

DANONE

07

economic and social report

Interview with Franck Riboud
DANONE: 100% HEALTH

Special report: Numico
**A STRATEGIC
ACQUISITION**

Innovation serving society
INVENTING NEW MODELS





Badoit et Badoit Rouge au restaurant.
Pensez à réserver.



Our cover shows youngsters at play in Indonesia, where Danone is no. 1 in baby nutrition and no. 1 in bottled water with Aqua. In 2007, Fresh Dairy Products entered the market for the first time.
Photo: Thomas Holey/Sipa Press

INTERVIEW

Franck Riboud looks back at 2007, the strategic acquisition of Numico, and the repositioning of Danone in four business lines centered on health.
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DANONE + NUMICO = 100% HEALTH

In 2007, the acquisition of Numico made Danone a world leader in baby and medical nutrition. At a time when many companies have their eyes on the health sector and hope to stake out positions, Danone's exclusive focus on healthy food sets it apart.

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Danone's Sustainability Report is also available at www.danone.com: Choose International Version, Sustainable Development and Experts' Corner.

In 2007, Danone integrated Numico and sold its Biscuits business, completing deployment of a health-through-food strategy. Franck Riboud looks back at this latest stage in the history of Groupe Danone.

2007 MARKS THE BEGINNING OF A NEW VENTURE

How would you sum up 2007 for Danone?

Franck Riboud: It was an historic year. That is no overstatement, since we had a really major divestment with the sale of our Biscuits business line and, almost simultaneously, acquired the Dutch company Royal Numico—our biggest strategic acquisition ever. We also ran into some fairly strong headwinds with a spectacular leap in commodity prices and a cool summer in Europe, which was a setback for our bottled-water sales. And there was the dispute with Wahaha, our partner in China. Despite all that, we were able to post a rise of over 7%* in sales—a vigorous performance that many of our rivals will envy—as well as a further rise in our operating margin, up for the thirteenth year in a row. Our results are once again excellent, confirming the quality of our

model for growth, which has proven effective whatever the trend in our business environment. And the commitment of our staff members is total. Altogether, we are on a very positive track and this is really a wonderful period in the history of Danone.

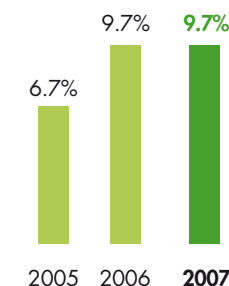
Your decision to sell the Biscuits line and acquire Numico appears to have been made very quickly. What was the logic behind it?

FR: The same logic that has applied for over ten years—which is an increasing focus on food for health. I am certainly not saying that there was no future for our Biscuits business. We had strong positions and powerful brands, and our teams had succeeded in reviving sales growth on what is a fairly sluggish market. But given



KEY FIGURES

Organic growth
(at constant structure and exchange rates)



In 2007 organic growth stood at 9.7%, exceeding initial targets.

Sales growth by business line

+12.2%

Fresh Dairy Products
(including Bledina)

+6.2%

Waters (excluding Wahaha)

+9.7%*

Baby Nutrition

+13.4%*

Medical Nutrition

* Numico businesses.

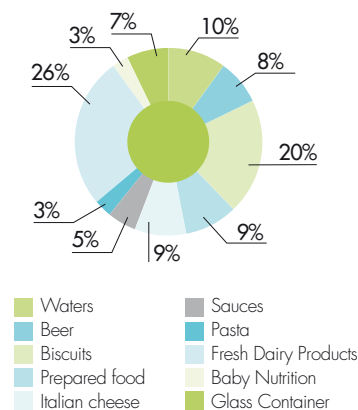
Positions worldwide

n°1

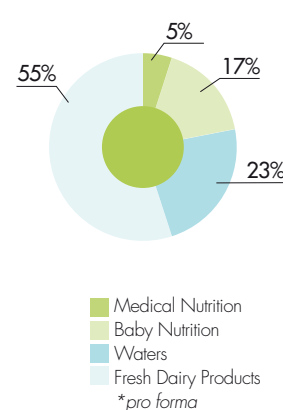
worldwide in fresh dairy products

No. 2 worldwide in bottled water, no. 2 worldwide and no. 1 in Europe for baby nutrition, no. 3 worldwide in medical nutrition.

1996: 9 businesses out of 10 in food, and 39% of sales in healthy food



Year-end 2007*: 4 business lines 100% healthy food



Health front and center

Over the past ten years Danone has reshaped operations to focus on a single priority: bringing health through food to as many people as possible. Business lines whose operations fell outside this area were sold, including beer and glass bottles and jars. Today, a full 100% of sales are generated by food products with a focus on health, up from 39% in 1996. The “new Danone” also offers a more balanced geographical spread, with no single country representing more than 14% of Group revenues.

■ slower growth in the sector and the difference in positioning, which naturally has much less to do with active health, there was a real risk that Biscuits would become a lower priority for the Group.

Which is why Kraft's interest offered a twofold opportunity that we could not afford to miss. For the teams in our Biscuits business, it was a chance to contribute to the development of the world leader in the sector and play a key role in the strategy of one of the food industry's largest groups. For Danone it meant an opportunity to accelerate growth in food for health. And we wasted no time in doing just that by asking Numico to join the Danone family.

Why Numico?

FR: I would say that Numico was a natural choice. Its two businesses, Baby Nutrition and Medical Nutrition,

are clearly linked to food for health, and both benefit from high margins and vigorous growth worldwide. They round out our brand portfolio perfectly and are completely attuned to our mission of bringing health through food to as many people as possible. And we are already well acquainted with baby nutrition: for the past 30 years we have successfully managed Blédina, the uncontested market leader in France, where per capita consumption of baby foods is higher than in any other country in the world. Acquiring Numico gives us real global leverage in the sector. And the company is a real jewel—sales growth is vigorous, and its research capabilities have a well-deserved reputation for excellence. Moreover, it has a dedicated, highly-skilled workforce and an outstanding line-up of local brands. Finally, its form of business culture is close to Danone's own.

The strategic value of the acquisition is generally recognized, but some observers consider the price a bit high, especially as regards scope for synergies.

FR: I don't agree. To be sure, Numico was the most sought-after target in the sector. But you can only judge the price of an acquisition against its potential, what it allows the buyer to build and achieve. If we succeed with our growth objectives, as I think we will, talk about price will be quickly forgotten and the return on investment will be unquestionable.

As regards synergies, we have consistently said that most of them wouldn't come from rationalization, since our presence on Numico's markets is limited to baby food in France. So there was not much to be expected in the way of merger savings.

Instead what we are looking for are positive synergies, synergies for growth—meaning that the growth potential of Numico and Danone combined will be greater than if the two businesses had remained separate. To take an example, Numico brands will be able to benefit almost everywhere from Danone's expertise from our strong ties with major retailers. Another example is the po-

tential for cooperation between research teams, which should quicken the pace of innovation and probably also make for more advanced solutions. Combining Numico's expertise in prebiotics with Danone's know-how in probiotics should make for new leverage in health innovation.

How is the integration process going?

