

DANONE

social and environmental
responsibility report

05

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Groupe DANONE results in 2005

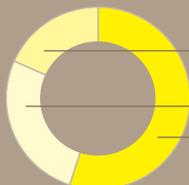
2005 KEY FINANCIAL HIGHLIGHTS (€ MILLIONS)

Income statement data	2004	2005	change
Net sales	12,273	13,024	6.10%
Organic growth	-	+ 6,7%	
Trading operating income	1,608	1,738	
Trading operating margin	13.1%	13.35%	25 bp
EPS (fully diluted)	€3.57	€4.14	+15.9%

NET SALES BY BUSINESS LINE

(€ MILLIONS)

Fresh Dairy Products: **7,184 (+7.0%)**
 Beverages: **3,473 (+10%)**
 Biscuits and Cereal Products: **2,367 (+1.5%)**
 Group total: **13,024 (+6.7%)**

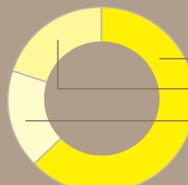


18% Biscuits and Cereal Products
 27% Beverages
 55% Fresh Dairy Products

NET SALES BY REGION

(€ MILLIONS)

Europe: **8,179 (+2.8%)**
 Asia: **2,235 (+12.9%)**
 Rest of the world: **2,610 (+15.6%)**
 Group total: **13,024 (+6.7%)**



63% Europe
 20% Rest of the world
 17% Asia

ROBUST FINANCES

In 2005 Groupe DANONE posted organic growth of 6.7% with consolidated net sales of €13,024 million, meeting its annual targets for the sixth year in a row—a strong performance that underscores the solidity of the Group's business model. In addition, significantly improved profitability

in our Fresh Dairy Products and Biscuits operations helped raise operating margin from 13.10% to 13.35%, despite the higher costs for petroleum-based raw materials absorbed by our Beverages line.

RATINGS



Each year, the Dow Jones Sustainability Indexes and other social responsibility rating agencies examine Group policies in detail, measuring economic, social and environmental impact against their benchmarks. Due in part to DANONE Way, these agencies

place Groupe DANONE among the industrialized world's leaders in day-to-day practices of social responsibility and sustainable development in the areas of social principles, consumer relations and environmental protection.

WESTERN EUROPE

Sales €6.8 billion
54% of the consolidated total
No. 1 in fresh dairy products, bottled water, and biscuits and cereal products
20,985 employees

AFRICA AND MIDDLE EAST

2,648 employees
No. 1 in fresh dairy products in South Africa. The Group has significant interests in companies with strong positions in Saudi Arabia, Morocco, Tunisia, Algeria and Israel.



NORTH AMERICA

Sales €1.1 billion
8.5% of the consolidated total
No. 1 in fresh dairy products
2,860 employees

LATIN AMERICA

Sales €1.1 billion
8.5% of the consolidated total
No. 1 in fresh dairy products and bottled water
No. 2 in biscuits and cereal products.
9,311 employees

EASTERN EUROPE

Sales €1.2 billion
10% of the consolidated total
No. 1 in fresh dairy products, bottled water, and biscuits and cereal products
11,243 employees

ASIA-PACIFIC

Sales €2.2 billion
17% of the consolidated total
No. 1 in biscuits and cereal products and bottled water
41,137 employees

1972-2005 MILESTONES

1972

- Antoine Riboud's speech in Marseille sets out dual commitment to business success and social progress.

1977

- Creation of job search teams to accompany restructuring.

1985

- First agreement with IUF ushers in social dialog at international level.

1991

- Creation of Danone Institute.

1996

- Charter for the Environment.
- Business Conduct Policies.

1997

- DANONE retrenches to 3 core businesses focusing on healthy eating: Fresh Dairy Products, Biscuits and Beverages.

1998

- Support for the Ramsar Convention for the protection of wetlands.

1999

- Launch of Management Barometer, a survey gauging commitment to group strategy and values.
- DANONE becomes a component of Dow Jones Sustainability Index.

2001

- DANONE Way launched.

2003

- DANONE joins UN Global Compact.

2004

- Groundwater Resources Protection Policy.

2005

- Food, Nutrition and Health Charter.

This is Groupe DANONE's eighth annual report on social and environmental responsibility. For 2005, we have opted for a shorter print edition, placing more detailed information on our website at www.danone.com. Under Sustainable Development/A closer look, you will find reports on specific issues, as well as a table cross-referencing information in this report with GRI indicators for faster access and immediate identification of our compliance level. We have also chosen to present much of this year's report in the words of our employees—the people responsible for putting DANONE Way into practice every day. We hope that these accounts of their challenges and successes will allow you to share our experience of social and environmental responsibility throughout the year.

For easier consultation, this report is organized around five priority issues, with a brief summary of policies, resources and achievements for 2005 for each chapter. Key figures for the Group are presented at the beginning of the report; social and environmental performance indicators appear on pages 44-45.

The auditors' report and a detailed presentation of DANONE Way assessments are available on our website.

To learn more

> visit www.danone.com
click on Sustainable development/
a closer look

Questions to DANONE CEO Franck Riboud

In 2005, Groupe DANONE posted excellent growth and earnings for the sixth year running. What is the secret of your success, and what about your performance in the areas of social and environmental responsibility?

DANONE's successes are a matter of sound business fundamentals and a strategy focused on reinforcement of our health positioning, expansion on new frontiers and worldwide deployment of our top brands. Above all, the vitality of our Group is the vitality of a culture—a culture of responsiveness, of adapting to local conditions—that is also reflected in a relatively informal management style favoring innovation and networking. What I find particularly striking about the results of our in-house surveys is the extent of our teams' commitment to that very special culture. And social and environmental responsibility are an integral part of it. The defining goal of our corporate mission is to make healthy food available to the majority. It's up to each of us to translate that goal into action, creating value for our business and for local communities. That is what underpins our motivation in the day-to-day defense of our business project.

DANONE Way has attracted a good deal of attention. How would you assess the results now that the program has been in operation for four years?

DANONE Way is an extraordinary venture in management, giving thousands of people at all levels and in all parts of the business the opportunity to contribute to the assessment of performance in areas such as quality, business ethics, management and respect for the environment. This 360° vision has helped Group businesses all over the world to define targets matching both local conditions

and the broader aims of the Group as a whole. With DANONE Way now deployed at nearly all our businesses, we're working on new initiatives that will make sustainable development even more integral to our business and give us closer partnerships with all our main stakeholders.

There has been growing public debate on the connection between diet and health. Do you see that as a threat or an opportunity for DANONE?

Specialists regularly place our product portfolio at the top of the list for health, which certainly gives us a lead on competitors. And, of course, it is also a responsibility. In this, we draw on resources—such as in-depth familiarity with nutrition sciences and specialized expertise in cultures and other areas—that we put to work in developing new products with specific health benefits. We have also stepped up research and developed a set of rigorous testing procedures. Our health-centered market positioning means that we must be absolutely irrefragable not only as regards product quality but also in communications targeting consumers, in keeping with our aim of promoting healthy living as well as healthy eating.

You have said that DANONE will be making the fight against malnutrition a priority. Is that for humanitarian or business reasons? And what progress was made in 2005?

An estimated 2.7 billion people around the world have to get by with less than two euros a day, and malnutrition continues to take a heavy toll on children's growth and life expectancy. DANONE can make a positive contribution by offering quality products with added vitamins and minerals at prices people

can afford. That is the approach we have been testing in Africa and Asia with biscuits and dairy products. We also aim to increase local production and create jobs, as we have in South Africa, where women in several townships work as Daniladies, selling our products in their neighborhoods. We are still at the learning stage, since we have to take a completely fresh look at costs and the way we produce and distribute our products. But the important thing to remember is that there is no conflict between the demands of business and those of social progress. On the contrary—only an economically viable solution can bring people lasting benefits.

Consumers are expressing growing concern over the environmental impact of packaging. What is DANONE's position?

Packaging isn't just a problem. It also protects the product, and is becoming all the more important as consumers take a more demanding view of food safety. And I would emphasize that DANONE has played a pioneering role in developing collection and recycling systems for packaging waste. We have also significantly reduced the weight of our packaging. But changing patterns of consumption are working in the opposite direction, fueling demand for individual packaging. In this context, we need to make a qualitative leap, developing new technical solutions that ultimately will allow recycling or composting of nearly all packaging waste. On this point, research now under way should make it possible to replace petrochemical plastics with bioplastics within a few years. Naturally, progress hinges on the active involvement of all concerned, in business and in government. And DANONE naturally has a responsibility to play a full part in the process.

> BUILD LASTING PERFORMANCE



2005 Highlights

AFFORDABILITY

At the 2005 International Nutrition Congress in Durban, South Africa, DANONE launched Danimal, a nutrition-packed yogurt at an affordable price. Designed especially for children, Danimal is fortified with vitamin A, zinc and iron, and sells for 1 rand—around 15 eurocents.

To reach this price, we minimized costs by eliminating advertising and using milk from our local partner, Clover. An innovative distribution system also came into play: to supply South Africa's many small shops, DANONE trucks deliver several times a week, and in less accessible areas, local women known as "Daniladies" sell Danimal door to door, using the opportunity to raise nutrition awareness among mothers in their communities. A winning proposition on many levels—jobs and training for the Daniladies, better nutrition for children, and closer relationships with our customers—, Danimal is set to serve as a model for future initiatives as DANONE pursues its mission of making healthy food accessible to a majority of people.



FUNDAMENTAL SOCIAL PRINCIPLES

DANONE makes Fundamental Social Principles part of its accords with IUF (International Union Food Workers' Association). With 50% of its employees in emerging countries, DANONE is both highly internationalized and strongly committed to practicing the principles advanced by the International Labour Organisation. These include freedom of association, the right to collective bargaining, workplace safety, compliance with national law on working hours and minimum wages, and prohibition of child labor, forced labor and all forms of discrimination. DANONE builds these principles into its agreements with the International Union of Food Workers' Associations, setting the tone for international labor-management dialog within the Group and all business units. The Respect program, launched in 2003, is now expanding to apply these standards to suppliers as well, providing business units with procedures and tools to monitor suppliers' compliance with fundamental social principles. Respect is slated to cover all DANONE suppliers by 2008.



AGRICULTURE

The Milk Producer's Guide to Best Practices— At DANONE we believe that dairy farms should be working examples of sustainable agriculture, combining economic efficiency with environmental awareness and respect for social principles. To that end, we launched our Quality and Safety program for dairy farmers in 1998, expanding this in 2003 to include environmental standards. Today DANONE offers a guide for milk producers that sets out quality and food safety requirements along with best practices distilled from the Group's institutional knowledge and the

experience of thousands of dairy farmers around the world. Our Guide explains DANONE's goals and identifies ways of moving toward sustainable milk production—such as fertilization practices that balance optimum production and environmental protection. This practical handbook provides step-by-step instructions as well as applicable regulations and expected costs and benefits. Already available in French, English, Spanish, Polish and German, in 2006 the guide will be translated into the other languages spoken in the 21 countries where DANONE buys milk directly from farmers.

