll out Danone's risk management and internal control referentials, in line with the original medium-term integration plan. 2011 marked the successful integration of the Baby Nutrition and Medical Nutrition subsidiaries, with an internal control level that is now close to that of the similarly-sized subsidiaries of the Fresh Dairy Products and Waters Divisions.



The integration of Unimilk group's companies, acquired in 2010, also includes an internal control and internal audit component. In 2011, the local internal control organization was established as part of the "One Company Danone-Unimilk" project. The internal control guidelines were translated into Russian in their entirety and training initiatives were launched. Four internal diagnostic audits took place and made it possible to identify priorities and define the next steps for the deployment of the internal control system.

In 2011, among the 152 organizational entities covered by DANgo, 30 small or newly-acquired entities used a simplified referential focused on the DANgo "fundamentals." This referential was specifically established for the entities with low sales in order to facilitate their integration and development while ensuring adequate control of their financial and accounting processes.

### Internal control participants

Danone's **General Management** is responsible for the Group's internal control system, while the **Audit Committee** is responsible for monitoring the effectiveness of the Group's internal control and risk management systems. In order to accomplish this, General Management relies on operational (Divisions, regions, business lines, subsidiaries) and functional reporting lines, and especially the Group Finance Department and the Risk, Control and Audit Department, both of which report to the same Deputy General Manager.

The **Group Finance Department** (DGF) is responsible for the finance function throughout the entire Group, directly through centralized functions (Management Control, Consolidation Reporting and Standards, Treasury and Financing, Tax, Strategy, Financial Communications, Acquisitions, Corporate Legal), and, through functional ties, by relying on the Chief Financial Officers of the respective Divisions. The Chief Financial Officer, who reports to one of the two Deputy General Managers, is a member of the Group's Executive Committee. The main heads of the functions and Divisions are members of an Executive Finance Committee, which meets monthly.

The **Risk, Control and Audit Department** (DGRCA) was established in early 2009 to strengthen the impact of the three functions that are now reporting to it (risk management, internal control, and internal audit) and to focus on certain corporate governance and compliance-related topics. The RCA General Manager reports directly to one of the two Deputy General Managers, who is a member of the Executive Committee, and reports functionally to the Chairman of the Audit Committee of the Board. He is also a permanent member of the above-mentioned Executive Finance Committee.

Reporting to the Risk, Control and Audit Department, the **Risk Management Department** (DGR), which consists of a three-member central team, is responsible for the risk management system, known internally as "Vestalis." The Risk Management Department is supported by several other participants, notably Group operational managers through various internal committees, including the Danone Enterprise Risk Committee (DERC), and for

the Finance business line through the Chief Financial Officers of the regions. The approach used is described in Section 2.7 *Risk factors* and below in the Section *Risk identification and assessment*.

Reporting to the Risk, Control and Audit Department, the **Internal Control Department** (DCI) is composed of a three-member central team, supported by a head of the Asia/Pacific region and a coordinator dedicated to the Baby Nutrition and Medical Nutrition Divisions, and by the network of local internal controllers, who typically report to the Chief Financial Officers of the subsidiaries. Nationwide and regional responsibilities are often assigned to the most experienced local internal controllers. This department reports directly to the Risk, Control and Audit Department and functionally to the Group Finance Department, the latter being jointly responsible for the quality of the Group's internal control. The internal controllers of the subsidiaries, working together with the other members of the Risk, Control and Audit Department, ensure that the procedures defined by the Group are properly applied in the subsidiaries and the central departments. Specifically, the Internal Control Department defines and coordinates the internal control priorities at central level and deploys them in the operating entities. It prepares the Group's internal control referential, defines the methodology used to document processes, manages the analysis of results of the assessments and monitors the set-up of the action plans through the community of internal controllers. It provides support and guidance for this international internal control network through coordination, communication and training.

Reporting to the Risk, Control and Audit Department, the **Internal Audit Department** (DAI), supported by specialized teams from several international audit and consulting firms (including KPMG in particular) under the permanent supervision of Danone's Audit Managers, conducts regular audits in the operating units as well as audits covering central and Group-wide functions. Since 2009, the DAI has been certified in accordance with international Internal Auditing Standards by IFACI Certification, the French Institute for Internal Audit and Control certification (certification renewed in 2010 and 2011). This central unit is supported by internal auditors in certain major subsidiaries or in some cases at country level, as well as by the audits and supervision activities of other centralized functions (Quality, Industrial, Safety, Environment, Information Systems, Crisis Management, Organization, Human Resources, etc.).

In a growing number of countries or country groups, **shared Risk/Control/Audit organizations** were developed in order to provide a higher level of service and support for the Danone subsidiaries.

The **line management teams** at headquarters and in the subsidiaries remain the main internal control participants in their respective areas of responsibility, with support from relevant central corporate departments (mainly Finance and Risk-Control-Audit, but also **Human Resources, Sustainable Development, Environment, Safety, Quality, Information Systems, Legal**, etc.). In particular, the Human Resources Department's People and Organization Development function provides a major contribution to the coordination of the internal control referential and DANgo best practices.

## Danone's overall internal control procedure

Internal control consists of five closely-related components, which, at Danone, are implemented as follows:

**Control environment.** The control environment establishes the level of staff awareness of the usefulness and necessity of internal control and is the foundation on which the other components of internal control are built, notably through ethics, discipline and an organizational setup.

Danone's control environment is based on the following:

- promoting a favorable internal control environment are Danone's values, which are widely communicated across all of the subsidiaries; the Group's dual economic and social project; the existence of a "Business conduct policy," conveyed through an updated Q&A booklet distributed in 2011; a human resources and social policy (particularly with regard to employee development and training); the impetus given by the Board of Directors; the willingness to achieve continuous improvements in all operating procedures, as expressed by the Group's General Management; and lastly the "*Danone Way*" program, which was established in nearly all of the Group's subsidiaries;
- in 2010, a major survey on business ethics was conducted at more than 160 Group subsidiaries. Some 97% of the subsidiaries responded to this comprehensive survey, which made it possible to identify the subsidiaries' strengths and areas in need of improvement with respect to raising awareness of documents and their circulation, as well as best practices in the area of compliance and business ethics. The discussions that took place also made it possible to raise awareness among operating personnel on this topic; the findings of the survey were discussed at the highest levels of Danone's organization. Action plans were prepared: all subsidiaries for which potential areas of improvement were identified were contacted in 2011 to ensure that progress was being made on these points;
- for several years, the Group has deployed and operated an antifraud program that informs the subsidiaries' Management Committees and all employees of internal fraud and corruption risks. This antifraud program is based on seven "stages," namely information, prevention, detection, investigation, penalties, reporting and continuous improvement to the internal control system. At end-2011, an awareness-raising campaign was conducted for the management Committees of the subsidiaries and online training on corruption was chosen. The internal control guidelines have already been expanded for 2012 to include a special question on the "Commercial code of ethics", which was distributed to the subsidiaries in 2011;
- in 2006, Danone introduced a whistleblowing system (dialert), which focuses on internal control matters and is also available to Group suppliers (and potential suppliers in the context of requests for proposals). The system's visibility was enhanced in 2010 through the progressive deployment of an introductory guide ("Danone Inside Pack") for new employees that highlights the Business Conduct Policy, the ethics hotline and the above-mentioned global internal ethics survey. In 2011, 39 actionable ethics alerts were received. In all of the demonstrated cases of fraud related to internal control, appropriate sanctions were imposed;
- the standardization of operating processes through the implementation of the DANgo referential (a referential managed in an eponymous software application accessible to everyone worldwide) and the regular use of an integrated information system (known as *Themis*) contribute to the strength of the control environment. The Group's internal control referential was created in its present form in 2003, and greatly enriched in 2005 and 2006, as Danone, being a publicly listed corporation in the United States at the time, was subject to the Sarbanes-Oxley Act. DANgo now includes operating procedures ("Danone Operating Models"), internal control items *per se* ("Danone Internal Control Evaluation"), and the practices promoted by the "*Danone Way*" program. Coordination of the central functions covered by DANgo is ensured through periodic meetings of an ad-hoc, cross-functional committee;
- since 2006, the Group has ensured that the DANgo internal control and best practices referential is kept up-to-date by a systematic annual revision. DANgo is kept current by a network of internal control experts and operational managers from various Divisions, which enables DANgo to be used by participants in the various departments and makes it possible to enhance the referential through best operating practices. In 2011, more than 130 managers with expertise in their respective areas provided input. This continuous improvement also consists of simplifying, updating and enhancing certain procedures. Recently, this updating has been an opportunity to identify and validate best practices emanating from subsidiaries, which can now be shared with other subsidiaries and ensure that the strategic challenges of each function are properly represented in the referential. In 2011, the Group continued its program to improve the segregation of duties, notably through organizational changes and reviews of access rights to the various information systems;
- the DANgo referential's accessibility to all Group employees was significantly enhanced in 2011 thanks to the creation of a dedicated Intranet site, very easy to access and user-friendly;
- in addition to DANgo, an intranet site dedicated to the Group's internal controllers presenting all the documents useful for internal control is now also accessible to all Danone employees and is updated regularly. Two other charters important to the control environment were also distributed widely throughout the Group in 2009 and remain current: the Internal Audit Charter, approved by the Audit Committee, and the Risk Management and Insurance Charter. In 2011, the directives related to internal control were completely reviewed and redistributed.

**Information and communication.** Appropriate information must be identified, collected, quantified and communicated in a format and within an appropriate time frame that enables each person to carry out his or her responsibilities.

To accomplish this, Danone relies on:

- its values, culture, organization, and information systems, all elements that facilitate the dissemination of information necessary to the decision-making process;
- the documentation databases and various intranet sites that enable information to be shared within the Group. These include not only financial information but also non-financial information that meets the needs of the various operating and administrative departments; in 2011, the networking site dedicated to the subsidiaries' internal controllers contributed to the sharing of experiences and best practices. It includes a directory, blog and documentary database;
- the distribution of the DANgo referential, the methodological coordination and support provided to the internal controllers of the subsidiaries by the Internal Control Department (training sessions for the integration of new subsidiaries and the use of the DANgo tool, locally or remotely; workshops and networking events that in 2011 brought together more than 150 members of the Danone international network of internal controllers); internal control training sessions open to all managers of the finance functions were offered in several regions around the world;
- ongoing coordination and communication at various levels (Corporate Committees, meetings at Division level with the chief financial officers or chief operating officers, systematic annual presentations to the general managers and chief financial officers for the regions, and participation on the Management Committees of central functions).

**Risk identification and assessment.** Every company faces internal and external risks that may hinder the achievement of its objectives. The principal risks the Group faces are described in Section 2.7 *Risk Factors*, which also includes a brief description of the risk management policy and scope.

The Group has established a systematic risk identification system, using a special risk-mapping application called *Vestalis*. Risks are updated annually in most of the subsidiaries of the Waters and Fresh Dairy Products Divisions, and they were mapped for the first time in this manner in 2009 in several subsidiaries of the Baby Nutrition and Medical Nutrition Divisions. In 2011, 80 entities from these two Divisions applied this system and compiled their risk map, working either with support from the Risk Management Department or independently. This approach will be launched in 2012 for the Russian joint venture Danone-Unimilk. The methodology employed enables all of the risks and weaknesses of all operations in the companies covered to be identified, tabulated and ranked based on their probability of occurrence and their financial impact, on the scale of a country or a Division, and accordingly the preventive or corrective measures to be taken, either locally or globally as the case may be, to be defined. The most significant risks are reviewed once a year with the top management for the regions, at specific meetings attended by the General Manager and Chief

Financial Officer of each region. 100% of these regional risk Committee meetings were held in 2011. These meetings are also the occasion to discuss business opportunities, which must be considered in light of the identified risks.

A review of all the most significant risks is performed regularly by the Danone Enterprise Risk Committee (DERC), comprised of Danone's two Deputy General Managers, Chief Financial Officer, Head of Human Resources, Head of Risk, Control and Audit, and Head of Risk Management. A mapping of Danone's major risks is assessed at Committee meetings, "risk owners" are systematically designated, and risk mitigation plans are reviewed and assessed. This work serves as the basis for the presentations made to Danone's Executive Committee and to the Audit Committee.

In addition, the existence of procedures – regarding the monitoring of competition, training, risk prevention and protection, etc. – and the initiatives taken by specialized departments – such as the Environment Department and the Quality and Safety Department for food – all contribute to the identification and analysis of risks. The Safety Department helps to identify threats against Group employees or assets. The Crisis Management Department uses information made available by the Vestalis risk maps to identify potential crises and prepare the affected entities accordingly, while also ensuring that an appropriate response is provided for all crises, even if the risk was not identified beforehand.

Moreover, the identification and reporting of risks is also facilitated by the relatively low number of reporting levels, short decision-making channels and input from the operating units in strategic discussions. Two Group-wide Committees headed up by the Head of Risk, Control and Audit have also been created to deal with major risks against which the Group must protect itself: a group-wide Health, Safety and Environment Committee (HSE), created in 2008, and a quarterly Group-wide Compliance Committee, attended – since 2006 – by the various central departments that collaborate on the quality of the control environment.

**Control activities.** The control activities are intended to ensure the application of the standards, procedures, and recommendations that contribute to implementation of the main strategic orientations made by the Group's General Management.

All DANgo operating procedures and guidelines, which are improved continuously, are disseminated and put into practice within the operating units. Certain items in DANgo are identified as contributing to the prevention of fraud and corruption. The use of the integrated information system Themis by the largest operating units also contributes greatly to the reliability of operating control activities.

In addition to these practices, the Group has also set in place a set of rules and procedures that allow it to carry out its control activities. This includes regular monitoring of the performances of each operating unit – notably during performance reviews – and attendance at the units' Management Committee meetings. The subsidiaries' internal controllers oversee the implementation of these practices and procedures. All the subsidiaries integrated into DANgo use this self-assessment process, and the largest of them follow a more detailed internal control methodology that

includes information flows, control points and tests conducted by management.

**Continuous monitoring.** The internal control system is reviewed periodically so that its performance and effectiveness may be qualitatively evaluated.

The permanent monitoring of control procedures is part of the ongoing activities of the Company and its subsidiaries. The IT application that hosts DANgo allows subsidiaries to document their operating processes, especially those used to prepare financial information; to perform self-assessments; to determine whether they are compliant with the Group's internal control referential; and to monitor any necessary action plans. The results of the annual self-assessments by the subsidiaries are sent to the Internal Control Department (ICD), which analyzes them and communicates relevant summaries to the different interested parties. Appropriate action plans are put in place by the entities with a view to continuous improvement. The Internal Control Department (ICD) verifies that the action plans have been created for each reported deficiency. Internal audits are subsequently carried out to validate that corrective measures have indeed been taken.

The quality of the internal control system's steering and monitoring is ensured by two Committees— led by the Internal Control Department – which meet regularly: the DANgo Steering Committee (which meets twice a year and consists of the operational executive managers designated to represent the Group's key functions: R&D, Purchasing, Operations, Marketing, Sales, Finance, HR, Information Systems, etc.), and the quarterly internal control Steering Committee (which includes primarily the heads of the Finance function at headquarters and in the Divisions).

Beginning in 2009, internal control performance indicators (coverage rate, degree of control intensity rate and deficiency rate on control points) were established to facilitate the analysis, communication of results and assessment of the effectiveness of internal control at the zone level and for the four Divisions. The targets for these performance indicators are discussed in the internal control Steering Committee and in the DANgo Steering Committee, and are then presented to the Audit Committee before being sent to the subsidiaries, which assists in harmonizing the internal control priorities and developing a shared vision.

In 2011, Danone's internal control key indicators again showed signs of improvement: the coverage rate for subsidiaries increased by 6 points relative to 2010 to reach 90%, while the deficiency rate continued to decrease overall and for each Division, thanks to continuous monitoring of the improvements to DANgo and internal control throughout the organization.

The bi-annual internal fraud reporting has now been operational for six years. Some 173 entities, i.e. nearly all of those in the Group, participate in the program. The number of suspected or confirmed fraud cases reported by the subsidiaries has remained stable for three years. In 2010, approximately 130 suspected cases were reported per six-month period, which represented approximately 80 demonstrated cases over the same period. The majority of these proven cases involved minor incidents (thefts of products or equipment or minor embezzlement). In 2011, none of these fraud cases had a significant impact on Danone's financial statements. In the vast majority of the identified cases, the employment agreements of the corresponding employees were terminated following investigations into these frauds. A fraud case monitoring meeting is held monthly at Group headquarters level in order to ensure the effective monitoring of fraud cases and their appropriate management with respect to compliance and internal control. To that end, detailed information on the nature of the main cases is collected and analyzed by the Risk, Control and Audit Department.

In 2011, the Group Internal Audit Department conducted 46 internal audits at subsidiaries or for Group-wide functions, based on the plan previously approved by the Audit Committee. Some 21 of these audits related to Baby Nutrition and Medical Nutrition entities, thereby covering nearly 94% overall of sales of former Numico subsidiaries since they were acquired in 2007. All of these audits confirmed the overall reliability of the DANgo self-assessment performed by the subsidiaries. They also included five audits not initially scheduled in the annual audit plan: four special audits at Unimilk (at eight sites) and an audit at YoCream, a newly-acquired subsidiary in the United States.

Following each audit, an action plan is prepared by the management of the subsidiary to correct any weaknesses identified in the audit report, and the implementation of action plans is routinely monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2011, this monitoring led to 23 short follow-up audits on the implementation of action plans, with these follow-up audits carried out within 12 months, whenever possible, of the initial audit.

The Treasury and Finance, Information Systems, Internal Control, Environment, Legal and Crisis Management Departments all arrange for audits and periodic inspections in the subsidiaries, in addition to the internal audit assignments.

The Audit Committee and the Group's General Management are informed at least twice a year of the progress made in the subsidiaries' self-assessments, the related findings, and the results of the audits conducted by the Internal Audit Department. The following year's targets are also presented as well as the priorities selected by the Risk Management, Internal Control and Internal Audit functions.

## Internal control procedure for the preparation and processing of Danone's financial and accounting information

### Control environment

The finance function's organization is based on:

- centralized functional departments: Treasury and Financing, Acquisitions, Strategy, Management Control, Consolidation, Reporting and Standards, Financial Communication, Corporate Legal;
- the Finance Department of each Division. These departments are organized by geographic regions supervising business units and, in some countries, the accounting, treasury and certain specialized functions are shared.

In all cases, the operating units are responsible for the production and content of their financial statements as well as their internal control.

The roles and the skills required at the different levels of the organization are clearly defined and the internal training programs are tailored accordingly.

The Group has a single set of guidelines covering accounting procedures and principles, which are consistent with its internal control principles. Available on the DAFnet intranet, these guidelines are accessible to all managers in the finance function. Also, the control practices and procedures mentioned in DANgo help to ensure the reliability of the processes for preparing the financial statements. Indeed, the DANgo guidelines include many points that address the quality of the financial and accounting information.

### Production and dissemination of financial information

Financial information is generated by a rigorous and comprehensive financial planning process. This process integrates a strategic plan, a budget process, preceded by the preparation of a framework defining key targets, comprehensive re-estimates at regular intervals, monthly reports, monthly updated forecasts of certain indicators as well as monthly performance review meetings attended by the finance teams and the General Managers of the Divisions. In this context, each operating unit prepares a monthly, detailed financial report, and a twice-yearly exhaustive consolidation package for use in preparation of the Group's consolidated financial statements. The relevance of the selected performance review indicators is reviewed on a regular basis.

### Monthly financial reports and published quarterly information

The financial report is prepared using a standard format focusing on a limited number of monthly performance indicators. The financial information is incorporated into a centralized and unified

database, used for both internal management purposes and for external reporting.

### Preparation of six-month and annual financial statements

The operating units use consolidation packages to report financial statements presented in compliance with the International Financial Reporting Standards used by the Group and the analytical tables presented by balances and by movements that are used to prepare the consolidated financial statements and the Notes to the consolidated financial statements. These consolidation packages are verified by a central team, which checks the accounting options used throughout the year and is responsible for all elimination and consolidation entries while also validating line items presenting the highest degree of risk (intangible assets, financial assets, taxes, provisions and debt).

The information is produced and disseminated using the following applications:

- the management and optimization of information flows for the financial functions as well as the purchasing, industrial functions, quality, supply chain and sales functions, both within the subsidiaries and between them, is performed primarily through the *SAP/Themis* integrated information system. This application is being steadily deployed in all Group subsidiaries and its features are constantly being improved. Presently, the activities supported by Themis account for three-fourths of consolidated sales in the Fresh Dairy Products (excluding Unimilk group's companies) and Waters Divisions, and the roll-out of the integrated software is currently ongoing in the Baby Nutrition and Medical Nutrition Divisions (greater than 30% at end-2011) and is beginning at Unimilk;
- monthly financial reports, and more generally the financial information used to manage and control the activities of the operating units, are produced by a unified information system (the most widely used consolidation software application on the market);
- this same system is also used to produce the six-month and annual consolidated financial statements. The procedures related to the security, use and development of new features of this consolidation system are documented. In 2011, the Group continued with the roll-out of this consolidation software in the main Unimilk subsidiaries. In addition, the production of financial information integrates the following preliminary steps:
  - meetings attended by the main financial managers of each Division and certain department heads are held regularly to share information and best practices, and training sessions covering specific accounting topics are also held regularly;

- to prepare the year-end close, the Head of the Group Consolidation Department sets up meetings with the finance teams of the Group's principal subsidiaries to address key points involving operations and discuss the specific accounting issues arising from the application of IFRS.

To disseminate financial information within the Group, each quarter the Group's entire finance function can log onto a site where the Chief Financial Officer comments on the activity for the quarter, the year-to-date financial results and the main challenges for the Group.

### Identification and assessment of risks

The monitoring and management of the main identified risks is organized as follows:

- the identified risks and results obtained through the various established approaches (*DANgo*, *Danone Way* and *Vestalis*) are used;
- the budgeting and strategic planning process, performance monitoring, regularly scheduled meetings that involve finance functions to a significant degree (Management Control, Treasury and Financing, Consolidation, Reporting and Standards, Development) as well as the meetings of the Danone Enterprise Risk Committee (DERC) and the Group's Executive Committee make it possible to monitor and manage the most important risks identified;
- specific risks related to the processes used to prepare and disseminate financial information are also reviewed and the internal control system is adapted based on the identified risks.

### Control activities

Each Division has a Finance Department, which is responsible for monitoring performance, capital expenditure and operating cash flow, primarily through the rigorous financial planning and reporting process. The Divisions' Finance Departments are supported by the Finance Departments in the regions and operating units, with the overall management control process administered by the central Management Control Department.

Members of the central departments visit the operating units on a regular basis (performance monitoring, procedures reviews, pre-closing meetings, *ad hoc* audits, progress on improving internal controls, follow-up on actions plans, training in accounting standards, etc.). The appropriate documents are provided sufficiently in advance for them to be reviewed by the Group's management bodies.

Twice yearly, the General Manager and Chief Financial Officer of each subsidiary along with their counterparts in the regions

and Divisions provide written confirmation of compliance with the Group's applicable procedures and with all of the standards applicable to the financial information sent to the central teams. This confirmation is provided in a representation letter that covers the interim and year-end closings of the financial statements, including all subjects involving risk management and internal control.

Since 2010, a balance sheet items questionnaire, which is prepared by the Finance Department and the Risk, Control and Audit Department, is sent to the regional chief financial officers in order to assist them in the periodic review of their subsidiaries' activities.

The control activities are therefore conducted at all of the Group's hierarchical and functional levels and include a variety of steps such as approving and authorizing, verifying and comparing, assessing operational performances, ensuring the protection of assets and monitoring the segregation of duties. The audits administered and conducted independently by the Internal Audit Department provide appropriate validation.

### Continuous monitoring

One of the responsibilities of each Division's Chief Financial Officer and Function Manager is to improve the procedures used to prepare and process financial information. Detailed audits are conducted on the key control procedures in the preparation of financial information (particularly published disclosures) in the subsidiaries and in the Group's headquarters and on their effective application. Moreover, the internal audits conducted in the operating units are aimed primarily at verifying the quality of the accounting and financial information. The divisional Finance Departments ensure that the action plans established subsequent to the above-mentioned internal and external audits have been carried out correctly.

### Assessment

The procedures intended to control the accounting and financial information provided by the consolidated subsidiaries, as well as the internal control procedures used to prepare the consolidated financial statements, are adequate to provide reliable accounting and financial information.

The Audit Committee examined the report of the Chairman of the Board of Directors on the internal control and risk management procedures put in place by the Group. This report was then reviewed and approved by the Company's Board of Directors on February 14, 2012, in accordance with the French Law of July 3, 2008.

## Statutory Auditors' report

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**(prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Danone)**

To the Shareholders,

In our capacity as Statutory Auditors of Danone, and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2011.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

### Other information

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris-La Défense, March 19, 2012

#### The Statutory Auditors

##### PricewaterhouseCoopers Audit

Etienne BORIS

Philippe VOGT

##### Ernst & Young et Autres

Jeanne BOILLET

Gilles COHEN

# 6

## Corporate governance





## Social, societal and environmental responsibility

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## 7.1 Group employees

As of December 31, 2011, the Group's fully-consolidated companies employed 101,885 staff. This figure includes the staff of the Unimilk group's companies, which were first-time consolidated on December 1, 2010. The tables below provide details of the total number of employees and a breakdown by geographical area and Division as of December 31, 2010 and 2011, with and without the Unimilk group's companies' employees for each year.

### Group employees including Unimilk staff

As of December 31	2010	2011
<b>Total number of employees</b>	<b>100,995</b>	<b>101,885</b>
<b>By geographic area</b>		
France	8.7%	8.7%
Rest of Europe	36.9%	35.6%
China	9.1%	8.8%
Rest of Asia-Pacific	15.3%	15.4%
North and South America	24.9%	26.4%
Africa and Middle East	5.1%	5.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>By Division</b>		
Fresh Dairy Products	48.2%	47.0%
Waters	35.0%	35.4%
Baby Nutrition	11.0%	11.2%
Medical Nutrition	4.5%	5.2%
Corporate functions	1.2%	1.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### Group employees excluding Unimilk staff

As of December 31	2010	2011
<b>Total number of employees</b>	<b>85,073</b>	<b>87,164</b>
<b>By geographic area</b>		
France	10.3%	10.1%
Rest of Europe	25.1%	24.7%
China	10.8%	10.2%
Rest of Asia-Pacific	18.2%	18.1%
North and South America	29.6%	30.9%
Africa and Middle East	6.0%	6.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>By Division</b>		
Fresh Dairy Products	38.5%	38.1%
Waters	41.6%	41.4%
Baby Nutrition	13.1%	13.1%
Medical Nutrition	5.3%	6.0%
Corporate functions	1.5%	1.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## 7.2 Employee benefits

### Employee profit-sharing, Company savings schemes and other employee benefits

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#### Employee incentive and profit-sharing plans

The Company's employees benefit from a three-year incentive plan, which was renewed in 2009 and is based mainly on the Group's results. It will be renegotiated in 2012.

The Group's other French subsidiaries and certain of its foreign subsidiaries have also implemented employee profit-sharing and/or incentive plans based on their own results.

All of the incentive agreements covering all of the Group's French subsidiaries have been renegotiated in order to enable the distribution of higher incentive bonuses for equivalent results. These improvements were implemented in 2009 and 2010, depending on the renewal date of the plans concerned.

In 2011, the Group recognized an expense of € 107 million (2010: € 105 million) in respect of employee incentive and profit-sharing plans.

#### Company savings scheme

The Shareholders' General Meeting of April 23, 2009 authorized the Board of Directors to carry out capital increases reserved for employees who are members of a Company savings plan (*Plan d'Épargne Entreprise*), within the limit of a nominal amount of € 3 million. This authorization was valid until June 2011 and was

renewed within the limit of a nominal amount of € 3.7 million by the Shareholders' General Meeting of April 28, 2011.

Under the authorization granted by the Shareholders' General Meeting of April 28, 2011, the Board of Directors meeting of February 14, 2012 decided to issue shares in favor of Group employees who were members of a Company savings plan for a maximum subscription amount of € 65 million, representing a maximum of 1,701,125 new shares based on a discounted DANONE share price of € 38.21.

The actual amount subscribed will be noted in May 2012. As it has been done each year, the Board has specified that if the stock market price, including costs, at the end of the subscription period is lower than the issue price, the management company of the collective investment fund will be authorized to purchase the shares directly on the stock market, within the limit of the employees' subscriptions.

#### Other employee benefits

In accordance with Law of July 28, 2011, a profit-sharing bonus of € 200 was paid to all Danone employees and of its French subsidiaries, in addition to the amounts paid under the Group's other incentive and profit-sharing arrangements.

### Medium-term and long-term variable compensation policy

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#### Medium-term variable compensation in the form of Group Performance Units

In 2005, the Group put in place a scheme of variable compensation, in the form of Danone Group Performance Units ("GPUs"), for which members of the Executive Committee (including the corporate officers), senior managers and executives are eligible, totaling approximately 1,500 people worldwide.

This three-year variable compensation program, based on medium-term performance objectives, increases the unity and commitment of the members of the Executive Committee, senior managers and executives, with the objective of strengthening the Group's positions in its markets and continuously improving its operational performance.