FR: We are making rapid progress, and the process is going smoothly. Numico's managers are highly professional, very pragmatic—and they are perfectly well aware of the opportunities that are generated by integration with a business that has the size and reputation of Danone. We have had only very few unwanted departures, and in every single case a replacement has been found.

Our aim is to avoid any disruption of momentum for growth and keep the impact of the merger on subsidiaries to a minimum. There are around 50 people working on integration, with managers from the two companies paired up for the job. The synergies identified earlier have been confirmed, and teams are all working well together, whether you look at research, purchasing, or in-

formation systems. As I said, the process is going smoothly. That is borne out by performances over the first few months of the merger, which show that there has been no negative impact at operational level.

How would you define the difference between Danone in 2008 and Danone before 2007?

FR: You might say that the Danone now taking shape is a sort of “Danone Plus”—Danone with its existing strengths moved up a gear.

Which means, first, more growth. We have always been obsessed with growth—it's in our genes, and fundamental to our whole approach. But Danone Plus also means greater cohesion—there is no other business of comparable size that focuses exclusively on health through food. Or that has a more balanced geographical presence, since no single country now accounts for more than 14% of our

total Group sales. That means risk is more broadly spread, reducing our dependence on this or that market.

Another plus is that more science means greater focus on health. That is critically important. The pooled research resources of Danone and Numico will give us clout and breadth of scientific expertise that are unrivalled in our sector. And with a very, very strong emphasis on “nature”. Our research business is focused on identifying the health benefits of natural ingredients and making those benefits available to consumers in food products. That will add up to more innovation, added credibility and greater consumer trust.

And, finally, the Danone we are building today will mean even more demanding standards of societal responsibility. We will be feeding people in all parts of the world, at every stage of life, with special attention to the most fragile groups: infants and the aged. That is a huge and, I ■■■

(1) Automated milking shed in Turkey to secure milk supplies and train dairy farmers.

(2) Aqua from Indonesia is the world's top-selling brand of bottled water.

Numico was a natural choice, with its links to health, expansion and quickening international growth.

■■■ believe, an awe-inspiring responsibility. It is something that we can be proud of, and which will enable us to make a truly positive contribution. And that, in turn, will naturally lead us to make even stronger societal and environmental commitments.

Thirty years ago, Danone took up the challenge of combining social progress and business success. Is that still relevant?

FR: Naturally. The mission that we have set ourselves—bringing health through food to as many people as possible—is every bit as much about social progress and societal goals, as it is about business success. Our goal is sustainable growth, which entails a broader responsibility for sustainability in general. That responsibility is built into our business, whether we like it or not. And I am not only talking about food safety.

For example, when you are a world leader in baby nutrition, you also have to understand that breast feeding is still the best solution in the first few months of an infant's life. Which naturally affects the way you go about your business. Similarly, when you sell a fragile resource like mineral water that you get from a spring, you are naturally more aware of the need to protect the environment—especially around that spring.

More broadly, when most of your raw materials are natural, you cannot put nature at risk without endangering your own resources, your own business. We recently took two important initiatives which highlight this close connection between our day-to-day operations and issues with broader societal significance.

Firstly we have integrated societal criteria into the calculation of bonuses for management teams, with these criteria determining at least one-third of variable compensation. At Danone, simply meeting business targets isn't enough to deserve a full bonus. Secondly, at the end of last year, we set up a specialized Social Responsibility Committee within the Board of Directors, at the highest level of corporate governance. This

Committee has been assigned the task not only of ensuring strict adherence to the fundamentals of social responsibility but also of stimulating societal innovation. Because today's societal and environmental issues are of such complexity we really have to invent new solutions.

Do you already have some examples of effective innovation in the interest of sustainable development?

FR: One is that we're encouraging the farmers that supply our milk to use flax in cow feed. Flax not only improves the quality and quantity of milk per cow, it also significantly reduces gas emissions. We have already implemented a sweeping program for this in France, and it's making a significant impact. To take another example, we have launched educational initiatives in countries including Thailand and Nepal to help people protect and manage water resources more efficiently.

In a completely different area, we are experimenting with new business models that could make health through food accessible for some of the world's poorest people. The business we set up with Grameen in Bangladesh is off to a good start, and we are getting ready to build our second factory there. The danone.communities in-

vestment fund, which we launched to contribute to the development of social businesses, has already started work on some very innovative projects in Asia and Africa.

Of course, these are pilot ventures, and they might appear fairly marginal to our main businesses. However, as test centers they are already worthwhile sources of inspiration, because they compel us to look at things in a way that is completely different.

What about prospects for 2008? Some of the headwinds you mentioned—commodity prices, for example—are likely to persist.

FR: As I have explained, our business model is all about accelerated growth. And we are certainly very confident. We have committed ourselves, for this year and even over the medium term, to achieving even stronger growth than over the past two years, ranging between 8 and 10%. That is probably the most ambitious target for any large business in the food industry.

But we believe it is achievable, despite current uncertainties. At the same time, we will be continuing to improve margins. On these points, results for the first three months of 2008 support our confidence.

Of course, there is the rise in ■■■



The mission we have defined calls for long-term growth in our business and in social progress—for society as a whole. ●●



Kemurnian Untuk Masa Depan

Dengan kemurnian yang selalu terjaga, AQUA membantu menjaga kesegaran tubuh dan pikiran kini dan di kemudian hari, agar tercipta generasi sehat yang bisa terus berkarya untuk membangun masa depan yang gemilang





Engagement is only possible if individuals feel they are recognized, and that they have gained stature with training, responsibility and the trust placed in them. Personal development is also essential. 

(1) Fresh Dairy Products reported a steep 12.2% rise in sales in both mature and emerging markets.

the price of raw materials, and it will continue to weigh heavily. But that is part of our business and we know how to respond by improving our efficiency and adjusting our prices. In recent months, Danone has demonstrated its capacity to win acceptance for moderate price increases, in particular because consumers recognize the significant added value offered by these products in terms of innovation, research and benefits. Our focus on health is paying off.

But isn't "healthy eating" an area where competition is heating up?

FR: It's true that major public health challenges linked to nutrition are looming ever larger, and true, too, that an increasing number of players are trying to make that shift in their

image. Even if they often do so for purely defensive reasons, I view this as an encouraging trend—a growing awareness that we should all applaud. Is it a threat for Danone? I think it's first and foremost an incentive to press ahead with our current strategy and step up the pace of change.

We were the first major food producer in the world to make health the main focus of our strategy. And above all the only company to draw radical conclusions and renovate our entire portfolio of brands and business lines to bring them into line with this priority.

Today consumers, medical and scientific experts, financial analysts and investors all agree that we are well out in front of the pack. JP Morgan's latest Insight Investment survey, published in April 2008, continues to rank Danone first in health issues, citing

our comprehensive approach, our commitment to public health issues and our scientific expertise. But we have no intention of resting on our laurels—we will continue to invest heavily to enhance the specific strengths that make us unique.

So you are now setting growth targets higher. What makes you so confident?