NUTRITION

DANONE's Food, Nutrition and Health Charter was distributed to all business units in 2005.

Now more than ever, the public demands responsibility and vigilance from food companies where nutrition and health are concerned. DANONE has responded with a formal statement of our convictions and commitments based on practices deeply rooted in the culture of our Group and its business units. The Charter has become an important reference for our employees worldwide. Key provisions focus on:

- **Public organizations:** DANONE is committed to cultivating

dialog and partnership with public institutions, consumer associations and other organizations promoting health and nutrition. Strong ties to these groups will make the public more aware of DANONE initiatives and deepen our knowledge of the public's questions and expectations.

- **Consumer information:** DANONE is committed to providing consumers with clear, transparent information through wider use of nutritional labeling and expanded information services.

RESEARCH



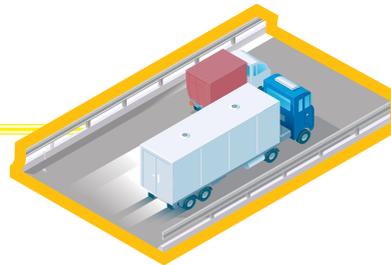
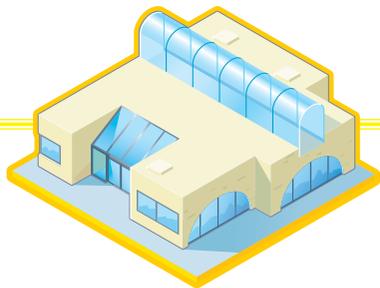
In late 2005 DANONE opened its first dairy research center for Asia. Guided by the Group's strategy to grow its business in this dynamic market, the center's mission is to develop products that meet local nutrition and health needs and appeal to the tastes of Asian consumers. Located in Shanghai, this new facility is staffed with international

researchers working in areas that include sensory analysis, consumer behavior, and nutrition. The dairy center rounds out DANONE's R&D organization in Asia, which already includes three other facilities—two beverage centers in China focused primarily on developing affordable products, and a biscuit center that develops grain products

with nutritional benefits tailored to the Asian market. Each year the Group invests €130 million in R&D worldwide.



From raw materials to end of product lifecycle: impacts and responsibilities



RAW MATERIALS

> Impact

- Purchases of raw materials and packaging: €3.813 billion, 62% agricultural produce.
 - Largest single agricultural product: milk. DANONE works directly with 11,250 producers (plus 3,800 through cooperatives) in 19 countries.
 - Main environmental impact of farming: irrigation-related water consumption, pollution from fertilizers and pesticides, gas emissions.
 - Mineral water from reserves over which Groupe DANONE has exclusive operating rights.
- ### > Responsibilities
- Guarantee the safety, quality and traceability of raw materials.
 - Track and help improve working conditions and environmental impact of farming.
 - Ensure long-term protection and renewal of water reserves operated by the Group.

PRODUCTION AND PACKAGING

> Impact

- Employment: 88,184 jobs. Total compensation paid in 2005: €1,960 million including salaries, social levies, compulsory and optional profit-sharing, pensions and costs linked to jobs lost through restructuring.
 - Main environmental impact of production plants: energy consumption and wastewater discharge.
 - Main impact of packaging (6% of product weight on average): consumption of non-renewable resources (oil for plastics) and renewable resources (wood, recycled paper in cardboard).
- ### > Responsibilities
- Ensure fundamental social principles are respected and promote concrete measures for social progress at Group sites.
 - Control environmental impact of plants.
 - Reduce packaging without reducing functionality: food safety and preservation, transport, consumer information.
 - Contribute to local community development.

TRANSPORT

> Impact

- Transportation is outsourced in almost all cases. In Europe, trucks are used to transport 95% of yogurts and biscuits, while water is carried by trucks (68%) and trains (25%).
 - On average, DANONE yogurts and biscuits sold in Europe travel 600 km from production to point of consumption.
 - Main environmental impact: energy consumption, greenhouse gas emissions, local air pollution, noise.
- ### > Responsibilities
- Minimize impact of transporting raw materials and products.
 - Ensure compliance with refrigeration requirements and product traceability.

SALES

> Impact

- Sales totaled €13 billion in 2005. Two-thirds of sales are through supermarkets (large and medium-sized), and one-third through neighborhood stores.
 - Products are sold in 120 countries.
 - Main environmental impacts: energy consumption and greenhouse gas emissions from refrigerated cases in stores, plus vehicle emissions as consumers travel to stores.
 - New distribution options: DANONE is the world's No. 1 supplier of water in jugs.
- ### > Responsibilities
- Ensure appropriate refrigeration, from production to distribution and full traceability of products.
 - Ensure products are affordable and accessible, especially in emerging markets.

CONSUMPTION

> Impact

- Three main product categories made by DANONE: Fresh Dairy Products, 55% of sales; Beverages, 27%; and Biscuits & Cereal Products, 18%.
 - Main environmental impact: energy consumption and greenhouse gas emissions linked to refrigeration of fresh products.
 - Social issues: product quality/safety, nutrition and affordability.
- ### > Responsibilities
- Ensure food quality and safety.
 - Promote healthy diet and help meet local needs.
 - Provide clear information and promote dialog with consumers.

END OF LIFECYCLE

> Impact

- Consumption generates packaging waste, which is recycled, disposed of in landfills/waste disposal sites or incinerated, depending on local options.
 - Main environmental impact: soil, air and water pollution, depending on waste processing options available.
- ### > Responsibilities
- Reduce end-of-lifecycle impact of packaging by designing environmentally sound disposal options into products and supporting public waste collection.

Take ten: INSIDE PERSPECTIVES ON SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

1 > HENRI BRUXELLES
Marketing Director, Fresh Dairy Products

Consumer relations are no longer limited to price, product and brand. Today's consumer expects the brand to look beyond business goals, to be committed to protecting the environment, promoting nutrition education and fighting obesity. Social responsibility must be the foundation of our relationship with consumers—along with proximity, it's what makes our brand unique.

2 > MARCELO CABRERA
Human Resources Director, Shared Services, Argentina

Argentina's economic crisis had dramatic consequences—poverty, unemployment and declining education standards. But DANONE stayed the course: we remained in Argentina, never stopped paying salaries, continued to work with suppliers and customers, and supported local communities by helping the unemployed. Now that the crisis is over, Argentines haven't forgotten. DANONE has an excellent reputation.

3 > PIERRE JOSSELIN
Purchasing Director, Biscuits

We won't get tangible results if we limit ourselves

to conventional thinking. If we want practical solutions to social and environmental problems, we have to design each new product with these issues in mind from the very start—without sacrificing strong consumer appeal.

4 > TERESA LINDEMAN
Food Safety Director, Central and Eastern Europe

DANONE has forged a win-win partnership with Polish milk producers, providing hands-on technical and financial assistance that has helped them lease equipment and get loans to expand their herds. As a result, milk producers here joined the European Union on favorable terms—and DANONE has a reliable, long-term supply of high-quality milk.

5 > LUIS MATHIEU
General Manager, Mexico Home and Office Delivery

In Mexico, social responsibility has a powerful impact inside the company. Our employees are proud to work for a company that makes the effort to translate its values into action, both in the workplace and in the community.

6 > MATTHEW MOUW
General Manager, Danone China Home and Office Delivery

DANONE's history is clearly an advantage—it gives our mission credibility. Better health through nutrition is a benefit everyone can understand. I live and work in a country with very real environmental issues, so building a sustainable business is one of our main responsibilities. Turning a "clean" profit is important!

7 > JUDIT NAGYPAL
Human Resources Director, LU Hungary

When I joined DANONE, I realized how deeply social responsibility was written into its genes. We don't do this because we have to—we do it because we believe in it. That said, the Hungarian public isn't yet fully aware of our efforts. We need to take more meaningful action.

8 > MARTIN POWELL
Director of Operations, Beverages

For the Beverages line, the two main challenges are protecting water resources and reducing the environmental impact of packaging. DANONE is among the leaders, but

we need to make more progress, especially in recycling. We're working on innovative solutions, looking for the right balance between environmental protection and short-term business goals.

9 > JAVIER ROBLES
Executive Vice-President, Fresh Dairy Products, Southern Europe

Multinationals will lose their credibility if their commitment to social responsibility isn't genuine. It's our job to stay ahead of issues like health and nutrition, to take the lead with initiatives that offer genuine benefits for society and aren't simply cosmetic.

10 > SERPIL TIMURAY
General Manager, Danone Turkey

Social and environmental responsibility is a business vision that factors in social and environmental problems. For DANONE Turkey, there are three main challenges: promoting child nutrition, education and developing healthy products, especially for children; improving the skills of our employees; and helping farmers reach European standards where milk quality is concerned.



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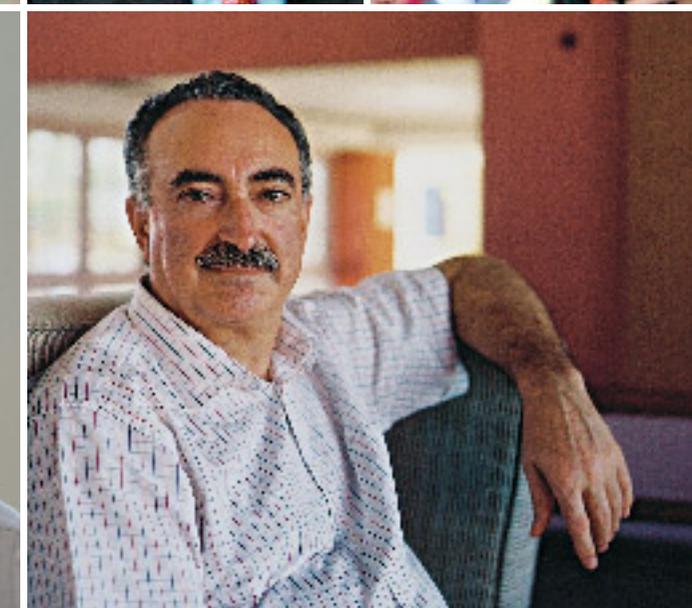
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To learn more
 > [www.danone.com/
 Sustainable development/A closer look](http://www.danone.com/Sustainable%20development/A%20closer%20look)

DANONE values: a competitive advantage

BY **GUY PELABON** General Manager, Danone Waters UK & Ireland AND
CÉCILE HESSE Human Resources Director, Danone Waters UK & Ireland



DANONE Way to identify six priorities. That led to specific projects run by junior managers supervised by senior managers throughout the year. We used these projects to translate our values into everyday attitudes in the workplace. For example, the DANONE value “enthusiasm” translated into “can-do attitude,” putting a premium on initiative. The strength of the program is that we’re in it for the long term and the line employees are committed to it.

WHAT ARE THE CHALLENGES FACING DANONE WATERS UK?