The value of the GPUs, which can vary between € 0 and € 30, is calculated over a sliding period of three years based on the Group's overall economic performance in the medium term. Each year, the Company's Board of Directors, based on recommendations by the Nomination and Compensation Committee, sets the performance objectives for the next calendar year and evaluates the achievement of the previous year's objectives for each GPU plan.

In the event of a successful tender offer for shares of the Company, the performance objectives of all of the GPU plans will be considered to have been met and the GPUs will be paid in the month following completion of the offer.

In the event of a disposal of all or part of a business, the performance objectives for the year in which the disposal takes place will be considered to have been met for the beneficiaries in the business

considered and all of the GPU plans concerned will be paid in the month following completion of the disposal. The regulations of the GPU plans stipulate that the conditions regarding continuing employment and performance are partially waived in the event of death, voluntary or non-voluntary retirement or the sale of the activity employing the beneficiary.

The performance objectives set under the 2008 GPU program were achieved in connection with the 2008, 2009 and 2010 periods. Consequently, a payment to all beneficiaries was made in May 2011.

## **Long-term variable compensation in the form of Group Performance Shares**

### **Implementation of the Group Performance Shares program and cessation of the stock-options program**

The April 22, 2010 Shareholders' General Meeting authorized the Board of Directors to grant Company shares that are either existing or to be issued, on one or more occasions to employees or to certain categories thereof to be selected among eligible employees and corporate officers of the Company and affiliated companies as defined by Article L. 225-197-2 of the French Commercial Code. At the same time, the Shareholders' General Meeting decided that this authorization cancelled the as-then-unused portion of the previous authorization granted by the April 23, 2009 Shareholders' General Meeting in its 30<sup>th</sup> resolution to grant options to purchase and/or subscribe shares.

This long-term, performance-based incentive program is intended to consolidate the commitment of eligible employees to support the Group's development and enhance the share's value over the long term.

Company shares subject to performance conditions (named Group Performance Shares, or GPS) are therefore granted annually to the members of the Executive Committee, including the corporate officers, senior managers and executives.

In principle, GPS are granted twice a year: (i) the main grant (generally in April) is intended for members of the Executive Committee (including the corporate officers), senior managers and executives, and (ii) a second grant (generally in October) is intended for certain new employees. However, since the Shareholders' General Meeting which first authorized the GPS program was held in April 2010, the first grant of GPS was made, exceptionally, in July 2010. The normal pattern of making grants in April and October should be resumed for subsequent grants, as has already been the case in 2011.

A continuous employment condition is applied to all GPS beneficiaries until the delivery date of the Company shares at the end of the vesting period. Therefore, a recipient of a share grant who leaves the Group prior to the expiry of the vesting period may not retain his or her shares, except in statutory cases of early departure (including death and disability) or other exceptions as determined by the Board of Directors. In the event of a voluntary departure, the granted GPS are canceled.

The GPS plan regulations also stipulate that the continuous employment and performance conditions may be partially waived in the event of the employee's death, departure or retirement, or if the business activity employing him/her is discontinued.

The GPS grants become definitive and are delivered in the form of Company shares at the conclusion of a vesting period, the duration of which has been set by the Board of Directors, being understood that this period may not be less than three years. The resolution adopted by the Shareholders' General Meeting of April 2010 specifies in addition that beneficiaries must hold the said shares for a period set by the Board of Directors; this holding period may not be less than two years after the final allocation of such shares. However, if the vesting period for all or a part of one or more grants is a minimum of four years, the Board may decide not to impose any holding period for the shares in question. Consequently, the vesting period is three years for beneficiaries subject to French social security contributions ("3+2" plan) and four years for other beneficiaries ("4+0" plan). Beneficiaries of the "3+2" plan must also satisfy a two-year holding period during which they may not sell or transfer their GPS-issued shares. Beneficiaries of the "4+0" plan are not subject to any holding period. In the case of corporate officers and members of the Executive Committee, an obligation to hold their shares received under the terms of GPS plans has also been implemented and is described in Section 6.10 *Compensation and benefits paid to executives*.

However, the plan regulations for the GPS granted by the Board of Directors as of July 26, 2010 leave open the possibility, for GPS beneficiaries, of waiving the continuous employment and performance conditions in the event of a change of control of the Company (all stock-option plans introduced since 2003 have a similar procedure, which will apply until their closure - see Section 6.10 *Compensation and benefits paid to executives*). Therefore, if a person or group of people acting collectively (as defined in Article L. 233-10 of the French Commercial Code), acquires control of Danone (as defined in Article L. 233-3 of the French Commercial Code), the beneficiaries would not have to satisfy any conditions in order to receive the GPS on the delivery date.

The plan regulations prohibit GPS beneficiaries from hedging in any manner their position with respect to their rights to receive GPS or their rights with respect to shares that they have already received and which are still subject to a holding period. Moreover, for the Group's corporate officers, the ban on hedging extends to all DANONE shares or financial instruments related to these shares that they own or may be in a position to own (see Section 6.10 *Compensation and benefits paid to executives*).

The Group's policy is not to amend the initial conditions of the plan regulations.

### **GPS grants in 2010 and 2011**

On the basis of the authorization granted by the Shareholders' General Meeting of April 22, 2010, the Board of Directors granted Company GPS subject to continuing employment and performance conditions in July 2010 and in April and October 2011.

In accordance with the resolution adopted at that meeting, the performance conditions applied to the GPS grants made in 2010 and 2011 consist of two complementary criteria, representative of the Group's performance and adapted to the specific nature of its activity, namely growth of consolidated sales and of consolidated free cash flow.

These two conditions were set for the first two vesting years of each grant and are as follows: 5% average sales growth and 10% average free cash flow growth during this period (arithmetic average, on a consolidated basis and on a like-for-like basis, i.e. excluding changes in consolidation scope and exchange rates).

Exceptionally, shares may be granted subject to the continuing employment condition but without the performance condition within the following limits: the shares not subject to the performance condition must not represent (i) more than 25% of the total number of GPS, and (ii) more than 33% of the total number of shares granted to each employee concerned, and (iii) may not be granted to a corporate officer or member of the Executive Committee.

As of December 31, 2011, the aggregate number of cancelled GPS was 70,216, out of a total of 1,358,226 GPS granted (see table below).

#### Grants made in 2010

In 2010, 644,565 Group Performance Shares were granted to more than 1,400 people, of which 166,750 were granted to members of the Executive Committee.

The main characteristics of these GPS plans as of December 31, 2011 are described below:

Date of Board Meeting Granting GPS	Number of GPS authorized by the Shareholders meeting	Number of GPS granted	Acquisition date	Vesting date	Number of GPS cancelled as of December 31, 2011	Number of GPS delivered as of December 31, 2011	Number of active GPS as of December 31, 2011	Of which : GPS which could be delivered to members of the Executive Committee	Of which Number of Executive Committee member concerned
04/22/2010	2,587,963								
Plan "3+2"	07/26/2010	266,900	07/27/2013		9,343	-	257,557	124,750	6
Plan "4+0"	07/26/2010	377,665	07/27/2014		29,998	-	347,667	21,150	3
Plan "3+2"	04/28/2011	276,023	04/29/2014		650	-	275,373	137,000	6
Plan "4+0"	04/28/2011	420,288	04/29/2015		30,225	-	390,063	24,300	3
Plan "3+2"	10/20/2011	11,000	10/21/2014		-	-	11,000	11,000	2
Plan "4+0"	10/20/2011	6,350	10/21/2015		-	-	6,350	4,000	1
<b>Total</b>		<b>1,358,226</b>			<b>70,216</b>	<b>-</b>	<b>1,288,010</b>	<b>322,200</b>	

#### GPS grants to the ten Group employees (excluding corporate officers) who received the largest number of shares in 2011

In 2011, pursuant to the authorization granted by the April 22, 2010 Shareholders' General Meeting, 107,000 GPS were granted to the ten employees (excluding the corporate officers) who received the largest number of shares in 2011 (including 78,300 GPS to seven members of the Executive Committee other than the corporate officers).

For these grants, the Board of Directors, at its meeting on February 14, 2012, on the recommendation of the Nomination and Compensation Committee, noted that the two performance conditions set for the first two years of the program (2010 and 2011) had been met, i.e. 5% sales growth and 10% free cash flow growth during this period (arithmetic average, on a consolidated basis and on a like-for-like basis, i.e. excluding changes in consolidation scope and exchange rates). Indeed, the Board noted that, for 2010 and 2011, the growth in the arithmetic averages was 7.3% in the case of sales and 14.3% in the case of free cash flow.

These shares will therefore be delivered to the beneficiaries, subject to the applicable performance conditions in 2013 for the "3+2" plans and in 2014 for the "4+0" plans.

#### Grants made in 2011

In 2011, 713,661 Group Performance Shares were granted to more than 1,500 people of which 176,300 were granted to members of the Executive Committee.

In the case of the GPS granted in 2011, the performance conditions are identical to those granted in 2010 but relate to the 2011-2012 reference period. The Board of Directors will decide whether these conditions have been met at its meeting in February 2013.

For the 2011 fiscal year, the GPS granted under performance conditions accounted for 75.7% of the total number of GPS granted, which is in accordance with the limits set by the Shareholders' General Meeting of April 22, 2010.

#### Long-term variable compensation in the form of stock-options

In its 15<sup>th</sup> resolution, the April 22, 2010 Shareholders' General Meeting authorized the Board of Directors to grant Company shares that are existing or to be issued, on one or more occasions. At the same time, the Shareholders' General Meeting decided that this authorization canceled the as-then-unused portion of the previous authorization granted by the April 23, 2009 Shareholders'

General Meeting in its 30<sup>th</sup> resolution to grant options to purchase and/or subscribe shares.

Consequently, no stock-options have been granted since November 2009. Instead, since 2010, GPS have been granted to the members of the Executive Committee (including the corporate officers), senior managers and executives.

Until December 31, 2009, only options to purchase shares were granted to eligible employees as part of stock-option plans (the Company had not issued options to subscribe shares since 1997). These shares were granted to the same group of employees as those now receiving Group Performance Shares.

Therefore, these stock-options have been granted annually to members of the Executive Committee (including the corporate officers), the General Managers and certain employees based on a grant by thirds for each of the three groups. The options to purchase shares were generally granted twice a year: (i) a principal grant (generally in April) for the benefit of members of the Executive Committee (including the corporate officers), the General Managers and certain employees, and (ii) a second grant (generally in October) intended for certain newly hired employees as well as, if applicable, certain employees of recently acquired companies.

The exercise price of the options was the equivalent of the average stock market price of DANONE shares during the 20 trading days leading up to the Board of Directors' meeting held to grant them, with no discount offered.

The term of the existing plans is eight years. Since 2006, the options may be exercised following a four-year holding period from the date of grant (with the exception of the first two plans offered following the Numico acquisition). However, the regulations of the stock-option plans authorized by the Board of Directors beginning April 11, 2003, give beneficiaries the right to exercise part or all of the options granted to them in the event of a successful public offer targeting the Company's shares (see Section 8.11 *Change in control*).

In the event of voluntary departures, the granted options are canceled. Thus, for example, as of December 31, 2011, the aggregate number of canceled options represented 3,119,868 of the 25,109,830 total options granted (see table below).

The Group's policy is not to amend the conditions of the plan regulations.

As of December 31, 2011, the main characteristics of the stock-option plans that remain open are described in the table below and take into account:

- the two-for-one splits of the shares that occurred in June 2004 and June 2007;
- the adjustment following the June 25, 2009 capital increase, made retroactively to the number of stock-options granted and to the exercise prices of the plans in existence as of that date. The maximum number of stock-options authorized by the various Shareholders' General Meetings was not changed.

The main characteristics of the stock-option plans that remain open as of December 31, 2011 are as follows:

Date of the General Meeting	Number of options authorized by the Shareholders' Meeting	Date of the Board Meeting granting options	Number of options granted	Vesting date	Expiration date	Exercise price per share	Number of options cancelled or expired as of December 31, 2011	Number of options exercised as of December 31, 2011	Number of exercisable options	Of which: options exercisable by members of the Executive Committee	Of which: number of members of the Executive Committee concerned
05/29/01	8,000,000 <sup>(1)</sup>										
		10/08/2001	659,956	10/08/2009	10/08/2009	33.41	140,356	519,600	-	-	-
		04/25/2002	2,784,832	04/25/2004	04/25/2010	32.74	350,550	2,434,282	-	-	-
		10/17/2002	497,352	10/17/2004	10/17/2010	28.66	100,487	396,865	-	-	-
		04/11/2003	3,908,538	04/11/2003	04/11/2005	27.87	529,937	3,378,601	-	-	-
			<b>7,850,678</b>				<b>1,121,330</b>	<b>6,729,348</b>	-	-	-
04/11/03	8,000,000 <sup>(2)</sup>										
		10/15/2003	129,744	15/10/2005	15/10/2011	31.04	43,546	86,198	-	-	-
		04/15/2004	3,976,442	04/15/2006	04/15/2012	31.8	433,324	2,538,670	1,004,448	126,092	3
		10/13/2004	93,916	10/13/2006	10/13/2012	30.22	8,480	61,374	24,062	-	-
		04/22/2005	2,411,983	04/22/2007	04/22/2013	35.43	182,420	653,195	1,576,368	391,214	7
			<b>6,612,085</b>				<b>667,770</b>	<b>3,339,437</b>	<b>2,604,878</b>	<b>517,306</b>	
04/22/05	6,000,000 <sup>(3)</sup>										
		07/20/2005 <sup>(4)</sup>	29,680	07/20/2007	07/20/2013	38.95	-	17,880	11,800	-	-
		10/18/2005	27,136	10/18/2007	10/18/2013	42.53	3,392	2,120	21,624	-	-
		04/27/2006	2,045,853	04/27/2010	04/26/2014	46.92	214,491	8,374	1,822,988	403,860	7
		10/16/2006	36,040	10/16/2010	10/15/2014	52.4	5,512	-	30,528	-	-
		04/26/2007	2,633,517	04/26/2011	04/25/2015	57.54	287,631	-	2,345,886	623,704	7
			<b>4,772,226</b>				<b>511,026</b>	<b>28,374</b>	<b>4,232,826</b>	<b>1,027,564</b>	
04/26/07	6,000,000 <sup>(5)</sup>										
		10/19/2007	28,408	10/19/2011	10/18/2015	52.33	8,268	-	20,140	-	-
		12/17/2007	327,078	12/17/2009	12/16/2015	56.57	77,014	-	250,064	-	-
		04/29/2008	2,762,403	04/29/2011	04/28/2016	53.9	409,963	-	2,352,440	623,810	9
		10/21/2008	31,941	10/21/2011	10/20/2016	43.71	4,028	-	27,913	-	-
		04/23/2009	2,704,611	04/23/2013	04/22/2017	34.85	319,269	-	2,385,342	554,380	9
			<b>5,854,441</b>				<b>818,542</b>	-	<b>5,035,899</b>	<b>1,178,190</b>	
04/23/09	6,000,000 <sup>(6)</sup>										
		10/20/2009	20,400	10/20/2013	10/19/2017	40.9	1,200	-	19,200	-	-
			<b>20,400</b>				<b>1,200</b>	-	<b>19,200</b>	-	-
<b>Total</b>			<b>25,109,830</b>				<b>3,119,868</b>	<b>10,097,159</b>	<b>11,892,803</b>	<b>2,723,060</b>	

- (1) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of May 2001, 593,700 options were not granted and expired on April 11, 2003.  
(2) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of April 2003, 1,762,184 options were not granted and expired on April 22, 2005.  
(3) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2005, 1,497,900 options were not granted and expired on April 26, 2007.  
(4) On July 20, 2005, the Board of Directors authorized the grant of 28,000 options and this grant was made by delegation on August 5, 2005.  
(5) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2007, 476,942 options have not been granted and expired on April 23, 2009.  
(6) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2009, 5,979,600 options have not been granted as of December 31, 2009 and expired on April 22, 2010 following the vote of the resolution authorising the grant of GPS, and cancelling the as-then-unused portion of the previous authorization given by April 23, 2009.

### Exercise of stock-options by the ten Group employees (excluding corporate officers) having thereby acquired the greatest number of shares in 2011

No stock-options have been granted since the grant in October 2009. As from 2010, the GPS program has replaced the stock-option program.

In 2011, 271,839 options were exercised at a weighted average price of € 30.31 by the ten Group employees (excluding the corporate officers) having thereby acquired the greatest number of shares in 2011 (including 55,120 options exercised by a member of the Executive Committee who is not a corporate officer).



See also Section 6.10 *Compensation and benefits paid to executives* for a breakdown of the options exercised during 2011 by the Company's corporate officers.

### **Overall impact of GPS and stock-options in terms of dilution/ownership of the company's share capital**

The Group's policy with respect to authorizations for granting stock-options and GPS has always had a limited impact in terms of the dilution/ownership of the share capital.

#### **Regarding the stock-options program**

Up until the most recent options granted in October 2009, the option plans had a limited ownership/dilution impact on the share capital. As of December 31, 2009, the total number of options granted to all Company stock-option holders represented approximately 0.4% of the shares making up the share capital. The total number of options granted to the four corporate officers at the time, about 16% of the total grants in 2009, represented in 2009 around 0.1% of the shares making up the share capital.

#### **Regarding the GPS program**

The GPS grants also have a limited ownership/dilution impact on the share capital. As of December 31, 2011 and December 31, 2010, the total number of GPS granted to all Company beneficiaries represented for each year approximately 0.1% of the number of shares making up the share capital. The total number of GPS granted to the three corporate officers, (*i.e.* about 13.7% and 14% respectively of the total grants in 2011 and 2010) represented around 0.015% of the number of shares making up

the share capital in 2011 and around 0.014% of the number of shares making up the share capital in 2010.

These grants are in accordance with the ceilings set in the 15<sup>th</sup> resolution adopted by the Shareholders' General Meeting of April 22, 2010, which specified (i) that share grants could not represent a number of shares greater than 0.4% of the Company's share capital outstanding as noted on conclusion of the Shareholders' General Meeting and (ii) the setting of a secondary ceiling of 0.1% of the share capital to be granted to corporate officers.

#### **Regarding both the stock-option and the GPS program, as of December 31, 2011**

- the balance of stock-options not yet exercised totaled 11,892,803 options, or 1.85% of the share capital;
- the number of shares that could be allocated under GPS grants totaled 1,288,010 shares, or 0.20% of the share capital.

The combined total for these two categories represented 2.05% of the share capital.

## **Retirement obligations**

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Approximately 180 executives who hold the status of Senior Manager in the Group and who were covered by French pension schemes as of December 31, 2003 are, under certain conditions (particularly seniority and continuing employment conditions), eligible for a defined benefit pension plan.

This plan provides for a pension based on years of service and the amount of final salary, under the condition that the beneficiary is still in the Group's employment at the time of retirement. The pension is paid after deducting certain pensions (corresponding, with respect to a first category of Senior Managers in the Group, to the full amount of retirement benefits they acquired over the course of their professional career and, with respect to a second category of Senior Managers in the Group, to the full amount of retirement benefits that they acquired due to the implementation

of a Company non-contributory supplementary retirement plan), and may reach a maximum of 65% of final salary. In the event of leaving the Group before the age of 55 or in the event of death before retirement, the employee loses all benefits under this plan, it being specified that if the employee is laid off after the age of 55, the plan benefits are preserved, subject to the employee not taking any salaried position in the future. This pension plan was closed to new participants on December 31, 2003.

The amount accrued under this plan represents the obligation of the Group as of December 31, 2011 for the payment of annuities calculated on the basis of life expectancies derived from mortality tables (see Note 17 of the Notes to the financial statements of the parent company Danone).



## 7.3 Employee dialogue, health and safety, training and development

### Employee dialogue

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Within Danone, employee dialogue is organized as the following:

- a worldwide employee dialogue body: the Information and Consultation Committee (*Comité d'Information et de Consultation - CIC*);
- negotiating and monitoring international framework agreements with the International Union of Food Workers (IUF);
- dynamic employee dialogue, within the Group's subsidiaries, with trade union representatives and staff. A worldwide employee dialogue body: the Information and Consultation Committee (CIC).

#### Worldwide employee dialogue body: the Information and Consultation Committee (CIC)

The CIC's annual meeting in Geneva, at the offices of the International Labor Office (ILO), is attended by around 60 trade unionist-employees of Danone's subsidiaries and around 15 national coordinators of trade unions in the sector.

The main features of the manner in which the CIC functions are as follows:

- it is open to employee representatives of subsidiaries outside Europe: in Asia (Indonesia), North America (United States and Canada), Latin America (Mexico, Argentina, Brazil, etc.) and Africa (South Africa, Algeria, etc.);
- holding, before CIC Meeting discussions focused on the Group's Divisions: Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition.

#### Negotiating and monitoring international framework agreements

As of December 31, 2011, Danone had entered into nine agreements with the IUF, relating mainly to diversity, employee dialogue, and the measures to be implemented when changes to the Group's activity affect employment or working conditions. The most recent agreement, signed on September 29, 2011, covers health, safety, working conditions and stress.

Application of these agreements is the subject, each year, of a joint assessment on the ground by a representative of Danone and a representative of the IUF. In three years, 18 countries have been audited.

#### Dynamic employee dialogue within the subsidiaries with trade union representatives and staff

90% of Danone's employees (excluding employees of Unimilk group's companies) work within entities that have staff representation bodies (trade unions or other organizations), which give them the opportunity to discuss economic and employment-related matters at local level.

2011 was characterized by two milestones in the setting up of employee dialogue within Danone:

- the former Baby and Medical Nutrition European Works Council was integrated into Danone bodies during a meeting of the Information and Consultation Committee in 2011;
- on September 29, 2011, Danone and the IUF signed the first worldwide agreement on health, safety, working conditions and stress. This agreement covers all Danone's employees (101,885 as of December 2011), and is based on best practice observed in both the mature markets and the emerging markets.



## Health and safety

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### Workplace safety

The implementation of the WISE program enabled the Group to achieve a 50% reduction within five years (2004-2008) in the number of lost-time work accidents. This trend continued between 2009 and 2011, with the frequency rate falling from 5.3 lost-time accidents per million hours worked (frequency rate 1) in the year ended December 31, 2008 to 2.16 in the year ended December 31, 2011, i.e. a reduction of almost 60% in three years. In 2011, results continued to improve (29% fall in frequency rate 1) with, in particular, significant progress in road safety (39% decrease in the sales function and 45% decrease in Mexico – a country particularly exposed to road safety risk).

The results demonstrate that it is possible to reduce the number of accidents both in spheres outside the Company's direct control (road accidents) and in parts of the world where exposure to this type of accident is very high.

In addition, the results of the survey of Group employees in 2011 (the Danone People Survey, which is carried out every two years; the previous survey was carried out in 2009) demonstrate that Safety is the topic receiving the highest level of satisfaction (86%) on the part of employees, with a five-point increase over 2009.

### Employee health

Several initiatives are being implemented to achieve the Group's objectives in the areas of:

- to provide basic medical insurance and other benefits to all employees (Dan'Cares program);
- to prevent stress at work and improve working conditions;
- to ensure the health and well-being of Group employees by promoting good nutrition and a healthy lifestyle.

#### **Provide basic medical insurance and other benefits to all employees: the Dan'Cares program**

The Dan'Cares program was introduced to achieve Danone's dual economic and social objectives. It has an ambitious target:

by 2013, all Danone's employees (101,885 as of December 31, 2011) will be entitled to health insurance covering basic care: hospitalization and surgery, maternity care, medical consultations and pharmacy services.

In 2010, the program started with an audit carried out in 15 countries and in 56 subsidiaries representing 85% of employees (excluding employees of Unimilk group's companies); this audit enabled the welfare systems in each country to be assessed and improvements made to ensure that employees receive high-quality welfare cover.

By 2011, eight countries (China, Spain, Indonesia, Mexico, Brazil, Poland, Russia and Saudi Arabia) had begun to implement Dan'Cares: consequently, 28,000 employees benefitted from better medical insurance in 2011.

The Group's target is to extend this cover to a further 30,000 employees by 2013.

In addition to the progress made in healthcare, this program represents a major social advance as well as a lever to make Danone more attractive to potential recruits, reduce absenteeism and increase the commitment and loyalty of staff.

#### **Prevent stress at work, and improve well-being and working conditions**

The Group-wide agreement for France has been signed in March 2010. It has been tailored to the particular requirements of several French subsidiaries to meet specific agreements or action plans. This framework agreement was used as a basis for drafting the section covering stress of the global agreement signed by Danone and the IUF in 2011.

#### **Ensure the health and well-being of Group employees by promoting good nutrition and a healthy lifestyle**

Each year, the Group's subsidiaries are encouraged to develop programs for their employees which promote good nutrition, participation in sports and greater awareness of healthy lifestyles.

## Training and development

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### Training

Promoting the employability of its employees is one of Danone's priorities. Consequently, it has significant training budgets, ensures that all employees receive regular training, sets up effective employee participation programs, designs performing

organizations integrating wellbeing and efficiency and promotes the autonomy of its employees. As a result, in 2011, 99.6% of employees received training (excluding employees of Unimilk group's companies) and, at 31 hours per employee, the average number of training hours remained stable in comparison with 2010, but represented a 23% increase over 2008.

### CODE and Danone Leadership College (DLC)

The objective of this program, which was launched in 2008, is to increase the autonomy and accountability of all Group's employees and to make Danone a "Great Place to Grow" (where everyone can learn and develop). As of December 31, 2011, 15,000 first-level managers and 25,000 other employees had been trained (excluding Unimilk group's companies). Most of this training was provided by 470 specifically appointed internal trainers.

The Danone People Survey demonstrated the popularity of this program: in addition to the significantly better rating given to training (+6 points compared to 2009), 81% of the 15,000 first-level managers trained thought that the way they were trained had improved and 72% noted an improvement in their working environment since the introduction of the CODE leadership values defined by the Group (formalizing leadership attitudes in line with the Group's values – CODE stands for Committed, Open, Doer and Empowered/Empowering).

The DLC's other main strength is the momentum it generates as regards (i) business performance, by significantly increasing employees' involvement in and loyalty to their subsidiary's strategy, and (ii) managerial ability, and individual and collective leadership ability, formalized around the Group's values.

### Innovation in education and the Danone Learning Solutions program

In 2011, 10,600 employees followed Group training programs (compared to 7,000 in 2010) mainly involving the use of new

teaching methods (use of training kits like the "Danone Learning Solutions" as well as traditional "classroom" training courses).

In addition, during 2011, the Group set up the "Danone China University" to support growth of the Group's business and promote career development of employees in China. At the same time, structures such as the Danone Campuses brought together 1,700 employees during 2011, mainly in Europe and Asia Pacific, or in countries such as Japan and Thailand.

### Danone's Growth Commitment

Danone's Growth Commitment aims to establish connections between employees' professional lives and their personal aspirations: it represents a mutual commitment between the individual and the company covering a medium-term or long-term (three to five years) professional and/or personal project relating to the Group's current or future activity.

Danone offers support to employees wishing to undertake such projects. This initiative is being gradually implemented in the Group's subsidiaries by means of several pilots involving various categories of employees and business lines. As a result, more than 300 Growth Commitments were initialized in 2011; being in different stages of progress (exploratory discussions, joint formalization of the project, validation and implementation of the mutual commitment).

## 7.4 Corporate social and societal responsibility

### General policy

A direct result of Danone's dual economic and social project, Corporate Social Responsibility (CSR) is deeply anchored in the Group's business activity (see Section 2.2 *Presentation of the Group*).

2006 marked a key stage with the formalization of Danone's mission: "Bringing health through food to as many people as possible". This mission requires that the Company take concrete steps with regard to the major challenges facing society today:

- social challenges: employment, increased employability and professional skills, consideration for the local and regional areas where the Company operates and employee commitment;

- challenges linked to products and consumers: taking nutrition and food into account as basic elements in public health policies;
- environmental challenges: address the dilemma facing agribusiness, namely satisfying the needs of an ever-increasing number of consumers while minimizing the Group's environmental impact.

To achieve these challenges and grow in accordance with the mission, Danone decided to focus on four key areas to ensure sustained and responsible growth:

- Health: strengthening of the Group's capacity to deliver relevant benefits with respect to nutrition and health challenges;

- For All: establishment of new economic models to bring high-quality nutritional solutions to populations with limited purchasing power in a growing number of countries;
- Nature: faster recognition of environmental impacts through reductions in the Group's carbon footprint and water consumption;

- People: transformation of the Company as a place for the development of all employees and promoting their commitment to socially responsible programs.

These four strategic priorities (Health, For All, Nature, and People) are a guiding principle by which Danone can design, produce and market its products.

## Danone's CSR policy in detail

### Integration of CSR in the Group's activity

Danone's CSR policy is marked by the high degree to which it is integrated in the business activities and the systematic search for creating value for shareholders and all constituent actors.

Danone ensures that its actions help to develop economic and social benefits. Thus for each of its four strategic priorities (Health, For All, Nature, and People), Danone offers:

- products adapted to the nutritional and health needs of the populations without sacrificing fundamental marketing principles whereby companies must appeal to consumers' tastes, emotions or even their subconscious;
- products designed, produced and distributed based on policies aimed at protecting the environment;
- products manufactured and marketed using processes and methods that make it possible to develop local employment, and making sure that the plants are safe and healthy workplaces.