FR: Our business model. Our brands. Our people. And our enthusiasm! Whatever vantage point I take when I look at our businesses, all I can see is potential for growth. Let's come back to the example of Activia, our leading brand for dairy products. Today, it generates sales of €2 billion and growth is running at over 20% a year. And there is still enormous untapped potential. On the mature markets where Activia has been present for a

long time, a regular flow of new flavors has constantly enhanced our line-up, and increasingly cutting-edge scientific research is winning over new consumers every day. The results speak for themselves—in France and Spain, where Activia has been on the market for 20 years, sales growth is still in double digits. Add to that markets where Activia is a new arrival, as in the US, where it only really began to make headway at the beginning of 2007. And we are moving into four or five new national markets a year. That illustrates how our model works—we start by investing in research, development and innovation in order to create value and drive growth, reaching out to new consumers, even on our traditional markets. We then take these successful results and deploy them in new countries as part of ambitious programs of geographical expansion. That approach is also particularly promising for baby nutrition. For example, the most successful products developed by Blédina, which have long been available only in France, will now find new outlets in Russia, Germany, the United Kingdom, and



2008 targets revised upwards

At the first presentation of Groupe Danone's 2007 results on February 14, 2008, CEO Franck Riboud explained that Danone's new business portfolio would allow it to look forward to faster rates of growth in sales and earnings.

Accordingly the Group has revised targets for the years ahead upwards as follows:

- organic growth in sales ranging between 8% and 10%
- growth in trading operating income that is higher than sales growth (and should rise by at least 30 base points in 2008)
- growth in underlying earnings per share that should reach at least 15% in 2008 based on the Group's pro forma statements.

Indonesia, with teams from Numico adapting them to local markets.

You have often stressed the importance of staff engagement as a key to success.

FR: Yes, I have. And that brings us back to our dual project, which is based on the simple truth that there can be no lasting business success without progress for people. If you believe that—and at Danone we do—the issue of individual and collective engagement is critical. Strong performance comes from engagement. Our in-house surveys show that very clearly—there is a very close correlation between the business performance of individual subsidiaries and the level of staff engagement within each,

as measured by a set of indicators. But engagement in turn hinges on people. Engagement at every level of the business is only possible if individuals feel they are recognized, and that they have gained stature with training, responsibility and the trust placed in them. Personal development is also essential. Antoine Riboud, the founder of our Group, stressed the importance of that 40 years ago, when he argued that “we must not lose sight of the fact that growth for its own sake is meaningless. Growth must have a purpose, and that purpose is the increased well-being of people.” 

* At opening scope, corresponding to the businesses controlled by the Group at the beginning of the year.

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STRATEGY **P.14**

Danone's biggest-ever acquisition crowns a bold strategy focused firmly on health.



INSIGHT **P.20**

Danone adds a new growth driver with Numico, a well-established presence on international baby and medical nutrition markets.



GLOBAL REACH **P.30**

The new Danone around the world.



DANONE + NUMICO = 100% HEALTH

In 2007, Danone sold its traditional Biscuits business and became a world leader in baby and medical nutrition. At a time when many companies claim ambitions in the health sector, our exclusive focus on healthy food sets us apart.

In July 2007, Danone announced the largest acquisition in its history—the final touch to an ambitious and pioneering strategy. Though the move was dramatic, it was the logical conclusion of an unwavering commitment to health reaching back more than ten years.

ANATOMY OF A STRATEGIC ACQUISITION

Let us go back to 1994. In the summer of that year CEO Antoine Riboud and his Board of Directors adopted the new name Groupe Danone. Their decision was to have far-reaching consequences for the structure of the Group, which can trace its entire recent history back to this change of identity.

In renaming BSN, a widely diversified food and glass group, for what was then only one of its flagship brands, Riboud and the Board strengthened Danone's positioning but also took on the commitment to health that the brand represented for consumers.

The name change marked the beginning of a sweeping reconstruction—the first step towards a radical new strategy of health through food that

would receive its finishing touches thirteen years later with Danone's bid for Numico.

Natural partner

A trailblazer in the health food industry in the Netherlands, Royal Numico began as a small shop in the town of Zegwaard in the late nineteenth century. By 2007 it was present on every continent, with internationally recognized research and development centers and sales of nearly €3 billion in two highly specialized and very demanding business lines—baby nutrition and medical nutrition. Double-digit growth had won the favor of markets and the confidence of investors, and each of the company's powerful brands was firmly rooted in its local history and culture. And the members of its young and enthusiastic workforce shared the same entrepreneurial spirit.

In short, many industry observers saw Numico as a mini-Danone—no accident, since many of the company's top executives had learned the ropes at Groupe Danone.

In this light, the tie-up seems natural, and Danone's bid for Numico on July 9, 2007, was hardly surprising. Though some analysts argued that the purchase price was too high, the strategy that lay behind the move

was universally praised (see Franck Riboud interview, page 4).

Two high-potential segments

Danone's reasoning was clear: in acquiring Numico and selling its Biscuits business, the Group sharpened its health focus and took shared leadership of the baby and medical nutrition markets worldwide. Experts rank these two food segments among the most promising for long-term growth (see graph page 19).

Their appeal stems from powerful demographic trends such as the aging of the population and the growing importance of alternative family lifestyles. But it also springs from the fact that the heavy research and development commitment they

demand limits access to the market. This helps explain why there are so few distributor brands in baby and medical nutrition.

Finally, these segments stand to gain from the increasing conviction among healthcare professionals that certain individuals, because of their age or medical condition, need specialized nutrition and a custom diet. Traditionally a low-profile science, nutrition is now showing that the very young and the very old have highly specific nutritional requirements—needs that are not always met by ordinary foods—and that a carefully planned diet can enhance the effectiveness of treatment or reduce recovery time.

This is the core mission for the baby and medical nutrition segments.

New scope, new Danone

Baby nutrition is nothing new for Danone, which has long been a key player in the sector.

For over 30 years, the Group has been quietly developing Blédina, universally regarded as benchmark in its field. Despite the brand's largely French market and small share in Group sales, Danone has never been prepared to sell it, choosing instead to continue investing in its growth and allowing the brand to cultivate its niche.

Today Blédina is the undisputed leader in the French baby nutrition segment, with an unrivalled capacity for groundbreaking innovation—particularly in the area of prepared meals. Its market share is over 50% ■■■



and growing. With Numico and Blédina combined, Danone is now Europe's number one company for baby nutrition and number two on a global basis.

Medical nutrition, by contrast, is something of a new departure for Danone, although the Group has done a small amount of business in this sector in the past.

Designed for people with fragile health who are generally under treatment or in recovery (see sidebar page 17), medical nutrition products are unusual in that they require a massive research effort, continuing relationships with health and regulatory authorities, and a highly specialized distribution system.

Despite these distinctive traits, the sector has significant potential for cooperation and synergies with Danone's other areas of business: medical nutrition research will benefit the other lines, as will the strong

relationships built with the medical community. And medical nutrition will clearly benefit from the marketing expertise of Danone's consumer product businesses, including their ability to play up flavor and pleasure—qualities that are essential to all types of food.

These opportunities and interrelationships are central to the strategy behind the Group's new image. With a more coherent business mix and product positioning, the new Danone can meet the healthy food needs of all consumers, no matter what their age or where they live.

This new Danone also has even better geographic balance, with a broad presence in Europe and the Rest of the World structured so that no single country accounts for more than 14% of sales. It also has new ambitions and higher targets for growth, research and development, and corporate responsibility.