G. P.: With annual growth of over 18%, Danone Waters UK has doubled in size in only a few years, moving from a small business to a medium-sized one. To manage our growth successfully, we’ve had to adapt. And because the job market is highly competitive, one of our biggest challenges has been attracting and retaining talent. Over the past three years we’ve recruited around

100 people—which means that half our managers have been with us less than two years. We decided to launch DANONE Way to make DANONE values a genuine competitive advantage: a corporate culture that is flexible, people-oriented and centered on the customer.

HOW EXACTLY DID YOU PUT DANONE WAY INTO PRACTICE?

C. H.: The 120 employees who attended our annual conference used

HAS IT PAID OFF?

G. P.: DANONE Way has helped us establish our identity and move quickly to cultivate cross-functionality and employee commitment. Setting ourselves apart from other companies and large groups is also very important in an increasingly competitive job market.

Key figures

94%
 of business units had deployed DANONE Way by the end of 2005.

87
 practices are defined in the 2005 DANONE Way handbook.

700
 plans for progress under way at the end of 2005.

27
 DANONE Way audits conducted by Pricewaterhouse-Coopers and Mazars & Guérard.

49
 business units whose consolidated results are published on the danone.com website.

DANONE Way: doing business differently

A BUSINESS MODEL ROOTED IN DANONE'S HISTORY

DANONE's business model is built on:

- the vision of group founder Antoine Riboud, who insisted that business success and social progress always go hand in hand
- a business culture emphasizing responsiveness, adaptation and the capacity to accelerate innovation

through networking and decentralization of day-to-day responsibilities

• a commitment to making healthy food available to the largest possible number of people—starting in 1929, when the first cup of yogurt was sold in a Barcelona pharmacy.

As globalization gathers pace, making insights

into consumers' priorities and local needs all the more essential, Groupe DANONE is convinced that its business model offers a major competitive advantage.



DANONE WAY: OUR BUSINESS MODEL IN ACTION

DANONE Way gives shape and life to our business model by helping business units around the world integrate business performance and responsibility without ever losing sight of local concerns. It is a shared guide to action that respects each market's environment. Concretely, DANONE Way addresses all aspects of corporate responsibility, making stakeholders—employees, consumers and clients, suppliers, shareholders, local communities and the natural environment—an integral part of the process. Thus it calls for employees to rate their company's performance on subjects as varied as equal opportunity, respect for fundamental social principles by suppliers, and recycling of packaging.

BUSINESS STRATEGY AND SUSTAINABLE DEVELOPMENT IN A UNIQUE SOCIAL MODEL

Business strategy meets sustainable development to create DANONE Way, a unique social model that has the full support of the Management Committee and other functions throughout the corporate hierarchy. DANONE Way covers a wide variety of business practices. And it has proven its ability to rally an increasing number of employees, with critical cross-functional flows helping to ensure that each individual gets involved—actively. Concretely, the process provides for:

- assessments of each unit's compliance at a given point in time—a snapshot of strengths and weaknesses to be addressed in an action plan
- an opportunity for dialog with stakeholders. Direct meetings with

local representatives—elected officials, consumer and environmental associations, relief organizations, schools, suppliers and customers—give business units a chance to develop more effective responses to community concerns, along with a relationship with its environment built on lasting trust

- verification of compliance by independent third parties. Since 2001, subsidiaries have been audited to confirm deployment conditions and the reliability of information provided
- finally, a shared vision of a business project targeting the best possible economic performance as well as added value for all partners and motivation for our people.

Society and the environment: performance and objectives

People

2005 ACHIEVEMENTS

- **Workplace safety:** 8 accidents/million hours worked.
- **Employability:** Evolution program implemented at 15 pilot sites.
- **Sharing a strong corporate culture:** DANONE Way deployed at 94% of business units.
- **Employee representation** at 95% of business units. International dialog between labor and management based on agreements with the International Union of Food

Workers (IUF) revised in 2005 to incorporate fundamental social principles. Joint labor-management tracking of social indicators.

- **Fundamental social principles:** supplier compliance verified through the Respect program. 35 audits performed.

OBJECTIVES

- **Halve workplace accidents** between now and 2007.
- **Deploy Evolution** at 100% of business units between now and 2008.
- **Expand the scope of the Respect program** to all suppliers between now and 2008.

Environment

2005 ACHIEVEMENTS

- **Green Plant program** to reduce consumption of water and energy resources.
- **Investment in the environment:** €16 million in 2005.
- **ISO-14001:** 84 plants out of 200 certified.
- **Waste recovery rate:** 74%.
- **Danone Quality Security Environment (DQSE) program** to ensure reliable supply of high-quality milk while encouraging best practices in farming and lasting ties to farmers. International support for sustainable farming through the Sustainable

Agriculture Initiative (SAI).

- **Water resource protection:** self-assessments performed by business units.
- **DANONE support for the Ramsar Convention** for the protection of wetlands.

OBJECTIVES

- **Meet 2010 objectives for plants:** reduce water consumption by 30% and energy consumption by 20%; reduce weight of packaging by 10% and raise waste recovery rate to 80%.
- **Expand application** of environmental criteria under DQSE program.
- **Deploy a financial auditing tool** to guide aid to dairy farms in France (Perspectives program).

Nutrition

2005 ACHIEVEMENTS

- **Deployment of Food, Nutrition and Health Charter** in business units.
- **Development of products** tailored to a variety of tastes and nutritional needs: fresh dairy products, biscuits and beverages fortified with vitamins and minerals, low-fat and/or low-sugar products, and products with no added sugar, particularly in ranges for babies.
- **Research into health-oriented ingredients** at Daniel Carasso Center; continued research on probiotics.
- **More rigorous procedures** for validating health/nutrition claims in communications.
- **Programs promoting nutrition education and exercise**, such as the "Gotta Move!" program in France, the Danone nutrition center in Spain, and the "Healthy Appetite" initiative in Belgium.
- **Danone Institute:** held a child nutrition symposium and awarded the fifth Danone International Prize for Nutrition at the 2005 International Nutrition Congress in Durban, South Africa.

OBJECTIVES

- **Continue improving recipes** and researching health benefits of ingredients and products.
- **Expand** use of nutritional labeling.
- **Continue to distribute guidelines** on product composition and communications.

Affordability

2005 ACHIEVEMENTS

- **Affordable product** offerings such as Tiger biscuit, Biskuat biscuit and Milkuat dairy product in Indonesia, Danimal yogurt in South Africa, and Moufid yogurt in Morocco.
- **Creation of distribution channels in disadvantaged areas:** Daniladies in South Africa, Rombok kiosks in Indonesia.

OBJECTIVES

- **Develop broader range** of quality products at affordable prices.
- **Expand partnerships** with NGOs in the field.
- **Develop new business model** for emerging markets.

Local communities

2005 ACHIEVEMENTS

- **Training at production plants** to raise awareness of local environment.
- **Support for local initiatives** in countries where the group operates (€16.7 million in 2005).
- **Special focus on projects serving children:** Danone Children's Day, Danone Nations Cup.
- **Wide range of initiatives** including employee projects, marketing for humanitarian or environmental causes, and emergency aid.

OBJECTIVES

- **Implement international DANONE Way Local Communities program:** training and local outreach, networking within the Group and distribution of tools.

NUTRITION P.18
AFFORDABILITY P.24
THE ENVIRONMENT P.28
PEOPLE P.34
**LOCAL
COMMUNITIES** P.40



A close-up on the five main challenges facing Groupe DANONE. Employees give an inside view of hands-on projects and explain how they seek innovative solutions in support of business objectives and sustainable development.



JACKSON ZHANG
Danone Institute
China

p. 20



CORINNE ROBIN-FOUCAL AND FRANÇOIS RILLET
Danone France

p. 21



SUSANA ASCOLI
Latin America
region

p. 21



CHRISTINE BOULEY
Biscuits division

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SONIA ALMEIDA AND ARMANDO REYES
Danone Mexico

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ARIANE VAN DE MOER
Daniel Carasso
Research Center

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NUTRITION: REAL NEEDS, EFFECTIVE RESPONSES

As the world's No. 5 food business, DANONE has a clear responsibility in areas of public concern that include food safety, obesity, malnutrition and consumer information on nutrition. And we respond with concrete action./



Worldwide, 300 million people suffer from obesity and two billion from malnutrition. Direct effects on public health include high incidences of cardiovascular disorders and diabetes for the former, and high child mortality and retarded development for the latter. And in some countries, overeating and hunger coexist. In Indonesia, for example, 48% of children under ten are underweight and 15% overweight. As a food processor, DANONE is directly concerned. And our ranges enable us to contribute to solutions with products designed to meet the varied tastes and, even more, the diverse needs of people in different countries. Which is also what underpins the credibility of our commitments on health and nutrition.

Quality and food safety first

DANONE's first, overriding responsibility is to ensure the safety and quality of its products. Which means unflinching attention and constant efforts to upgrade processes at every stage from design to distribution. Performance is tracked using two key indicators, one measuring the effectiveness

AWARENESS IS GROWING: THROUGH EATING CORRECTLY, WE CAN BE MORE HEALTHY. THROUGH OUR PRODUCTS, WE CAN HELP OUR BODY RETAIN AND REDISCOVER ITS OPTIMUM FUNCTIONS.

Sven Thormahlen, R&D Executive V-P for Groupe DANONE

of controls on food safety risk and the other quality as perceived by consumers. By compiling information on consumer complaints relative to volumes sold, we are able to identify weaknesses in our processes and constantly upgrade our product offering. Both indicators are tracked at all our subsidiaries, allowing comparisons and replication of effective improvements.

Innovating to meet nutritional needs

Health through nutrition is central to DANONE's mission and we are constantly

taking new initiatives to achieve that goal more effectively. In this we take regular advantage of technical and scientific progress to enhance the nutritional properties associated with our basic ingredients—milk, ferments, cereal and water. In France, an example of this is LU biscuits, which cut added sugar by 7% and fat content by 9% from 1999 to 2005, at the same time raising cereal content by 14%. Similarly, DANONE is working to develop new products with scientifically proven health benefits. Examples in dairy products include Actimel, which reinforces >>>



BY JACKSON ZHANG, Danone Institute China

How are things in China?

A 2002 official study revealed that 23% of the population was overweight and 7% obese. The phenomenon is acute in large towns where, for example, 8% of children are obese. Illnesses such as diabetes and cardiovascular problems are thus on the rise. In addition, we have observed that the more the economy grows, the more eating habits get off track.

What is DANONE doing?

DANONE is involved in

the fight against obesity through two televised educational programs targeting young people. We believe that childhood is the key period in which to learn to eat well and acquire healthy eating habits. The programs are broadcast during prime time from Chinese satellite operators and reach millions of families in more than 60 towns.

Can you describe the program content?