### Integration of CSR within the Group functions

**Responsible supply chain policy.** Danone works with thousands of suppliers worldwide. A substantial portion of its environmental and social impact is therefore located upstream within these companies. Consistent with the Group's "dual economic and social project," the RESPECT approach initiated in 2005 aims to extend this policy to the Group's entire supply chain (excluding milk producers covered by a special approach – see in particular Section 7.5 *Environmental Responsibility* regarding the Nature strategy), by adhering to the following process:

- contractualization of the suppliers' CSR performance through the signature of the Sustainable Development Principles and their integration into the general purchasing conditions;
- sharing of information through Internal Quality audits or self-reported CSR performance disclosures by suppliers on the Sedex platform, which is open to all agribusiness market participants;

- audit of suppliers identified as being potentially at risk regarding their CSR performance after this information sharing in order to implement an action plan.

#### **Human Resources policy integrating CSR in its processes.**

This integration is reflected in fundamental principles focused on Human Rights and Human Resources, whose application is assessed annually as part of the *Danone Way* approach described above. Variable compensation for 1,500 of the Group's senior managers and executives also integrates CSR criteria. Finally, the signature of international framework agreements with the International Union of Food Workers (IUF) (described in Section 7.3 *Employee dialogue, health and safety, training and development*) along with their promotion among Group subsidiaries and their joint audit by Danone with the IUF all help to promote CSR among the subsidiaries.

**Direct participation in CSR of the production functions, both upstream and downstream of Group activities.** The Linus project helps, for example, to reduce bovine methane emissions and supports small-scale farms and new distribution methods.

#### **Synergies between CSR and the sales and marketing functions.**

The elimination of cardboard packaging on yogurt packs in France went hand-in-hand with increased sales. *Volvic* launched the first bottle made from plant-based plastics rather than from traditional plastic materials, while *Stonyfield* is marketing the first yogurt cups made from corn-based plastic in the United States.

### Special governance system

**Social Responsibility Committee.** Created by the Board of Directors, its membership is three-fourths filled by independent Directors. This committee reviews in particular the Group's non-financial information and ratings and prevents conflicts of interest between socially responsible investments and the rest of Danone's activities (see Section 6.4 *Social Responsibility Committee*).

**Health governance.** It integrates principles, mechanisms, commitments and assessment methods that enable the Group to satisfy the commitments made in 2009 in the Food, Nutrition and Health Charter.

**Danone Way.** Since 2001, this approach has made it possible to disseminate the Group's sustainable development culture and fundamental principles by measuring the subsidiaries' performance relative to CSR. Each subsidiary thereby performs an annual self-assessment on 16 "Fundamentals" covering five sections (human rights, human relations, environment, consumers and governance). This assessment reflects the level of CSR performance. Entities that remain below the maximum level after three successive assessments become priorities and receive individualized monitoring. In 2011, 142 subsidiaries accounting for more than 92% of Group consolidated sales (including Unimilk groups' companies) performed self-assessments as part of *Danone Way*. Moreover, each year some 15 to 20 subsidiaries, accounting for approximately 20% of Group sales, are covered by a *Danone Way* audit, which is performed by the Group's audit and CSR teams with the support of KPMG in order to validate these self-assessments.

**Variable compensation system.** Since 2008, this system has integrated CSR performance by introducing criteria to assess the performance of the 1,500 senior managers and executives. This system is based on achieving three-part objectives: economic, social and environmental, and individual performance (see Section 7.2 *Employee benefits*).

**Sponsored funds.** These are funds created through Danone initiatives: *danone.communities* created in 2007, the Danone Ecosystem Fund created in 2009, and the Livelihoods Fund (an ecosystem restoration and carbon assets investment fund) established on December 15, 2011.

See Sections hereafter.

## danone.communities

The *danone.communities* open-ended investment company (*Société d'Investissement à Capital Variable – SICAV*) and the *danone.communities* venture capital fund (*Fonds Commun de Placements à Risques – FCPR*) have been created in May 2007 on Danone's initiative:

- the SICAV's investment strategy consists in investing a minimum of 90% of its assets in a selection of shares or units of UCITS or investment funds placed in money market investments, government bonds and bonds of companies in the Eurozone favoring a "Socially Responsible Investment" (SRI) approach, and a maximum of 10% of its assets in the FCPR *danone.communities*;
- the aim of the FCPR *danone.communities* is to invest in businesses with significant social impact located mainly in the emerging countries, in accordance with Danone's mission.

At the end of December 2011, the SICAV *danone.communities* had assets under management totaling around € 70 million.

### Investment by the Group and its employees in the *danone.communities* project

At the Shareholders' General Meeting of April 26, 2007, 99.77% of the shareholders approved the implementation of the project *danone.communities*.

Following the creation of the SICAV *danone.communities* in May 2007, the Company subscribed for € 20 million of its capital.

In addition, the employees of the Company and its French subsidiaries participate in the *danone.communities* project by investing in the SICAV via the *danone.communities* company

investment fund (*Fonds Commun de Placement d'Entreprise - FCPE*) in the framework of the Group savings plan. As of December 31, 2011, more than 25% of the Group's employees in France and more than 60% of its employees working at the head office or at the research center in France had subscribed to the FCPE *danone.communities*.

In addition, each year the Company makes a financial contribution for the *danone.communities* project. A maximum annual financial contribution is set by Danone's Board of Directors, upon the recommendation of the Social Responsibility Committee, and is reviewed each year to take into account the expansion of *danone.communities*.

In 2011, Group's financial contributions to the *danone.communities* projects totaled € 3.97 million (compared to a maximum amount of € 4 million set by the Company's Board of Directors on February 14, 2011).

With respect to the fiscal year 2012, at its meeting on February 14, 2012 the Company's Board of Directors, upon the recommendation of the Social Responsibility Committee, raised the Company's maximum annual financial contribution to € 5 million.

In addition, in accordance with the *danone.communities* Governance Charter, the Company's Social Responsibility Committee is consulted and expresses, before each investment, an opinion as to its compliance with said charter.

### FCPR *danone.communities* investments

Since its creation, the FCPR *danone.communities* has carried out seven investments, including two new projects in 2011: El Alberto in Mexico and Nutrigo in China.



### 1. Grameen Danone Foods Ltd., Bangladesh

The danone.communities FCPR made its first investment in Grameen Danone Foods Ltd., a company located in Bangladesh. This social company built a factory for manufacturing micronutrient-fortified yogurts to be sold in Dhaka, Bangladesh. Sold at a very affordable price by “Grameen Ladies” and in small retail stores, it helps combat children’s nutritional deficiencies.

It represents a combined investment from the FCPR danone.communities and other entities of the Grameen group, which has taken the form of a subscription to a capital increase for Grameen Danone Foods Ltd. totaling € 1 million, including approximately € 0.5 million which were paid by the FCPR danone.communities.

At the end of 2011, certain of Grameen Danone Foods Ltd.’s long-standing shareholders, together with Grameen Crédit Agricole Microfinance Foundation, subscribed to an additional capital increase totaling around € 1.4 million, € 0.45 million of which were paid by the FCPR danone.communities.

### 2. 1001 Fontaines, Cambodia

1001 Fontaines makes it possible for isolated villages in Cambodia to access clean drinking water, in order to prevent their inhabitants from drinking the water found in ponds (which is the cause of a high infant mortality rate and diarrhea-related illnesses). 1001 Fontaines uses an ultraviolet treatment process powered by solar energy to purify the water in these ponds. The FCPR danone.communities supports this project through an investment in the UV+Solaire company, in the form of a € 51,000 subscription to a capital increase and a € 99,000 shareholder current account.

### 3. La Laiterie du Berger, Senegal

The Senegalese company known as “La Laiterie du Berger” is a dairy company that processes fresh milk produced by Peuls farmers (and not imported milk, which accounts for the larger portion of consumption in Senegal, while a significant portion of the population survives through farming). Quality products made from this milk are sold at competitive prices on the Senegalese market. The investment made by the FCPR danone.communities was in the form of subscriptions to two capital increases (totaling around € 825,000) and a shareholder current account totaling around € 380,000.

### 4. Isomir, France

Financed by the FCPR danone.communities in 2010, this project is aimed at helping farmers in France develop their businesses, through direct farm marketing, using modular processing units (meat cutting, canning). The FCPR participated in the establishment of the company Isomir with an equity investment of € 100,000.

### 5. Naandi Community Water Services, India

Financed by the FCPR danone.communities in 2010, Naandi Community Water Services seeks to provide drinking water to village communities in India. The water treatment and distribution systems are installed in more than 400 villages by Naandi. The FCPR danone.communities participated in the creation of the company through an equity investment totaling some € 0.2 million and the subscription of convertible bonds for the amount of € 1.4 million (i.e. a total investment of around € 1.6 million), to be paid in four installments, two of which have already been paid as of December 31, 2011.

### 6. El Alberto, Mexico

The FCPR danone.communities’ sixth investment, made in 2011, concerns the El Alberto project, which is the result of a partnership between the Porvenir Foundation, HOD Mexico, the Mexican government and danone.communities. Its objective is to give the indigenous communities in the El Alberto region of Mexico access to clean and cheap water. The danone.communities FCPR has invested around € 78,500 in capital and around € 193,000 in convertible bonds (i.e. a total investment of around € 271,500).

### 7. Nutrigo – Danone Baby Food China

The FCPR’s seventh investment, also made in 2011, concerns the Nutrigo - Danone Baby Food China project, implemented in partnership, notably with the non-governmental organization Shanghai NPI Social Innovation Development Center, a significant actor in social innovation and social entrepreneurship in the People’s Republic of China.

The aim of this project is to:

- enable YingYangBao, a powdered complementary food supplement that provides children with key nutrients (notably proteins, vitamins, iron and calcium), to be distributed in the deprived rural areas of China whose people suffer from chronic malnutrition;
- improve the provision to local populations of education on nutrition.

It is expected that the FCPR danone.communities will invest a maximum of around € 900,000 in the Nutrigo project.

## Danone Ecosystem Fund

At the April 23, 2009 Shareholders' General Meeting, shareholders approved the proposed creation of an endowment fund, the Danone Ecosystem Fund (the "Fund"), with 98.36% of shareholders casting ballots in favor.

Under the terms of the resolution approved by that Shareholders' General Meeting, the Company made a free and irrevocable capital endowment of € 100 million into the Fund in 2009.

The Fund is governed by the provisions of the French Law of August 4, 2008 and is run by a Board of Directors. Furthermore, a Guidance's Committee, composed of representatives of the Danone Group and non-Group members, establishes the Fund's major strategic guidelines, especially with regard to priorities and resource allocation principles, as presented by the Fund's Board of Directors.

The purpose of the Fund is to strengthen and develop activities of public interest within the Danone ecosystem. Together with non-profit organizations, the Fund supports economic initiatives of certain Danone constituents (farmers, suppliers, local authorities, economic agents located close to plants, small distributors, etc.) in order to strengthen the Company's ecosystem, promote job creation and develop micro-entrepreneurship.

In addition to this capital endowment, every year, for a period of five years beginning in 2009, the Company and its subsidiaries may also make supplementary annual endowments totaling up to 1% of the Danone underlying net income per year.

Acting upon the recommendation of Danone's Social Responsibility Committee, the Company's Board of Directors therefore approved:

- for the 2009 fiscal year, an overall annual supplementary contribution of € 1.4 million (representing approximately 0.1% of the Group's 2009 consolidated underlying net income);
- for the 2010 fiscal year, an overall annual supplementary contribution of € 1.4 million (approximately 0.07% of the Group's 2010 consolidated underlying net income).

At its February 14, 2012 meeting, the Board of Directors approved for the 2011 fiscal year an overall annual supplementary contribution of € 0.9 million (approximately 0.05% of the Group's 2011 consolidated underlying net income).

As of December 31, 2011, the Fund's Board of Directors had approved 36 projects after reviewing them on the basis of the following five criteria:

- economic viability of activity being funded;
- creation of social value;
- possibility of developing or replicating the initiative;

- innovative character;
- differentiation opportunities.

Following the termination of two projects by the Fund's Board of Directors in 2011, 34 projects remained active as of December 31, 2011.

At that date, the total amount committed by the Fund was € 23.3 million for all of the projects.

The projects are initiated by Group subsidiaries around the world, both in developed and emerging market countries. Of the 34 active projects as of December 31, 2011, ten projects were located in Western Europe, nine in America, six in Central and Eastern Europe, six in Asia and three in Africa and the Middle East.

The Fund supports initiatives that fall into five main thematic categories:

- responsible sourcing: diversifying and localizing Danone's supply by developing partnerships with small producers, in particular for milk and fruits (15 active projects, or eight more than in 2010, which represent € 9.1 million committed by the Fund as of December 31, 2011);
- distribution: provide job insertion for people who are struggling in the job market by creating new distribution channels for mass market consumer products, and/or local products with high nutritional value (seven active projects, or three more than in 2010, and € 4.2 million committed by the Fund as of December 31, 2011);
- recycling: collecting PET and helping to organize the work of associations providing support to distressed individuals (*chiffonniers*) and by improving their quality of life and that of their family (four active projects and € 4 million committed by the Fund as of December 31, 2011);
- personal services: in connection with nutrition, develop the professional skills of participants in the personal services sector (four active projects and € 1.7 million committed by the Fund as of December 31, 2011);
- factory sites: contribute to social development at the local and regional levels where the Group's plants are located through local economic initiatives (four active projects and € 4.3 million committed by the Fund as of December 31, 2011).

In order to better assess the impact of the projects supported by the Fund since its creation, the Board of Directors decided to strengthen the measurement of the social impact of the Ecosystem approach.



## Livelihoods

The Livelihoods fund (an investment Luxembourg company with variable capital) is an investment fund dedicated to ecosystem and carbon assets restoration. It was founded on December 15, 2011 through a Danone initiative.

As the Fund's sponsor, Danone brought together an initial investor group comprising the Crédit Agricole (Crédit Agricole CIB and Delfinances), CDC Climat and Schneider Electric Industries groups.

The creation of the Livelihoods fund is part of Danone's goal of reducing its carbon and environmental footprint through the development of offset actions that enable carbon credits to be earned through projects with a high environmental and social impact.

By inviting co-investors to participate in the fund, Danone is able to limit the project-related risks through diversification over a greater number of projects, achieve economies of scale and benefit from complementary expertise and know-how.

The Livelihoods fund seeks to invest in three types of projects that fulfill both environmental and social criteria in Africa, Asia and Latin America: (i) the restoration and preservation of natural ecosystems, (ii) agroforestry and soils restoration through sustainable agricultural practices and (iii) rural energy access projects to limit deforestation.

The Livelihoods fund also seeks to have a significant impact on local communities (food security, development of new revenues, etc.) and on the environment.

The initial investors have pledged to invest a total of € 21 million (including Danone for € 10 million).

The initial term of the fund is 24 years, the life span of a project is around 20 years.

Five projects initiated by Danone in recent years have been transferred to the Livelihoods fund:

- Océanium: mangrove plantations in Senegal (6,600 hectares);
- Nature Environment & Wildlife Society: mangrove plantations in India (6,000 hectares);
- Yagusa Aceh: mangrove plantations in Indonesia (5,000 hectares);
- Naandi Foundation: agroforestry in India (6,000 hectares);
- Novacel: agroforestry in Democratic Republic of the Congo (2,400 hectares).

The carbon credits generated by the projects developed by the Livelihoods funds will be certified in accordance with best practices and allocated to investors pro rata to their investment. Investors will be able to use these credits to offset their carbon emissions or sell the credits on the market.

## 7.5 Environmental responsibility

The Group's strategy with regard to environmental issues is rooted in its businesses and its mission. The environment and natural raw materials are upstream features of the Group's business, which processes these materials to produce and sell products with a high health/well-being component. For many years the Group seeks to improve food security and the quality of the raw materials it uses. It implements sustainable industrial and agricultural models that are respectful of the environment and allow it to reduce the environmental impact of its business throughout the production chain. To achieve this, Danone focuses its actions on the five types of impact throughout its business operations (CO<sub>2</sub>, water, packaging, agriculture and biodiversity) identified as critical in terms of environmental impact.

Since 2000, Danone has also worked to limit its environmental impact by reducing its energy and water consumption and by recovering waste. In 2008 the Group strengthened its policy with the goal of reducing the carbon footprint associated with its products by 30% from 2008 to 2012 based on constant scope of consolidation (with the exception of the recently acquired Unimilk group's companies) and on emissions under Danone's direct responsibility (packaging, industrial activities, logistics and end of life).



## Key figures from the 2011 fiscal year

In 2011, Danone continued its policy of reducing its environmental impact (launched in 2000) through energy and water consumption.

	Energy (in kWh per kg produced)	Water (in liters per kg produced)
2000 to 2011	(45%)	(41%)
2010 to 2011	(7.6%)	(5.2%)

Also from 2008 to 2011, Danone achieved its carbon footprint objectives for the third consecutive year, with a cumulative reduction of 27.5%, reaffirming its goal of a 30% reduction of its carbon footprint from 2008 to 2012 based on constant scope of

consolidation (with the exception of the recently acquired Unimilk group's companies) and on emissions under Danone's direct responsibility (packaging, industrial activities, logistics and end of life).

## Implementation of Danone's Nature strategy

Danone's Nature strategy is implemented through three areas of action:

- Managing and enhancing the environmental fundamentals;
- Focusing on the five critical areas (CO<sub>2</sub>, water, packaging, agriculture and biodiversity) with significant environmental impact;
- Implementing appropriate processes and governance.

### Managing and enhancing the fundamentals

The program for managing environmental fundamentals in the production plants through deployment of the Green program (Global Risk Evaluation for Environment) now covers 67% of sites (except Unimilk group's companies), a 13 points increase over 2010. Additionally, 58% of sites are ISO 14001 certified (except Unimilk group's companies), also up by two points over 2010.

### Focusing on the five critical areas with significant environmental impact

#### CO<sub>2</sub>: combat climate change and reduce our dependency on fossil fuels

The target set by the Group in 2008 was to reduce its carbon footprint by 30% from 2008 to 2012, across the entire value chain wherever Danone's direct responsibility is in play (production plants, packaging and end of life, transport and storage, excluding upstream agriculture where initiatives are partially dependent on third parties).

From 2008 to 2011, Danone achieved its carbon footprint objectives for the third consecutive year, with a cumulative

reduction of 27.5%. The Group estimates the overall footprint of its products at end-2011 (on an annual basis) at 16 million metric tons equivalent CO<sub>2</sub> based on constant scope of consolidation (with the exception of the recently acquired Unimilk group's companies) and on emissions under Danone's direct responsibility (packaging, industrial activities, logistics and end of life).

#### Water: protect our water resources and use them in harmony with local ecosystems and communities

The Group's strategy focuses on four areas:

- Protect water resources;
- Reduce water consumption;
- Contribute to restoring the global water cycle;
- Promote access to water.

The Group has set the goal of reducing the water consumption of its production sites. Water consumption in 2011 was 5.2% less than in 2010 based on constant scope.

#### Packaging: turning waste into resources and developing renewable materials

In 2011, the Group continued to pursue the goal of turning waste into resources and developing renewable materials, in particular by:

- developing lighter-weight packaging notably by reducing the weight of the 1 liter Evian bottle by 11% (Waters Division) and that of certain yogurt pots (Fresh Dairy Products Division);
- expanding recycling, notably by contributing to the collection of materials used in its product packaging and when this collection is not pre-existing, by testing out new systems of collection. In



2011, the Group worked on four projects in the framework of the Danone Ecosystem Fund;

- developing the use of recycled packaging. In 2011, around on third of Group product packaging was made of recycled materials;
- developing renewable materials such as plant-based plastics (from sugar cane, sugar cane waste and corn waste) which the Group has been testing for two years with four brands (*Volvic*, *Actimel*, *Activia* Germany and *Stonyfield*). The Group's goal is also to develop third-generation renewable materials (materials that are not in competition with food), through cooperation with experts and external partners;
- involving the consumer by encouraging sorting of packaging.

In this way the carbon footprint of packaging was reduced by 27.5% from 2008-2011 based on constant scope of consolidation (with the exception of the recently acquired Unimilk group's companies).

#### **Agriculture and biodiversity: support competitive agriculture that creates social, environmental and nutritional value**

Danone generally does not control the upstream dairy farms and accounts for less than 1% of total global raw milk supply. However, the Group has been committed for several years to reducing its environmental impact: The Group has been a member of FARRE

(Forum for integrated agriculture that respects the environment) since 1999 and cofounded the SAI (Sustainable Agriculture Initiative) in 2002. Since 2010, the Group has worked with several experts to develop agriculture that meets the world's needs while integrating Health, Economy, Nature and Social dimensions.

Danone also works directly with farmers and agricultural organizations in the dairy sector to reduce the sector's environmental impact. Since 2004, Danone integrated ten environmental criteria into its Quality charter. This program was expanded in 2010 and covered more than 85% of raw milk collection from farmers working directly with Danone, by volume, in 2011. Finally, in 2011, a methodology for assessing animal well-being was designed in collaboration with Compassion in World Farming, and will be rolled out starting in 2012.

The Group carries out numerous initiatives to protect biodiversity:

- in certain production sites, such as the Molay-Littry plant for the Fresh Dairy Products Division in France, which was designated a Natura 2000 zone;
- by protecting its rainwater catchment areas in the Waters Division: The Evian site was designated an internationally important wetland under the Ramsar Convention in 2009. In Argentina, a natural park of 72,000 hectares was created around the rainwater catchment of Villavicencio.

The Group also seeks to protect biodiversity in upstream agriculture with its "Supporter of sustainable dairy" program.

## **Appropriate governance and processes**

### **Organization and internal procedures**

To achieve its goals, Danone is piloting its Nature plan at every level of the Group. In particular, environmental objectives determines a third of the 1,500 Group's senior managers and executives' annual variable compensation.

The Group has also strengthened its internal processes to integrate Nature into its business, notably in 2011 by implementing an environmental claims process.

### **Reporting and rating of environmental criteria**

For the third consecutive year, in 2011 Danone was recognized by the DJSI (Dow Jones Sustainability Index) as the benchmark company in the agri-food sector in the area of environmental reporting. Its Carbon Disclosure Project (CDP) rating rose by eight points, confirming Danone's membership on the CDP panel of the companies most committed to reducing greenhouse gas emissions.

### **IT systems**

Through a joint effort with IT systems developer SAP, the Group developed an innovative application to measure the carbon footprint of its products. Based on an analysis of each product's life cycle and operational monitoring of these various stages, this application makes it possible to measure the carbon footprint of each product. After being successfully validated at two pilot entities in 2010, in 2011 the solution was rolled out to 20 other entities, currently representing 42% of Danone's consolidated sales excluding sales from Unimilk group's companies. This deployment will continue in 2012 at all subsidiaries equipped with the Themis application.

## Environmental expenditures and investments in the 2011 fiscal year

In 2011, investments targeting environmental protection amounted to around € 46.8 million, or around 5% of the Group's total capital expenditure. This represents a 21% increase, compared to 2010.

The primary investment categories are the following:

- environmental compliance: waste processing, wastewater processing, treatment facilities, noise measurement, air quality, etc. These investments are 27% lower than in 2010, building on what had already been accomplished in this area in previous years;
- investments targeting reduction of CO<sub>2</sub> emissions (energy savings, renewable energy use, logistics, eco-design of packaging). These investments rose by 15%, as reducing our carbon footprint is a priority goal for the Group.

In addition, since its creation in 2010, the "Green Capex" approval process (investments for environmental protection) provides financing for projects with high environmental value, but with a return on investment below Group standards that would prevent their being accepted following the usual investment approval process. This approach takes into account the number of metric tons of CO<sub>2</sub> reduction achieved by the projects.

Operating expenditures related to the environment amounted to around € 105.2 million in 2011. They include € 32.2 million for waste, water and air management and for environmental taxes other than taxes on packaging. This latter expenditure amounted to € 54.5 million in 2011.

## Environmental impact of the business: key indicators

Analysis of quantified indicators associated with the environmental impact of Company's subsidiaries operations in all the Divisions:

	Units	2011
<b>Energy</b>		
Thermal energy <sup>(1)</sup>	GWh <sup>(2)</sup>	2,284
Electrical energy	GWh <sup>(2)</sup>	1,820
Total energy	GWh <sup>(2)</sup>	4,104
<b>Solid waste</b>		
Total waste <sup>(3)</sup>	Thousands of tons	284
Recovered waste <sup>(4)</sup>	Thousands of tons	248
Recovery rate	%	87.4
<b>Water</b>		
Consumption <sup>(5)</sup>	Millions of m <sup>3</sup>	35
Net CDO discharge <sup>(6)</sup>	Tons	4,881
Number of significant accidental discharges (chemical products and hydrocarbons)		2
<b>Gas contributing to the greenhouse gas effect (direct) <sup>(11)</sup></b>	Thousands of tons equivalent CO <sub>2</sub> <sup>(7)</sup>	496
<b>Gas contributing to the greenhouse gas effect (direct)</b>		
Sulfur oxide	Tons equivalent SO <sub>2</sub> <sup>(8)</sup>	2,447
Nitrogen oxide	Tons equivalent NO <sub>2</sub> <sup>(9)</sup>	1,051
<b>Gas with an impact on the ozone layer <sup>(12)</sup></b>	Kg equivalent CFC <sup>(10)</sup>	523

(1) Energy consumed by factories, derived from gas, oil, coal or other sources of thermal energy.

(2) Gigawatt hour.

(3) Waste generated by factories.

(4) Waste recovered via recycling of matter or via incineration with energy recuperation.

(5) Water consumed by factories, excluding water placed in containers.

(6) CDO (chemical oxygen demand) is a measure of water pollution; net CDO discharges are measured after treatment of used water.

(7) Carbon dioxide (CO<sub>2</sub>) is essentially produced by the combustion of matter; only primary CO<sub>2</sub> emissions are indicated.

(8) SO<sub>2</sub>: sulfur dioxide.

(9) NO<sub>2</sub>: nitrogen dioxide.

(10) CFC: chlorofluorocarbons.

(11) Includes: CO<sub>2</sub>, C<sub>14</sub>H<sub>10</sub>, N<sub>2</sub>O, CFC, HCFC, HFC and Halons (according to IPCC 2001).

(12) Includes: CFC, HCFC, and Halons (according to Montreal Protocol).

# 7

## Social, societal and environmental responsibility

Environmental responsibility



# Share capital and share ownership

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## 8.1 Share capital

### Share capital as of February 29, 2012

As of February 29, 2012, the Company's share capital amounted to € 160,561,643.25, fully paid in, and divided into 642,246,573 shares of the same class with a par value of € 0.25 per share. Each share gives a right to ownership of a proportion of the

Company's assets, profits and liquidation surplus, based on the percentage of share capital that it represents.

#### Changes in share capital in the last five fiscal years

Date recognized	Number of shares created or cancelled	Transaction type	Change in capital			Cumulative number of shares
			Share capital (in €)	Additional paid-in capital (in €)	Cumulative amount of capital	
05/02/2007	560,984 shares	Capital increase reserved for employee members of a company savings plan	280,492	52,177,121,84	130,712,865	261,425,730 shares
06/01/2007	261,425,730 shares	Two-for-one share split	–	–	130,712,865	522,851,460 shares
07/09/2007	(10,000,000) shares	Capital decrease by cancellation of shares	(2,500,000)	(580,397,463,00)	128,212,865	512,851,460 shares
05/05/2008	950,684 shares	Capital increase reserved for employee members of a company savings plan	237,671	41,164,617,20	128,450,536	513,802,144 shares
04/23/2009	(1,844,442) shares	Capital decrease by cancellation of shares	(461,111)	(93,341,739)	127,989,426	511,957,702 shares
05/07/2009	580,040 shares	Capital increase reserved for employee members of a company savings plan	145,010	19,083,316	128,134,436	512,537,742 shares
05/25/2009	11,216,756 shares	Capital increase for the payment of dividend in shares	2,804,189	356,580,673	130,938,625	523,754,498 shares
06/25/2009	123,236,352 shares	Capital increase	30,809,088	3,016,825,897	161,747,713	646,990,850 shares
05/06/2010	930,990 shares	Capital increase reserved for employee members of a company savings plan	232,747,50	31,132,305.60	161,980,460	647,921,840 shares
05/05/2011	939,160 shares	Capital increase reserved for employee members of a company savings plan	234,790	33,377,746.40	162,215,250	648,861,000 shares
12/13/2011	(6,614,427) shares	Capital decrease by cancellation of shares <sup>(1)</sup>	(1,653,606,75)	(208,286,984.92)	160,561,643.3	642,246,573 shares

(1) See Section 8.2 Treasury shares held by the Company and its subsidiaries.

## Shares not representing share capital

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The Company has not issued shares not representing share capital.

## 8.2 Treasury shares held by the Company and its subsidiaries

### Authorization granted to the Company to repurchase its own shares

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The Board of Directors may, subject to legal provisions, purchase the Company's shares.

The Shareholders' General Meeting of April 28, 2011 authorized the Board of Directors, for an eighteen-month period, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company at a maximum purchase price of € 65 per share. This authorization cancelled and replaced the authorization previously granted by the Shareholders' General Meeting of April 22, 2010.