Strategic assets

With Numico, Danone will get the benefit of complementary strengths that carry new growth potential. Geographically, Numico brings important access to untapped baby nutrition markets and a solid presence in the Asia-Pacific region, which accounted for 24.7% of its business in 2006.

And from a sector standpoint, the Numico acquisition opens up a new Medical Nutrition line for the Group. Danone's three other business lines will benefit from this line's expertise through R&D transfers and a marketing strategy geared to vectors targeting health professionals.

In short, Numico's health marketing know-how will benefit the entire Groupe Danone. ■

UNDERSTANDING

BABY NUTRITION



The baby nutrition market covers two clearly defined segments: infant formulas and solid food. The infant formula market is driven by Growing Up Milk, a recent product category

for children aged 6 to 12 months and 12 to 18 months. Fortified with iron to meet the special needs of these age groups more effectively than cow's milk, Growing Up Milk also provides a natural

transition from breastfeeding, which remains the ideal food for children in the first six months of life. With 6% growth projected over the next five years, cereals are the strongest performers in the solid food segment, but the growth of prepared foods for children aged 18 to 36 months—our new Petits Grands offering—also holds enormous potential. Blédina's innovative approach has produced both appealing recipes and convenient packaging, making it a dominant player in this category (see p. 28).

Numico and Blédina are an excellent match in both segments. Where

Numico's sales mix is 65% milks and 35% solid food, the structure of Blédina's baby nutrition business is the reverse, which means both will benefit as each pursues its own path for innovation. The two companies are also a good fit geographically. The market for both baby nutrition segments remains largely untapped in many parts of the world, and Eastern European and Asian markets are projected to grow 6% and 13%, respectively, over the next five years. Numico's presence in these key regions offers huge potential for growth for Blédina, which has so far focused on French-speaking countries.



THREE QUESTIONS FOR MARC VAN AMERINGEN, EXECUTIVE DIRECTOR OF GAIN

The **Global Alliance for Improved Nutrition (GAIN)** is a Geneva-based NGO working internationally to reduce malnutrition, especially among children and other vulnerable groups.

How big a problem is infant malnutrition?

Marc Van Ameringen: The hard truth is that more than 1.5 million babies die every year because of inadequate breastfeeding, and several million more suffer from malnutrition because they don't get the right food at the right time. It's critical for us to improve feeding practices and give babies a good start in life.

GAIN has launched an ambitious program to feed infants and young children. What are its goals?

MVA: We follow the strategies of the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF), encouraging mothers to breastfeed exclusively for the first six months and supplement breastfeeding with other foods until children are at least two years old. We're promoting better child feeding practices and working with the food industry to develop and distribute

low-cost, highly nutritious products to supplement breastfeeding for babies aged over six months.

How can the food industry help?

MVA: The food industry must comply with WHO's International Code of Marketing of Breast-Milk Substitutes (see next page) and subsequent World Health Assembly resolutions so that baby food products don't compete with breastfeeding. We need innovative strategies and partnerships that will bring corporations, government and civil society together to solve the problems caused by infant undernourishment as quickly as possible. The private sector can also play a decisive role by developing low-cost, high-quality products to supplement breast milk, distributing them widely, and making them available to the poor.

UNDERSTANDING MEDICAL NUTRITION

Medical nutrition is designed for people who are sick or malnourished (see page 22), including those who are hospitalized or receiving home care, as well as those with allergies, epilepsy, degenerative metabolic diseases and other chronic pathologies. All of these groups need to adapt their diets to meet clearly defined goals, such as boosting the immune system, eliminating dietary deficiencies, and counteracting symptoms or side effects of treatment. Although medical nutrition has no inherent therapeutic benefit, it is increasingly used by care providers because it makes treatment more effective—either by preventing or controlling malnourishment, or by meeting very specific needs dictated by the patient's condition. For example, medical nutrition products may be used when patients need to eliminate or increase selected nutrients, or when solid food is not an option. Medical nutrition products are unusual in that they are not sold through the normal channels for food. Instead they are distributed through hospitals and pharmacies, and generally require a prescription. And because most are reimbursed by public health insurance, they are monitored by public health authorities. Unlike pharmaceuticals, however, Danone's medical nutrition products are made from natural ingredients such as proteins, carbohydrates, active nutrients, and omega-3 and other essential fatty acids.



A HEALTH SOLUTION FOR EVERY AGE

HEALTH THROUGH FOOD AT EVERY STAGE IN LIFE

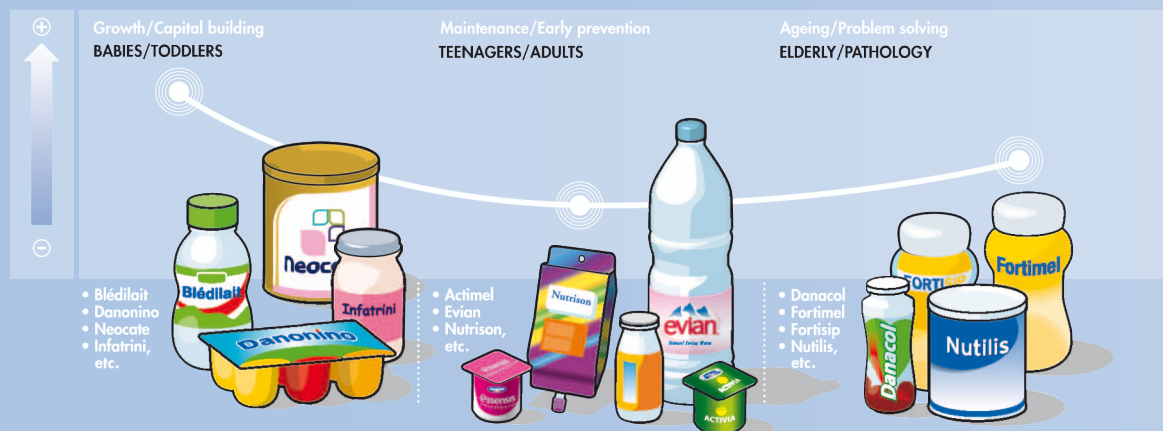
Groupe Danone's mission is to bring health through food to as many people as possible, and acquiring Numico extends its reach to people in every age group. This represents

a genuine societal commitment to support individuals from birth through to old age by offering food products tailored to the special needs of each time of life.

As in illness, nutritional needs are much greater at the beginning and the end of life, requiring the specific health solutions offered by baby and medical nutrition.

HEALTH THROUGH FOOD AT EVERY STAGE IN LIFE

Specific nutrition/ health needs



KEY DATES

July 10-11, 2007

Danone acquires 29.6% of Royal Numico NV in a cash offer of €55 per share.

October 31, 2007

Danone announces an unconditional public offer for remaining Numico shares.

November 28, 2007

Settlement and delivery of shares tendered during renewed trading (including convertible shares).

December 28, 2007

Danone owns 98.9% of Numico shares, triggering delisting from Euronext Amsterdam.