The first program has 35 episodes and targets children between 4 and 12 with very simple advice such as 'eat

vegetables' and 'play sports'. At the end of each episode, the presenter asks a question and youngsters can call a hotline to reply. The second program has 52 episodes and is aimed at adolescents and their parents. It tackles more difficult nutritional problems such as 'where can I find vitamin A?'. They have already been broadcast by 11 regional TV stations, and over the coming months this will be extended to other big Chinese cities.

"Spotlighting product benefits"

Danone France managers **FRANÇOIS RILLET** head of Health Brands Marketing and **CORINNE ROBIN-FOUCAL** head of Communications and Nutrition review priorities



SUSANA ASCOLI, Quality and Food Safety director (Latin America)



Taillefine 0%, a product using a new recipe with zero fat and zero added sugar, by adapting our communications to consumer expectations regarding low-fat, low-cal products.

WHO IS RESPONSIBLE FOR THE REGULATORY COMPLIANCE OF CONTENT?

C. R.-F.: For each communications initiative, we work closely with teams in Marketing, Nutrition and Legal Affairs to ensure that our message is both appealing to consumers and in full compliance with laws and regulations. We also take into consideration the views of stakeholders including healthcare and regulatory authorities, consumer associations and France's advertising watchdog.

WHAT'S YOUR APPROACH TO CONSUMER COMMUNICATIONS?

F. R.: We are the second largest advertiser on French TV, which is a responsibility in itself. Our job is to spotlight product benefits, without ever going beyond what the scientists say. The difficult thing is to put across a health benefit in a way that consumers find easy to understand and that remains credible. Sometimes it is relatively easy, for example, with Taillefine, where the issue is weight control. But things are not so easy to explain for a product like Actimel.

C. R.-F.: At the same time, we must be careful not to encourage

excessive consumption and unbalanced diets, not to undermine the authority of parents, and not to stigmatize any category of consumers.

ARE CONSUMERS INVOLVED IN THE PLANNING FOR ADVERTISING CAMPAIGNS?

F. R.: Yes. We bring them in very early on in the process to see how they react. Because the more input we get at that stage, the more likely it is that the campaign will work. We then test a first draft of the material to see whether consumers understand the message. To take an example, we were able to make a success of the launch of

What quality challenges do you face in Argentina?

DANONE has launched a number of new products in the Argentine market. And although local consumers are enthusiastic, they are also very attentive to quality. In response to local demand, we have introduced audits and control systems for our products and processes, both internally and externally. Which means that suppliers are involved: we have asked them to integrate our high-performance processes into their systems, an example being the application of HACCP methods to analyze and prevent quality risks.

Are consumers also involved in this quality approach?

Since customer satisfaction is our main objective, we consider it vital to include the consumer in the ongoing improvement process. All criticism and suggestions are examined carefully. And every time a defect in a product is identified or a complaint is received, we do not just take note of it, we improve our quality system.

What is your next challenge?

Extending our quality process to the point of final sale! Although this may be difficult to achieve, since it requires input from every team—from the purchasing department to the sales department—it is nonetheless vital. We must be certain that once Danone products are in the shops, they are of a consistent quality. It's a huge challenge... but we'll get there.

16 Danone Institutes worldwide
The first Institute was created in 1991 in France. Since then, 600 research programs have received financial support.

Groupe DANONE has invested
€130 million
in research altogether, 65% for health and nutrition projects.

382,940 contacts
with consumers worldwide in 2005.



CHRISTINE BOULEY, head of Research (Biscuits)

“Obesity and overweight are serious concerns, and it is up to everyone in both the private sector and at institutional level to do what they can to prevent them. But there also some common misconceptions about biscuits. In general people eat them in moderation—consumption in France averages 17 grams a day for children and 10 grams for adults—and they account for less than 5% of daily intake of fats and sugars. That said, we are continuing our efforts to enhance nutritional properties by reducing fat and sugar content in favor of more grain, fiber and fruit. We have been working in that direction since 1990 and each step forward benefits all of our brands. To take an example, we first used canola oil for fatty acid content with Taillefine, and have since extended that to other ranges such as Ourson. We will be going ahead with further moves to reduce sugars and fats, particularly saturated fatty acids, but biscuits are meant to be a pleasure, so we won't forget taste!”

Help children grow

SONIA ALMEIDA Product Manager in R&D
AND ARMANDO REYES Marketing Group Manager



Eaten by children in over 35 nations, Danino has been successfully adapted to address country-specific nutritional deficiencies identified by scientists at the Daniel Carasso Research Center. Close-up on Mexico.

WHY DEVELOP A NEW RECIPE FOR DANONINO IN MEXICO?

A. R. and S. A.: 18% of children in Mexico suffer from retarded growth caused by deficiencies of essential nutrients, more specifically iron, zinc, vitamin A and vitamin C. The first Danonino recipe was rich in calcium. We decided to apply the

same principle in developing our new formula, using nutrients recommended by the authorities.

WHAT DIFFICULTIES HAVE YOU COME UP AGAINST?

S. A.: Adding iron to a dairy product is an R&D challenge, since iron alters the taste and color properties of the product. We worked on this project for more than a year, with the result that Danonino now contains 6% iron. And tests have confirmed that consumers like the taste.
A. R.: We worked closely with the Daniel Carasso Research Center in France, both to develop

the product—including choice and dosage of nutrients—and to obtain scientific confirmation of our claims. Changing the recipe has meant that we have also had to adapt the way we communicate with consumers. Our message is now more focused on health, specifically helping children grow, which means we attach considerable importance to scientific tests and confirmation. We want to provide parents with genuinely useful information about the nutritional benefits (proteins, vitamins, calcium and iron).

DO YOU HAVE ANY NEW PROJECTS IN THE PIPELINE TO KEEP ON IMPROVING THE NUTRITION OF MEXICAN CHILDREN?

S. A.: We want to extend this approach to other products, for example, by developing a product that is affordable for low-income groups but also has significant nutritional benefits. ■

>>> natural defenses, Activia, easing digestion, and Danacol with vegetable sterols that help limit bad cholesterol levels. We take the same approach in all countries where we operate, developing products that meet the specific nutritional needs of local communities, particularly where there are deficiencies. In Mexico, for example, Danino yogurts have been enriched with zinc, and vitamins A, C and D to correct the shortcoming of children's diets, while in China, Danone Milk biscuits for children are calcium enriched, since dairy products are not a usual part of Chinese diets.

Responsible communications

DANONE also make an active contribution to consumer information and education, which is another reason why we are particularly careful to ensure that all information appearing on products is scientifically valid. Labels thus carry nutrition information together with recommendations on serving size and other food intake needed for a balanced diet. This is backed up with consumer information services and materials such as the French magazine and website that relational marketing teams upgraded and optimized under the name 'Danone and you' in 2005. As in other areas, the aim is to respond to consumer queries on health and nutrition, helping them to achieve a balanced diet on a daily basis. Health and nutrition are also the focus for Danone Institutes, started up in 2003, which have taken a wide variety of initiatives to favor healthy childhood development. A main priority is to teach children to eat properly at an early age, when dietary habits take root. The Institutes are independent and do not promote DANONE products. Illustrating their approach, the Institute in China launched two TV programs for young audiences, while the Institute in Poland developed a video game for children to have fun and learn about healthy eating at the same time. ■

To learn more
> [www.danone.com/
Sustainable development/A closer look](http://www.danone.com/Sustainable-development/A%20closer%20look)

A plus for health

ARIANE VAN DE MOER Head of Selection, Probiotics and Biosciences unit, Daniel Carasso Research Center



with them. As a result, most of our publications are in association with internationally recognized specialists. They are also reviewed by an expert committee before they come out.

What are the reasons for the partnership between DANONE and the Pasteur Institute?

The know-how and scientific knowledge of the Institute's research teams are tremendous assets. And they are interested in the work we are doing on lactic ferments and probiotics. So there is a natural fit that has led us to work together on subjects like immunology. We have signed a framework agreement as well as a dozen research contracts. And we expect to see some interesting results very soon.

Health through nutrition is a defining goal for DANONE. Could you tell us more about what that means?

Well, my job is a good illustration. I study probiotics. That is, lactic ferments with micro-organisms that can provide health benefits. Some of these ferments can improve the body's capacity to stand up to attack by favoring a better balance in intestinal flora. The probiotic

strain in Actimel, for example, helps strengthen natural defenses in the intestinal tract. What we do is to make these probiotics part of our products.

How do you go about your work?

Most of what goes on at the Daniel Carasso Center is in cooperation with other research institutes and scientists in France and other countries. We share our working hypotheses

To learn more
> the year in review 2005
> www.danone.com



LAURENCE TOURNIER
Asia-Pacific
region
AND **STEVEN TAN**
Danone
Indonesia

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MARCELO PALMEIRO
AND
CLINTON KOEN
Danone Clover,
South Africa

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A HEALTHY DIET FOR EVERYONE

Mindful of the role food companies can play in fighting malnutrition, DANONE is committed to making healthy food accessible to a majority of people. To achieve this goal, we are rethinking our business model for emerging markets./

50% of the world's population lives on less than two dollars a day. One person in five suffers from hunger, and more than two billion have nutritional deficiencies. In children, vitamins and minerals are critical, not just for healthy growth, but for intellectual development and learning abilities as well.

A full 30% of DANONE's sales are in emerging markets, where our products are consumed by fairly well-to-do segments of the population—yet our goal is to offer products that will help offset nutritional deficiencies in populations with low purchasing power. To do so, DANONE has launched the Dream project, embarking on a new strategy that is radically different from our usual business model.

The first step is partnering with local stakeholders to acquire a thorough understanding of consumer habits and learn how to adapt to them.

Management then acts on this new information to develop affordable, nutrition-packed products without sacrificing the Group's quality and safety standards.

In this, DANONE has a powerful asset: a portfolio of products that can be adapted to address health problems in emerging markets. Biscuits and dairy products provide protein, calcium and vitamins, while the live cultures in yogurt help the body fight diarrhea, one of the primary causes of infant mortality. Through pilot projects launched in several countries, DANONE has identified best practices and begun implementing them in its business units.

Good nutrition at an affordable price

Biskuat, a biscuit fortified with calcium and vitamins, was launched in 1999 by Group DANONE in Indonesia. Sold in two sizes priced at 500 and 1,200 rupiah (€0.05 and €0.12), Biskuat is a nutritious product that everyone can afford. In 2004, the Group expanded its Indonesian offerings with Milkkuat, a dairy drink that can be stored at room temperature, and launched Mouflid, a children's yogurt packed with iron, zinc and vitamins, in Morocco. In 2005, Chinese consumers were introduced to a new >>>

"The hardest part is steadying prices"

LAURENCE TOURNIER general manager of the Asia-Pacific business acceleration unit and in charge of the global Affordability program, and **STEVEN TAN** general manager of the Danone Affordable Nutrition business unit in Indonesia.



What is the situation in Indonesia?