In addition, the Board of Directors will submit to the Shareholders' General Meeting to be held on April 26, 2012, a resolution valid for eighteen months, which will cancel and replace the authorization granted by the Shareholders' General Meeting of April 28, 2011, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company (i.e., for indicative purposes only, 64,224,657 shares as of December 31, 2011, representing a maximum potential purchase amount of € 4,174,602,705) at a maximum purchase price of € 65 per share.

The purchase of the Company's shares may be executed for the purposes of:

- the allocation of shares with respect to the exercise of stock-options by the Company's employees and executive directors and officers, as well as by employees, directors and officers of companies or economic interest groups in which the Company holds, directly or indirectly, at least 10% of the share capital or voting rights;
- the implementation of any plan for the allocation of free shares to eligible employees and executive directors and officers, or to some among them;

- the sale of shares to employees (either directly or through an employee savings mutual fund) within the context of employee shareholding plans or savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the later delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares within the maximum legal limit;
- supporting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Within the limits permitted by the regulations in force, the shares may be acquired, sold, exchanged or transferred, in whole or in part, as the case may be, on one or more occasions, by any means on any stock markets, including multilateral trading systems, through a systematic internalizer or over-the-counter, including by acquisition or disposal of blocks of shares (without limiting the portion of the share repurchase program that may be completed through this means). These means include the use of any financial contract or instrument (including in particular any option and any future), except the sale of put options, in the conditions set out by applicable regulations.

These transactions may be completed at any time for a period of eighteen months beginning April 26, 2012, with the exception of periods during which a public tender offer for the Company's securities has been made, within the limits indicated in the applicable regulations.

## Authorization to cancel shares and to reduce the share capital following share repurchases

The Shareholders' General Meeting of April 28, 2011 granted an authorization to the Board of Directors for 24 months to cancel shares acquired in the context of a share repurchase program subject to a limit of 10% of the existing share capital as of the day of the meeting.

Pertaining to the authorization granted by the Shareholders' General Meeting of April 28, 2011, on December 13, 2011, the Board of Directors cancelled 6,616,427 DANONE shares, representing around 1.2% of the share capital, following the purchase 6,616,427 of DANONE call options (see Section 8.3 *DANONE call options held by the Company*).

## Transactions during the 2011 fiscal year and situation as of December 31, 2011

During the fiscal year 2011, the Group carried out the following transactions in DANONE shares:

- the buyback of 13.3 million of DANONE shares, mainly for the purpose of acquisitions and, to a lesser extent, to hedge the stock-options and Group performance shares granted to certain employees and corporate officers;
- the acquisition of 6.6 million DANONE call options to hedge part of the ongoing stock-option plans granted to certain employees and corporate officers, as a replacement for their existing hedging by treasury shares.

The changes in treasury shares in terms of transactions and use during 2011, broken down by the objective targeted by the Company, are as follows:

(number of shares)	As of December 31, 2010	Movements in the year				As of December 31, 2011
		Purchases <sup>(1) (2)</sup>	Other transactions <sup>(3)</sup>	Reallocations <sup>(1)</sup>	Cancellations <sup>(1)</sup>	
Acquisitions	16,077,177	12,737,770	-	(105,822)	-	28,709,125
Hedging of stock-options and Group performance shares	14,996,775	563,042	(1,934,877)	(6,508,605)	-	7,116,335
Share cancellations	-	-	-	6,614,427	(6,614,427)	-
<b>Treasury shares</b>	<b>31,073,952</b>	<b>13,300,812</b>	<b>(1,934,877)</b>	-	<b>(6,614,427)</b>	<b>35,825,460</b>
<b>Shares held by Danone Spain</b>	<b>5,780,005</b>	-	-	-	-	<b>5,780,005</b>
<b>Total shares held by the Group</b>	<b>36,853,957</b>	<b>13,300,812</b>	<b>(1,934,877)</b>	-	<b>(6,614,427)</b>	<b>41,605,465</b>

(1) Purchases and allocations (reallocations and cancellations) made as part of authorizations given by the Shareholders' General Meeting.

(2) Purchases allocated to hedge stock-options were made by exercising DANONE call options. The average price of other purchases made in 2011 was € 46.42 per share.

(3) Transfer of treasury shares following the exercise of stock-options by beneficiaries.

As of December 31, 2011, the Company held 35,825,460 treasury shares, which represented 5.6% of its share capital and whose gross purchase value amounted to € 1,560 million.



## Use of the authorizations granted by the Shareholders' General Meeting and in force as of December 31, 2011

Date of Shareholders' General Meeting having authorized the repurchase program	Purpose of repurchase	Number of shares repurchased	Total value of shares repurchased (in €)
04/23/2009	-	-	-
04/22/2010	Acquisitions	15,102,100	691,248,102
04/28/2011	Acquisitions	2,999,770	149,999,914
04/28/2011	Hedging of stock-options and Group performance shares	563,042	18,200,844

## Treasury shares held by the Company and its subsidiaries as of February 29, 2012

	Number of shares as of February 29, 2012
Acquisitions	28,709,125
Stock-options and GPS hedging	7,116,335
Cancellation of shares	-
<b>Shares held by the Company</b>	<b>35,825,460</b>
<b>Shares held by its subsidiary in Spain (Danone Spain)</b>	<b>5,780,005</b>
<b>Total shares held by the Group</b>	<b>41,605,465</b>

Based on the closing price of DANONE share on February 29, 2012 (i.e. € 50.78 per share), the market value of the treasury shares held as of that date by the Group amounted to € 2,113 million.

A 10% rise or fall in the Company's share price would result in a € 211 million increase or decrease, respectively, in the market value of the Company's shares held by the Group.

## 8.3 DANONE call options held by the Company

### Acquisitions by the Company during the 2011 fiscal year

On October 25, 2011, under the terms of its share repurchase program, Danone acquired DANONE call options to hedge part of the stock-options granted to certain of its employees and corporate officers and still in force, as a substitute for their existing hedge by treasury shares held:

- In this context and to satisfy its legal obligations, Danone held treasury shares specifically allocated to hedge these stock-option plans. These treasury shares were earmarked for gradual release into circulation on the market as and when beneficiaries exercised stock-options until the expiry of the plans still in force, i.e. until October 2017;

- In order to limit the dilutive effect of the exercise of these options, Danone decided to hedge part of these stock-options by the acquisition of DANONE call options, as a substitute for the treasury shares held. A total of 6.6 million DANONE call options representing around 1.02% of the share capital were thus acquired from a financial institution. The Company's intention is to exercise these call options at any time until the expiry of the stock-option plans in force, in order to comply with its commitments to deliver shares to stock-option holders.

The 6.6 million treasury shares held until then to hedge the stock-options concerned were reallocated with a view to their cancellation and were subsequently cancelled on December 13, 2011.

**DANONE's call options held by the Company as of December 31, 2011**

<i>(number of options)</i>	As of December 31, 2010	Acquisitions	Changes in the year		As of December 31, 2011
			Call options matured	Call options exercised	
DANONE call options	-	6,614,427	-	563,042	6,051,385

## 8.4 Authorization to issue securities that confer a right to the share capital

### Existing authorizations to issue ordinary shares and securities giving access to the Company's share capital as of December 31, 2011

The Shareholders' General Meeting regularly grants to the Board of Directors authorizations to increase the share capital through the issuance of ordinary shares or securities giving access to the Company's share capital.

- The maximum nominal amount for the issuance of ordinary shares and securities giving access to the share capital, with preferential subscription rights, is € 56.5 million, following the renewal of the authorization by the Shareholders' General Meeting of April 28, 2011, representing a maximum of 226 million new shares to be issued (or around 35.2% of the total share capital as of December 31, 2011).
- The maximum nominal amount for the issuance of ordinary shares and securities giving access to the share capital, without preferential subscription rights (but with the obligation for the Board of Directors to grant a priority right to the shareholders of the Company) is € 37.8 million, representing a maximum of 151.2 million new shares to be issued (or around 23.5% of the total share capital as of December 31, 2011), it being noted the Board of Directors undertook not to use the authorizations relating to dilutive issuances, on an individual or combined basis, above a ceiling of 15% of the share capital.

The existing authorizations for the issuance of ordinary shares and securities giving access to the share capital, with or without preferential subscription rights, approved by the Shareholders' General Meetings of April 22, 2010 and April 28, 2011 are summarized in the following table:

Authorization type	Authoriza- tion date	Expiry date	Authorized maximum amounts				
			Ordinary shares (nominal value of issue)	Securities giving access to the capital	Used in 2010 (nominal value)	Used in 2011 (nominal value)	Balance available at December 31, 2011 (nominal value)
<b>Non-dilutive issues</b> (with shareholders' preferential subscription rights)	04/28/11 (26 months)	06/28/2013	€ 56.5 million <sup>(1)</sup> (approximately 35.2% <sup>(2)</sup> of the capital)	Joint maximum amount of € 2 billion	–	–	– € 56.5 million
<b>Dilutive issues</b> (with cancellation of shareholders' preferential subscription rights, but with the obligation to grant priority rights)	04/28/11 (26 months)	06/28/2013	€ 37.8 million <sup>(1)</sup> <sup>(3)</sup> (approximately 23.5% <sup>(2)</sup> of the capital), forming part of the maximum amount of € 56.5 million of non-dilutive issues above		–	–	– € 37.8 million
Dilutive issue (public exchange offer initiated by the Company)	04/28/11 (26 months)	06/28/2013	€ 24 million <sup>(3)</sup> (approximately 14.9% <sup>(2)</sup> of the capital) forming part of the maximum amount of € 37.8 million of dilutive issues above		–	–	– € 24 million
Dilutive issue (contributions in kind to the Company)	04/28/11 (26 months)	06/28/2013	10% of the capital <sup>(3)</sup> forming part of the maximum amount of € 37.8 million of dilutive issues above		–	–	10% of the capital
Capital increase by incorporation of reserves, earnings or premiums	04/28/11 (26 months)	06/28/2013	€ 41.6 million (approximately 25.9% <sup>(2)</sup> of the capital)		–	–	– € 41.6 million
Authorization in favor of Group employees and/or officers	Capital increase reserved for members of a company savings plan and/or reserved transfers of securities	04/28/11 (26 months)	06/28/2013	€ 3.7 million (or approximately 2.30% <sup>(2)</sup> of the share capital) applicable to the € 37.8 million ceiling on the above-mentioned dilutive issues, which is itself applicable to the € 56.5 million ceiling on the above-mentioned non-dilutive issues	–	–	– € 234,790 <sup>(4)</sup> € 3.7 million
	Grant of performance shares (GPS) <sup>(5)</sup>	04/22/2010 (26 months)	06/22/2012	0.4% of the share capital as noted on closure of the Shareholders' General Meeting	–	644,565 shares granted <sup>(6)</sup> (approxima- tely 0.10% <sup>(7)</sup> of the capital)	713,661 shares granted <sup>(6)</sup> (approxima- tely 0.11% <sup>(7)</sup> of the capital)

(1) For issues resulting from cash subscriptions, the Board of Directors may increase the number of securities to be issued within the limit of 15% of the initial issues and at the same price. This option available to the Board shall not have the effect of increasing the respective maximum amounts set out in the two authorizations.

(2) This percentage is calculated for indicative purposes only on the basis of the share capital as of December 31, 2011.

(3) The Board of Directors has undertaken that no use shall be made in respect of these dilutive issuance authorizations, on an individual or combined basis, that would result in exceeding a maximum amount of 15% of the share capital.

(4) The capital increase reserved for Group employees decided by the Board of Directors on February 14, 2011 and implemented in May 2011 used the authorization approved by the Shareholders' General Meeting held on April 23, 2009 (and not the authorization approved by the Shareholders' General Meeting held on April 28, 2011).

(5) The adoption of this authorization by the Shareholders' General Meeting held on April 22, 2010 cancelled the resolution authorizing the grant of stock subscription or purchase options adopted by the Shareholders' General Meeting held on April 23, 2009.

(6) See Section 7.2 concerning the review of the achievement of performance conditions in respect of these grants.

(7) This percentage is calculated on the basis of the share capital noted on closure of the Shareholders' General Meeting held on April 22, 2010.

## Authorizations to issue other securities giving access to the share capital as of December 31, 2011

### Plan for the grant of Group Performance Shares

The Shareholders' General Meeting of April 22, 2010, in its fifteenth resolution, authorized the Board of Directors to grant, on one or more occasions, existing shares or shares to be issued by the Company. The number of existing or new shares allocated may not exceed 0.4% of the Company's share capital (as of the close of such Meeting), i.e. 2,587,963 shares.

The Board of Directors at its meeting of July 26, 2010 decided, based on this authorization, to grant a total of 644,565 shares subject to performance criteria (Group Performance Shares – GPS).

During the 2011 fiscal year, and still on the basis of this authorization, the Board of Directors decided to grant a total of 713,661 GPS (696,311 GPS at its April 28, 2011 meeting and another 17,350 GPS at its October 20, 2011 meeting).

As of December 31, 2011, 1,288,010 of these GPS could still be acquired by their beneficiaries.

The performance conditions applicable to the GPS as well as a review of the achievement of these performance conditions by the Board of Directors are described in Section 7.2 *Employee benefits*.

### Stock-options and subscription options plans

Pursuant to a decision of the Shareholder's General Meeting of April 22, 2010, the Group does no longer grant stock-options and/or subscription options. Indeed, it was decided that the authorization to grant performance shares (see paragraph below) cancelled, for the portion not yet used by such date, the authorization granted by the Shareholders' General Meeting of April 23, 2009 in its thirtieth resolution granting future stock-options and/or subscription options.

The Shareholders' General Meeting authorized the Board of Directors, through successive authorizations, to grant, on one or more occasions over a maximum period of 26 months, stock-options for up to 8 million shares for the plan approved by the Shareholders' General Meetings of May 2001 and April 2003, and 6 million shares for the plan approved by the Shareholders' General Meetings of April 2005, April 2007 and April 2009 (after taking into account the stock-splits in 2004 and 2007).

As of December 31, 2011, 11,892,803 of these stock-options could still be exercised by their beneficiaries, and the Board of Directors no longer had the authority to grant the remaining 5,979,600 stock-options out of a total amount of 6 million shares authorized by the Shareholders' General Meeting of April 23, 2009 (see Section 7.2 *Employee benefits*).

## Financial authorization subject to approval by the Shareholders' General Meeting

The Shareholders' General Meeting of April 26, 2012 is called to renew the authorization for the granting of performance shares under the following terms and conditions:

	Authorization date	Expiry date	Authorized maximum amount	
			Ordinary shares (nominal value of issue)	Securities giving access to the capital
Grant of Group performance shares (GPS)	04/26/2012 (26 months)	06/26/2014	0.4% of share capital as noted at the close of the Shareholders' Meeting	–

This draft resolution is presented in Section 9.3 *Comments on the resolutions submitted to the Shareholders' General Meeting*.

## Changes in share capital and in the rights associated with the shares

Any changes in the share capital or the rights attached to the securities comprising the share capital are subject to applicable legal provisions, as the by-laws do not contain any specific provisions related thereto.

## 8.5 Securities not representing capital

At the Combined Shareholders' General Meeting of April 23, 2009, it was decided to delete Article 27.I.9 of the Company's by-laws (which reserved the authority to decide on or authorize bond issuances to the Shareholders' General Meeting), in order to recognize the Board of Directors' authority in principle in this area, pursuant to the first paragraph of Article L. 228-40 of the French Commercial Code.

Furthermore, in accordance with a substitution agreement entered into on November 16, 2009 by the Company and Danone Finance, the Company replaced its subsidiary Danone Finance in its debt securities issued under its EMTN (Euro Medium Term

Note) program. Thus the Company is now the sole issuer of the Group's bonds. As of December 31, 2011, the total outstanding principal amount on the Company's bonds was € 3,154 million.

At its meeting of October 20, 2011, the Board of Directors decided to renew, for a period of one year, the authorization granted to the General Management to issue, in France or abroad, ordinary bonds, subordinated debt securities or any other type of negotiable debt instrument for up to a maximum outstanding principal amount at any time of € 7 billion (or the equivalent amount in any other currency or accounting unit).

## 8.6 Dividends paid by the Company

### Dividend pay-out policy

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The following is withheld from earnings (from which, if applicable, past losses have already been deducted): (i) at least 5% for the creation of the legal reserve, a deduction that will cease to be mandatory when the legal reserve has reached one-tenth of the share capital, but that will be reinstated if, for any reason whatsoever, the legal reserve falls below this amount; and (ii) any sums to be allocated to reserves in accordance with the law.

The balance, to which are added retained earnings, represents an amount of distributable earnings from which an amount is allocated to shareholders, as a first dividend payment, which corresponds to interest of 6% per annum on the amount of their shares that has been paid up and not reimbursed, it being specified that if in a

given fiscal year earnings are not sufficient to make this payment, the shortfall may be paid by deduction from the earnings of subsequent fiscal years.

Any remaining balance is available for allocation by the annual Shareholders' General Meeting, in accordance with a proposal by the Board of Directors, to shares as dividends or, in full or in part, to any reserve accounts or to retained earnings.

The reserves available to the Shareholders' General Meeting can be used, if it so decides, to pay a stock dividend. In this case, the decision will expressly indicate those accounts to which the stock dividend will be charged.

## Dividends paid in respect of the three previous fiscal years

A dividend payment of € 1.39 will be proposed at the Shareholders' General Meeting of April 26, 2012 in respect of shares for which the dividend entitlement date is January 1, 2011. If this dividend is approved, the shares will be declared ex-dividend on May 8, 2012 and the dividend will be payable as from May 11, 2012.

The following dividends were paid in respect of the three fiscal years prior to the 2011 fiscal year:

Dividend relating to fiscal year <sup>(1)</sup>	Dividend per share <i>(in € per share)</i>	Dividend approved <sup>(2)</sup> <i>(in € million)</i>	Dividend paid <sup>(2)</sup> <i>(in € million)</i>
2008	1.20	617	221 <sup>(3)</sup>
2009	1.20	776	745
2010	1.30	842	790

(1) Paid in the following year.

(2) Treasury shares held directly by the Company do not carry the right to receive a dividend. In contrast, the shares held by Danone Spain carry the right to receive a dividend.

(3) The Shareholders' General Meeting held on April 23, 2009 offered each shareholder the option to receive payment in new shares issued by the Company for the full amount of the dividend in respect of fiscal year 2008. This resulted in the delivery of 11,216,756 new shares in the Company to shareholders having opted to receive the dividend payment in shares and in the payment of € 221 million to those having opted for the cash payment.

The payment of the dividend is carried out by Euroclear France.

The net future dividends will depend on the Company's ability to generate a profit, on its financial position, and on any other factor that the Board of Directors deems pertinent.

Dividends that have not been claimed within a five-year period revert to the French State.

## 8.7 Voting rights, crossing of thresholds

### Voting rights

- The Extraordinary Shareholders' General Meeting of October 18, 1935 decided to grant double voting rights, in accordance with the law and in relation to the portion of the Company's share capital that they represent, to all fully paid up shares for which evidence is provided that they have been registered in the name of the same shareholder for at least two years, as well as – in the event of a share capital increase through capitalization of reserves, earnings or additional paid-in capital – to registered shares granted free of charge to a shareholder in consideration of existing shares in respect of which he enjoys said rights. Double voting rights cease in the event of a transfer or conversion into bearer shares, unless otherwise provided for by law. A merger with another company shall not affect double voting rights, which can be exercised within the absorbing company if its by-laws have instituted this procedure.
- The Extraordinary Shareholders' General Meeting of September 30, 1992 decided that at Shareholders' General Meetings, no shareholder may cast more than 6% of the total number of voting rights attached to the Company's shares in his or her own right and through his or her agents (*mandataires*), in respect of single voting rights attached to shares which he or she holds directly and indirectly and of powers which have been granted to him or her. Nevertheless, if, additionally, he or she enjoys double voting rights in a personal capacity and/or in the capacity of agent, the limit set above may be exceeded by taking into account only the extra voting rights resulting there from. In such a case, the total voting rights that he or she represents shall not exceed 12% of the total number of voting rights attached to the Company's shares.

The aforementioned limitations shall become null and void if any individual or corporate entity, acting alone or in concert

with one or more individuals or corporate entities, were to come into possession of at least two-thirds of the total shares of the Company as a result of a public tender offer for all the Company's shares. The Board of Directors shall formally acknowledge that the limitations have become null and void and shall complete the corresponding modifications to the by-laws. In addition, in accordance with the General Regulations of the French Financial Markets Authority, the effects of the limitations provided for in the preceding paragraphs shall be suspended at the first Shareholders' General Meeting following the close of the offer if the bidder, acting alone or in concert, were to come into possession of more than two-thirds of the total shares or total voting rights of the company concerned.

Following the adoption of the sixteenth resolution by the Shareholders' General Meeting of April 22, 2010, the aforementioned limitations shall be suspended for a Shareholders' General Meeting if the number of shares present or represented at such meeting reaches or exceeds 75% of the total number of shares carrying voting rights. In such event, the Chairman of the Board of Directors (or any other person who is presiding over the meeting in his absence) shall formally acknowledge the suspension of said limitation when the Shareholders' General Meeting is called to order.

- Shareholders may vote by mail or by proxy, voting or giving their proxy by any means in accordance with the applicable

laws and regulations. In particular, shareholders may send their voting papers or proxy forms to the Company prior to the Shareholders' General Meeting, in accordance with the applicable laws, either:

- by mail, using a single form provided by the Company (or its agent): when his or her shares are held in "bearer" form, the shareholder must send the completed and signed form of his or her choices, directly to his or her account-keeping institution (bank, brokerage firm, etc.) in order to be taken into account;
- electronically: in that respect, the Company's by-laws allow for shareholders to participate in Shareholders' General Meetings through electronic means, and a website will be specially configured for that purpose. The electronic signature of the proxy or mail-in voting forms may be carried out using a procedure consistent with the terms defined in Articles R. 225-79 (for proxies) and R. 225-77 (for mail-in votes) of the French Commercial Code.

The Board of Directors may decide that any vote cast during a Shareholders' General Meeting may be expressed by videoconference or by any telecommunication means enabling the shareholder to be identified, in accordance with the terms set forth in the applicable legislation and regulations.

## Crossing of thresholds

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In addition to the legal declarations, the by-laws of the Company provide that any individual or entity that comes to acquire or ceases to hold in any manner whatsoever, within the meaning of Articles L. 233-7 *et seq.* of Volume II of the French Commercial Code, a fraction equivalent to 0.5% of the voting rights or a multiple thereof must, within five trading days of crossing such threshold, notify the Company of the total number of shares or securities giving future access to the capital and the total number of voting rights that said individual or entity holds alone, or indirectly, or in concert, by registered mail with return receipt to the Company's registered

office. If the threshold is crossed as a result of a purchase or sale on the market, the period of five trading days begins as from the date of trade and not the date of delivery.

In the event of failure to comply with this notification requirement, upon the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been declared may not be exercised or delegated by the non-complying shareholder at any Shareholders' General Meeting held during a period of two years as from the date on which the shareholder makes the corrective notification.

## 8.8 Share ownership structure as of December 31, 2011 and significant changes over the last three fiscal years

### Share ownership structure as of December 31, 2011

Double voting rights are granted to all fully paid-up shares held in registered form in the name of the same shareholder since at least two years.

Selected information regarding the principal shareholders of the Company as of December 31, 2011 is set out below:

Shareholder	Number of shares held	Percentage of the capital	Number of gross voting rights	Percentage of gross voting rights <sup>(2)</sup>	Number of net voting rights	Percentage of net voting rights <sup>(3)</sup>
Eurazeo group <sup>(1)</sup>	16,433,370	2.6%	31,902,983	4.6%	31,902,983	4.9%
Sofina and Henex group	13,584,541	2.1%	27,169,082	3.9%	27,169,082	4.2%
Caisse des Dépôts et Consignations group	11,688,114	1.8%	11,688,114	1.7%	11,688,114	1.8%
"Fonds Danone" company investment fund	8,804,680	1.4%	16,616,015	2.4%	16,616,015	2.6%
Company	35,825,460	5.6%	35,825,460	5.2%	-	-
Subsidiary Danone Spain	5,780,005	0.9%	5,780,005	0.8%	-	-
Other	550,130,403	85.6%	560,136,281	81.4%	560,136,281	86.5%
<b>Total</b>	<b>642,246,573</b>	<b>100.0%</b>	<b>689,117,940</b>	<b>100.0%</b>	<b>647,512,475</b>	<b>100.0%</b>

(1) See Section below.

(2) The percentage of gross voting rights is calculated taking into account the shares held by the Company and its subsidiaries, which are stripped of voting rights.

(3) The number of net voting rights (or voting rights "exercisable in a Shareholders' General Meeting") is calculated excluding the shares stripped of voting rights.

As of December 31, 2011, the total number of shares owned by the members of the Board of Directors and Executive Committee (25 persons) was 428,102 shares, representing 0.07% of the Company's share capital.

As of December 31, 2011, under the authorizations granted by the Shareholders' General Meeting of April 28, 2011 and prior authorizations, the Group owned, directly and through Danone SA, its Spanish subsidiary, 41,605,465 shares of the Company, representing 6.48% of its share capital.

There is no clause in the Company's by-laws giving preferential rights for the acquisition or sale of Company shares.

Lastly, as of December 31, 2011, existing pledges on Company shares held in registered form on the Company share register (*nominatif pur*) and in registered form on the books of a financial intermediary (*nominatif administré*), accounted for, respectively, 14,314 shares held by two shareholders and 102,260 shares held by 13 shareholders.



## Significant changes in share ownership over the last three fiscal years

The following table shows an analysis of share ownership and voting rights of the Company's principal shareholders over the last three fiscal years:

Shareholders	December 31, 2009			December 31, 2010			December 31, 2011		
	Number of shares	% of total shares	% of net voting rights <sup>(1)</sup>	Number of shares	% of total shares	% of net voting rights <sup>(1)</sup>	Number of shares	% of total shares	% of net voting rights <sup>(1)</sup>
Eurazeo group	26,915,746	4.2%	4.2%	16,433,370	2.5%	4.9%	16,433,370	2.6%	4.9%
Caisse des Dépôts et Consignations group	23,271,322	3.6%	3.6%	22,051,312	3.4%	3.4%	11,688,114	1.8%	1.8%
Sofina and Henex group	13,584,541	2.1%	3.8%	13,584,541	2.1%	3.7%	13,584,541	2.1%	4.2%
Crédit Agricole Assurances group	11,178,709	1.7%	1.7%	2,455,102	0.4%	0.4%	815,000	0.1%	0.1%
"Fonds Danone" company investment fund	8,740,760	1.4%	2.5%	8,858,900	1.4%	2.5%	8,804,680	1.4%	2.6%
Company and its subsidiary Danone Spain	33,507,225	5.2%	-	36,853,957	5.7%	-	41,605,465	6.5%	0.0%
Other	529,792,547	81.8%	84.2%	547,684,658	84.5%	85.2%	549,315,403	85.5%	86.4%
<b>Total</b>	<b>646,990,850</b>	<b>100.0%</b>	<b>100.0%</b>	<b>647,921,840</b>	<b>100.0%</b>	<b>100.0%</b>	<b>642,246,573</b>	<b>100.0%</b>	<b>100.0%</b>

(1) This percentage excludes shares held by the Company and treasury shares, which are stripped of voting rights.

On May 28, 2009, Eurazeo announced the launch of an issue of five-year bonds convertible into existing DANONE shares, in an initial offering totalling € 500 million, an amount which could be increased to a maximum of approximately € 700 million, at a rate of one DANONE share per bond issued (this ratio being subject to adjustments in the event of certain financial transactions being carried out by the Company, such as a share capital increase with preferential subscription rights). As part of this issue, 16,433,370 DANONE shares were pledged by Eurazeo in favour of bearers of these convertible bonds.

Eurazeo's entire equity stake in the Company, except for the 16,433,370 shares pledged as described above, was sold in 2009

and 2010. In this context, Eurazeo stated that it had fallen below the 5% legal threshold for voting rights on July 13, 2010, and that it held, at such date, 2.71% of the Company's share capital and 4.78% of its voting rights.

As of December 31, 2011, the Eurazeo group holds 2.6% of the share capital (corresponding to 16,433,370 shares) and 4.6% of the gross voting rights of the Company.

To the best of the Company's knowledge, no other significant changes in the shareholding structure have taken place during the past three fiscal years.

## Survey of the Company's identifiable shareholders

The Company may, in accordance with applicable regulations, at any time, ask the entity responsible for clearing shares for the name (or legal name), nationality, and address of the holders of shares or other securities conferring immediate or future voting rights at its Shareholders' General Meetings, along with the number of

securities held by each of them and, if applicable, any restrictions placed upon such securities. At the request of the Company, the above information may be limited to those individuals holding a number of securities as determined by the Company.

The Company conducted a survey of identifiable shareholders in July 2011:

	As percentage of share capital
<b>Institutional investors</b>	<b>78%</b>
France	24%
United Kingdom	10%
Germany	4%
Switzerland	3%
Rest of Europe	9%
United States	22%
Rest of the World	6%
<b>Individual shareholders and "Fonds Danone" company investment fund</b>	<b>12%</b>
<b>Shares held by the Company and its subsidiaries</b>	<b>10%</b>
<b>Total</b>	<b>100%</b>

## Employee shareholding

As of December 31, 2011, the number of the Company's shares held directly or indirectly by its employees and by employees of companies related to it, and, in particular, those that are subject to collective management or conditions prohibiting their disposal, either within the framework of a French company savings plan (*Plan d'Épargne Entreprise*) or through a French employee savings mutual fund (*Fonds Commun de Placement Entreprise – FCPE*) (the "Fonds Danone" FCPE and the FCPEs of other Group subsidiaries), amounted to 8,940,449 shares, or 1.4% of the Company's share capital.