January 21, 2008

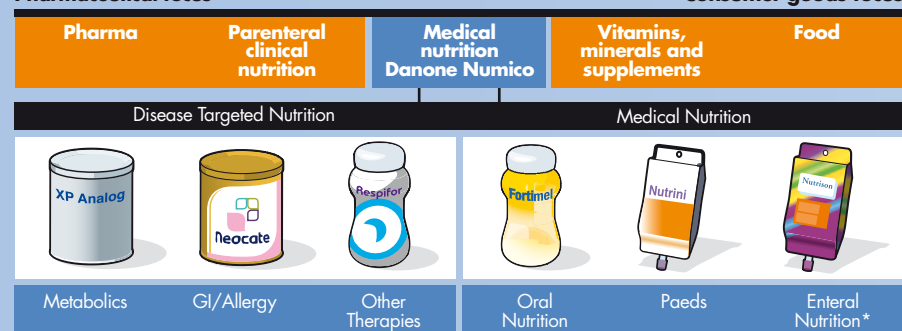
Compulsory delisting period begins.

MEDICAL NUTRITION

UNIQUELY POSITIONED BETWEEN PHARMACEUTICALS AND FOOD

This general heading covers two specialties. Disease-targeted nutrition provides solutions for specific nutritional needs such as lactose intolerance, allergies and metabolic disorders. Medical nutrition proper meets the needs of patients who are unable to eat (enteral nutrition*) or are inadequately nourished (oral nutrition).

Pharmaceutical focus

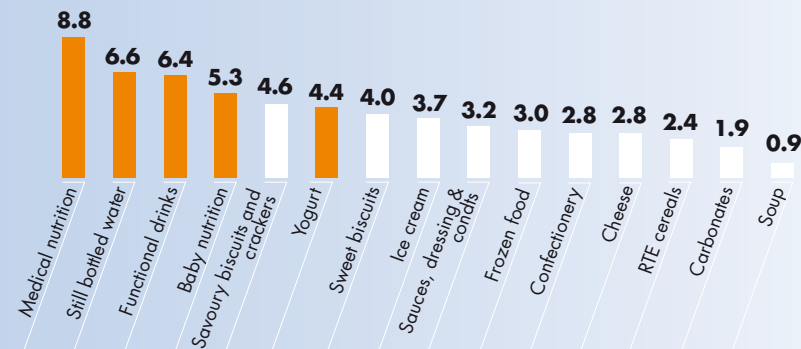


* Enteral nutrition consists of providing food in liquid form directly to the digestive system through a tube.

HIGH-GROWTH SECTORS

THE FOOD INDUSTRY'S MOST ATTRACTIVE SEGMENTS

Compound annual growth of world food markets by volume, between 2006 and 2011. (Source: Euromonitor. Figures in percentages.)



80

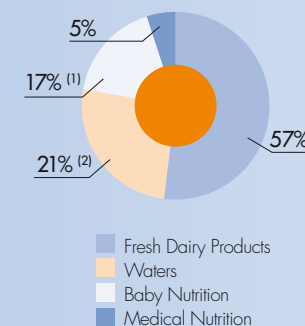
Within ten years, Danone plans to be present in 80 countries, up from 40 in 2007. To achieve this goal, the Group will step up the pace of expansion, moving into 3 to 5 new countries a year. Prospects include Thailand, Malaysia, Vietnam, Australia and other promising countries where Numico is present.

4 HEALTH-FOCUSED LINES

BY BUSINESS LINE

(AS A PERCENTAGE OF SALES)

The "new Danone" has four business lines, all oriented exclusively towards health and positioned in fast-growing sectors.

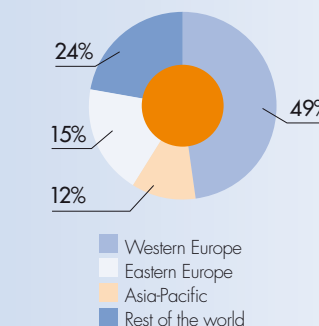


(1) Includes Blédina. (2) Excludes Wahaha.

BY REGION (3)

(AS A PERCENTAGE OF SALES)

With just under 50% of sales, Western Europe remains Danone's leading region.



(3) Based on sales in the first quarter of 2008.

NEW ISSUES

The acquisition of Numico has made Danone a major global player in baby nutrition, strengthening its positions in emerging countries and bringing new responsibilities, particularly as regards the World Health Organization's International Code of Marketing of Breast-Milk Substitutes (see below). Danone already audits Blédina's sales practices (see page 28) —and will apply existing best practices throughout the new Group. But there's more to baby nutrition than breastfeeding: related concerns include weaning-related dietary deficiencies and health problems in pregnant women and nursing mothers. Here Danone will bring its considerable expertise to the search for comprehensive, targeted solutions to these global public health challenges.

International Code of Marketing of Breast-Milk Substitutes

Adopted by WHO in 1981, the Code protects and promotes breastfeeding as the ideal diet for infants, prohibiting the advertisement and promotion of breast milk substitutes, bottles and nipples to the public, even by health professionals. It also stipulates that free samples must not be distributed to pregnant women, nursing mothers or their families, and that labels must provide the information needed to use products appropriately, without discouraging breastfeeding. UNICEF is currently working to implement the Code locally, and new resolutions may round out existing provisions.

Numico's international presence in medical and baby nutrition markets gives Danone a new driver for growth and profitability, and recent repositioning as a specialized nutrition company makes Danone's latest acquisition a natural fit.

MEET NUMICO!

N

umico described itself, in its 2006 annual report, as a specialized nutrition company with high growth, high margins and international scope.

Yet despite powerful brands, an eventful 100-year history and a long-standing international presence, Numico went largely unnoticed by investors until just a few years ago. As recently as the early 2000s it experienced severe difficulties.

At the time, a new management team—inspired in part by their experience at Danone—restored the company's energy and ambition, divesting a US-based vitamin business and other non-strategic activities, raising its profile on international markets, recruiting new talent from the consumer goods sector, and reinvesting in research and innovation.

In only a few years, the company returned to profitability and double-digit growth, winning renewed



appeal with investors to report an eight-fold increase in market capitalization.

By transforming local brands into international players, especially in Eastern Europe and Asia, and dedicating its research program almost exclusively to public health challenges including malnutrition, mal-

nourishment and degenerative diseases, Numico successfully staked out a market niche where there was little competition.

It joins the Group as a strong performer ready to make the most of the opportunities open to the new Danone. ■



100 YEARS OF HISTORY

Numico traces its origins to 1896, when Martinus van der Hagen, owner of a small fresh dairy products business in the Netherlands,

secured exclusive rights to produce infant formula from cow's milk. Renamed Nutricia, the company established partnerships in the medical community and by 1905 was exporting its first powdered milks. After World War II, the business focused on baby nutrition, launching the first Olvarit vegetable-based meals and later Bambix cereals. In the sixties, technological breakthroughs enabled Nutricia to launch a line of specialized

foods for hospital patients from its base in Zoetermeer.