S. T.: 50% of the population lives on less than 2,200 calories a day, and there are deficiencies in iron, iodine, vitamin A and calcium. This was the context in which we launched "Biskuat", an energy biscuit sold for 1,000 rupiah—equivalent to €0.10—back in 1999.
L. T.: Biscuits are excellent nutritional vehicles, easy to enrich; children love them and they are easy to store.

What lessons have you drawn from this first experience?

L. T.: Success came quickly. In six years, we became number 2 in the Indonesian biscuit market, with more than 50,000 tons sold. And we are now in the process of becoming number 1 in both volume and value.

What are the main obstacles?

S. T.: The hardest part is steadying prices. With strong inflation—17% per year in the latest reading—and stagnant purchasing power, we must nonetheless remain as close as possible to the psychological price of 1,000 rupiah. Biskuat

currently sells at around 1,200 rupiah. For more variety, we have also innovated by introducing a 500-rupiah pack which is a lot handier for regular buyers.

L. T.: To manage this, we have to work with very large volumes and keep our business model as simple as possible.

S. T.: Our local competitors try to copy us. Which is why we have to renovate the product and constantly improve our offering.

L. T.: The Biskuat recipe was recently enriched with extra nutrients recommended by the World Food Program for children in Indonesia—9 vitamins and 6 minerals altogether.

What are your plans for the future?

S. T.: Our ambition is to reach people at the bottom of the pyramid who are currently living on one euro (the equivalent of \$1.30) per day per family.

>>> version of calcium-enriched Danone Milk Biscuits priced at €0.15 per 100g packet. Sales totaled 50 million packets over six months.

A twofold challenge: affordability and distribution

Achieving affordability means designing low-cost products for consumers who buy food one day at a time. But to make this strategy sustainable, the products must also be profitable for the Group. The solution is a model based on large volumes and across-the-board cost reductions—economical packaging, optimized production processes, and adequate local supplies of raw materials—in short, a model based on tighter product ranges and very large production runs.

The second major challenge is distribution. In emerging markets, distribution channels are built around large numbers of small stores that are widely dispersed and need daily deliveries because of their low storage capacity. Added to this are very limited transportation infrastructures, and in some cases even safety issues.

Danone Clover, our South African business unit, has responded by developing an all-new distribution system for Danimal, a yogurt drink for children that sells for 1 rand, or €0.10. “Daniladies” are recruited directly from among the unemployed mothers in South Africa’s shantytowns and trained to sell Danimal door-to-door. Because they are an integral part of the community, they know the territory intimately—and by working for Danone, they earn income to support their families.

Winning partnerships

To succeed, our affordability strategies demand first-hand knowledge and familiarity with real needs and the way people live—what goes into meals, how they are prepared, what people like and what might be lacking in their diets. To build this knowledge, the Group is working with local communities and NGOs in the field, testing processes, product concepts, and distribution models. DANONE has also partnered with the University of Jakarta



WE MUST TAKE PEOPLE’S SPECIFIC NEEDS INTO ACCOUNT, ANALYZING CONSUMER HABITS BY IMMERSING OURSELVES IN THEIR DAILY LIFE.

Laurence Tourmerie, general manager of the Asia-Pacific business acceleration unit and in charge of the global Affordability program.

in Indonesia to develop an immersion program, sending teams of Group employees, academics, ethnologists, sociologists and nutritionists to live among local families and develop products tailored to their needs. The strategy is paying off, significantly improving nutrition and health in local communities—and creating jobs. The licensed pushcarts that sell DANONE’s Biskuat and Milkual products in Indonesia are a telling example: because each cart provides a livelihood for one family, the fleet of 3,000 supports some 15,000 people. DANONE is now working with microcredit organizations and local manufacturers

to reduce costs and expand the fleet. Over the long term, these new ideas breed innovation, prompting DANONE employees to challenge conventional wisdom, find new ways of thinking and create new business models. ■

50,000 tons of Biskuat vitamin and calcium-enriched biscuits were sold in Indonesia in 2005.

6 million people live in the Soweto, Orange Farm and East-Rand townships where Danimal yogurt is distributed.

November 2005 —Franck Riboud meets Professor Muhammad Yunus, Managing Director of the Grameen group in Bangladesh. **March 2006:** Grameen Danone Foods Social Business opens, offering healthy food to poor populations suffering from nutritional deficiencies.



Innovate in our way of doing business

WITH **MARCELO PALMEIRO** marketing director AND **CLINTON KOEN** sales director at Danone Clover

WHAT IS THE SITUATION IN SOUTH AFRICA?

M. P.: Unemployment is over 20% and 50% of the population lives below the poverty line. On the health front, more than 50% suffer from severe deficiencies of vitamin A, zinc and iron.

DANONE CLOVER HAS BEEN DEVELOPING DANIMAL, AN AFFORDABLE PRODUCT FOR A LARGE NUMBER OF PEOPLE. CAN YOU TELL US MORE ABOUT THIS?

M. P.: Danimal is a yogurt enriched with vitamin A, zinc and iron that sells for 12.5 eurocents a unit. For the time being, it is available only in the townships of Soweto, with 1.2 million inhabitants, and Orange Farm, with 300,000.

C. K.: To distribute Danimal in townships where there are no real roads or shops, we have recruited unemployed housewives, called “Daniladies”, who

sell Danimal door-to-door in their neighborhoods. It’s a good way for them to top up the family income.

M. P.: The project is constantly evolving, with a lot of discussion between Danone staff and local communities. For example, to facilitate the work of the Daniladies and to keep the product in good condition, we have introduced special insulated delivery cases.

HOW CAN THE PROJECT BE VIABLE WITH SUCH LOW PRICES?

C. K.: We took a fresh look at costs, including the price of milk, manufacturing costs and distribution. We also eliminated traditional advertising budgets.

BUT THEN HOW DID YOU RAISE AWARENESS OF THE PRODUCT?

M. P. and C. K.: We took an innovative approach to marketing and distribution

through initiatives in the local communities. For example, troupes of street actors put on performances demonstrating the nutritional benefits of Danimal.

WHAT’S PLANNED FOR 2006?

M. P.: Based on our initial success in the Johannesburg area, our ambition is to extend the project to almost all of the hundreds of townships in South Africa. In 2007, Danimal will be distributed through the Durban area and perhaps even in neighboring countries. And in 2008, we hope to sell 10,000 to 25,000 tons of this product.

RECONCILING GROWTH AND THE ENVIRONMENT

Groupe DANONE is committed to reducing the environmental impact of its operations around the world, even as our business grows. Our drive to meet this challenge began at our production plants a decade ago and has since broadened to cover every stage in the product lifecycle, from design to package recycling./



MICHELLE BOADAS
Southern Europe region

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PASCALE DE PELLEGARS
Danone France

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ADNAN CAVUS
Danone Turkey

p. 31



GARY HIRSHBERG
Stonyfield Farm
United States

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MICHEL-BRUNO FROMAGE
Danone Belgium

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While a closer look at the yogurt life-cycle

shows that production is not, as many might think, the main source of environmental impacts, over recent years the Group's 200 plants have been working to reduce water and energy consumption under our Green Plant program. As a result, direct emissions from production activities now account for only 10% of the total resulting from production and distribution. Only five of our plants are affected by the national plan for the implementation of the Kyoto Protocol. The Group is targeting a 20% reduction in energy consumption and a 30% reduction in water consumption between 2000 and 2010.

At the halfway mark, we are well set to achieve these goals, but our commitment goes beyond that, since the challenge of reducing the environmental effects of our activity demands a comprehensive approach, from raw materials to recycling.

Protecting water

Fresh water accounts for only 3% of the water on earth, making it both a fragile resource and an essential factor in global

THE GROUP IS WORKING TO REDUCE THE ENVIRONMENTAL IMPACT OF ALL THE RESOURCES WE USE—CUTTING ENERGY CONSUMPTION, SUPPORTING ENVIRONMENTALLY FRIENDLY TRANSPORTATION AND EXPANDING RECYCLING OF OUR PACKAGING.

Jean-Pierre Renaud, Environment Director, Groupe DANONE

demographic growth. As the operator of 72 natural springs around the world, DANONE applies rigorous standards set down in our Charter for the protection of underground water resources. Under the charter's first principle, we never use more water than each spring naturally produces, and under the second, we cooperate with farmers, communities and other local stakeholders to draw up guidelines for sustainable management, appointing a local manager to oversee operation of each spring in partnership with local communities and participants in the local economy.

In 2005, Group DANONE contributed to the renovation of the entire wastewater system for the communities around Évian and helped hire forest rangers to prevent fires in catchment areas in Spain. Internationally, DANONE is an active partner in the Ramsar Convention for the protection of wetlands, which play a key role in our ecosystem by filtering rainwater and replenishing water tables.

Supporting sustainable agriculture
Milk is a critical raw material for DANONE, which buys 4 billion liters—over >>>

Integrate environment early in the process



MICHELLE BOADAS
Packaging development manager, Southern Europe

“Care for the environment is both a business and social responsibility issue for our R&D packaging teams. In Spain, this is all the more timely in that most towns have implemented selective recycling. As a result, protection of the environment is one of the criteria integrated into packaging design—not only for new products, but also to improve existing ones.

We make a careful selection and use recycled materials whenever possible. Spanish law requires annual reductions in packaging, and we have complied, with weight reductions from 0.4 to 2 grams per product for Dan’up, Actimel and Danissimo. Altogether, we have saved more than 500,000 kilos of plastic. To reduce transport, more than 90% of our yogurt cups are made in Danone plants. For bottles, the supplier’s factory is adjacent to

the DANONE plant, so that empty bottles are conveyed directly to our site, without any outside transportation. But in many cases such efforts are not enough to offset opposing market trends. Consumers want smaller portions in convenient packaging, which increases the pack/weight ratio of products. Spanish consumers also go for multipacks of 6, 8 or 12 single-serve cups, which require cardboard overwrappers. We still have a long way to go!”



Working with farmers for a new approach

BY **PASCALE DE PELLEGARS** head of Milk Purchasing at Danone France

“Our Milk Quality and Safety program, launched in 1997, covered all Danone France milk collection areas. Its charter set out best practices for animal husbandry and milk traceability—conditions that each producer agreed to. But we didn’t stop there: in 2004 we integrated environmental issues including management of livestock waste

and chemicals to protect groundwater resources. It’s complex, with each stage worked out jointly with farmers drawing on technical input from local advisers. Each dairy farm undergoes an annual audit and Danone technicians are on hand at all times to advise farmers. In 2005 we organized working groups to help dairy farms make the move to integrated farming, a first

step towards sustainable farming. Thirteen have already qualified. The move to sustainable practices benefits everyone, from producers to consumers.”

What about factories?