Only the Supervisory Board of the "Fonds Danone" FCPE, composed of (i) five employee members representing the employee shareholders and former employees appointed by the representatives of the various trade unions representing the Company's employees in accordance with the French Labor Code and of (ii) five members representing the Company appointed by the Group's management, is authorized to vote on behalf of the shares held by the FCPE. As an exception to this principle, employees may be consulted directly by referendum in the event that the Supervisory Board has a split vote.

## 8.9 Market for the Company's shares

### Listing markets and indices

#### Listing markets

The Company's shares are listed on Euronext Paris (Compartment A – Deferred Settlement Department; ISIN Code: FR 0000120644) and also have a secondary listing on the Swiss Stock Exchange (SWX Suisse Exchange).

From November 1997, the Company's shares were also listed on the New York Stock Exchange in the form of American Depositary Shares ("ADS"), each ADS representing one fifth of one Company share. Due to the low trading volume of these ADS on the New York Stock Exchange, in 2007 the Group decided to delist the shares from that market and to deregister them with the Securities and Exchange Commission, pursuant to the U.S. Securities Exchange Act of 1934. The Group nevertheless maintains a sponsored Level 1 program of American Depositary Receipts (ADR), which are traded over the counter.

#### Indices

The Company's shares are included in the following indices:

- CAC 40, the principal index published by Euronext Paris;
- Eurostoxx 50, which lists the fifty largest market capitalizations in the euro zone.

Finally, the Company's shares are also included in the main indices of social responsibility: (i) Dow Jones Sustainability Index World, which comprises selected companies based on strict criteria such as the quality of corporate governance, social responsibility policy, their criteria relating to innovation, and their economic performance, (ii) ASPI Eurozone and (iii) Ethibel Sustainability index.

### Market prices and trading volumes

	Volumes <sup>(1)</sup>				Price <sup>(1)</sup>	
	In shares		In capital traded		Highest (in € per share)	Lowest (in € per share)
	Cumulative (in number of shares)	Daily average (in number of shares)	Cumulative (in € million)	Monthly average (in € per share)		
<b>2011</b>						
January	49,192,091	2,342,481	2,231	45.622	48.070	43.780
February	49,614,064	2,480,703	2,228	45.000	45.990	43.040
March	57,373,651	2,494,507	2,544	44.550	46.400	42.075
April	43,640,539	2,296,870	2,085	47.716	49.490	46.125
May	72,060,265	3,275,467	3,555	49.630	50.980	48.100
June	46,094,944	2,095,225	2,363	51.110	52.940	49.555
July	39,204,362	1,866,874	2,000	51.050	53.160	48.600
August	73,558,403	3,198,191	3,451	47.011	50.890	43.100
September	57,798,822	2,627,219	2,594	45.161	48.575	41.920
October	49,510,893	2,357,662	2,328	46.918	51.330	44.375
November	45,535,052	2,069,775	2,179	47.731	49.800	45.105
December	34,481,113	1,641,958	1,636	47.625	49.480	45.780
<b>2012</b>						
January	41,299,410	1,877,246	1,971	47.736	49.800	45.930
February	33,971,646	1,617,697	1,677	49.458	51.000	47.200

(1) Source: Euronext Paris - comprises transactions dealt off-system.

## 8.10 Factors that might have an impact in the event of a tender offer

In accordance with Article L. 225-100-3 of the French Commercial Code, the factors that might have an impact in the event of a tender offer are set out below:

### (i) Structure of the Company's share capital

A table describing the structure of the Company's share capital is presented in Section 8.8 *Share ownership structure as of December 31, 2011 and significant changes over the last three fiscal years*.

### (ii) By-law restrictions to the exercise of voting rights

The Company's by-laws provide for a system of capping voting rights. This mechanism is described in Section 8.7 *Voting rights, crossing of thresholds*. The Shareholders' General Meeting of April 22, 2010 has decided to include a mechanism for suspending this limitation if the number of shares present or represented at a Shareholders' General Meeting reaches or exceeds 75% of the total number of shares carrying voting rights.

The Company's by-laws provide for a reporting obligation for anyone who would hold or cease to hold a fraction equal to 0.5% of voting rights or a multiple thereof, beginning when one of the thresholds is crossed. This mechanism is described in Section 8.7 *Voting rights, crossing of thresholds*.

In the event of failure to comply with this notification requirement, upon the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been declared may not be exercised or delegated by the non-complying shareholder at any Shareholders' General Meeting held during a period of two years beginning the date on which the shareholder comes into compliance with the notification requirement.

On the date hereof, the Company is not aware of any clause of agreements providing for preferential terms of sale or acquisition concerning at least 0.5 % of the capital or voting rights of the Company.

### (iii) Direct or indirect holdings in the Company's share capital of which the Company is aware

A detailed analysis of the Company's shareholder structure is presented in Section 8.8 *Share ownership structure as of December 31, 2011 and significant changes over the last three fiscal years*.

### (iv) Holders of securities providing special control rights over the Company and description of such rights

Nil.

### (v) Control mechanisms provided for any employee shareholding program, when such control rights are not exercised by employees

Only the Supervisory Board of the "Fonds Danone" employee savings mutual fund (which on December 31, 2011 held 1.4% of the share capital and 2.6% of the net voting rights) has the authority to decide how to respond to a possible tender offer. As an exception to this principle, employees may be consulted directly by referendum if the Supervisory Board were to have a split vote.

### (vi) Agreements between shareholders of which the Company is aware and that could impose restrictions on the transfer of shares and the exercise of voting rights

To the Company's knowledge, no agreement exists between shareholders that could impose restrictions on the transfer of the Company's shares and the exercise of voting rights.

### (vii) Rules applicable to the appointment and replacement of members of the Company's Board of Directors

Under the terms of an agreement concluded between the Company and Yakult Honsha on March 4, 2004, the Company has undertaken to make its best effort to ensure that the candidate proposed by Yakult Honsha be appointed as a member of the Company's Board of Directors by the Shareholders' General Meeting, for such period as several Company representatives sit on the Board of Directors of Yakult Honsha.

### (viii) Powers of the Board of Directors in the event of a tender offer

Pursuant to the resolution approved by shareholders at the April 28, 2011 Shareholders' General Meeting, the Board of Directors is prohibited from implementing the Company share buyback program during a tender offer involving the Company's shares. A draft resolution to renew this prohibition will be presented to the April 26, 2012 Shareholders' General Meeting.

### (ix) Agreements signed by the Company that are amended or terminated in the event of a change of control of the Company

- The Group granted put options that may be exercised at any time and, in particular, during a tender offer, to non-controlling shareholders of its Spanish subsidiary, Danone SA. The description and amount of such options is presented in Note 23 of the Notes to the consolidated financial statements.

- In 2005, the Company and the Arcor group signed an agreement governing relations between the Group and Arcor within the joint venture named Bagley Latino America, a leader in biscuits in Latin America, in which the Company holds a 49% equity interest. In the event of a change of control of the Company, the Arcor group will have the right to have the Company repurchase all of its interest held in Bagley Latino America, for an amount equal to its fair value.
  - Under the terms of contracts regarding the use of mineral springs, in particular *Volvic* and *Evian* in France, the Group has very old and privileged relations with local municipalities in which these springs are located. It is difficult for the Company to assess with certainty the impact on these contracts of any change in its control.
  - Certain stock-option plans, as well as Group Performance Units and Group Performance Shares plans, that were put in place by the Company for the benefit of its executive directors and officers (*mandataires sociaux*) and certain employees, include specific provisions in the event of a change of control of the Company resulting from a tender offer on the Company's securities, described in Section 7.2 *Employee benefits*.
  - In July 2011, the Company entered into a new syndicated facilities agreement that includes a change of control clause. This syndicated facilities agreement, with a principal amount of € 2 billion, offers creditors an early redemption right in the event of a change of control of the Company, if it is accompanied by a significant downgrade of its rating by the rating agencies (to sub-investment grade).
  - The Group's EMTN program and certain bank credit lines also include a similar feature in the event of a change of control of the Company (see Note 32 of the Notes to the consolidated financial statements).
- (x) **Agreements providing for indemnities to be paid to employees and executives of the Company in the event that they resign, or their employment is terminated in the absence of a real and serious cause, or if their employment expires due to a tender offer**

The indemnities that would be paid to the Company's executive directors and officers (*mandataires sociaux*) in certain circumstances are described in Section 6.10 *Compensation and benefits paid to executives*.

## 8.11 Change in control

To the Company's knowledge, no agreement exists which, if implemented, could, at a future date, lead to a change of control of the Company.

# 8

## Share capital and share ownership



## Combined Shareholders' General Meeting of April 26, 2012

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## 9.1 Shareholders' General Meetings

The Board of Directors convenes Shareholders' General Meetings in accordance with French law.

Meetings shall be held in the town in which the registered office is located or in any other locality, depending on the decision made in such regard by the person calling the meeting, and at the venue specified in the notice of meeting.

All shareholders may attend Shareholders' General Meetings, regardless of the number of shares held, subject to the loss of rights incurred under any applicable laws or regulations.

When properly convened and constituted, the Shareholders' General Meeting represents all the shareholders. Its resolutions are binding on all, even dissenting, incompetent, or absent shareholders.

Any shareholder may be represented by his or her spouse, by another shareholder or by any other person or corporate entity of his or her choice, by virtue of a proxy statement which form is determined by the Board of Directors.

Minors and incompetent persons shall be represented by their legal guardians and trustees, who need not be shareholders themselves. A corporate entity shall be legitimately represented by any legal representative so entitled or by a person specially empowered for said purpose.

Participation in Shareholders' General Meetings by any means shall be contingent on the registration or recording of stock ownership, according to the terms and within the time-limits stipulated by the regulations in force.

At the Shareholders' General Meeting of April 23, 2009, the Company's by-laws were amended (i) to facilitate the implementation of electronic voting for the vote prior to Shareholders' General Meetings and (ii) to allow the Board of Directors to decide that votes during the Shareholders' General Meeting may be cast by videoconference or any other means of telecommunication by which shareholders may be identified in accordance with regulatory conditions.



## 9.2 Draft of resolutions presented at the Combined Shareholders' General Meeting of April 26, 2012

### Resolutions within the authority of the Ordinary Shareholders' General Meeting

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#### First resolution

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*(Approval of the statutory financial statements for the fiscal year ended December 31, 2011)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the reports of the Board of Directors and of the statutory auditors, hereby approves the statutory financial statements of the Company for the fiscal year ended December 31, 2011, which

include the balance sheet, the income statement and the notes, as presented, which show earnings amounting to € 631,102,936.78 as well as the transactions reflected in the statutory financial statements and summarized in the reports.

#### Second resolution

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*(Approval of the consolidated financial statements for the fiscal year ended December 31, 2011)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the reports of the Board of Directors and of the statutory auditors, hereby approves the consolidated financial statements

of the Company for the fiscal year ended December 31, 2011, as presented, as well as the transactions reflected in the consolidated financial statements and summarized in these reports.

#### Third resolution

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*(Allocation of earnings for the fiscal year ended December 31, 2011 and setting of the dividend at € 1.39 per share)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the reports of the Board of Directors and of the statutory auditors:

- acknowledges that the earnings for fiscal year 2011 amount to € 631,102,936.78;
- acknowledges that retained earnings amount to € 3,863,913,869.89;
- totaling earnings available for allocation of € 4,495,016,806.67;
- decides to allocate the total earnings as follows:
  - to dividends in the amount of € 892,722,736.47;
  - to retained earnings in the amount of € 3,602,294,070.20.

The Shareholders' Meeting therefore decides to distribute a dividend of € 1.39 per share. The amount distributed among the shareholders will be fully eligible in its entirety for the 40% allowance provided for in Article 158-3.2 of the French Tax Code for those shareholders who may benefit from it, except should they opt for the flat-rate withholding tax provided for in Article 117 *quater* of the French Tax Code.

The dividend to be distributed will be detached from the share on May 8, 2012 and will be payable as from May 11, 2012.

In accordance with the provisions of Article L. 225-210 of the French Commercial Code, the Shareholders' Meeting decides that the amount of the dividend corresponding to the shares held by the Company on the payment date will be allocated to the retained earnings account.



The dividends distributed for the three previous fiscal years were as follows:

Fiscal year	Number of shares	Dividend distributed per share <sup>(1)</sup>
2008	513,802,144	1.20 <sup>(2)</sup>
2009	646,990,850	1.20
2010	647,921,840	1.30

(1) Distribution eligible in its entirety for the 40% allowance.

(2) With an option to receive payment of the dividend in shares.

## Fourth resolution

*(Renewal of the tenure of Mr. Richard GOBLET D'ALVIELLA as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Richard GOBLET D'ALVIELLA as a Director for the period of three years as set in the by-laws.

Mr. Richard GOBLET D'ALVIELLA's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2014.

## Fifth resolution

*(Renewal of the tenure of Mr. Jean LAURENT as Director in accordance with Article 15-II of the by-laws)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Jean LAURENT as a Director for the period of three years, as set in the by-laws, in accordance with Article 15-II, last paragraph, of the by-laws.

Mr. Jean LAURENT's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2014.

## Sixth resolution

*(Renewal of the tenure of Mr. Benoît POTIER as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors, renews the tenure of Mr. Benoît POTIER as a Director for the period of three years as set in the by-laws.

Mr. Benoît POTIER's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2014.

## Seventh resolution

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*(Appointment of Mr. Jacques-Antoine GRANJON as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors, appoints Mr. Jacques-Antoine GRANJON as Director for the period of three years as set in the by-laws.

Mr. Jacques-Antoine GRANJON's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2014.

## Eighth resolution

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*(Appointment of Mrs. Mouna SEPEHRI as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors, appoints Mrs. Mouna SEPEHRI as director for the period of three years as set in the by-laws.

Mrs. Mouna SEPEHRI's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2014.

## Ninth resolution

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*(Appointment of Mrs. Virginia STALLINGS as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors, appoints Mrs. Virginia STALLINGS as Director for the period of three years as set in the by-laws.

Mrs. Virginia STALLINGS's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2014.

## Tenth resolution

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*(Approval of the agreements referred to in Articles L. 225-38 et seq. of the French Commercial Code)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors and the special report of the statutory auditors concerning the agreements and undertakings referred to in Article L. 225-38 et seq. of the French

Commercial Code, acknowledges the content of this report and approves the new agreement authorized by the Board of Directors during the fiscal year ended on December 31, 2011, referred to therein, other than those subject of the eleventh resolution.

## Eleventh resolution

*(Approval of the agreements referred to in Articles L. 225-38 et seq. of the French Commercial Code, entered into by the Company with J.P. Morgan's group)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors and the special report of the statutory auditors concerning the agreements and

undertakings referred to in Article L. 225-38 et seq. of the French Commercial Code, acknowledges the content of this report and approves the agreements entered into with J.P. Morgan's group referred to therein.

## Twelfth resolution

*(Authorization granted to the Board of Directors to purchase, retain or transfer the Company's shares)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for ordinary shareholders' meetings, having reviewed the report of the Board of Directors and the description of the program established in accordance with Articles 241-1 et seq. of the General Regulations of the French Financial Markets Authority:

1. Authorizes the Board of Directors to purchase, retain or transfer the Company's shares, on or more occasions, within the context of a share repurchase program, pursuant to the provisions of Articles L. 225-209 et seq. of the French Commercial Code and European Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

The Company may repurchase its own shares for the purpose of:

- the allocation of shares with respect to the exercise of stock-options by the Company's employees and executive directors and officers (*mandataires sociaux*) as well as by employees, directors and officers of companies or economic interest groups in which the Company holds, directly or indirectly, at least 10% of the share capital or voting rights;
- the implementation of any plan for the allocation of free shares to eligible employees and executive directors and officers, or to some of them;
- the sale of shares to employees (either directly or through an employee savings mutual fund (in French, an "FCPE")) within the context of employee shareholding plans or savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the later delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares within the maximum legal limit;
- supporting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Within the limits permitted by the regulations in force, the shares may be acquired, sold, exchanged or transferred, in whole or in part, as the case may be, on one or more occasions, by any means on any stock markets, including multilateral trading systems, *via* a systematic internalizer or over-the-counter, including by acquisition or disposal of blocks of shares (without limiting the portion of the share repurchase program that may be completed through this means). These means include the use of any financial contract or instrument (including in particular any option and any future), except the sale of put options, in the conditions set out by applicable regulations.

2. Decides that these transactions may be completed at any time, except during the period of a public tender offer for the Company's securities, within the limits allowed by applicable regulations.
3. Decides that the maximum purchase price may not be greater than € 65 per share (excluding acquisition costs).

In the event of a capital increase by incorporation of premium, reserves or earnings and allocation of free shares or through a stock split or a reverse stock split or any other transaction relating to the share capital, the price indicated above will be adjusted by a coefficient equal to the ratio between the number of shares comprising the share capital before the transaction and the number of shares comprising the share capital after the transaction.

4. Acknowledges that the maximum number of shares that may be purchased under this authorization may not, at any time, exceed 10% of the total number of shares comprising the share capital (*i.e.*, for information, 64,224,657 shares as of December 31, 2011, without taking into account the shares already held by the Company, representing a maximum theoretical purchase amount of € 4,174,602,705), it being specified that this limit applies to an amount of the Company's capital that will be, if necessary, adjusted to take into account the transactions affecting the share capital following this Shareholders' Meeting. The acquisitions made by the Company may not, under any circumstances, result in the

Company holding more than 10% of its share capital, either directly or indirectly through subsidiaries.

Notwithstanding the above, the number of shares acquired by the Company to be retained and later delivered for payment or exchange in the context of an acquisition may not exceed 5% of its share capital.

5. Delegates full powers to the Board of Directors to implement this authorization, with the right to sub-delegate, to:
  - place all orders on any market or carry out any operation over-the-counter;
  - conclude any agreements, for purposes of, among other things, the maintenance of the share purchase and sale registries;
  - allocate or re-allocate the shares acquired to the various objectives under the applicable legal or regulatory conditions;

- prepare all documents, file all declarations, issue all statements and carry out all formalities with the French Financial Markets Authority or any other authority regarding the transactions carried out pursuant to this resolution;
- define the terms and conditions under which, where applicable, the rights of holders of securities giving access to the Company's share capital will be preserved in accordance with the regulatory provisions; and,
- carry out all other formalities and, generally, take any necessary measures.

The Board of Directors shall inform the Shareholders' Meeting of the transactions carried out in application of this resolution.

This resolution is granted for an 18-month period as from the date of this Shareholders' Meeting and cancels and replaces the authorization granted by the Shareholders' Meeting of April 28, 2011 in its thirteenth resolution.

## Resolutions within the authority of the Extraordinary Shareholders' General Meeting

### Thirteenth resolution

*(Authorization granted to the Board of Directors to allocate existing or newly issued shares of the Company)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for extraordinary shareholders' meetings, having reviewed the report of the Board of Directors as well as the special report from the statutory auditors, in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code:

1. Authorizes the Board of Directors to freely allocate, on one or more occasions, shares of the Company, existing or to be issued, to employees or to certain categories thereof that it shall select among eligible employees, directors and officers of the Company and of affiliates of the Company within the meaning of Article L. 225-197-2 of the French Commercial Code. If the shares allocated are to be issued, this authorization will result, after the expiration of the vesting period(s), in a capital increase through the incorporation of reserves, earnings or additional paid-in capital in favor of the beneficiaries of said shares.
2. Decides that the Board of Directors will proceed with the allocations and will determine the identity of the beneficiaries of said allocations.
3. Decides that the allocation of shares in accordance with this authorization may not represent a number of existing or new shares exceeding 0.4% of the Company's share capital at the close of this meeting; this percentage shall be calculated without taking into account the adjustments that may be made in accordance with any applicable legal and regulatory requirements or any contractual provisions providing for other

adjustments to protect the rights of the holders of securities or other rights giving access to the share capital.

4. Decides that the existing or new shares allocated pursuant to this authorization may be allocated, subject to legal requirements, to the Chairman of the Board of Directors, the Chief Executive Officer and the Deputy General Managers of the Company, provided that they are allocated subject to performance conditions and the total thereof does not represent more than 0.1% of the Company's share capital at the close of this meeting (subject to any adjustment as specified in the prior paragraph).
5. Decides that the allocation of shares to their beneficiaries will become final after a vesting period, the duration of which will be set by the Board of Directors. This vesting period shall not be less than three years. The beneficiaries must hold the said shares for a duration set by the Board of Directors and the retention period may not be less than two years after the final allocation of such shares. However, if the vesting period for all or a part of one or more allocations is a minimum of four years, the Shareholders' Meeting authorizes the Board of Directors not to impose any retention period for the shares in question. It is reminded that the Board of Directors may make the duration of the vesting period and of the retention period longer than the aforementioned minimum duration.

6. Expressly subjects the final allocation of existing or new shares under this resolution to the achievement of one or more performance objectives that the Board of Directors shall determine.
7. Decides that, as an exception to the foregoing and for a maximum of 25% of the total share allocations authorized in this resolution, shares may be allocated to certain employees, other than officers, directors and members of the management team (the "Executive Committee"), without being subject to performance conditions, provided that the shares allocated without performance conditions do not represent more than 33% of the total number of shares allocated to each employee in question.
8. Decides, moreover, that, in the event that the invalidity of the beneficiary corresponds to a classification in the second or third of the categories provided in Article L. 341-4 of the French Social Security Code, the shares will be definitively allocated to the beneficiary before the end of the remaining vesting period. The said shares will be freely transferable from delivery.
9. Acknowledges that this authorization entails *ipso jure* the waiver by the shareholders of their preferential subscription right to the shares that would be issued as a result of this resolution, for the benefit of the beneficiaries.
10. Decides that this resolution cancels the unused portion of the authorization granted by the Shareholders' Meeting of April 22, 2010 in its fiftieth resolution to allocate free shares.
11. Grants full power to the Board of Directors, with the ability to subdelegate in accordance with legal and regulatory provisions, to implement this resolution, within the conditions set forth above and within the limits authorized by applicable laws and regulations, and in particular to determine, if applicable, the terms and conditions of the issuances that will be completed as a result of this authorization, as well as the dividend entitlement dates of the new shares, acknowledge the share capital increases, amend the by-laws accordingly, and more generally complete all formalities useful for the issuance, listing and financial servicing of securities issued as a result of this resolution and take all useful and necessary steps in accordance with applicable laws and regulations.

This authorization is granted for a 26-month period from the date of this Shareholders' Meeting.

Each year, the Board of Directors shall inform the Ordinary Shareholders' Meeting, in accordance with legal and regulatory requirements, and in particular Article L. 225-197-4 of the French Commercial Code, of the transactions completed pursuant to this resolution.

## Fourteenth resolution

*(Powers to effect formalities)*

The Shareholders' Meeting gives full power to any bearer of an original, a copy or an excerpt of these minutes to make all legal and administrative formalities and carry out all filings and any publicity required by law.

## 9.3 Comments on the resolutions submitted to the Shareholders' General Meeting

### Approval of the Company and consolidated financial statements for fiscal year 2011 (1<sup>st</sup> and 2<sup>nd</sup> resolutions)

We request that you approve the Company and consolidated financial statements for the year ended December 31, 2011.

#### Allocation of earnings (3<sup>rd</sup> resolution)

You are asked to:

- acknowledge that earnings for fiscal year 2011 amount to € 631,102,936.78;
- acknowledge that retained earnings amount to € 3,863,913,869.89;
- acknowledge that earnings available for allocation total € 4,495,016,806.67;
- decide to allocate the total earnings as follows:
  - to dividends in the amount of € 892,722,736.47;

- to retained earnings in the amount of € 3,602,294,070.20.

The amount of € 892,722,736.47 distributed among shareholders will be fully eligible for the 40% allowance provided for in Article 158-3.2 of the French Tax Code and enables the payout of a dividend of € 1.39 per share.

The ex dividend date is Tuesday May 8, 2012 and the dividend will be payable as from Friday May 11, 2012.

In accordance with the provisions of Article L. 225-210 of the French Commercial Code, the dividend on treasury shares on the payment date will be allocated to retained earnings.

#### Dividends paid in respect of the last three fiscal years

Year	Number of shares	Dividend paid out <sup>(1)</sup>
2008	513,802,144	1.20 <sup>(2)</sup>
2009	646,990,850	1.20
2010	647,921,840	1.30

(1) Distribution fully eligible for the 40% allowance.

(2) With an option to receive the payment of the dividend in shares.

### Renewal of the tenure of Directors (4<sup>th</sup>, 5<sup>th</sup>, and 6<sup>th</sup> resolutions)

We request that you renew the tenures of Directors Messrs. Richard GOBLET D'ALVIELLA, Jean LAURENT and Benoît POTIER for the period of three years as set in the by-laws. Their terms of office will expire at the end of the Shareholders' General Meeting convened to approve the financial statements for the fiscal year 2014.

It should be noted that during the past three years, Messrs. Richard GOBLET D'ALVIELLA, Jean LAURENT and Benoît POTIER had

average attendance rates at Board of Directors meetings of 95%, 100% and 91%, respectively.

Moreover, all three Directors were considered independent Directors by the Board based on the strict application of the AFEP-MEDEF Code's independence criteria.

Mr. Richard GOBLET D'ALVIELLA, formerly Chief Executive Officer of Sofina, is Executive Chairman of this company. The business

purpose of Sofina, is to hold and manage investment stakes in various groups. As of December 31, 2011, Mr. Richard GOBLET D'ALVIELLA held board positions in five listed companies that are either shareholding companies of Sofina (Henex SA) or companies in which Sofina owns an equity interest (Danone, Caledonia Investments, Eurazeo and GDF Suez). With respect to the last company mentioned, Mr. Richard GOBLET D'ALVIELLA's term of office will expire at the next shareholders' meeting and will not be renewed.

Your consent to renew the board term of Mr. Jean LAURENT, who will be 70 years old in July 2014, would be made in accordance

with the provisions of Article 15.II of the Company's by-laws. This article specifies that the board term of a Company Director who turns 70 during this term may nevertheless be approved by the Shareholders' General Meeting and the Director may serve out his term, provided that the number of Directors affected by this age limit does not exceed one-fourth of the Directors serving on the Board. Compliance with this ceiling is ensured, since at the conclusion of the April 26, 2012 Shareholders' General Meeting, no Company Director other than Mr. Jean LAURENT will have reached or be susceptible to reach during his or her board term the age of 70.

## **Appointment of three new Directors (7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> resolutions)**

We request that you appoint Mr. Jacques-Antoine GRANJON, Mrs. Mouna SEPEHRI and Mrs. Virginia STALLINGS as Directors for three-year terms in accordance with the by-laws. Their board terms would end at the conclusion of the Shareholders' General Meeting convened to approve the financial statements for the fiscal year 2014.

The Board of Directors, acting upon recommendation of its Nomination and Compensation Committee, reviewed the situation of each of these nominees:

### **Regarding Mr. Jacques-Antoine GRANJON**

The Board of Directors recommends his appointment, notably in light of his experience and outstanding qualities as an entrepreneur as well as his expertise in using the Internet to communicate with consumers. These areas of expertise will be very useful for the work of the Board. Jacques-Antoine GRANJON, a French national, is the founder and CEO of vente-privee.com, which has become a world leader in online flash sales (after Mr. Jacques-Antoine GRANJON invented the concept of this business).

The Board of Directors also noted that Mr. Jacques-Antoine GRANJON satisfies all independence criteria of the AFEP-MEDEF Code.

### **Regarding Mrs. Mouna SEPEHRI**

The Board of Directors recommends her appointment, notably in light of her acknowledged expertise in corporate functions of large multinational companies. Mrs. Mouna SEPEHRI, a dual French and Iranian national, is a lawyer by training. For 16 years, she has contributed to Renault's development by playing an active role in major acquisition and strategic partnership transactions, including the Renault-Nissan Alliance. As Executive Vice-President, Office of the CEO, of Renault, she oversees the corporate functions assigned to Executive Management, notably the legal department. Her expertise in these functions will strengthen the existing competencies already on the Board.

The Nomination and Compensation Committee and the Board of Directors examined in particular the issue of whether Mr. Franck RIBOUD's presence on the Board of Directors of Renault, where Mrs. Mouna SEPEHRI performs management functions, could create a conflict of interest or constitute an impediment to her status as an independent Director.

The rules of the AFEP-MEDEF Code specify that this independence would only be compromised if the new Director was himself or herself a corporate officer of Renault, which is not the case here (Mrs. Mouna SEPEHRI is not a Director of Renault). In addition, the Board took into account that Mr. Franck RIBOUD is himself an independent Director on the Renault Board of Directors.

The Board therefore considered that Mrs. Mouna SEPEHRI adequately satisfies all of the AFEP-MEDEF Code's independence criteria and that her situation is not likely to be a source of any conflicts of interest.