International expansion

In 1981 Nutricia was listed on the Amsterdam stock market and bought Cow & Gate, the baby nutrition specialist in the United Kingdom and Ireland. Strategic acquisitions in medical nutrition included Germany-based Pfrimmer in 1991 and United Kingdom-based SHS in 1995. Also in 1995, Nutricia acquired Milupa, Germany's leading baby-food company. In 1997, the company was renamed Numico for its three flagship brands—Nutricia, Milupa, and Cow & Gate—and was granted the designation "Royal"

by Queen Beatrix of the Netherlands for contributing to national economic growth for more than a century. During the same period, Numico founded its Wageningen R&D center in the Netherlands' Food Valley and continued to expand internationally, acquiring the Indonesian company SGM in 1998. In 2004, Finnish baby food brands Tutteli and Muksu came on board, followed by Mellin, the sector's leading Italian player. Finally, in 2006 the company acquired Dumex, the market leader for baby food in Asia, completing its international expansion and establishing Numico as a world leader in baby nutrition.

DANONE
100% HEALTH

SOS CHILDREN'S VILLAGES

Through a partnership with NGO SOS Children's Villages, Numico has become involved in coming to aid of the world's most vulnerable children. In late 2004 Numico, which has a presence in Indonesia, worked actively to aid victims of the Indian Ocean tsunami. It then decided to follow up with a long-term commitment to help the world's most vulnerable children on a broader scale. SOS Children's Villages helps provide homes for siblings separated from their parents. It quickly emerged as the ideal partner, in part because its global presence allowed for international action. In 2006, the two partners set up Supporting Lives, a worldwide program that cares for the world's neediest children, giving them better lives and safer places to grow up. The first projects focused on Indonesia, supporting construction of a village in Medan and a clinic in Aceh, both on the island of Sumatra. Numico's subsidiaries also support their local SOS offices: thanks to active support from their employees, 32 subsidiaries now have projects underway.

To learn more, visit the websites www.supportinglives.org and www.villages-enfants.asso.fr.



MILK TO GROW UP STRONG

As an infant formula expert and world market leader, Numico has explored the potential of growing-up milk for several years. Because young children need essential fatty acids for brain development and iron to oxygenate cells, specially formulated growing-up milk has additional benefits not found in cow's milk. At the same time, mothers are increasingly aware that children appreciate flavor and variety more and more as they grow. With these powerful drivers at work, demand grew more than 30% in 2007, and Numico's innovations have made it a key player, especially in Asian countries* where its Dumex brand is sold. In Asia, growing-up milk—designed for the special needs of children older than 12 months—accounts for 48% of the fast-growing infant formula segment, up 17% in 2007.

*Indonesia, China, Thailand, Malaysia, Singapore, Vietnam.



MALNOURISHMENT: MAJOR RISK

A patient is considered malnourished when protein and calorie intake fail to meet the body's metabolic needs. Particularly vulnerable groups include the elderly, patients in hospitals and institutions, and those suffering from cancer or Alzheimer's disease, or who experience difficulty swallowing or chewing. Apart from its impact on quality of life and general well-being, this nutritional deficiency exposes the patient to major health risks, delaying the healing process, increasing the need for nursing care, and raising treatment costs. For several years Numico has fought this insidious—and sometimes life-

threatening—condition by working to identify the special needs associated with each pathology and develop oral and enteral nutrition products to meet them. Examples are Fortimel for the elderly and FortiCare for cancer patients, as well as Nutrison for hospitalized adults and Infatrini and Nutriini for hospitalized children. The company has also developed Nutri'Action, a campaign to raise awareness of malnourishment in the elderly. Launched in France three years ago, Nutri'Action has since been deployed in other countries, raising the profile of this little-known and underestimated phenomenon among health professionals, patients, and caregivers.



Ecco il latte che, dall'anno in poi, continua a proteggere il tuo bambino.



Latte Crescita Mellin.

Prima hai protetto il tuo bambino con il tuo latte, aiutandolo a costruire il sistema immunitario. Poi hai continuato a proteggerlo, sempre con il tuo latte o con il latte di proseguimento. Adesso il tuo bambino ha un anno: perché smettere di proteggerlo, proprio ora che il suo sistema immunitario sta completandosi? Puoi continuare con il Latte Crescita Mellin, studiato per aiutare a rinforzare il sistema immunitario del tuo bambino, da uno a tre anni. E per vederlo crescere ogni giorno sano e protetto.

Continua a proteggerlo. Con Mellin puoi.





RESEARCH: THE BACKBONE OF THE NUMICO STRATEGY

Numico's research effort is backed by more than 200 in-house scientists—who range from immunologists, biologists, and microbiologists, to neuroscientists and metabolism experts. They enjoy support from a network of international partners that includes research institutes, universities, hospitals, and industrial suppliers. In 2007, four new patents were granted, and Numico researchers filed 22 patent applications. In the baby nutrition segment, Numico's research and development teams focus on products that favor growth, psychomotor development and immune protection in young children, with several clinical studies now underway to validate health claims in these areas. Numico's growing-up milk and the effects of prebiotic* infant formula

have also been subjected to clinical study, and in 2007 three clinical studies were conducted on allergy prevention and treatment. In medical nutrition, Numico research focuses primarily on oncology and Alzheimer's disease. Two clinical studies on the FortiCare range for oncology patients began in 2007, and researchers are studying various components of the metabolic process to develop a second generation of FortiCare with added nutritional benefits. Numico is also building specialized expertise on the role of nutrition in brain function. A new product designed specifically to improve cognitive function in patients with mild to moderate Alzheimer's disease is under clinical study, with results expected in mid-2008.

* Prebiotics are non-digestible carbohydrates with beneficial effects on intestinal flora and the immune system.



TRUSTED BRANDS

The Numico Group has built credibility in baby nutrition by leveraging well-respected local brands into strong international performers. The growth of its medical nutrition business is grounded in expertise that has earned the respect of health professionals.

Shelf 1

Medical nutrition

Enteral nutrition products include Nutricia NutriMax for young children and Nutricia Nutrison for the sick and the very elderly. The Fortimel range is designed for malnourished patients.

Shelf 2

Baby nutrition

Products include infant formulas under the Dumex Dulac, Dumex Mamil, and Nutricia Almiron brands; growing-up milk such as Dumex Dupro Gold; cereals including Milupa Aptamil; baby meals by Cow & Gate; and fruit specialties, beverages and desserts under the Mellin, Bobo Vita, and Cow & Gate Frutapura brands.

Shelf 3

In **baby nutrition**, Cow & Gate Frutapura's innovative fruit pouch format has taken Europe by storm. In **medical nutrition**, the SHS range is targeted to special needs including glucose intolerance, food allergies and metabolic disorders, while Neocate LCP was developed specifically for cow's milk intolerances.

Danone's new Baby Nutrition line confirms and consolidates its focus on health. Since 1965, it has been present on the baby food market through Blédina, a pacesetter in the sector with a strong financial performance rewarding its commitment to children age three and under.

BLÉDINA: THE PARENTS' PARTNER



Leading the baby nutrition market in France, Blédina accounts for almost 25% of sales for this new business line. To maintain momentum in the years ahead, the brand will be continuing its efforts to expand the range of products tailored to the needs of infants and young children (ages 0 to 3), with special emphasis on complementary food, which now represent two-thirds of Blédina sales.

Innovation central to growth

Innovation is central to growth strategy for the brand. And Blédina has from the start made life easier for mothers, with a steady flow of innovative products that introduce children to varied tastes and help them

develop healthy eating habits.