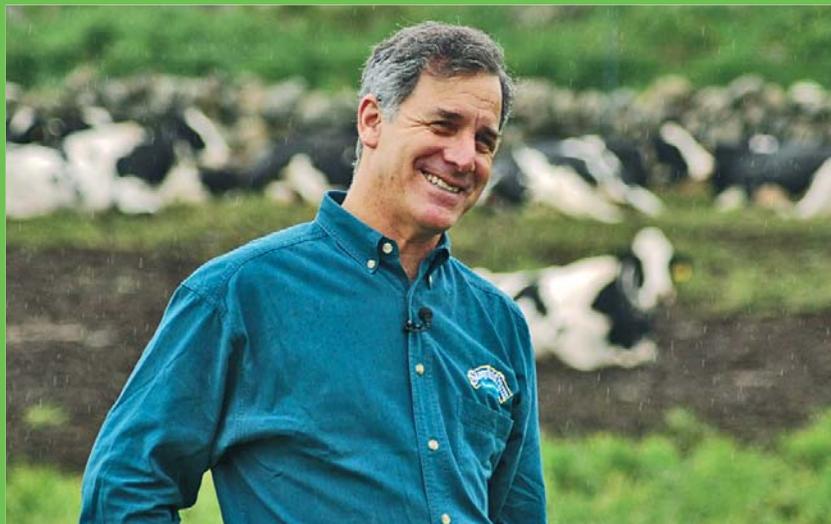
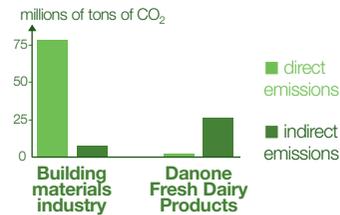
ADNAN CAVUS, Corporate Regulatory Affairs and Environment Manager for Danone Turkey

“We are constantly working to enhance plant performance in terms of productivity, staff safety and food safety. Our quality approach also includes reducing plant impact on the environment. Audits since 2003 at our six units have pinpointed the main causes of pollution and helped determine how to make them cleaner and more economical with natural resources. By way of illustration, we have invested in two new burners, halving our gas emissions. As for recently acquired plants such as the one at Lüleburgaz, we have introduced DANONE standards on air pollution upstream—converting the facility from fuel oil to natural gas, for example. The result has been energy savings and more environment-friendly operation. We’ve achieved overall energy savings of 26% (in kWh/ton) over the past five years. And this is not due only to the use of new materials, since we have also enhanced recycling of vapors produced by each plant and checked burner efficiency daily. The challenge now is to implement the same approach at our four Beverage plants in Turkey.”

15% reduction in weight for Evian 1.5-liter bottles from 2000 to 2005, with economies equal to the annual gas consumption of 30,000 cars.

42% of plants are certified ISO 14001 (consolidated total)

CO₂ and greenhouse gas emissions. Food Industry emissions are relatively low. Some pollution results from direct emissions by factories. Indirect emissions at Danone units are linked primarily to milk production, refrigerated storage and transport.



Stonyfield's commitment to the environment is an integral part of its business model

BY **GARY HIRSHBERG**
CEO Stonyfield Farm

STONYFIELD FARM RETURNS 10% OF ITS PROFITS TO ENVIRONMENTAL PROJECTS. WHAT WAS THE THINKING BEHIND YOUR ECONOMIC MODEL?

G. H.: Our model is based on two principles. Firstly, profitability, because although our commitment to the environment is an integral part of our identity, we are not a philanthropic enterprise. Since it was created 23 years ago, Stonyfield Farm has been highly profitable and has seen earnings increase every year. In addition, we have been able to develop a strong corporate culture based on sustainable development principles. It is a vision we share with our suppliers and consumers, with the result that both are extremely loyal.

HOW DOES THIS COMMITMENT HELP STONYFIELD GROW?

G. H.: Our approach is to identify possible environmental gains throughout the life cycle of products, beginning with

agriculture. The Stonyfield model is based on a close partnership with organic farmers. It's the seriousness of their environmental practices that Stonyfield promotes to consumers. This approach also applies to industrial production where we have introduced a policy of systematically reducing energy consumption. In the same way, we are involved in systematic re-cycling of packaging and reduction of packaging needs. We also recently installed a solar power array on the roof of our plant, the largest such array in the state and the fifth largest in New England. It is providing 1% of our plant's energy needs. While that's not a great amount, the project does signal our commitment to finding more environmentally-friendly sources of energy.

HOW CAN THE ATTITUDES OF SUPPLIERS AND CONSUMERS BE CHANGED?

G. H.: Everyone has a daily impact on the environment. Our goal is to provide

consumers with high-quality products based on organic farming, at the same time providing information on other issues of mutual concern, like the environment, global warming and other critical issues. For example, each year, we provide information on NGO campaigns on our products. Consumers can decide which environmental association they want to help through our "Bid with your Lid" campaign. We help protect the primary forest ("1 do" campaign) and also support efforts to get healthier foods in our schools. Consumers obviously share our concern and commitment—our Internet site receives more than 50,000 visits every week!

To learn more
> [www.danone.com/
Sustainable development/A closer look](http://www.danone.com/SustainableDevelopment/Acloserlook)

>>> 1 billion gallons—annually, accounting for some 1% of total world output. While successful relationships with producers demand quality, traceability and economic viability for both partners, we believe that environmental protection is equally important. To that end, we support sustainable agriculture, encouraging farmers to limit the use of chemical fertilizers and pesticides and helping them improve water management and sort farm waste. A founding member of the Sustainable Agriculture Initiative, DANONE promotes best practices through the Danone Quality Security Environment program, a set of quality and traceability standards adopted in 1999 and extended in 2003 to include seven environmental criteria. Within a year, 50% of the farms working with us will comply with Group standards.

Recycling

A major concern for consumers, packaging reduction is also a priority for DANONE, which is committed to a 10% reduction in packaging weight by 2010. We are working toward that target through innovation across a wide front including broader use of eco-packaging, which builds environmental concerns into products before they leave the drawing board. The results speak for themselves: from 2000 to 2005, our three business lines reduced packaging weight by 27,000 metric tons—roughly equivalent to the waste generated by a city of 400,000 people in a year. In the community at large, DANONE promotes recycling by contributing to local packaging collection and recovery programs. ■

Optimizing recycling of packaging: a priority

BY **MICHEL-BRUNO FROMAGE** General Manager, Danone Belgium



And for transport, the company making bottles now operates right beside our plant—wall to wall. Which means far less transport—8 million kilometers less over a year—and thus lower emissions and gas consumption. Our survey identified recycling as another area with room for progress. We will be working with a waste collection business to get consumers into the habit of sorting their trash, putting empty bottles into a bin reserved for recyclable packaging. Long-term, we plan to draw up a full list of areas in which we can reduce the environmental impact of every product made at Rostelaar.

What, exactly, do consumers expect regarding environmental issues?

B. F.: It is not simple. To take just one example, they want packaging to ensure maximum protection for the foods they eat, but are also concerned about its impact on the environment. In 2005 we launched an environmental impact analysis for Actimel, studying the product's life cycle from production to disposal as part of a DANONE Way

initiative. Once the experts had weighed in, we assigned a team to consider how we could improve our performance and propose concrete action.

How did this meet consumer expectations?

B. F.: It led us to improve Actimel's environmental performance in terms of weight, transport and recyclability of packaging. Since its launch in Belgium, weight has been halved.



PELIN SAYINHAN
Danone Turkey

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EKATERINA MOROZOVA
Danone Russia

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CATHERINE WAJSBROT AND PIETER DE BODD
Biscuits division

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IRINA FROLOVA
Bolshevik, Russia

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YOLÈNE COPPIN, XIANG DONG, ZHANG AND ELLEN RUAN
China

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ZAHRAH ZAID AND GEMINI ARYANTO
Asia-Pacific region

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A DRIVING FORCE FOR SUSTAINABLE PERFORMANCE

As our Group grows internationally, we need to deal with new challenges without compromising the values and principles underpinning our distinctive corporate culture. Building on local best practices and the networking that is part and parcel of that culture, DANONE makes its people a driving force for sustainable performance./



The past 15 years have seen rapid internationalization of our business and staff. In 2005, nearly half of all DANONE employees lived in Asia.

Staying connected

Working with a wide variety of new cultures and different attitudes demands constant adaptation of human resource policies that remain centered on six core objectives: promoting high professional standards for our employees, improving management performance, encouraging new forms of organization, fostering labor-management dialog, implementing a fair compensation policy and practicing social responsibility. We are meeting this challenge through the DANONE Way program, which accommodates diversity by making local business units and employees the drivers for social progress. Networking, a core element of Group culture, also plays a critical role, favoring the efficient sharing of best practices among business units from China to Europe and Argentina.

Fundamentals of social responsibility

Social responsibility begins with safe working conditions for our employees, and the

THE PRIORITY THAT GROUPE DANONE HAS ALWAYS PLACED ON PROFESSIONAL GROWTH AND CAREER ENHANCEMENT FOR OUR EMPLOYEES IS AN IMPORTANT PART OF OUR CORPORATE CULTURE.

Franck Mouglin, Executive Vice President, Groupe DANONE Human Resources

Group has not been satisfied with past performance. The Executive Committee has thus made improved workplace safety a priority, setting the goal of halving accidents by 2007. DANONE's Biscuits business line also took up the challenge in 2003 with its Wise program designed to develop a culture of safety based on simple but essential guidelines. Wise reduced accidents in the business line by 35% in 2005 and it is now being deployed in the Group's other two business lines. Labor-management dialog is equally fundamental to corporate social responsibility and in this area a key aspect of DANONE

policies over more than 20 years has been the ongoing development of relationships with the International Union of Food Workers' Associations (IUF). In July 2005, the Group and the IUF rounded out their earlier accord with the inclusion of the International Labour Organization's seven fundamental social principles, which address the core issues of freedom of association and the right to collective bargaining, workplace safety, wage conditions and working hours, discrimination, child labor and forced labor. In 2003 DANONE moved to extend these principles to its suppliers with the Respect program, which enables our business units >>>

Developing solutions with suppliers



PELIN SAYINHAN
Purchasing manager at Danone Hayat (Beverages Turkiye)

"In Turkey we are involved in the Respect program verifying the application of fundamental social principles at our suppliers. To take an example, we recently audited, with an external partner, one of our key suppliers of plastics. The supplier is in line with international standards on 6 out of 7 social principles: working

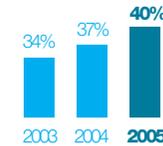
hours, pay, child labor, forced labor, discrimination, freedom of association. But its record on health care and safety is poor and has to be improved, especially since plastic is a material that can be dangerous to handle. The audit results are shared with the supplier and we draw up a corrective action plan together. Improvement will benefit all employees on the supplier's site—not only the units that work for Danone. Of course, it will take some

time. Respect has made us more aware of this issue, which can put our business at risk. The toolkit available for business units is based on a very concrete three-step approach: awareness, assessment and control. It helps us to build a recommendation enabling suppliers to achieve and manage efficiently the production conditions that meet Danone's requirements."

82%

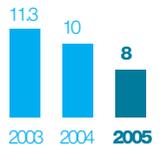
of managers expressed commitment and confidence in Group strategy in responses to the 2005 Management Barometer survey.