### **Regarding Mrs. Virginia STALLINGS**

The Board of Directors recommends her appointment, notably in light of her professional experience as a doctor as well as her research expertise in the field of child nutrition. Mrs. Virginia STALLINGS, a U.S. citizen, works at Children's Hospital of Philadelphia. Her research focuses on obesity and the impact of nutrition on children's health.

Mrs. Virginia STALLINGS also has a solid grasp of the Group's products and nutritional policies. As an independent scientist, she has presided over the Board of Directors' meetings of the US Dannon Institute since 2004 and the Danone International Institute since 2010. The mission of these two organizations, which are established as non-profit associations, is to promote research and education in the field of nutrition as well as the importance of nutrition on health.

The Board of Directors emphasized that the addition of a first-rate scientist, expert in nutrition and person active in programs aimed at improving children's nutrition in the United States would benefit the work of the Board and strengthen the diversity of its membership.



Moreover, since Mrs. Virginia STALLINGS will step down from the Boards of Directors of the US Dannon Institute by the summer of 2012 and of the Danone International Institute before the end of this year, the Board of Directors considers that she satisfies all independence criteria of the AFEP-MEDEF Code and that her situation is not likely to be the source of any conflicts of interest.

The list of all positions and responsibilities held by Mr. Jacques-Antoine GRANJON, Mrs. Mouna SEPEHRI and Mrs. Virginia STALLINGS as of December 31, 2011 as well as during the past five years appears in Section 11.2 *Positions and responsibilities of the Directors and nominees to the Board of Directors*.

The Board noted that if the Shareholders' General Meeting adopts all these recommendations, the changes in the composition of the Board will make it possible to increase the Board's independence as well as its proportion of women:

- the Board's rate of independence (defined in accordance with all criteria set by the AFEP-MEDEF Code), would increase from 50% to 57% (i.e. 8 out of 14 Directors);
- the Board's rate of female participation would increase from 14% to 21% (i.e. 3 out of 14 Directors).

The Board notes that it has made a commitment to pursue, in its future proposals to the Shareholders' General Meeting, improved governance with respect to both its independence and the diversity of its membership.

## Approval of the agreements referred to in the special report of the Statutory Auditors (10<sup>th</sup> and 11<sup>th</sup> resolutions)

We are asking you to approve the agreements described in Articles L. 225-38 *et seq.* of the French Commercial Code, which were authorized by the Board of Directors during the 2011 fiscal year.

In an effort to promote transparency (even though it is not required under applicable regulations) and allow shareholders to express separate opinions on the various types of regulated agreements, the Board of Directors decided to submit two separate resolutions for a vote by shareholders. The first involves a special resolution on the agreements entered into by the Company with the J.P. Morgan group and the second involves a general resolution pertaining to other regulated agreements.

As a preliminary matter, it should be noted that by law only new agreements are subject to a vote of the Shareholders' General Meeting. The special report of the Statutory Auditors mentions existing agreements that remained in effect during the fiscal year ended December 31, 2011, but for shareholder information purposes only.

### Resolution approving the agreements subject to the provisions of Articles L. 225-38 *et seq.* of the French Commercial Code (10<sup>th</sup> resolution)

You are first asked to acknowledge the special report of the Statutory Auditors on the regulated agreements and commitments (see Section 5.4 *Related party transactions*) and to approve the new agreement authorized by the Board of Directors during the fiscal year ending December 31, 2011 and described in this report.

Indeed, with the exception of the agreements entered into with the J.P. Morgan group, which are the subject of the 11<sup>th</sup> resolution, only one other regulated agreement was entered into by the Company in 2011 and it has therefore been submitted to shareholders for approval. This agreement involves a guarantee offered by the Company to its financial subsidiary, Danone Finance International,

with respect to commitments with banks, with a maximum principal amount of € 2 billion. This guarantee is described in detail in the special report of the Statutory Auditors (see Section 5.4 *Related party transactions*).

### Separate resolution on the agreements entered into with J.P. Morgan group (11<sup>th</sup> resolution)

As part of its activities, the Group works with various leading financial institutions, including the J.P. Morgan group.

In 2011, the Board of Directors therefore authorized the conclusion of the following two agreements with various bank institutions, including the J.P. Morgan group: (i) a syndicated facilities agreement and (ii) an advisory agreement related to an acquisition project.

These two agreements constitute regulated agreements (subject to the provisions of Articles L. 225-38 *et seq.* of the French Commercial Code) given the presence of Mrs. Isabelle SEILLIER, Chairman of J.P. Morgan for France, on the Board of Directors.

Mrs. Isabelle SEILLIER has been a Director of the Company since the April 28, 2011 Shareholders' Meeting. As a result of her functions at J.P. Morgan, she was designated a non-independent Director by the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee.

The Board of Directors notes in this regard that several measures have been taken to ensure that any potential conflicts of interest related to Mrs. Isabelle SEILLIER's responsibilities are adequately controlled by the Group, namely:

- systematic abstention of Mrs. Isabelle SEILLIER during deliberations involving, directly or indirectly, the J.P. Morgan group (as stipulated by law);
- express reference in the Report of the Board of Directors to the Shareholders' General Meeting of the existence of potential conflicts of interest involving her;

- transparency on compensation terms for the J.P. Morgan group by the Danone group as part of agreements subject to shareholder approval, even though for one of these agreements the transaction has not been publicly disclosed;
- a resolution concerning regulated agreements entered into with the J.P. Morgan group, which will be automatically put to a separate shareholder vote during the subsequent Shareholders' General Meeting.

#### **(i) Syndicated facilities agreement of July 28, 2011**

At its July 27, 2011 meeting, the Board of Directors – with Mrs. Isabelle SEILLIER abstaining – unanimously approved the conclusion by the Company of a syndicated facilities agreement with J.P. Morgan Europe Limited and J.P. Morgan Limited (hereafter “J.P. Morgan”).

On July 28, 2011, the Company therefore signed a syndicated facilities agreement with J.P. Morgan and 11 other French and international banks. This agreement provides for the establishment of a € 2 billion, multi-currency revolving credit facility, associated with a € 300 million swingline credit facility, with an overall maximum principal amount of € 2 billion. The term is five years (with possible renewals of up to two years, subject to the banks' approval).

Interest owed by the Company on the amounts used under the syndicated facilities agreement is based on market rates (Euribor or Eonia) plus a margin and potential mandatory costs under certain conditions.

A utilisation fee is added to the interest due based on the portion of the credit portion used and, if the facility is not entirely draw down, a non-utilization fee equal to a percentage of the margin.

Lastly, the Company paid the banks the customary fees as part of the establishment of the syndicated facilities agreement.

No amount was drawn on this syndicated facilities agreement in 2011.

J.P. Morgan's commitment as a lender under this syndicated facilities agreement represented € 210 million, equivalent to 10.5% of the total € 2 billion, the same percentage as the other banks having a first rank in the facilities agreement.

Fees and interest owed by the Company to J.P. Morgan are determined on a strict prorated basis of its commitments under the facilities agreement and are therefore equivalent to the fees and interest due to the other banks having a first rank in the facilities agreement.

In 2011, the Company paid J.P. Morgan a total of € 810,133 in fees related to this syndicated facilities agreement (fees related to the establishment of the credit as well as non-utilization fees).

Each year, shareholders will be informed in the special report of the Statutory Auditors of the amount effectively paid to J.P. Morgan as part of this agreement during the previous fiscal year.

#### **(ii) Advisory agreement entered into on February 10, 2012**

At its December 13, 2011 meeting, the Board of Directors – through a unanimous vote with Mrs. Isabelle SEILLIER abstaining – authorized the Company to enter into an advisory agreement with J.P. Morgan Limited related to an acquisition project (still pending and not disclosed as of the publication date of this document).

Under the terms of this advisory agreement, J.P. Morgan Limited will act as a financial advisor and agrees to assist the Company in analyzing the business plan and coordinating the due diligence work pertaining to the target, structuring and defining the transaction terms and conditions, and negotiating the financial aspects of the documents needed to complete the transaction.

The advisory agreement specifies that the Company shall pay to J.P. Morgan Limited, in consideration for that company's advisory service and subject to the successful completion of the transaction, a fee representing 0.12% of the total value – estimated at the date of the agreement – of the assets whose acquisition is currently being considered.

As part of this transaction, the Company retained a second advisory bank whose functions, notably with respect to the scope of the duties and compensation, are comparable to those of J.P. Morgan Limited.

The amount of the fee that will be paid, if applicable, by the Company to J.P. Morgan Limited will be disclosed in the special report of the Statutory Auditors, which will be prepared and presented to the Shareholders' General Meeting to be held in 2013.

#### **(iii) Interest for the Company and its shareholders of these agreements negotiated with J.P. Morgan**

The Board of Directors believes that the decision to retain J.P. Morgan for these two transactions is justified on objective grounds and is therefore in the strict interest of the Company and its shareholders.

In particular, the Board of Directors emphasizes that:

- it is essential that the Group be able to rely on first-tier international banks, especially in a period of financial crisis;
- the J.P. Morgan group is a major international bank, whose expertise for sophisticated transactions is recognized in France and abroad;

- this bank has worked in the past with the Group on similar strategic transactions and therefore has a very good understanding of the Group and its activities, which further strengthens the accuracy and relevance of its recommendations;
- the terms of J.P. Morgan's involvement (and in particular its compensation) are based on customary market practices, as evidenced by the presence, for each of the respective

agreements, of other banks receiving similar terms as those accorded to J.P. Morgan.

In that regard, we request that you approve the two above-mentioned agreements entered into by the Company with the J.P. Morgan group, which were authorized by the Board of Directors during the fiscal year ended December 31, 2011.

## Purchase by the Company of its own shares (12<sup>th</sup> resolution)

It appears appropriate for your Board to continue to have the authority to purchase Company shares.

We are therefore asking you to authorize your Board to purchase, retain or transfer the Company's shares, within the context of a share repurchase program, pursuant to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code and European Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

The purchase of the Company's shares may be implemented for the purpose of:

- the allocation of shares following the exercise of share purchase options by Group's employees and corporate officers (*mandataires sociaux*);
- the allocation of free shares to employees and to corporate officers;
- the sale of shares to employees (either directly or through an employee savings mutual fund (FCPE)) within the context of employee shareholding or savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the subsequent delivery of shares as payment or for exchange in the context of acquisitions;

- the cancellation of shares within the maximum legal limit; or
- supporting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethics Charter recognized by the French Financial Markets Authority.

Depending on the case, part or all of the shares may be acquired, sold, exchanged or transferred through all means on all markets or over the counter, including through the purchase or sale of share blocks (without limiting the share of the repurchase program that may be implemented using these means). These means include the use of all financial contracts or forward financial instruments (such as an option or forward agreement), other than the sale of put options, in accordance with applicable regulations.

These transactions may be carried out at any time other than during periods of tender offers on the Company's stock. The maximum number of shares that could be repurchased would represent 10% of the share capital, or 64,224,657 shares as of December 31, 2011, at a maximum purchase price of € 65 (net of acquisition costs), resulting in a maximum theoretical total purchase amount of € 4,174,602,705. The latter figure is for information purposes only, as it does not include shares already held by the Company.

This authorization would be given for a period of 18 months as of the present Shareholders' General Meeting.

## Authorization granted to the Board of Directors to allocate ordinary shares of the Company (13<sup>th</sup> resolution)

### 1. Nature of the authorization

We request that you authorize the Board of Directors, for a 26-month period as of this Shareholders' General Meeting, to allocate free shares already in existence or to be issued in favor of employees or certain categories of employees that it will determine from among the eligible employees and corporate officers of the Company or related companies pursuant to Article L. 225-197-2 of the French Commercial Code. It is reminded that Group Performance Shares

were allocated to between 1,400 and 1,500 beneficiaries for fiscal years 2010 and 2011.

### 2. Maximum amount of the authorization

These allocations may not involve a number of shares in existence or to be issued exceeding 0.4% of the Company's share capital, as determined at the conclusion of the Shareholders' General Meeting.

This number of shares does not reflect potential adjustments that may be made in accordance with applicable legal and regulatory provisions and, where applicable, to contractual provisions calling for other adjustments in order to maintain the rights of holders of securities or other rights giving access to the share capital. Thus to the extent that share allocation plans will include adjustment clauses to the number of shares granted in the event of transactions in the share capital during the vesting period, the application of these adjustment clauses could result in the final number of allocated shares exceeding 0.4% of the share capital.

### 3. Sub-ceiling for allocations to corporate officers

Shares allocated in accordance with this authorization may, under performance conditions, be for the benefit of the Chairman of the Board of Directors, the Chief Executive Officer and the Deputy General Managers of the Company, but only in an amount of up to 0.1% of the Company's share capital determined at the closure of this Shareholders' General Meeting (subject to the same potential adjustments mentioned in Section 2 above).

### 4. Vesting period

4.1. The allocation of shares to their beneficiaries will become definitive at the conclusion of a vesting period, whose duration shall be set by the Board of Directors, provided that this duration is not less than three years. In addition, the beneficiaries must hold these shares for a period set by the Board of Directors, provided that this holding period is no less than two years from the time of the definitive allocation of the shares.

4.2. In the event that a vesting period for part or all of one or more allocations is at least four years, however, the Board of Directors may choose not to impose a holding period for the shares under consideration.

### 5. Conditionality of the definitive allocation of shares

5.1. The definitive allocation of shares either in existence or to be issued will be necessarily subject to the achievement of performance conditions to be determined by the Board of Directors in accordance with the terms described below (the "Performance Conditions").

5.2. The Performance Conditions applied by your Board will be as follows:

#### 5.2.1. Nature of Performance Conditions

(i) These conditions consist of two complementary criteria, indicative of the Group's performance and adapted to the specific nature of its business, namely:

(a) Comparison of the arithmetic average sales growth (the "CA") of the Group with that of a reference Panel, on a like-for-like basis, during the CA Reference Period:

- if the Group's CA exceeds or is equal to the Median CA of the Panel, the definitive allocation shall be 100%;
- if the Group's CA is less than the Median CA of the Panel, the definitive allocation will be 0%;

Where:

- the Group's CA refers to the arithmetic average internal ("organic") sales growth over the Sales Reference Period (on a consolidated basis and on a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates);
- the CA of each Panel member refers to the arithmetic average internal ("organic") growth of sales recorded by the said member of the Panel over the Sales Reference Period (on a consolidated basis and on a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates);
- the Panel CAs refers to the CAs of all members of the Panel;
- the CA Reference Period refers to the first three fiscal years of the vesting period for each allocation, with the first fiscal year being the one during which the allocation is decided;
- the Median CA of the Panel refers to the value of the CA of the Panel member that divides Panel CAs into two equal parts (*i.e.* such as there are as many Panel members with a CA exceeding or equal to the Median as Panel members with a CA being less or equal to the Median), it being specified that if the Panel members are in even number, the Median CA of the Panel will be equal to the arithmetic average of the two central values of the Panel CAs;
- the Panel refers to seven benchmark multinational companies in the food sector, specifically: Unilever, Nestlé, Pepsi Co, Coca-Cola, Kraft, General Mills and Kellogg;
- in the event that the audited accounting or financial results of one of the Panel members are not published or are published late, the Board of Directors may, exceptionally, exclude this member of the Panel through a duly justified decision at a later date that is mentioned in the Report of the Board of Directors to the Shareholders' General Meeting;
- in the event that the audited accounting or financial results of two or more members of the Panel are not published or published late, the Board of Directors will reach a decision duly justified at a later date and described in the Report of the Board of Directors to the Shareholders' General Meeting, on the basis of the most recent audited financial statements published by the members of the Panel and by Danone over the three latest completed fiscal years for which financial statements were published for all members of the Panel and for Danone;
- the Board of Directors may, through a duly justified decision taken later and mentioned in the Report of the Board of Directors to the Shareholders' General Meeting, exclude a member of the Panel in the event of an acquisition, absorption, dissolution, spin-off, merger or change of activity of one of the companies in the Panel, provided that it maintains the overall coherence of the peer group;
- the Board of Directors must state on whether the performance conditions were attained, on the basis of a duly justified decision taken later and mentioned in the Report

of the Board of Directors to the Shareholders' General Meeting, following a recommendation by the Nomination and Compensation Committee, and based on a report of a financial advisor.

(b) a level of free cash flow ("FCF") for the Group averaging at least € 2 billion per year over the Reference Period;

Where:

- FCF refers to the Group's free cash flow over the FCF Reference Period;
  - The FCF Reference Period refers to the first two years of the vesting period for each allocation, the first fiscal year being the one during which the allocation is decided.
- (ii) The definitive allocation of half of the shares under Performance Conditions attributed to a beneficiary will be subject to each of these two criteria being achieved (subject to compliance with the continued employment condition, see Section 5.4 below). As a consequence, and in all cases subject to compliance with the continued employment condition: (i) for corporate officers or members of the executive management team (the Executive Committee): the definitive allocation of half of the shares will be subject to the achievement of the Performance Condition relating to the FCF, and the definitive allocation of the other half will be subject to the achievement of the Performance Condition relating to the CA and (ii) for the other Group employees: the definitive allocation of shares representing a maximum of one third of the grants will not be subject to Performance Condition (see paragraph 5.3 below); the definitive allocation of the remainder of the shares granted will be subject to the achievement of the Performance Condition relating to the FCF for the first half, and of the Performance Condition relating to the CA for the second half.

5.3. As an exception to the principle mentioned in Section 5.1 above, share allocations may be authorized without Performance Conditions, within the following limits:

- (i) the share allocation beneficiaries may only be Group employees excluding corporate officers and members of the executive management team – the "Executive Committee";
- (ii) these shares may not represent more than 25% of the total number of shares attributable under the terms of this authorization;

(iii) these shares may not represent more than 33% of the total number of shares allocated for each respective employee.

5.4. Condition of continued employment with the Group

The beneficiary of a share allocation who leaves the Group before the end of the vesting period may not retain his or her shares except in the cases of legally mandated early departure (including death and disability) or exceptions determined by the Board of Directors.

## 6. Impact in terms of dilution/ownership of the Company's share capital

If this resolution is approved, it would cancel, for the unused portion as of the date of the Shareholders' General Meeting, the authorization granted by the April 22, 2010 Shareholders' General Meeting in its 15<sup>th</sup> resolution to the Board of Directors to proceed with the allocation of free shares.

The Board also notes that the Group's policy concerning authorizations to grant stock-options and bonus shares has always had a limited impact in terms of the dilution/ownership of share capital.

Indeed:

- the outstanding number of options to performance shares not yet exercised as of December 31, 2011 totaled 11,892,803, or 1.85% of the share capital;
- the outstanding number of performances shares granted but not yet definitively vested totaled 1,288,010 shares, or 0.20% of the share capital;
- the number of shares that may be created through free share allocations under this resolution may not exceed 0.4% of the share capital;

which represents a total of around 2.45% of the share capital.

Finally, the Board notes that in the absence of any outstanding authorizations as a result of the termination of the stock-option program of the Group, the Company has not granted any options to purchase and/or subscribe shares since October 2009.

Each year, the Shareholders' General Meeting will be informed through a special report of the Board of Directors as to the number of free share allocations that have been made.

## 9.4 Report of the Statutory Auditors presented at the Shareholders' General Meeting of April 26, 2012

### Shareholders' General Meeting of April 26, 2012 (13<sup>th</sup> résolution)

#### **Statutory Auditors' report on the authorization of allocation of free shares existing or to be issued for the benefit of personnel or certain categories to be determined from among the employees**

To the Shareholders,

In our capacity as Statutory Auditors' of your company, and in execution of our assignment pursuant to Article L. 225-197-1 of the French Commercial Code, we have prepared this report on the proposed authorization of allocation of common shares, existing or to be issued, free of charge for the benefit of personnel or certain categories of personnel to be determined from among the employees and the eligible directors and officers (*mandataires sociaux*) of Danone or of the companies related to Danone according to Articles L. 225-197-2 of the French Commercial Code.

Your Board of Directors proposes, based upon its report, that you authorize it for a 26-month period to allocate shares, existing or to be issued, free of charge.

It is the responsibility of the Board of Directors to prepare a report on this operation to which it asks you to proceed. Our role is to report to you, if any, our observations on the information thus provided to you on the proposed operation.

We have performed the procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) for this type of assignment. Those procedures consisted in verifying the methods proposed and provided in the Board of Directors' report comply with the requirements of the law.

We have no observations to report regarding the information provided in the Board of Directors' report on the proposed authorization of allocation of free shares.

Neuilly-sur-Seine and Paris-La Défense, March 19, 2012

**PricewaterhouseCoopers Audit**

Etienne BORIS

Phillipe VOGT

**Ernst & Young et Autres**

Jeanne BOILLET

Gilles COHEN



## Information on the Registration Document

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## 10.1 Incorporation by reference

Pursuant to Article 28 of Regulation (EC) No. 809/2004 of the European Commission dated April 29, 2004 and to Section 36 of IAS 1, *Presentation of Financial Statements*, requiring that at least one-year comparative information be presented, this Registration Document incorporates by reference the following information:

- the consolidated financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2009 on pages 104 to 157 of the Registration Document that was filed with the AMF on March 19, 2010 under filing number D.10-0127;
- the Company financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2009 on pages 169 to 182 of the Registration Document that was filed with the AMF on March 19, 2010;
- the key financial information, the Group operating and financial review, and all of the non-financial information pertaining to the fiscal year ended December 31, 2009 on pages 5, 18 to 19, 39 to 52 of the Registration Document that was filed with the AMF on March 19, 2010;
- the consolidated financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2010 on pages 53 to 119 of the Registration Document that was filed with the AMF on March 25, 2011 under filing number D.11-0182;
- the Company financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2010 on pages 121 to 138 of the Registration Document that was filed with the AMF on March 25, 2011;
- the key financial information, the Group operating and financial review, and all of the non-financial information pertaining to the fiscal year ended December 31, 2010 on pages 4, 29 to 47 of the Registration Document that was filed with the AMF on March 25, 2011.



## 10.2 Persons responsible for the Registration Document

### Person responsible for the Registration Document

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Franck RIBOUD  
Chairman and Chief Executive Officer  
Danone

### Statement by the person responsible for the Registration Document

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*This is a free translation into English of the Chairman and Chief Executive Officer's statement issued in French, and is provided solely for the convenience of English-speaking readers.*

Paris, on March 20, 2012

"We hereby certify, after having taken all reasonable measures, that to the best of our knowledge all of the information in this Registration Document is accurate, and that no information liable to alter its scope has been omitted.

We certify that, to our knowledge, the financial statements in this document have been prepared in accordance with applicable accounting standards and provide a faithful representation of the assets, the financial situation, and the results of the Company and of all companies within its scope of consolidation, and that the management report referred to in the cross-reference table in Section 10.3 presents a faithful representation of the business trends, results, and financial position of the Company and of all companies within its scope of consolidation, as well as a description of the principal risks and uncertainties that they face.

The Statutory Auditors have provided us with a letter (*lettre de fin de travaux*, or auditors' completion letter) stating that their work has been completed, and in which they indicate that they have verified the information included in this Registration Document relative to the financial situation and the financial statements, and have read this Registration Document in its entirety.

The consolidated financial statements for the fiscal year ended December 31, 2011 have been the subject of a report from the Statutory Auditors, set forth in Section 4.2 (pages 134-135) of this Registration Document, which contains an observation.

The consolidated financial statements for the fiscal year ended December 31, 2010, incorporated by reference in this Registration Document, have been the subject of a report from the Statutory Auditors, set forth in Section 4.2 (pages 118-119) of the 2010 Registration Document, which contains an observation."

The Chairman and Chief Executive Officer,  
Franck RIBOUD

## 10.3 Cross-Reference Tables

### Cross-reference table to the annual financial report

In order to facilitate the reading of this Registration Document, the cross-reference table below enables to identify the main information required in accordance with Article L. 451-1-2 of the French Monetary and Financial Code.

Annual financial report	Sections of the registration document
<b>1. COMPANY FINANCIAL STATEMENTS</b>	<b>5</b>
<b>2. CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>4</b>
<b>3. MANAGEMENT REPORT (WITHIN THE MEANING OF THE FRENCH MONETARY AND FINANCIAL CODE)</b>	
3.1 INFORMATION REQUIRED BY ARTICLE L. 225-100 OF THE FRENCH COMMERCIAL CODE	
• Analysis of the business trends	2.5 to 3.5
• Analysis of the results	2.2, 3.2
• Analysis of the financial position	3.3, 3.4
• Major risk factors and uncertainties	2.7
• Table of the capital increases delegations	8.4
3.2 INFORMATION REQUIRED BY ARTICLE L. 225-100-3 OF THE FRENCH COMMERCIAL CODE	
• Elements that might have an impact in the event of a tender offer	8.10
3.3 INFORMATION REQUIRED BY ARTICLE L. 225-211 OF THE FRENCH COMMERCIAL CODE	
• Share buyback programs of the Company	3.3, 8.2, 8.3
<b>4. STATEMENTS OF THE PERSONS RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT</b>	<b>10.2</b>
<b>5. STATUTORY AUDITORS' REPORT ON THE COMPANY'S FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>4.2, 5.3</b>
<b>6. INFORMATION ON THE FEES OF THE STATUTORY AUDITORS</b>	<b>4.3</b>
<b>7. REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON THE CORPORATE GOVERNANCE AND THE INTERNAL CONTROL PROCEDURES (ARTICLE L. 225-37 OF THE FRENCH COMMERCIAL CODE)</b>	<b>6.11</b>
<b>8. STATUTORY AUDITORS' REPORT ON THE REPORT OF THE CHAIRMAN ON THE INTERNAL CONTROL PROCEDURES</b>	<b>6.11</b>
<b>9. LIST OF ALL INFORMATION PUBLISHED BY THE COMPANY OR MADE PUBLICLY AVAILABLE DURING THE LAST 12 MONTHS</b>	<b>11.1</b>

## Cross-reference table to the provisions of Annex 1 of the 809/2004 Regulation of the European Commission

This cross-reference table identifies the main information required by Annex 1 of the 809/2004 Regulation of the European Commission dated April 29, 2004. This table refers to the pages of this Registration Document on which the information related to each item is indicated.

Document of registration relating to shares	Sections of the registration document
<b>1. PERSONS RESPONSIBLE</b>	
1.1. Identity	10.2
1.2. Statement	10.2
<b>2. STATUTORY AUDITORS</b>	
2.1. Identity	1.2
2.2. Potential change	1.2
<b>3. SELECTED FINANCIAL INFORMATION</b>	
3.1. Historical financial information	1.1
3.2. Financial information for interim periods	N/A
<b>4. RISK FACTORS</b>	<b>2.7</b>
<b>5. INFORMATION ABOUT THE ISSUER</b>	
5.1. History and development of the Company	2.1
5.2. Investments	3.1, 3.3
<b>6. BUSINESS OVERVIEW</b>	
6.1. Principal activities	2.2
6.2. Principal markets	2.2
6.3. Exceptional events	N/A
6.4. Dependence of the issuer	N/A
6.5. Competitive position of the issuer	2.2, 2.5
<b>7. ORGANIZATIONAL STRUCTURE</b>	
7.1. Brief description of the Group	2.6, 4.1
7.2. List of the significant subsidiaries	2.6, 4.1
<b>8. PROPERTY, PLANTS AND EQUIPMENT</b>	
8.1. Material tangible fixed assets	2.5, 4.1
8.2. Environmental issues	2.5, 7.5
<b>9. OPERATING AND FINANCIAL REVIEW</b>	
9.1. Financial position	3.1 to 3.4, 4.1
9.2. Operating results	2.2, 2.5, 3.2, 4.1
<b>10. CAPITAL RESOURCES</b>	
10.1. Issuer's capital resources	3.4, 4.1, 8.1
10.2. Cash flows	3.3, 4.1
10.3. Information on the borrowing requirements and funding structure of the issuer	3.4, 4.1
10.4. Restrictions on the use of capital resources	3.4, 4.1
10.5. Anticipated sources of funds	3.4, 4.1
<b>11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES</b>	<b>2.5, 3.1</b>
<b>12. TREND INFORMATION</b>	
12.1. Most significant recent trends since the end of the last fiscal year	3.5
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Document of registration relating to shares	Sections of the registration document
<b>14. ADMINISTRATIVE AND SENIOR MANAGEMENT</b>	
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14.2. Conflicts of interests	6.1
<b>15. REMUNERATION AND BENEFITS</b>	
15.1. Remuneration and benefits in kind	6.10, 7.2
15.2. Provisions for retirement obligations	6.10, 7.2
<b>16. FUNCTIONING OF THE BOARD AND MANAGEMENT</b>	
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16.3. Information about the Audit Committee, the Nomination and Compensation Committee and the Social Responsibility Committee	6.2 to 6.4
16.4. Corporate governance	6.7
<b>17. EMPLOYEES</b>	
17.1. Number of employees	7.1
17.2. Shareholdings and stock-options	6.10, 7.2
17.3. Arrangements involving the employees in the capital of the issuer	7.2
<b>18. MAJOR SHAREHOLDERS</b>	
18.1. Shareholding of the issuer	8.8
18.2. Voting rights	8.7
18.3. Control of the issuer	8.8
18.4. Change of control	8.10
<b>19. RELATED PARTY TRANSACTIONS</b>	<b>3.1</b>
<b>20. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES</b>	
20.1. Historical Financial Information	5.1, 5.2, 10.1
20.2. <i>Pro forma</i> financial information	N/A
20.3. Financial statements	4.1, 5.1, 5.2, 10.1
20.4. Auditing of historical annual financial information	4.2, 5.3, 10.1
20.5. Date of latest financial information	December 31, 2011
20.6. Interim and other financial information	N/A
20.7. Dividend policy	8.6
20.8. Legal and arbitration proceedings	3.1
20.9. Significant change in the issuer's financial or commercial position	3.5
<b>21. ADDITIONAL INFORMATION</b>	
21.1. Share Capital	8.1
21.2. Incorporation documents and by-laws	1.2, 6.1, 8.6, 8.7, 9.1, 11.1
<b>22. MATERIAL CONTRACTS</b>	<b>3.1</b>
<b>23. THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST</b>	
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23.2. Statement	5.5
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<b>25. INFORMATION ON HOLDINGS</b>	<b>2.6, 4.1, 8.2</b>

## Cross-reference table with the management report, parent company Danone

This Registration Document includes all the items of the management report as required pursuant to Article L. 225-100 and subsequent, L. 232-1, II and R. 225-102 and subsequent of the French Commercial Code.