In 1993, it rounded out its iconic baby-jar lineup with Blédichef, the first range of ready-to-serve meals for infants. This ground-breaking product, prepared using an exclusive process that preserves the natural goodness of ingredients, would revolutionize the market.

In 2001, it followed up with Gallia Calisma, a unique infant formula that "helps strengthen baby's natural defenses." With a health claim validated by the French Food Safety Agency, Gallia Calisma was the only product in its category to back its benefits with clinical evidence.

Idées de Maman, a range of 16 delicious home-style meals, came out in 2003, followed in 2006 by Petits Grands, an assortment designed especially for children aged 18 months to three years.

This steady stream of trend-setting innovation is backed by active commitment to R&D and close monitoring of emerging trends in society to anticipate parents' needs and offer nutritional solutions to match.

A special relationship with parents

Blédina's marketing teams back product offerings with an educational approach to help parents understand why infants and young children need a special diet, using advertisements that explain the benefits of foods with just the right amounts of salt, sugar, protein and other nutrients.

The brand has also developed a portfolio of services for parents that includes a website, chats with early childhood experts, newsletters, and a consumer information service.

Through these outreach initiatives, Blédina has become a full partner in nutrition education, building close and trusting relationships with parents and helping them ensure that their children develop healthy eating habits that will continue to stand them in good stead when they are adults.

The results speak for themselves: today 74% of French mothers express a preference for Blédina, the baby nutrition specialist.

Building trust from day to day

Blédina naturally complies fully with all applicable regulations, which means parents can be confident they have chosen a quality product that is safe and meets their children's nutritional requirements.

Between birth and the age of three, children have special needs. The digestive tract and kidneys do not mature until a baby is twelve months old, and throughout the first years of life the body is still under construction. During this period of intensive growth, developing a healthy body is crucial, and diet plays an important part. In only three years, a child's weight quintuples. Height doubles, as does the size of the brain.

Children this age are not miniature adults: they are only just beginning to develop their food repertoire, and their dietary requirements are in many ways different.

This is reflected in European regula-

tions setting strict standards for baby food. But Blédina's commitment to healthy babies goes further: additional precautions include using dedicated fields and parcels of land, rigorous supply contracts, and regular monitoring of agricultural suppliers. Crops are grown away from sources of pollution to eliminate the risk of harmful residue—to cite just one example, apple orchards are protected from aphids by ladybugs, not pesticides. Crops and herds are carefully monitored and rigorously tested. In all, each product undergoes no fewer than 160 quality-control procedures between the farm and the baby's bowl.

Blédina's dedication to the highest standards is a foundation for trusting relationships not only with parents, but also with government agencies and the medical community, ensuring fruitful dialog in the interest of children's health and well-being. ■

LOOKING AHEAD



Over coming years, Blédina will be continuing to expand its offering for the 18-to-36-month age range.

Today only 50% of children eat products tailored specifically to their nutritional needs, with potential in this category

still largely untapped. Blédina's growth will also get powerful support from exports, which have doubled over five years to account for 20% of total sales. It currently exports to European markets and to Lebanon, North Africa and other French-speaking African

countries, where French-trained doctors and pediatricians are familiar with the brand. In 2007, Blédina became the no. 1 supplier of infant formulas in Algeria. Recently acquired Numico has also opened up new horizons, offering significant promise for a number of Blédina products in countries where it is well established. To make the most of the potential, Blédina and Numico will be working to share know-how and develop synergies in areas ranging from R&D and production expertise to marketing and social responsibility.



NORTH AMERICA
2,523 employees
No.1 in fresh dairy products
7 plants
1 R&D center

WESTERN EUROPE
19,121 employees
No.1 in fresh dairy products
No.1 in baby nutrition
No. 2 in bottled water
41 plants
8 R&D centers

AFRICA & MIDDLE EAST
4,954 employees
No. 1 in fresh dairy products
No. 2 in baby nutrition
14 plants
1 R&D center

LATIN AMERICA
17,802 employees
No. 1 in fresh dairy products
No. 1 in bottled water
27 plants
4 R&D centers

CENTRAL EUROPE
10,052 employees
No. 1 in fresh dairy products
No. 1 in baby nutrition
No. 1 in medical nutrition
19 plants
1 R&D center

ASIA-PACIFIC
21,592 employees
No. 1 in bottled water
No. 2 in baby nutrition
54 plants
5 R&D centers

DANONE'S NEW INTERNATIONAL PRESENCE

TO LEARN MORE,

VISIT

www.danone.com



Discover Group brands on Danone's corporate site.

www.bledina.com



Blédina, no. 1 in baby nutrition in France, presents recipes and advice on healthy eating for babies.

www.nutricia.com



Nutricia's site is a portal for leading Group brands in baby nutrition and medical nutrition.

www.gainhealth.org

GAIN, the Global Alliance for Improved Nutrition, is an NGO working to reduce malnutrition, especially in vulnerable groups.

SCIENCE

Clinical studies provide scientific proof of the health benefits of Danone products.



In 5 years Danone's clinical studies budget has risen 15-fold

DANONE TESTS CLINICALLY

For Groupe Danone, the health imperative means substantiating the claims of its products through an increasing number of clinical studies. To do so, Danone applies the same rigorous standards used in the world of scientific research.

Functional products such as Activia, Actimel, Essensis and Danacol are at the heart of Danone's mission to "bring health through food to as many people as possible." Yet even though these products promote health by acting on specific systems in the body, their credibility with consumers and health professionals requires tangible scientific

proof of their benefits. That is why Danone has launched an increasing number of clinical studies of functional products over recent years, in response to steadily rising demand. A recent study on Activia found that health benefits are the primary motivation for buying a product the first time, while taste and appeal are the primary motivations for buying it again. This makes health claims a powerful engine

■ ■ ■

Un petit geste pour avancer

Danone est une marque de Danone Waters of North America, Inc. / Danone Waters of North America, Inc.

Avec **DANONE** soutenez l'**INSTITUT PASTEUR**



Depuis 120 ans, l'Institut Pasteur a permis de préserver des millions de vies en faisant notamment progresser la recherche sur le système immunitaire et la lutte contre les maladies infectieuses. Depuis 2005, des chercheurs Danone et des chercheurs de l'Institut Pasteur travaillent ensemble sur les ferments et les probiotiques, pour mieux comprendre leurs effets sur l'organisme.

Le financement de l'Institut Pasteur dépend de la générosité du grand public. Avec Danone, vous aussi soutenez l'Institut Pasteur.

Découpez et collectionnez les Coupons-Dons Institut Pasteur sur les lots Actimel porteurs, entre le mois d'Octobre 2007 et le mois de Mars 2008. Pour chaque Coupon-Don renvoyé, un don sera effectué par Danone à l'Institut Pasteur.

Retrouvez tous les détails de l'opération sur www.danone-pasteur.fr et sur les lots Actimel porteurs de l'offre.

POUR VOTRE SANTÉ, PRATIQUEZ UNE ACTIVITÉ PHYSIQUE RÉGULIÈRE. WWW.MANGERBOUGER.FR

■ ■ ■ for growth as consumers choose from an ever more varied array of foods. At the same time, products are becoming more focused and sophisticated, sharpening competition in the food industry and prompting Danone to make significant R&D investments and to develop highly targeted expertise. In addition, increasingly rigorous health regulations are affecting the entire food industry. In January 2007, the European Union issued new regulations to protect consumers from false statements, harmonizing and toughening rules on health and nutrition claims throughout the European Union. Under the new rules, all European food companies must substantiate health claims scientifically before they can be used to market food products.