Women as % of total management



Workplace safety

Number of workplace accidents resulting in at least one day's absence per million working hours:



Evolution program in Russia



EKATERINA MOROZOVA
Human Resource Director at the Tchekov plant.

"With Evolution we have a dual aim: enhancing overall performance and developing staff employability. We are faced with a fiercely competitive labor market: although unemployment stands at 10% nationwide, locally, in the fast-growing Moscow region, it is only 0.5%. Against a backdrop of robust growth at the Tchekov plant, Evolution helps us build up operator and supervisor loyalty. Concretely, we work with our staff to develop their competencies and map out their career paths. Each employee benefits from a skills appraisal which helps set up a personalized occupational training program. The plant places particular emphasis on training, both in technical fields (operation of equipment, maintenance and so on) and in safety and methodology. But there is still some way to go: staff turnover remains high for certain categories of employees. As for supervisors, they all have an Individual Development Plan (IDP) which is updated every 4 months to anticipate and optimize their career path. As a result, in 2005 the rate of internal promotion to supervisor positions was 63%. Evolution helps us take actions customized to match the local employment scene."

Safety first

WITH **CATHERINE WAJSBROT** head of Human Resources and Organization, Biscuits and Beverages, AND **PIETER DE BODT** Safety Coordinator, Biscuits and Beverages



HOW DID WORKPLACE SAFETY BECOME A PRIORITY FOR DANONE?

C. W.: Until recently, two factors stood out in Danone's approach to safety. First, safety was managed locally. Secondly, there was no real push from management, no explicit reference to achieving zero accidents. Then we discovered that other corporations had much better results. **P. DE B.:** In Biscuits in particular, accident frequency (number of accidents per million hours worked) was over 18. So two years ago Rudy Baert, our head of

Human Resources, set out to improve safety management and performance with a program called Wise. And we realized that over 90% of accidents were linked to behavior—proof that each worker must be made aware of risks and play an active role in reducing them. Which is where managers have a key role to play.

HOW DOES WISE BRING MANAGERS INTO THE SAFETY PROCESS?

P. DE B.: It is based on 12 points, the most important one being a visible commitment along

the whole chain of command, starting with executives. So for example whenever managers observe a potentially risky situation, they point it out immediately and discuss it as a first step.

RESULTS HAVE CERTAINLY IMPROVED. BUT ARE THESE GAINS LASTING?

C. W.: Workplace accidents in Biscuits were down 40% in 2005, but progress must be consolidated. We need stricter procedures, greater management responsiveness and more visible commitment from top executives. That said, it's clear that we are moving in the right direction: safety at the workplace is now a priority for the whole group, including top management.

To learn more
 > www.danone.com
 Danone people

Russia: dialog at the workplace



IRINA FROLOVA heads the employee union at Bolshhevik

“Things in Russia have changed since the shift to a market economy. Workers’ benefits have shrunk and the labor code gives greater powers to management. The role of trade unions is also different. We are here to defend employees’ interests, starting with a decent wage. Managers at Bolshhevik have salaries on a par with those in Europe on average, but that’s not the case for workers on the factory floor, which is unfair. Working conditions are another issue, given the age of our plant. So, while Danone is proactive in hygiene, workplace safety and accident prevention, there’s still a lot to do. The Wise program is just getting under way, and I’ve been involved with it from the start. We work closely with management but our contacts change too often. As a member of the European committee through IUF I have access to good contacts and good practices that give me a broader overview—my visit to LU Finland facilities was a great help in this respect. But in Russia there is still a wall between blue-collar workers and management, and between management and unions. My goal is to get a genuine dialog going so that we can all progress together.”

Power to the people: local teams lead

WITH **YOLÈNE COPPIN** head of Human Resources, Asia-Pacific; **XIANG DONG ZHANG** head of Human Resources, Danone Biscuits, China; **ELLEN RUAN** head of Resource Development and Training, China



HOW DOES THE DANONE BUSINESS MODEL GO DOWN IN CHINA?

Y. C.: In our group, decision-making powers rest with heads of business units and their teams, which is well attuned to the current emphasis on individual initiative in China. Which makes Danone’s corporate culture focused on speed and the ability to find solutions for local issues locally a strong argument. The response has been positive, since the Chinese appreciate it when others try to understand their culture and adapt to it. Our networking-based management style fits in well with Chinese culture, at least for younger

generations—although a little less easily for older employees used to a strict chain of command.

WHAT STRENGTHS AND WEAKNESSES DO YOU SEE?

E. R.: The job market is fiercely competitive in China, and once managers reach a certain level, headhunters step in to lure them away. Compensation is an important factor but not the only one; managers also want a clear career path, with formal training leading up to an official qualification
X. D. Z.: When we recruit new staff, we always emphasize the importance of Danone’s corporate

values. “Mercenaries” motivated by pay alone are of no interest to us. Over the past two years we have deployed a business game in universities to give students insights into the DANONE Way of doing business.

HOW IS DANONE ADDRESSING LIFE ON THE SHOP FLOOR?

Y. C.: Conditions vary widely from one business and region to the next, and we’ve got a long way to go. Right now we are focusing on fundamentals: safety, social benefits, and skills. In new plants like the biscuit facility we’ve just built in Suzhou, teams are focusing on work structures and ensuring proper conditions. They have set up a system to rank jobs and determine compensation based on skills and type of position, and the plant now operates to standards comparable to those in our modern plants elsewhere in the world. Other units still have a way to go, and we plan on using the Evolution program to develop skills of both blue-collar and white-collar workers.

>>> purchasing departments to use audits and other assessment tools to monitor supplier compliance. By 2008, all Group suppliers will be implementing Respect.

Professional development

DANONE is committed to favoring the personal and professional progress of employees with innovative training programs that combine traditional professional development sessions with on-the-job training. An important aspect of this is to prepare our employees for a changing economy where jobs for life no longer exist. To meet this need, DANONE has developed Evolution, a program that enables operators—87% of our workforce—to develop new skills and improve organizational efficiency. In 2005, 750 of the Group’s employees earned a credential from the French education system through Evolvance, the French component of Evolution.

For managers, the Group offers Learning by DANONE, an array of cross-functional seminars and practical training in real-life situations. Sessions tailored to the specific needs of different business lines are often taught by Group managers, placing special emphasis on DANONE’s distinctive know-how. Learning by DANONE breaks out of the traditional training format, encouraging employees to explore new ways of acquiring knowledge and skills. Campus, the mobile university of DANONE, exemplifies this innovative approach: four times a year, 150-300 managers from all levels come together to share DANONE’s culture, values and best practices.

All professional development activities are integrated into the individual development plans that allow individual managers to chart their own progress, working with a supervisor to identify goals and ways of achieving them.

Keeping our people connected and open to new ideas means committed, successful teams wherever we do business. ■

Trust: attract talented people

WITH **ZAHRAH ZAID** Director of Human Resource Development for Asia-Pacific AND **GEMINI ARYANTO** Director of Human Resources for the Biscuit and FDP business lines in Indonesia



What is special about the labor market in Asia?

Z. Z.: There is keen competition in recruitment. International groups are looking to hire to develop their subsidiaries in these countries, but universities and other institutes of higher education still fall short when it comes to training qualified people to meet all their needs.
A. G.: So the best managers are in great demand and recruited as soon as they leave university. Which is where Trust comes in.

Trust is an international strategy game developed by DANONE that involves students in a business simulation that reconciles economic requirements with sustainable development problems.

How does Trust meet the Group’s needs in Asia?

Z. Z. and A. G.: This year Trust ran for the third time, bringing together over 4,100 students from 60 universities across Asia. The game has a dual function, since it helps make our

subsidiaries better known as well as build up a network within the universities themselves. Ultimately it helps attract talented people who share DANONE values and our vision of managing business in line with our principles. This business game helps us spot these people since players have to make complex decisions that take into account not only economic criteria but also practices relating to social responsibility.

What are the results?

Z. Z.: Thousands of students have come forward as candidates to represent their universities and take part in the game. In 2005, out of the 165 Asian students selected, 20% joined subsidiaries of the Group in their country as either employees or trainees.

To learn more
 > www.danone.com
 Sustainable development



RAMIN KHABIRPOUR
 Danone Poland

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NEBOJSA RADAKOVIC
 Danone Balkans

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ANITA KOVACS
 LU Gyori
 Hungary

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JOSEP ALBERT
 Spain

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SERVING THE LOCAL COMMUNITY AROUND THE WORLD

A corporation's ability to cultivate trusting relationships with its neighbors is an important factor in sustainable performance. For DANONE, contributing to our host communities is an integral part of our dual commitment to business success and social progress, enabling us to meet challenges that affect both our business and society at large./

Community service with connections to our business and brands promotes growth—for both the Group and our local partners. Building skills, ensuring reliable, long-term supplies of raw materials, enhancing our reputation, and strengthening bonds among our employees are among the many benefits brought by DANONE's commitment to community action.

Cultivating sustainable supplier relationships

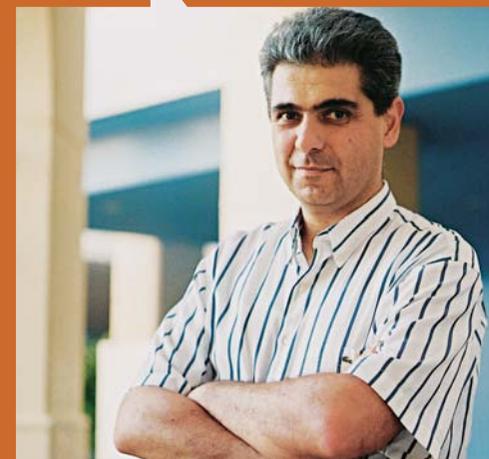
DANONE works with thousands of suppliers around the world to get the raw materials, packaging, equipment and services it needs. To ensure a ready supply of high-quality milk in the quantities required for production, we cultivate long-term relationships with dairy farmers, using a bonus system to promote quality and reliable delivery. We also provide training and advice to farmers, enabling them to adopt more advanced farming methods that raise their incomes. This is especially the case in countries like Turkey and Morocco, where dairy production still relies on rudimentary techniques. In Bulgaria and other growing markets, DANONE sets up bank financing programs that encourage farmers to expand their herds. To help French dairy farmers adapt to reform of the European Union's Common Agricultural Policy, our Perspectives program provides technical and economic analysis of their operations, identifying ways of improving their margins—and consequently their income.

Innovative community action

DANONE is responding to local social issues by experimenting with new strategies, implementing sustainable solutions and forging long-term partnerships with local communities and NGOs. Danone Poland joined the fight against malnutrition—a condition affecting 30% of Polish schoolchildren—in 2003, raising public awareness by holding Poland's first national conference on malnutrition and publishing statistics to demonstrate the scope of the problem. That same >>>

Building proximity in Poland: a major goal

BY **RAMIN KHABIRPOUR** General Manager; Danone Poland



closely with NGOs such as Caritas or Food Banks and local communities to provide meals to thousands of children throughout the country. DANONE nutritionists partnered with scientists in Poland to publish a report on child malnutrition.