Management report	Sections of the registration Document
Financial position and activity of the Company during the fiscal year	5.2
Information on trends and outlook	3.5
Material events occurred since the end of the fiscal year	3.5
Research and Development activities	3.1
Activities of the Company's subsidiaries	2.2, 3.1 to 3.4
Acquisition of significant equity interests or control in companies headquartered in France	N/A
Amount of dividends distributed during the last three fiscal years	8.6
Changes to the presentation of the Company's financial statements	4.1
Injunctions or financial penalties for antitrust practices	N/A
Information relating to suppliers and clients' terms of payment	5.2
Directorship and offices held by each corporate officers	11.2
Indication on the use of financial instruments by the Company	5.2
Analysis of the business performance, results and financial position of the Company during the fiscal year	5.2
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## Cross-reference table with the management report, Danone group

This Registration Document includes all the items of the management report as required pursuant to Articles L. 233-26 and L. 225-100-2 of the French Commercial Code.

Management report	Sections of the registration document
Financial position and activity of the Group during the fiscal year	2.2, 2.5, 3.1 to 3.4
Information on trends and outlook	3.5
Material events occurred since the end of the fiscal year	3.5
Research and Development activities	2.5, 3.1
Indication on the use of financial instruments by the Group	2.7, 3.2, 4.1
Analysis of the business performance, results and financial position of the Group during the fiscal year	2.2, 2.5, 3.1 to 3.4
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## 11.1 Documents available to the public

The by-laws, the minutes of Shareholders' General Meetings, reports of the Statutory Auditors, and other corporate documents may be consulted at the Company's registered office. Moreover, historical financial information and certain information regarding the organization and businesses of the Company and its subsidiaries are available on the Group's website in the section pertaining to regulated information.

The table below lists all of the regulated information published between January 1, 2011 and February 29, 2012:

Subject	Date	Place of consultation
Voting Rights Declaration (January 2011)	02/02/2011	www.danone.com, AMF
2010 Full-Year Results	02/15/2011	www.danone.com, AMF
Changes for Danone Board of Directors	02/15/2011	www.danone.com, AMF
Voting Rights Declaration (February 2011)	03/02/2011	www.danone.com, AMF
Danone publishes its Registration Document 2010	03/28/2011	www.danone.com, AMF
Voting Rights Declaration (March 2011)	04/06/2011	www.danone.com, AMF
Combined General Meeting of April 28, 2011	04/08/2011	www.danone.com, AMF
Danone names Jean-Philippe Paré as Executive Vice President, Research & Development	04/13/2011	www.danone.com, AMF
2011 First-Quarter Sales	04/14/2011	www.danone.com, AMF
2011 Annual General Meeting of Danone	04/28/2011	www.danone.com, AMF
Voting Rights Declaration (April 2011)	05/04/2011	www.danone.com, AMF
Voting Rights Declaration (May 2011)	06/07/2011	www.danone.com, AMF
Voting Rights Declaration (June 2011)	07/07/2011	www.danone.com, AMF
2011 First-Half Results	07/28/2011	www.danone.com, AMF
Notification of availability of Danone's interim financial report for the period ended June 30, 2011	07/28/2011	www.danone.com, AMF
Danone to acquire nutrition business of India's Wockhardt Group	08/02/2011	www.danone.com, AMF
Voting Rights Declaration (July 2011)	08/04/2011	www.danone.com, AMF
Voting Rights Declaration (August 2011)	09/02/2011	www.danone.com, AMF
Appointments to the Executive Committee Thomas Kunz named Executive Vice President, Fresh Dairy Products Francisco Camacho named Executive Vice President, Waters	09/14/2011	www.danone.com, AMF
Danone launches successful € 500 million bond issue	09/21/2011	www.danone.com, AMF
Voting Rights Declaration (September 2011)	10/05/2011	www.danone.com, AMF
Sales in the third quarter and the first nine months of 2011	10/18/2011	www.danone.com, AMF
Danone to cancel 6.6 million treasury shares further to change in covering former stock-option plans	10/26/2011	www.danone.com, AMF
Voting Rights Declaration (October 2011)	11/04/2011	www.danone.com, AMF
Voting Rights Declaration (November 2011)	12/02/2011	www.danone.com, AMF
Voting Rights Declaration (December 2011)	01/09/2012	www.danone.com, AMF
Voting Rights Declaration (January 2012)	02/07/2012	www.danone.com, AMF
2011 Full-Year Results	02/15/2012	www.danone.com, AMF
Voting Rights Declaration (February 2012)	03/08/2012	www.danone.com, AMF



## 11.2 Positions and responsibilities of the Directors and nominees to the Board of Directors

(Article R. 225-83 of the French Commercial Code)

Information relating to the Directors and the nominees to the Board of Directors

### Nominations

Jacques-Antoine GRANJON

Mouna SEPEHRI

Virginia A. STALLINGS

### Renewal of terms of office

Richard GOBLET D'ALVIELLA

Jean LAURENT

Benoît POTIER

### Current Directors

Bruno BONNELL

Emmanuel FABER

Bernard HOURS

Yoshihiro KAWABATA

Isabelle SEILLIER

Jean-Michel SEVERINO

Franck RIBOUD

Jacques VINCENT

Christian LAUBIE

Hakan MOGREN

Guylaine SAUCIER

## Nominations



### Jacques-Antoine GRANJON

Born on August 9, 1962 – Age: 49

Business address: 249, avenue du Président Wilson – 93210 La Plaine-Saint-Denis – France

Number of DANONE shares held as of March 16, 2012: 4,000

Independent Director

French nationality

Principal responsibility: Chairman and Chief Executive Officer of vente-privee.com

### Personal background – experience and expertise

Jacques-Antoine GRANJON is a graduate of the European Business School in Paris.

After completing his studies, his entrepreneurial spirit led him and a friend to found Cofotex SA, which specialized in close-outs wholesale .

In 1996, Jacques-Antoine GRANJON purchased the former printing plants of the “Le Monde” newspaper, which were being sold as part of an urban renewal program for La Plaine-Saint-Denis (93), and there he established the headquarters of Oredis Group. Jacques-Antoine GRANJON came up with a totally innovative concept: a web platform dedicated to private sales of brand name products at deeply discounted prices.

In January 2001, Jacques-Antoine GRANJON and his partners launched vente-privee.com in France. He thus took his experience in drawing down inventories of close-outs from leading fashion and home furnishing brands to the Internet by emphasizing a dual approach: event-based and exclusive, while always emphasizing customer satisfaction. vente-privee.com has been built in the image of its founder: a good corporate citizen promoting responsible growth, training and employability and a social conscience.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Chairman and Chief Executive Officer	VENTE-PRIVEE.COM	France
	PIN-UP SA	France
Chairman	OREFI SAS	France
	OREFO SAS	France
	ORIMM SAS	France
	VENTE-PRIVEE USA BRANDS INC.	United States
Manager	VENTE-PRIVEE.COM DEUTSCHLAND GMBH	Germany
	VENTE-PRIVEE.COM LIMITED	United Kingdom
	VENTA PRIVADA IBERICA	Spain
	VENDITA PRIVATA ITALIA SRL	Italy
	ORIMM BIENS SARL	France
	SCI 247	France
	SCI 249	France
	BM WILSON SCI	France
	FRUITIER WILSON SCI	France
	LANDY WILSON SCI	France
	LYON 3 SCI	France
	MM WILSON SCI	France
	PRESSENSE WILSON SCI	France
	BRETONS WILSON, SCI	France
L'EGLISE WILSON Sarl	France	
Co-Manager	VENTE-PRIVEE.COM IP Sarl	Luxembourg
Director	VENTE-PRIVEE.COM HOLDING SA	Luxembourg
	VENTE-PRIVEE USA LLC	United States
	LOOKLET	Sweden
Position	Associations/Foundations/Other	Country
Chairman	FONDATION ORORE	France

**Positions and responsibilities held during the past five years**

Position	Company	Country
Chairman	ROSEBUZZ SAS	France



### Mouna SEPEHRI

Born April 11, 1963 – Age: 48

Business address: 13-15, quai Le Gallo – 92513 Boulogne-Billancourt – France

Number of DANONE shares held as of March 16, 2012: 4,000

Independent Director

Dual French and Iranian nationality

Principal responsibility: Member of the Executive Committee, Executive Vice-President of RENAULT SAS.

### Personal background – Experience and expertise

After receiving her law degree and joining the Paris bar, Mouna SEPEHRI began her career in 1990 as a lawyer in Paris and then New York, where she specialized in Mergers & Acquisitions and International Business Law.

She joined Renault in 1996 as the group's Deputy General Counsel. She played an integral part in the group's international growth and participated in the creation of the Renault-Nissan Alliance from the beginning (1999) as a member of the negotiating team.

In 2007, she joined the Office of the CEO and was in charge of the management of the cross functional teams.

In 2009, she was appointed Director of the Renault-Nissan Alliance CEO Office and Secretary of the Alliance Board. In 2010, she also became a member of the steering committee on the Alliance cooperation with Daimler. As a part of that mission, she was responsible for steering the implementation of Alliance synergies, coordinating strategic cooperation and for driving new projects.

On April 11, 2011, she joined the Renault group Executive Committee as Executive Vice President, Office of the CEO. She oversees the following functions: Legal, Corporate Services, Prevention and Group Protection, Communications, Public Affairs and Company Social Responsibility.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director	NEXANS <sup>(1)</sup>	France
Function	Associations/Foundations/Other	Country
Director	FONDATION RENAULT	France

(1) Listed company

### Positions and responsibilities held during the past five years

Position	Company	Country
None		



### Virginia A. STALLINGS

Born: September 18, 1950 – Age: 61

Business address: Children's Hospital of Philadelphia – 3535 Market Street – Rm 1558 – Philadelphia, PA 19104 – United States

Number of DANONE shares held: 0 (in accordance with the by-laws, the 4,000 DANONE shares to be held by each Director will be purchased at the latest within 3 months following her appointment by the Shareholders' General Meeting)

Independent Director

U.S. nationality

Principal responsibility: Professor of Pediatrics at Children's Hospital of Philadelphia

### Personal background – experience and expertise

Virginia Stallings is a Professor of Pediatrics at the University of Pennsylvania Perelman School of Medicine, Director of the Nutrition Center at The Children's Hospital of Philadelphia and holds the Jean A. Cortner Endowed Chair in Gastroenterology and Nutrition. She is a pediatrician and a specialist in nutrition and growth in children with chronic illness. Her research interests are in areas of nutrition-related growth and body composition in healthy children and those with chronic disease including: obesity, sickle cell disease, osteoporosis, cystic fibrosis, cerebral palsy, Crohn disease, HIV and congenital heart disease. She has been extensively involved in pediatric nutrition clinical care and research for more than 25 years.

Dr. Stallings plays a broader role in the community of nutrition scientists and physicians as a past or current member of the Institute of Medicine, the Food and Nutrition Board of the National Academy of Sciences and the council of the American Society for Nutrition. She was the Chair of the 2007 Institute of Medicine committee report, *Nutrition Standards for Foods in Schools: Leading the Way Towards Healthier Youth* and the 2010 committee report, *School Meals: Building Blocks for Healthy Children*, that lead to new policy to improve the nutritional quality of school breakfast and lunch for children across the US. She has received research and teaching awards from the American Society of Nutrition, the American Academy of Pediatrics and Institute of Medicine, National Academies.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
None		
Position	Associations/Foundation/Other	Country
Professor of Pediatrics	THE CHILDREN'S HOSPITAL OF PHILADELPHIA, DEPARTMENT OF PEDIATRICS, THE UNIVERSITY OF PENNSYLVANIA PERELMAN SCHOOL OF MEDICINE	United States
Director, The Nutrition Center	THE CHILDREN'S HOSPITAL OF PHILADELPHIA	United States
Director, Office of Faculty Development	THE CHILDREN'S HOSPITAL OF PHILADELPHIA RESEARCH INSTITUTE	
Chair, Healthy Weight Research Program	THE CHILDREN'S HOSPITAL OF PHILADELPHIA	United States
Member	NATIONAL ACADEMY OF SCIENCES, INSTITUTE OF MEDICINE	
International Research Advisory Committee	CHILDREN'S HOSPITAL OF LA PLATA RESEARCH INSTITUTE	Argentina
Member, Committee for Life Sciences Gallery Exhibits	MARIAN KOSHLAND SCIENCE MUSEUM OF THE NATIONAL ACADEMIES OF SCIENCES	United States
President of the Board of Directors	DANONE INSTITUTE USA <sup>(1)</sup>	United States
President of the Board of Directors	DANONE INSTITUTE INTERNATIONAL <sup>(1)</sup>	France

(1) Virginia STALLINGS will resign from these two boards in 2012

### Positions and responsibilities held during the past five years

Position	Company	Country
None		

## Renewal of terms of office



### Richard GOBLET D'ALVIELLA

Born on July 6, 1948 – Age: 63  
 Business address: Rue de l'Industrie 31 – 1040 Brussels – Belgium  
 Number of DANONE shares held as of December 31, 2011: 4,394  
 Independent Director  
 Belgian nationality  
 Principal responsibility: Executive Chairman of Sofina SA

### Personal background – experience and expertise

Richard GOBLET D'ALVIELLA received a commercial engineering degree from the Free University of Brussels and an MBA from Harvard Business School. For 15 years, Richard GOBLET D'ALVIELLA was an investment banker specializing in international finance in London and New York.

He was a Managing Director of Paine Webber group before joining Sofina, where he has been Deputy Director since 1989 and Executive Chairman since 2011.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from April 11, 2003 to the close of the Shareholders' General Meeting to approve the 2014 financial statements) <sup>(2)</sup> Member of the Board of Directors' Audit Committee (since April 11, 2003)	DANONE SA <sup>(1)(3)</sup>	France
Executive Chairman	SOFINA SA <sup>(1)</sup>	Belgium
Deputy Director	UNION FINANCIÈRE BOEL SA <sup>(3)</sup>	Belgium
Director – Member of the Audit Committee	CALEDONIA INVESTMENTS <sup>(1)(3)</sup>	United Kingdom
Director	HENEX SA <sup>(1)(3)</sup> SOCIÉTÉ DE PARTICIPATIONS INDUSTRIELLES SA <sup>(3)</sup>	Belgium Belgium
Member of the Supervisory Board Member of the Accounts Committee Member of the Compensation Committee	EURAZEO SA <sup>(1)(3)</sup>	France
Non-voting advisor (“censeur”)	GDF SUEZ <sup>(1)(3)(4)</sup>	France

(1) Listed company.

(2) Subject to the renewal of his term by the April 26, 2012 Shareholders' General Meeting.

(3) Companies for which Richard GOBLET D'ALVIELLA is on the board and in which Sofina (where he is Executive Chairman) owns an equity interest (GDF Suez, Danone, Eurazeo, Caledonia Investments) or that are shareholders of Sofina (Henex SA, Union Financière Boël SA and Société de Participations Industrielles SA)

(4) This term of office expires with the Shareholders' General Meeting to approve this company's 2011 financial statements. Richard GOBLET D'ALVIELLA did not wish to renew this board term.

### Positions and responsibilities held during the past five years

Position	Company	Country
Chairman	SIDRO SA	Belgium
Vice Chairman of the Board of Directors and Deputy Director	SOFINA SA	Belgium
Director	FINASUCRE SA GLACES DE MOUSTIER-SUR-SAMBRE SUEZ-TRACTEBEL	Belgium Belgium Belgium
Director and Member of the Audit Committee	SUEZ SA	France
Director – Member of the Compensation Committee	DELHAIZE GROUP	Belgium



### Jean LAURENT

Born on July 31, 1944 – Age: 67  
 Business address: 30, avenue Kléber – 75208 Paris Cedex 16 – France  
 Number of Danone shares held as of December 31, 2011: 5,000  
 Independent Director  
 French nationality  
 Principal responsibility: Chairman of the Board of Directors of Foncière des Régions

### Personal background – experience and expertise

Jean LAURENT is a graduate of the École Nationale Supérieure de l'Aéronautique (1967) and has a Master of Sciences degree from Wichita State University.

He spent his entire career at Crédit Agricole group, first with Crédit Agricole de Toulouse, and later with Crédit Agricole du Loiret and then Crédit Agricole de l'Île de France, where he exercised or supervised various retail banking business activities.

He then joined Caisse Nationale du Crédit Agricole, first as Deputy General Manager (1993-1999) and later as Chief Executive Officer (1999-2005). In that capacity, he was responsible for the public offering of Crédit Agricole S.A. (2001) and the acquisition and integration of Crédit Lyonnais in Crédit Agricole group.

A company Director, he was recently named Chairman of the Board of Directors of Foncière des Régions.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from February 10, 2005 to the close of the Shareholders' General Meeting to approve the 2014 financial statements) <sup>(2)</sup> Chairman and member of the Board of Directors' Nomination and Compensation Committee (since April 28, 2011 and April 22, 2005, respectively) Chairman and member of the Board of Directors' Social Responsibility Committee (since February 14, 2007)	DANONE SA <sup>(1)</sup>	France
Chairman of the Board of Directors	FONCIÈRE DES RÉGIONS SA <sup>(1)</sup>	France
Director	BENI STABILI <sup>(1)(4)</sup> CRÉDIT AGRICOLE EGYPT SAE <sup>(3)</sup> UNIGRAINS SA	Italy Egypt France
Vice-Chairman of the Supervisory Board Chairman of the Audit Committee	EURAZEO SA <sup>(1)</sup>	France
Member of the Supervisory Board Member of the Audit Committee	M6 SA <sup>(1)(3)</sup>	France
Position	Associations/Foundations/Other	Country
Chairman of the Board of Directors	INSTITUT EUROPLACE DE FINANCE (Foundation)	France

(1) Listed company.

(2) Subject to the renewal of his term by the April 26, 2012 Shareholders' General Meeting.

(3) This term of office expires with the Shareholders' General Meeting to approve this group's 2011 financial statements. Jean LAURENT did not wish to renew this board term.

(4) Company controlled by Foncière des Régions SA.

**Positions and responsibilities held during the past five years**

Position	Companies/Associations/Foundations/Other	Country
Chairman	"FINANCE INNOVATION" COMPETITIVE CLUSTER (Association)	France
Chairman of the Board of Directors	CALYON	France
Vice-Chairman and Director	BANCO ESPIRITO SANTO SGPS	Portugal
Member of the Board	FEDERATION BANCAIRE FRANÇAISE	France
	PARIS EUROPLACE	France
Member of the Board	A.F.E.C.E.I.	France





### Benoît POTIER

Born on September 3, 1957 – Age: 54  
 Business address: 75, quai d'Orsay – 75007 Paris – France  
 Number of DANONE shares held as of December 31, 2011: 8,178  
 Independent Director  
 French nationality  
 Principal responsibility: Chairman and Chief Executive Officer of L'Air Liquide SA

### Personal background – experience and expertise

A graduate of the École Centrale de Paris, Benoît POTIER joined the Air Liquide group in 1981 as a Research and Development engineer. He then held positions as Project Manager in the Engineering and Construction Department and Head of Energy Development within the Large Industry segment. In 1993 he was named Head of Strategy-Organization and in 1994 he was appointed Head of Chemicals, Steel, Refining and Energy Markets. He became Deputy General Manager in 1995, and added to the aforementioned responsibilities that of Head of Construction Engineering and Large Industry for Europe.

Benoît POTIER was appointed Chief Executive Officer in 1997, a Director of Air Liquide in 2000 and Chairman of the Management Board in November 2001. In 2006, he was named Chairman and Chief Executive Officer of L'Air Liquide SA.

In 2004, Air Liquide acquired the assets of Messer Griesheim in Germany, the United Kingdom and the United States.

In 2007, the group expanded its technology portfolio by acquiring the Lurgi engineering company and in 2008 launched the Alma company project aimed at accelerating its growth. The group is continuing to diversify internationally, notably through its growing presence in developing economies: Asia, Russia, Central and Eastern Europe, the Middle East and Latin America.

In 2008, Benoît POTIER initiated the creation of Fondation Air Liquide and has served as its Chairman since inception. Fondation Air Liquide supports research projects in the environmental and healthcare fields and contributes to local development by encouraging micro-initiatives in those areas of the world where the group is present.

Benoît POTIER is also a member of the Michelin Supervisory Board. Since October 2010, he has also been the Vice-Chairman of the European Roundtable of Industrialists (ERT).

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from April 11, 2003 to the close of the Shareholders' General Meeting to approve the 2014 financial statements) <sup>(2)</sup>	DANONE SA <sup>(1)</sup>	France
Chairman and Chief Executive Officer	L'AIR LIQUIDE SA <sup>(1)</sup>	France
	AIR LIQUIDE INTERNATIONAL	France
Chairman, President & Chief Executive Officer	AIR LIQUIDE INTERNATIONAL CORPORATION (ALIC)	United States
Director	AMERICAN AIR LIQUIDE HOLDINGS, INC	United States
Member of the Supervisory Board	MICHELIN <sup>(1)</sup>	France
Member of the Audit Committee		
Position	Associations/Foundations/Other	Country
Vice-Chairman	EUROPEAN ROUNDTABLE OF INDUSTRIALISTS (ERT)	Europe
Chairman	FONDATION D'ENTREPRISE AIR LIQUIDE	France
Director	ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES (AFEP)	France
	CERCLE DE L'INDUSTRIE	France
	LA FABRIQUE DE L'INDUSTRIE	France
	ASSOCIATION NATIONALE DES SOCIÉTÉS PAR ACTIONS (ANSA)	France
	ÉCOLE CENTRALE DES ARTS ET MANUFACTURES	France
Member of Conseil France (French board)	INSEAD	France

(1) Listed company.

(2) Subject to the renewal of his term by the April 26, 2012 Shareholders' General Meeting.

**Positions and responsibilities held during the past five years**

Position	Company	Country
Director	AIR LIQUIDE ITALIA SRL. AL AIR LIQUIDE ESPAÑA SA	Italy Spain
Chairman	AMERICAN AIR LIQUIDE Holdings, Inc	United States
Chairman and Chief Executive Officer	AMERICAN AIR LIQUIDE INC. (AAL)	United States
Member and Chairman of the Audit Committee	DANONE	France

## Current directors



### Bruno BONNELL

Born on October 6, 1958 – Age: 53  
 Business address: 11, avenue Albert Einstein – 69100 Villeurbanne – France  
 Number of DANONE shares held as of December 31, 2011: 4,000  
 Independent Director  
 French nationality  
 Principal responsibility: Chairman of Soborot SAS

### Personal background – experience and expertise

Bruno BONNELL was born in Algiers, Algeria in 1958. He received a degree in chemical engineering at CPE Lyon (École Supérieure de Chimie Physique Électronique de Lyon) and another in applied economics from the University of Paris-Dauphine (class of 1982).

He began his career at Thomson SDRM as a business engineer responsible for launching and marketing the company's first computer, the T07.

In June 1983, Bruno BONNELL founded Infogrames, which in 2000 merged with Atari (listed on the NYSE Euronext). In 1995, he co-founded Infonie, the first Internet service provider in France.

He left Infogrames in April 2007 and headed Robopolis, which he purchased in 2006 to specialize the company in service robotics. Robopolis develops and distributes robots aimed at the household, educational and healthcare markets. In 2010, the company began to diversify internationally by entering the Spanish, South Korean and German markets.

Bruno BONNELL has written two books on new technologies: “*Pratique de l’Ordinateur Familial*” (1983); and “*Viva La Robolution*” (2010). He is a member of the Management Board of Pathé SAS and of the Supervisory Board of ANF Immobilier.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from February 18, 2002 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) Member of the Board of Directors' Social Responsibility Committee (since February 14, 2007)	DANONE SA <sup>(1)</sup>	France
Chairman	AWAbot SAS	France
	I-VOLUTION SAS	France
	SOROBOT SAS	France
Director	APRIL SA	France
	ROBOPOLIS	France
Member of the Supervisory Board	ANF IMMOBILIER <sup>(1)</sup>	France
Member of the Management Board	PATHE SAS	France

(1) Listed company

**Positions and responsibilities held during the past five years**

Position	Company	Country
Chairman of the Board of Directors	INFOGRAMES ENTERTAINMENT SA	France
Chairman	I-VOLUTION SA	France
	ROBOPOLIS	France
Chairman of the Board and Chief Executive Officer	ATARI, INC	United States
	CALIFORNIA U.S. HOLDINGS, INC.	United States
Director	ATARI INTERACTIVE, INC.	United States
	CALIFORNIA US HOLDINGS, INC.	United States
	INFOGRAMES FRANCE SA	France
	INFOGRAMES EUROPE SA	France
Member of the Supervisory Board	EURAZEO SA	France
	ZSLIDE SA	France
Permanent representative of Infogrames Entertainment SA	ATARI EUROPE SAS	France
	EDEN STUDIO SAS	France
Permanent representative of Atari Europe SAS	ATARI FRANCE SAS	France



### Emmanuel FABER

Born on January 22, 1964 – Age: 48

Business address: 17, boulevard Haussmann – 75009 Paris – France

Number of DANONE shares held as of December 31, 2011: 4,940

Non-Independent Director

French nationality

Principal responsibility: Vice-Chairman of the Board of Directors and Deputy General Manager

Seniority in Danone Group: October 1997 (14 years)

### Personal background – experience and expertise

After graduating from HEC, Emmanuel FABER began his career as a consultant at Bain & Company and later Baring Brothers.

In 1993, he joined Legris Industries as Chief Administrative and Financial Officer before being named Chief Executive Officer in 1996.

He joined Danone in 1997 as Head of Finance, Strategies and Information Systems. He became a member of the Executive Committee in 2000.

In 2005, while Danone was strengthening its management structure in the Asia-Pacific region, Emmanuel FABER was named Vice-President for the Asia-Pacific region in charge of the Group's operational activities.

Since January 1, 2008, he has been a Deputy General Manager of Danone, responsible for major corporate functions (Finance, Human Resources, etc.). He was appointed Vice-Chairman of the Board of Directors on April 28, 2011.

Since 2008, he has served as a director of the danone.communities mutual fund (SICAV). Since 2009 he has been a member of the Steering Committee of the Fonds Danone pour l'Écosystème. And since December 2011 he has been a member of the Steering Committee of the Livelihoods Fund.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Deputy General Manager (since January 1, 2008) Vice-Chairman of the Board of Directors (since April 28, 2011) Director (term of office from April 25, 2002 to the close of the Shareholders' General Meeting to approve the 2012 financial statements) Member of the Board of Directors' Social Responsibility Committee (since February 14, 2007) Member of the Executive Committee (since January 1, 2000)	DANONE SA <sup>(1)</sup>	France
Director	GRAMEEN DANONE FOODS LIMITED <sup>(2)</sup> danone.communities (SICAV)	Bangladesh France
Member of the Supervisory Board	LEGRIS INDUSTRIES SA <sup>(1)</sup>	France
Position	Associations/Foundations/Other	
Member of the Steering Committee	Fonds Danone pour l'Écosystème (Endowment fund) LIVELIHOODS FUND (SICAV)	France Luxembourg

(1) Listed company

(2) Company consolidated as associates by Danone.

**Positions and responsibilities held during the past five years**

Position	Company	Country
President Commissioner	PT DANONE BISCUITS INDONESIA	Indonesia
	PT DANONE DAIRY INDONESIA	Indonesia
Managing Director – Director	DANONE ASIA Pte Ltd	Singapore
	JINJA INVESTMENTS Pte Ltd	Singapore
Chairman	SOCIÉTÉS EN PARTENARIAT WAHAHA/DANONE	China
Vice Chairman and Director		
Director	RYANAIR HOLDINGS Plc	Ireland
Member of the Audit Committee		
Director	ABI HOLDINGS LTD (ABIH)	United Kingdom
	ASSOCIATED BISCUITS LTD (ABIL)	United Kingdom
	FESTINE Pte Ltd	Singapore
	MYEN Pte Ltd	Singapore
	NOVALC Pte Ltd	Singapore
	RYANAIR Limited	Ireland
	WADIA BSN INDIA LIMITED	India
	YAKULT DANONE INDIA PVT LTD	India
	YAKULT HONSHA Co., LTD	Japan
Member of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V.	Netherlands
Board representative of Danone Waters Holdings, Inc. (Chairman)	DS WATERS GENERAL PARTNER, LLC	United States
President Board of Commissioner	P.T. TIRTA INVESTAMA	Indonesia



### Bernard HOURS

Born on May 5, 1956 – Age: 55

Business address: 17, boulevard Haussmann – 75009 Paris – France

Number of DANONE shares held as of December 31, 2011: 6,435

Non-Independent Director

French nationality

Principal responsibility: Vice-Chairman of the Board of Directors and Deputy General Manager of Danone

Seniority in Danone Group: March 1985 (26 years)

### Personal background – experience and expertise

A graduate of HEC, Bernard HOURS began his career at Unilever as a product manager. He joined Danone in 1985 as Evian's Head of Marketing in France. He later became Kronenbourg's Head of Marketing and in 1990 Head of Marketing for Danone France.