What are the results?

Since 2003, about two million children have benefited from our nutrition programs. Our customers are increasingly involved in these initiatives, as are our employees who play an active role in the "Share your Meal" campaign. In 2006 we want to go one step further and market a product with nutritional benefits that meets the needs of children at a very affordable price, and thus reach the lowest-income segment of the population.

Danone Poland launched in 2003 the "Share Your Meal" operation, which made consumers play a role in the fight against children malnutrition.

"Share Your Meal", a program to fight malnutrition, in cooperation with distributors, NGOs and of course, the DANONE Poland team.

How is Danone perceived in Poland?

R. K. : Present in Poland since 1993, DANONE is associated with high quality and innovative products but in the past was perceived as a foreign brand, not close to local people. So building proximity was a major goal when we started

Why malnutrition—and what has been DANONE Poland's contribution?

R. K. : We wanted to back a cause that the public clearly perceives as a major concern, and which is fully aligned with DANONE's mission to provide health through nutrition. Concretely, we work

>>> year, DANONE launched the Share Your Meal campaign, joining forces with several Polish NGOs to fund hot meals for schoolchildren. These initiatives have a significant impact, both for Polish society and for DANONE's corporate image. Polish consumers now see the company not as a foreign multinational, but as an integral part of daily life, a corporate citizen providing practical solutions to real social issues. In 2006 DANONE will take the next step, launching a highly nutritious product for children at a price even low-income families can afford. The Group has also mounted cause-related marketing campaigns in several countries, using this highly effective tool to promote public awareness of social problems and raise money to solve them. In Germany, Volvic has partnered with Unicef to launch the "1 liter for 10 liters" campaign. For every liter of mineral water sold, Volvic has pledged to provide 10 liters of drinking water to Ethiopia. Proceeds from the campaign will fund

construction of 25 wells—supplying over 200 million gallons of water—in Ethiopia, where Unicef-trained personnel will maintain them. The Group also works extensively with the scientific community and with health-care and education professionals, forming partnerships and supporting research and nutrition information programs. In 2005, DANONE participated in the 18th International Nutrition Congress, presenting a symposium on using nutrition to promote optimal child growth.

Helping children in need

Each year on DANONE Children's Day, we rally our employees in support of some 100 projects worldwide, asking our business units to back a local project that offers tangible social benefits for disadvantaged children. These initiatives put our corporate values into practice, strengthening bonds among our employees and forging closer links between DANONE and local communities.

Children's Day is an innovative program based on a few simple ground rules that everyone can understand: although all activities are geared around a Group-wide theme, each business unit chooses its own initiative, selecting a local organization as the beneficiary and designing a project that allows all of the unit's employees to participate.

Long-term commitment

On Children's Day 2005, DANONE business units once again joined in activities benefiting youngsters worldwide, with each project tailored to the needs of its region. Employees in China, for example, supported educational initiatives, while in Russia aid to orphanages was the focus. For many DANONE employees, Children's Day is only a first step towards local involvement. Several business units have chosen to continue working with their partner institutions over the long term, including them in a more ambitious policy of social responsibility. ■



NEBOJSA RADAKOVIC
Purchasing Director, Danone Balkans

Helping small farmers

"In Romania and Bulgaria, milk is a rare commodity, with few producers and little high-quality milk. DANONE is addressing the problem by supporting farmers in several ways. Because small and medium-sized farms don't have easy access to banks, we're helping them get loans to finance livestock purchases.

We've also negotiated preferential rates with equipment and livestock feed suppliers and made technical advisers and veterinarians available to help solve day-to-day problems. As a result, our milk purchases have gone up 30% in barely a year, and the farmers have expanded their operations."

€16.7 million committed to community action programs. Although the Group focuses primarily on initiatives for children, such as the Danone Nations Cup and DANONE Children's Day, aiding local communities and supporting nutrition research are also important issues for DANONE.

1,995,244 meals served in Polish schools with funding from DANONE's Share Your Meal program, now in its fourth year.

1 liter for 10 liters
Slogan for Volvic's campaign with UNICEF in Germany and France. For every bottle of mineral water sold, Volvic has pledged to provide communities in Ethiopia and Niger with 10 liters of drinking water from new wells.

Taking a stand



ANITA KOVACS head of Human Resources, LU Gyori (Hungary)

"Employees at LU Gyori contributed to many institutions to celebrate DANONE's Children's Day. This program is always very popular with our staff. It gets lots of support, reinforcing personal links while bringing our corporate values to life in a very real way. For us, the aim is to meet real needs in the regions where we operate. This year, a special beneficiary was the national association for the visually handicapped. Education was our focus, as we funded reading and recording of textbooks. To raise money, we produced and sold a special series of biscuits at Christmas markets nationwide, as well as at our own sites. We also gave biscuits to our business partners and explained the point of the operation. By the end of January our entire stock was gone. Talking math books are now being made and we will be holding an official ceremony to present them to the association very soon."



At home at home

BY **JOSEP ALBERT** head of Quality, Danone Beverages Spain

DANONE BEVERAGES SPAIN OPERATES FOUR WATER BOTTLING PLANTS. HOW DO YOU PROTECT THEIR WATER RESOURCES?

J. A.: Protecting aquifers is a complex process that involves three separate stages. First, we identify the area the water is drawn from—given that waters remains underground several years picking up the minerals that are its distinguishing features. Once this has been done, we undertake an in-depth study to evaluate environmental risks. Preventive measures then help us limit these risks as far as we can.

WHAT FORM DOES YOUR WORK TAKE WITH LOCAL PEOPLE?

J. A.: Integrating a bottling plant into its local environment is a long process and depends on context. In Catalonia, for example, we have been working with farmers for thirty years in a relationship based on mutual trust. In Andalusia, it took ten years to negotiate an agreement with elected officials. We've moved on from there to set up a foundation jointly managed by municipal authorities, farmers authorized to tap water reserves, a beach resort operator and the plant. Each year, Danone pays

the foundation an amount proportional to the water used by the bottling unit. This finances local public works, starting with roads. It's a practical way to fit into regional life.

* Farmers are organized in "communities" with each member entitled to use water resources determined by the size of his or her holding.

Performance indicators

This report reviews the business, social and environmental performance of Groupe DANONE for the period from January 1 to December 31, 2005.

Unless otherwise indicated, figures refer to the worldwide operations of companies controlled by Groupe

DANONE. A list of companies included in consolidated accounts appears in the Reference Document filed with the French authorities (similar to a US 20-F). The indicators and management systems described in this report:

> comply with the recommendations

of the Global Reporting Initiative (GRI)

> comply with reporting obligations under recent French legislation (NRE, New Economic Regulations)

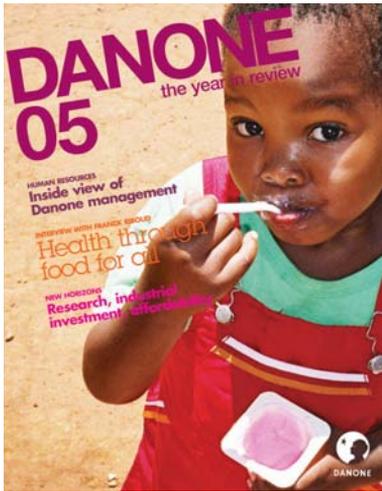
> take into account annual social indicators defined jointly by the IUF and Groupe DANONE in 2004.

ENVIRONMENTAL INDICATORS	2004	2005
Production ('000 metric tons)	16,896	17,848
Agricultural raw materials ('000 metric tons)	5,209	5,297
Direct consumption of thermal energy ('000 MWh)	2,188	2,371
Direct consumption of electricity ('000 MWh)	1,536	1,668
Total direct consumption of energy ('000 MWh)	3,724	4,039
Total production of waste ('000 metric tons)	275	239
Total waste recovered ('000 metric tons)	218	180
Waste recovery rate	72%	75%
Total water consumption ('000 cubic meters)	34,942	33,658
Wastewater COD (chemical oxygen demand) (metric tons)	4,263	4,103
Significant accidental emissions (chemical and hydrocarbons) (cubic meters)	none	none
Greenhouse gas emissions (CO ₂ , CH ₄ , N ₂ O, CFC, etc.) in metric kilotons of CO ₂ equivalent	503	520
SOx (sulfur oxide emissions) (metric tons SO ₂)	2,652	2,608
NOx (nitrogen oxide emissions) (metric tons NO ₂)	1,151	1,136
Gases depleting the ozone layer (metric kilos CFC)	1,894	1,579
Land owned in biodiverse habitats (hectares)	74,000	74,000
Consumption of primary and secondary packaging (excluding recycled bottles and jugs) ('000 metric tons)	743	735
Recycling of plastic bottles (in Europe)	20%	22%
Recycling of paper and cardboard packaging (in Europe)	50%	100%
Total number of sites	199	200
Total number of ISO 14001-certified Beverage sites	31	36
Total number of ISO 14001-certified Biscuit and Cereal Product sites	18	19
Total number of ISO 14001-certified Fresh Dairy Product sites	25	28
Total number of ISO 14001-certified Other Food Business sites	1	1

EMPLOYMENT INDICATORS	2004*	2005
Net rise in employment		389
Europe		- 544
Asia		110
Rest of the world		823
Employees by region		
Europe	37%	37%
Asia	47%	47%
Rest of the world	16%	16%
Total employees at Dec. 31	87,795	88,184
Average permanent employees for the year	81%	82%
Average temporary employees for the year	19%	18%
Managers	11%	11%
Other	89%	89%
Male managers	63%	62%
Female managers	37%	38%
Other employees, men	67%	67%
Other employees, women	33%	33%
Permanent employees at Dec. 31 by age		
< 18	na	0,1%
18 to 25	17%	21%
26 to 35	40%	36%
36 to 45	24%	24%
46 to 55	14%	15%
> 55	4%	4%
Turnover of permanent employees as % of total workforce	17%	14%
% of business units whose employees are covered by a company or multi-sector collective agreement	75%	75%
% of business units with employee representatives (elected or appointed by a union)	78%	81%
Number of labor disputes with work stoppages	na	49
Number of workplace accidents with stoppages	1,273	1,109
Number of fatal accidents	5	1
Frequency of workplace accidents	10	8
% of employees insured for major risks (death/incapacity)	> 80%	> 90%
% of Business Units with profit-sharing agreements	na	41%
Number of employees receiving training during the year	51,165	50,092
Managers	7,571	8,720
Other	43,594	41,372
Men	na	na
Women	na	na
Average number of training hours in the year	23	24
Managers	43	45
Other	20	21

* 2004 at comparable basis - na: not available - ■ indicators tracked by IUF

For more information...



DANONE 05
Annual Report



20-F DANONE 05



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This report was produced through ongoing exchanges with our stakeholders. We welcome readers' comments and suggestions on how Groupe DANONE can improve its performance.

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DANONE

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