In 1994, he was named Chairman of Danone Hungary, and then Chairman of Danone Germany in 1996. He then returned to France as the Chairman of LU France in 1998.

In November 2001, he was named Vice-President of the Fresh Dairy Products Division.

In March 2002, he was named Chairman of the Global Fresh Dairy Products Division, then Head of the Group's Research and Development division and joined the Group's Executive Committee.

Since January 1, 2008, he has been a Deputy General Manager of Danone, responsible for the Group's four operating Divisions: Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition. He was appointed Vice-Chairman of the Board of Directors on April 28, 2011.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Deputy General Manager (since January 1, 2008) Vice Chairman of the Board of Directors (since April 28, 2011) Director (term of office from April 22, 2005 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) Member of the Executive Committee (since November 1, 2001)	DANONE SA <sup>(1)</sup>	France
Director	DANONE INDUSTRIA ESSILOR INTERNATIONAL <sup>(1)</sup> FLAM'S OJSC UNIMILK COMPANY danone.communities (SICAV)	Russia France France Russia France
Permanent representative of Danone on the Board of Directors and on the Executive Board	DANONE SA <sup>(2)</sup>	Spain
Member of the Supervisory Board	CEPRODI SA	France
Position	Associations/Foundation/Other	Country
Director	FONDATION D'ENTREPRISE DANONE	France
Member of the Steering Committee	Fonds Danone pour l'Ecosystème (endowment fund)	France

(1) Listed company

(2) Company consolidated by Danone.

**Positions and responsibilities held during the past five years**

Position	Company	Country
Vice-Chairman and Director	DANONE SA TIKVESLI SÜT ÜRÜNLERİ SANAYİ VE TİCARET A.S.	Turkey
Chairman of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V.	Netherlands
	DANONE BABY AND MEDICAL NUTRITION NEDERLAND B.V.	Netherlands
	DANONE GmbH	Germany
	DANONE HOLDING AG	Germany
Director	COLOMBUS CAFÉ	France
	GRUPO LANDON	Spain
	STONYFIELD FARM, INC.	United States
	THE DANNON COMPANY	United States
Member of the Supervisory Board	CEPRODI SA	France





### Yoshihiro KAWABATA

Born on January 5, 1949 – Age: 63  
 Business address: 1-19, Higashi-Shinbashi, 1-Chome, Minato-Ku, Tokyo, 105-8660 Japan  
 Number of DANONE shares held as of December 31, 2011: 4,000  
 Non-Independent Director  
 Japanese nationality  
 Principal responsibility: Director Deputy President – Head of the International Affairs division and Chief Director for Management Support of Yakult Honsha Co., Ltd.

### Personal background – experience and expertise

Yoshihiro KAWABATA is a graduate of the University of Meiji in Tokyo, Japan.

He joined Yakult Honsha in 1971 and worked in the delivery business (Yakult Ladies) within the sales division. He was appointed Director of Yakult Philippines, Inc. in 1981 and made a significant contribution to that company's expansion. In 1987, he returned to Japan and worked for the delivery business of the Kyushu branch (southern Japan). In 1990, he was named Director of Yakult Indonesia and helped to found the company.

In 1992, Yoshihiro KAWABATA was named Manager of the International Department of Yakult Honsha and helped with the expansion of Yakult's activities in Australia. In 2003, he was appointed Director of Yakult Honsha and was responsible for the International Affairs Department and the Liaison Office between Yakult Honsha and Danone.

In 2009, he was appointed Senior Managing Director of Yakult Honsha as the Head of the International Affairs Department.

Since June 2011, he has been Executive Vice President, Head of the International Affairs division and Chief Director for Management Support of Yakult Honsha Co., Ltd. He is also a Yakult representative at the liaison office between Yakult and Danone and is responsible for this cooperation.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from April 22, 2010 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) Member of the Nomination and Compensation Committee of the Board of Directors (since April 28, 2011)	DANONE SA <sup>(1)</sup>	France
<i>Director Deputy President</i>	YAKULT HONSHA CO., LTD <sup>(1)</sup>	Japan
Chairman	YAKULT (SINGAPORE) PTE. LTD	Singapore
	YAKULT (MALAYSIA) SDN. BHD	Malaysia
	YAKULT S.A. DE C.V.	Mexico
	CORPORACION VERMEX, S.A. DE C.V.	Mexico
<i>Representative Chairman</i>	YAKULT EUROPE B.V.	Netherlands
	YAKULT UK LTD	United Kingdom
	SHANGHAI YAKULT CO., LTD	China
	YAKULT (CHINA) CORPORATION	China
	GUANGZHOU YAKULT CO., LTD	China
	TIANJIN YAKULT CO., LTD	China
	YAKULT USA INC.	United States
	YAKULT DEUTSCHLAND GMBH	Germany
	YAKULT OESTERREICH GMBH	Austria
Vice-Chairman	KOREA YAKULT CO., LTD	Korea
Permanent representative	HONG KONG YAKULT CO. LTD	China

Director	YAKULT PHILIPPINES, INC. YAKULT NEDERLAND B.V. YAKULT ESPANA S.A. YAKULT CO., LTD SHANGHAI YAKULT MARKETING CO., LTD YAKULT (THAILAND) CO., LTD YAKULT AUSTRALIA PTY. LTD YAKULT DANONE INDIA PVT. LTD YAKULT VIETNAM CO., LD DISTRIBUIDORA YAKULT GUADALAJARA S.A. DE C.V. YAKULT ARGENTINA S.A. YAKULT BELGIUM S.A./N.V. YAKULT ITALIA S.R.L.	Philippines Netherlands Spain Taiwan China Thailand Australia India Vietnam Mexico Argentina Belgium Italy
Chairman of the Audit Committee	P.T. YAKULT INDONESIA PERSADA	Indonesia

(1) Listed company.

### Positions and responsibilities held during the past five years

Position	Company	Country
Vice Chairman	SHANGHAI YAKULT CO., LTD YAKULT (CHINA) CORPORATION	China China
Senior Managing Director	YAKULT HONSHA, LTD	Japan
Managing Director	YAKULT HONSHA CO., LTD	Japan
Director	YAKULT HONSHA CO., LTD HONG KONG YAKULT CO., LTD KOREA YAKULT CO., LTD YAKULT (SINGAPORE) PTE. LTD YAKULT (MALAYSIA) SDN. BHD. YAKULT EUROPE B.V. YAKULT S.A. DE C.V. CORPORACION VERMEX, S.A. DE C.V.	Japan China Korea Singapore Malaysia Netherlands Mexico Mexico
Permanent representative	YAKULT UK LTD	United Kingdom
Auditor	P.T. YAKULT INDONESIA PERSADA	Indonesia



### Isabelle SEILLIER

Born on January 4, 1960 – Age: 52  
 Business address: 14, place Vendôme – 75001 Paris – France  
 Number of DANONE shares held as of December 31, 2011: 4,000  
 Non-independent Director  
 French nationality  
 Principal responsibility: Chairman of J.P. Morgan for France

### Personal background – experience and expertise

Isabelle SEILLIER is a graduate of Sciences-Po Paris (Economics-Finance, 1985) and holds a master's degree in business law.

In 1987, she began her professional career in the options division of Société Générale in Paris, where she headed the Sales Department for options products in Europe until 1993.

Isabelle SEILLIER joined J.P. Morgan in Paris in 1993 as the head of the Sales Department for derivative products in France for industrial companies. In 1997, she became an investment banker at J.P. Morgan & Cie SA as a banking advisor providing coverage for large industrial clients. In March 2005, she was appointed the joint head of investment banking before being named sole head of this activity beginning in June 2006.

In September 2008, she was named Chairman of J.P. Morgan for France while still remaining in charge of investment banking for France and North Africa. She is a member of the management team and decision-making committee for credit authorizations at the European level.

Isabelle SEILLIER is actively involved in philanthropic activities, in particular children's support associations. Under her direction, J.P. Morgan France has developed a philanthropic program by helping these associations.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from April 28, 2011 to the close of the Shareholders' General Meeting to approve the 2013 financial statements)	DANONE SA <sup>(1)</sup>	France
Chairman	J.P. MORGAN CHASE BANK	France
Director	CLUB MÉDITERRANÉE <sup>(1)</sup>	France
Position	Associations/Foundations/Other	Country
Member of the Board of Directors	AFB (Association Française des Banques)	France
	EUROPLACE	France

(1) Listed company.

### Positions and responsibilities held during the past five years

Position	Company	Country
None		



### Jean-Michel SEVERINO

Born on September 6, 1957 – Age: 54  
 Business address: 4, rue Fizeau – 75015 Paris – France  
 Number of DANONE shares held as of December 31, 2011: 4,000  
 Independent Director  
 French nationality  
 Principal responsibility: Head of Investisseur et Partenaire Conseil

#### Personal background – experience and expertise

Jean-Michel SEVERINO was born on September 6, 1957 in Abidjan, Ivory Coast. He is a graduate of the École Nationale d'Administration, ESCP, IEP Paris and holds a postgraduate degree (DEA) in economics and a “*licence*” degree in law.

After four years working at the French General Inspection of Finance (1984-1988), he was named technical advisor for economic and financial affairs at the French Ministry of Cooperation (1988-1989) and later became the head of that ministry's Department of Economic and Financial Affairs and then its Development Director. In all these positions, he was very active in the conduct of macroeconomic and financial relations, as well as the management of political and humanitarian crises, with sub-Saharan Africa.

In 1996, he was recruited by the World Bank as the Director for Central Europe at a time when this region was marked by the end of the Balkans conflict and reconstruction. He became the World Bank's Vice-President in charge of Far East Asia from 1997 to 2001 and focused on the management of the major macroeconomic and financial crisis that shook these countries.

After a brief stint working once again for the French government as Inspector General of Finance, he was named Chief Executive Officer of the *Agence Française de Développement* (AFD), where from 2001 to 2010 he led the expansion efforts to cover the entire emerging and developing world, notably in the Mediterranean region, Asia and Latin America while still maintaining its strong roots in sub-Saharan Africa. He significantly expanded the bank's development activities and expanded its areas of responsibility to a large number of new countries as well as contemporary global subjects: climate, biodiversity, poverty, growth, etc. He also implemented a fundamental restructuring of the AFD by entering into close partnerships with the local and international industrial and financial private sector.

In 2010, at the end of his third term of office, he returned once again to the French General Inspection of Finance, where he is responsible for the French partnership for water. In May 2011, he left the civil service in order to head up “Investisseur et Partenaire Conseil,” a fund management company specializing in financing African small and medium-sized businesses.

In addition to his professional duties, he has significant experience in the educational and research areas, notably as an associate professor at CERDI (*Centre d'Études et de Recherches sur le Développement International*). He was elected as a member of the *Académie des Technologies* (2010); he is currently a senior fellow of the *Fondation pour la Recherche sur le Développement International* (FERDI) and of the German Marshall Fund (GMF). He has published numerous articles and books, including, in 2010, “*Idées Reçues sur le Développement*” and “*Le Temps de l'Afrique,*” and in 2011 “*Le grand basculement.*”

**Positions and responsibilities as of December 31, 2011**

Position	Company	Country
Director (term of office from April 28, 2011 to the close of the Shareholders' General Meeting to approve the 2013 financial statements) Member of the Board of Directors' Social Responsibility Committee (since April 28, 2011)	DANONE SA <sup>(1)</sup>	France
Director	FRANCE TELECOM <sup>(1)</sup>	France
Managing Director	INVESTISSEUR ET PARTENAIRE CONSEIL	France
Position	Associations/Foundations/Other	Country
Chairman	INSTITUT D'ÉTUDE DU DÉVELOPPEMENT ÉCONOMIQUE ET SOCIAL	France
Director	CENTRE DE COOPÉRATION INTERNATIONALE EN RECHERCHE AGRONOMIQUE POUR LE DÉVELOPPEMENT (PUBLIC-SECTOR INSTITUTION WITH INDUSTRIAL AND COMMERCIAL ACTIVITIES)	France
	FONDATION CHIRAC	France
	FONDATION SANOFI ESPOIR	France
	CONSERVATION INTERNATIONALE (FOUNDATION)	United States
Senior fellow	THE GERMAN MARSHALL FUND OF THE UNITED STATES (FOUNDATION)	United States
Research Director	FONDATION POUR LES ÉTUDES ET RECHERCHES SUR LE DÉVELOPPEMENT INTERNATIONAL	France
Member	SCIENTIFIC STEERING COMMITTEE, FONDATION JEAN-JAURÈS	France
	INDEPENDENT ASSESSMENT COMMITTEE ON SUSTAINABLE DEVELOPMENT, VEOLIA ENVIRONNEMENT	France
	ACADÉMIE DES TECHNOLOGIES (PUBLIC-SECTOR INSTITUTION WITH ADMINISTRATIVE ACTIVITIES)	France

(1) Listed company.

**Positions and responsibilities held during the past five years**

Position	Companies/Associations/Foundations/Other	Country
Chief Executive Officer	AGENCE FRANÇAISE DE DÉVELOPPEMENT (FRENCH PUBLIC SECTOR INSTITUTION WITH INDUSTRIAL AND COMMERCIAL ACTIVITIES)	France
Chairman	SOCIÉTÉ DE PROMOTION ET DE PARTICIPATION POUR LA COOPÉRATION ÉCONOMIQUE	France
	PARTENARIAT FRANÇAIS POUR L'EAU	France
Vice-President	COMITÉ NATIONAL FRANÇAIS	France
Director	EUROPEAN INVESTMENT BANK	Luxembourg
	INSTITUT DE RECHERCHE POUR LE DÉVELOPPEMENT (FRENCH PUBLIC-SECTOR INSTITUTION WITH SCIENTIFIC AND TECHNOLOGICAL ACTIVITIES)	France
	DANONE.COMMUNITIES	France

**Franck RIBOUD**

Born on November 7, 1955 – Age: 56

Business address: 17, boulevard Haussmann – 75009 Paris – France

Number of DANONE shares held as of December 31, 2011: 183,134

Non-Independent Director

French nationality

Principal responsibility: Chairman and Chief Executive Officer of Danone

Seniority in Danone Group: October 1981 (30 years)

**Personal background – experience and expertise**

Franck RIBOUD is a graduate of the École Polytechnique Fédérale de Lausanne.

He joined the Group in 1981, where he held successive positions through 1989 in management control, sales and marketing. After serving as Head of Sales at Heudebert, in September 1989 he was appointed to head up the department responsible for the integration and development of new companies in the Biscuits branch. He then participated in the largest acquisition made by a French company in the United States, namely that of Nabisco's European activities by BSN. In July 1990, he was appointed General Manager of Société des Eaux Minérales d'Evian. In 1992, Franck RIBOUD became Head of the Group Development Department.

The Group then launched its international diversification marked by increased development in Asia and Latin America and through the creation of an Export Department. In 1994, BSN changed its name to Danone in order to become a global brand.

Since May 2, 1996, he has been Chairman and Chief Executive Officer of Danone.

Since 2007, he has been the Chairman of the Board of Directors of the danone.communities mutual fund (SICAV), a financing entity aimed at promoting the development of profitable companies whose primary goal is to maximize socially responsible objectives as opposed to profit.

Since 2009, he has served as the Chairman of the Steering Committee of Fonds Danone pour l'Écosystème, and in December 2011 he was named member of the Advisory Board of the Livelihoods fund.

**Positions and responsibilities as of December 31, 2011**

Position	Company	Country
Chairman and Chief Executive Officer (term of office from May 2, 1996 to the close of the Shareholders' General Meeting to approve the 2012 financial statements) Director (term of office from September 30, 1992) Chairman of the Executive Committee (since July 4, 1997)	DANONE SA <sup>(1)</sup>	France
Director	RENAULT SA <sup>(1)</sup>	France
Chairman of the Board of Directors	danone.communities (SICAV)	France
Director Member of the Compensation Committee	ACCOR SA <sup>(1)</sup>	France
Director	BAGLEY LATINOAMERICA, SA <sup>(2)</sup>	Spain
	DANONE SA <sup>(3)</sup>	Spain
	LACOSTE SA	France
	RENAULT SAS	France
	ROLEX SA	Switzerland
	ROLEX HOLDING SA	Switzerland
Position	Associations/Foundations/Other	Country
Chairman of the Fund Steering Committee	Fonds Danone pour l'Ecosystème (endowment fund)	France
Member of the Advisory Board	LIVELIHOODS FUND (SICAV)	Luxembourg
Director	ASSOCIATION NATIONALE DES INDUSTRIES AGROALIMENTAIRES	France
	INTERNATIONAL ADVISORY BOARD HEC	France
Member of the Supervisory Board	FONDATION ELA	France
Member of the Board	FONDATION EPFL PLUS	Switzerland

(1) Listed company

(2) Company consolidated as associates by Danone.

(3) Company consolidated by Danone.

**Positions and responsibilities held during the past five years**

Position	Companies/Associations/Foundations/Other	Country
Director	L'ORÉAL SA	France
	OMNIUM NORD AFRICAIN (ONA)	Morocco
	WADIA BSN INDIA LIMITED	India
Director	FONDATION GAIN (GLOBAL ALLIANCE FOR IMPROVED NUTRITION)	Switzerland
Chairman and Member of the Compensation Committee	RENAULT SA	France
Member, representative of Danone	CONSEIL NATIONAL DU DÉVELOPPEMENT DURABLE (Association)	France



### Jacques VINCENT

Born on April 9, 1946 – Age: 65  
 Business address: 28, quai du Louvre – 75001 Paris – France  
 Number of DANONE shares held as of December 31, 2011: 5,123  
 Non-Independent Director  
 French nationality  
 Principal responsibility: Chairman of Compassionart

### Personal background – experience and expertise

Jacques VINCENT is a graduate of École Centrale de Paris, Faculté de Sciences Économiques of Panthéon-Assas in Paris and Stanford University in the United States.

He joined the Group in 1970 and held positions in Management Control, Sales and Distribution.

He was appointed General Manager of Stenval in 1979 and was later, in succession, General Manager of Danone Italy, Danone Germany, Italaquae, Dannon USA and the Group's Fresh Dairy Products Division.

In 1996, he was named Deputy General Manager of Danone.

In 1998, he was named Vice-Chairman of the Board of Directors of Danone.

In 2007, he became the Chairman's Advisor for Strategy and stepped down from his position as Deputy General Manager in April 2010 in connection with his retirement.

Jacques VINCENT manages the UnMétierVocation foundation and the Art For Smile gallery. He is also a Director of Syngenta, Institut Biophytis, Cereplast and Mediaperformances.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from March 17, 1997 to the close of the Shareholders' General Meeting to approve the 2013 financial statements)	DANONE SA <sup>(1)</sup>	France
Chairman	COMPASSIONART SAS	France
Director	AVESTHAGEN	India
	CEREPLAST, INC. <sup>(1)</sup>	United States
	MEDIAPERFORMANCES PUBLIC'AD SA	France
	SYNGENTA AG <sup>(1)</sup>	Switzerland
	INSTITUT BIOPHYTIS SAS	France
Position	Companies/Associations/Foundations/Other	Country
Founding member and manager	Fondation UnMétierVocation	France

(1) Listed company



**Positions and responsibilities held during the past five years**

Position	Company	Country
Vice-Chairman of the Board of Directors	DANONE SA	France
Chairman	DANONE RESEARCH	France
Chairman of the Board of Directors	COMPAGNIE GERVAIS DANONE	France
Director and Member of the Executive Committee	DANONE SA	Spain
Director	DASANBE AGUA MINERAL NATURAL SA	Spain
	THE DANONE SPRINGS OF EDEN BV	Netherlands
	WEIGHT WATCHERS DANONE CHINA, LTD	China
	WIMM BILL DANN FOOD OJSC	Russia
	YAKULT DANONE INDIA PVT LTD	India
	YAKULT HONSHA	Japan
Member of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V.	Netherlands
	DANONE BABY AND MEDICAL NUTRITION NEDERLAND B.V.	Netherlands
Board representative	DS WATER GENERAL PARTNER, LLP	United States
Member of the Executive Committee	DANONE SA	France
Deputy General Manager		
Position	Companies/Associations/Foundations/Other	Country
Chairman of the Board of Directors	ÉCOLE NORMALE SUPÉRIEURE DE LYON (ENS)	France



### Christian LAUBIE

Born on August 19, 1938 – Age: 73

Business address: 8, rue Guynemer – 75006 Paris – France

Number of DANONE shares held as of December 31, 2011: 173,768

Non-Independent Director

French nationality

Principal responsibility: Member of the Collège du Haut Conseil du Commissariat aux Comptes

### Personal background – experience and expertise

Christian LAUBIE has a degree in Economics from the Faculté de Droit de Paris and is a graduate of the Institut d'Études Politiques de Paris. He also has an MBA from the University of Kansas (USA).

He joined Danone in 1961, and from then through 2001 was, in succession, a Finance Department manager, Chief Financial Officer of Evian and Kronenbourg, Head of Group Strategy and Development (1971-1980), General Manager for Financial Affairs (1980-1998) and Chief Executive Officer (1998-2001).

He has been a Director of Danone since 1985 and a member of the Audit Committee since 2001.

He is a former judge at the Paris Commercial Court (*Tribunal de Commerce de Paris*) and since 2003 has been a member of the *Haut Conseil du Commissariat aux Comptes*.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from December 19, 1985 to the close of the Shareholders' General Meeting to approve the 2011 financial statements) Member of the Board of Directors' Audit Committee (since January 30, 2001)	DANONE SA <sup>(1)</sup>	France
Position	Associations/Foundations/Other	Country
Member	Haut Conseil Du Commissariat aux Comptes	France

(1) Listed company.

### Positions and responsibilities held during the past five years

Position	Company	Country
None		



### Hakan MÖGREN

Born on September 17, 1944 – Age: 67  
 Business address: Bellmansgatan 6 – SE-11820 Stockholm, Sweden  
 Number of DANONE shares held as of December 31, 2011: 4,000  
 Independent Director  
 Swedish nationality  
 Principal responsibility: Company Director

### Personal background – experience and expertise

Hakan MÖGREN is a graduate of the Royal Institute of Technology of Stockholm, where he received a Ph.D in biotechnology in 1974.

In 1969 he joined Marabou group, where he held various positions in the laboratories.

From 1977 to 1988, he was the Chairman and Chief Executive Officer of Marabou group. In 1988 he was named Chairman and Chief Executive Officer of Astra, the international pharmaceutical company, a position he held until 1999. He then initiated the merger between Astra and the U.K. pharmaceutical company Zeneca. The new company, AstraZeneca, was based in London. Hakan MÖGREN was named its Vice-Chairman, a position he held until his retirement in 2008.

Hakan MÖGREN has also held several positions as Director, notably at Investor AB and Stora in Sweden, Reckitt Benckiser plc in the United Kingdom and Norsk Hydro ASA in Norway.

He is active in various organizations such as the Sweden-Japan Foundation, the Marianne and Marcus Wallenberg Foundation and the Sweden-America Foundation. He is the Chairman of the Swedish-British Society. From 1993 to 2003, he was Chairman of the Research Institute of Industrial Economics (Sweden).

He was made a Knight of the Légion d'Honneur in 1995 (France), received the King's Medal of the Order of the Seraphims in 1998 (Sweden), made a Knight Commander of the Order of the British Empire in 2005 and received the Order of the Rising Sun in 2007 (Japan). He was named an Honorary Doctor of Science, Leicester University in 1998 (United Kingdom) and an Honorary Doctor of Medicine, Karolinska Institute in 2009 (Sweden).

He has also been a member of the Swedish Gastronomic Academy since 1984 and of the Royal Technical Institute since 1988.

### Positions and responsibilities as of December 31, 2011

Position	Company	Country
Director (term of office from April 11, 2003 to the close of the Shareholders' General Meeting to approve the 2011 financial statements) Member of the Board of Directors' Nomination and Compensation Committee (since April 22, 2005)	DANONE SA <sup>(1)</sup>	France
Position	Associations/Foundations/Other	Country
Director	MARIANNE AND MARCUS WALLENBERG FOUNDATION	Sweden
Academy Member	THE ROYAL SWEDISH ACADEMY OF ENGINEERING SCIENCES (IVA) (Association)	Sweden
	GASTRONOMIC ACADEMY (Association)	Sweden

(1) Listed company

### Positions and responsibilities held during the past five years

Position	Companies/Associations/Foundations/Other	Country
Deputy Chairman	ASTRA ZENECA	United Kingdom
Director	INVESTOR AB	Sweden
	NORSK HYDRO ASA	Norway
	REMY COINTREAU SA	France



### Guylaine SAUCIER

Born on June 10, 1946 – Age: 65  
 Business address: 1000 rue de la Gauchetière Ouest – Bureau 2500 – Montréal QC H3B 0A2 – Canada  
 Number of DANONE shares held as of December 31, 2011: 5,130  
 Independent Director  
 Canadian nationality  
 Principal responsibility: Company director

### Personal background – experience and expertise

Guylaine SAUCIER has a Bachelor of Arts degree from Collège Marguerite-Bourgeois and a graduate business degree from HEC Montreal. A Fellow de l'Ordre des Comptables Agréés du Québec, Guylaine SAUCIER was Chairman and Chief Executive Officer of Gérard SAUCIER Ltée, a leading company specializing in forest products from 1975 to 1989. She is also a Director of the Institute of Corporate Directors.

She was the Chairman of the Board of CBC/Radio-Canada (1995 to 2000), Chairman of the Board of the Canadian Institute of Chartered Accountants (1999 to 2000) and a member of the Board of Directors of the Bank of Canada (1987 to 1991). She was the first woman to be appointed to chair the Quebec Chamber of Commerce.

She was named a Member of the Order of Canada in 1989 for her exemplary civic-mindedness and significant contribution to the business world. In 2004, she was named a Fellow of the Institute of Corporate Directors; in 2005 she received the 25th Management Prize from McGill University; in 2010 she was named an Emeritus Company Director of the Institute of Corporate Directors College.

### Positions and responsibilities as of December 31, 2011

Position	Sociétés Company	Country
Director (term of office from April 23, 2009 to the close of the Shareholders' General Meeting to approve the 2011 financial statements) Chairman of the Board of Directors' Audit Committee since April 2010 and member since April 2009	DANONE SA <sup>(1)</sup>	France
Member of the Supervisory Board Chairman of the Audit Committee	GROUPE AREVA <sup>(1)</sup>	France
Director Member of the Supervisory Board Member of the Audit Committee Chairman of the Audit Committee	WENDEL <sup>(1)</sup>	France
Member of the Board of Directors Member of the Verification Committee Member of the Risk Management Committee	BANQUE DE MONTRÉAL <sup>(1)</sup>	Canada
Director Member of the Board of Directors Member of the Audit Committee Member of the Risk Management Committee Member of the Strategy Committee	SCOR <sup>(1)</sup>	France
Chairman	2158-4933 Québec Inc. 9155-4676 Québec Inc.	Canada Canada
Position	Associations/Foundations/Other	Country
Member of the Board of Directors	FONDATION DU MUSÉE DES BEAUX ARTS DE MONTRÉAL	Canada
	FONDATION DE L'ORCHESTRE SYMPHONIQUE DE MONTRÉAL	Canada
	INSTITUT SUR LA GOUVERNANCE D'ORGANISATIONS PRIVÉES ET PUBLIQUES	Canada
	INSTITUT DES ADMINISTRATEURS DE SOCIÉTÉS	Canada
	GRANDS DÉFIS CANADA	Canada
	FONDATION DE L'INSTITUT DE CARDIOLOGIE DE MONTRÉAL	Canada
Member of the Planned Giving Committee	FONDATION DE L'INSTITUT DE CARDIOLOGIE DE MONTRÉAL	Canada
Member of the Endowment Fund Management Committee	UNIVERSITÉ DE MONTRÉAL	Canada

(1) Listed company.

**Positions and responsibilities held during the past five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Member of the Board of Directors Member of the Audit Committee	AXA ASSURANCES INC.	Canada
Member of the Board of Directors Chairman of the Governance Committee Member of the Management Succession and Compensation Committee	PETRO-CANADA	Canada
Member of the Board of Directors Member of the Verification Committee	CHC HELICOPTER CORPORATION	Canada
Member of the Supervisory Board Chairman of the Verification Committee Member of the Compensation Committee	ALTRAN TECHNOLOGIES	France
<b>Position</b>	<b>Associations/Foundations/Other</b>	<b>Country</b>
Member of the Board of Directors	FONDATION DU MUSÉE D'ARCHÉOLOGIE ET D'HISTOIRE DE MONTRÉAL POINTE-À-CALLIÈRE	Canada





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**DANONE**

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