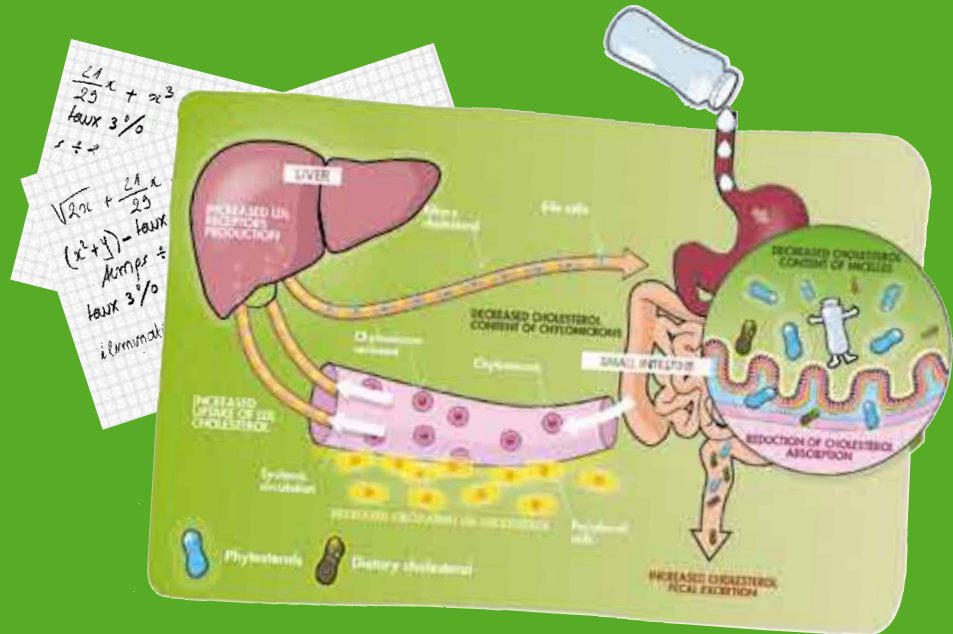
High scientific standards

Against this backdrop, it has become more important than ever to back up health benefits with sound scientific arguments. Measuring a product's impact in laboratory test tubes is not enough: its effect on the future consumer also needs to be calculated. As a result, clinical studies have become a natural part of the innovation process—not only for fresh dairy products and baby nutrition, but also for waters. Traditionally used in medical research, these studies consist of clinical trials carried out on human subjects to provide irrefutable proof of a product's health benefits. Since multiple studies are often required to build a coherent case for a single health claim, Danone's research budget for clinical studies is constantly growing. Over the last five years, it has increased fifteen-fold, with 20 to 30 new studies launched every year. Their

number depends largely on the nature of the health claim and the complexity of the product's expected effect on the body. Essensis, which was launched in four countries in March 2007, has already been tested in two studies, while Actimel has been the subject of more than 20 clinical studies since its creation in 1994.

A long, demanding process

A clinical study has two goals: first, to verify that the benefit being measured is relevant to the claim being made; second, to ensure that measurements are both reliable and credible. Although it may sound simple, carrying out a clinical study is a major undertaking, one which requires months of work by teams from the Nutrition and Clinical Research Department as well as a host of other units at Danone Research. The first step is to define the ■ ■ ■



KEY FIGURE

3

weeks of daily consumption of bottled Danacol as part of a balanced diet led to a 12.2% reduction in LDL-C—so-called “bad” cholesterol—for adults suffering from high cholesterol levels compared to control subjects.

SCIENCE IN PICTURES
How does Danacol work?

Danacol contains plant sterols that limit intestinal absorption of cholesterol. The structure of plant sterols is very close to that of

cholesterol, enabling them to deceive the body and limit absorption of cholesterol from the intestine into the bloodstream.

The benefits of healthy hydration

Today's scientists are unanimous in recognizing the importance of hydration and its benefits for the body, readily pointing to the special merits of mineral water. Just over a year ago Danone responded by expanding its research program—previously limited to fresh dairy products—to include a team of nutrition and health researchers devoted exclusively to its Waters line. Clinical studies now underway are exploring the possible effects of hydration on the body, from preventing kidney stones and improving elimination of metabolic waste to preventing deterioration in physical and cognitive performance—benefits that could ultimately be claimed for specific products. And with a number of significantly overweight populations getting more than 20% of their calories from sweetened beverages, daily hydration with healthy, natural water products is clearly an idea with a future.



SCIENCE IN NUMBERS
Clinical studies

200 Over 200 R&D partnerships worldwide, with more than 60 clinical studies underway in 18 countries.

180 In 2006, the value of the functional foods market was estimated at over \$180 billion.

15 Annual growth for Danone functional food products which make health claims exceeds 15%. And in five years, Danone's budget for clinical studies has increased fifteen-fold.

200

180

15

PASTEUR INSTITUTE A lasting partnership

When Isaac Carasso made his first yogurts in 1919, he used cultures from the Pasteur Institute, and in recent years Danone Research and the Institute have renewed this scientific partnership. Many of the Group's researchers trained at the Institute in such fields as immunology and microbiology, and the partners have published the results of joint studies. Danone and the Pasteur Institute are currently conducting a study on probiotics, focusing specifically on how

they affect the body and health. Now Danone has gone one step further, using its high profile to benefit the Institute, which is financed primarily by private donors. In late 2007 the Group launched a fundraising campaign, encouraging consumers to clip donation coupons from packs of Actimel and send them in. For each coupon received, Danone will donate 20 eurocents directly to the Pasteur Institute in support of immunology research.



helps strengthen the body's natural defenses

A LONG TRADITION OF SCIENCE

1789: Discovery of the benefits of Evian natural spring water by the Marquis de Lessert.

1919: Creation of the first Danone yogurts by Isaac Carasso in Barcelona, using cultures from the Pasteur Institute.

1964: Launch of

Taillefine's very first fat-free *fromage frais* – Taillefine 0%.

1983: Creation of the Daniel Carasso international research center for fresh dairy products.

1987: Launch of Activia, a fermented

dairy product that helps promote regularity when eaten daily.

1994: Launch of Actimel, a fermented dairy product.

1999: Founding of Evian water center in France.

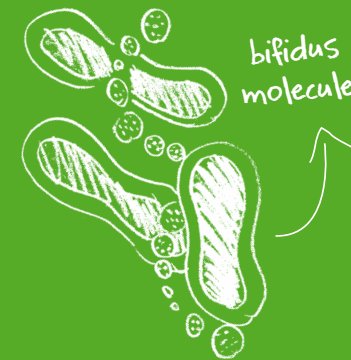
2002: Opening of Danone Research, Daniel Carasso Center,

an R&D center serving all Danone business units worldwide.

2004: Launch of Danacol, a dairy product that helps reduce "bad" cholesterol.

2006: Launch of Essensis, the first yogurt to nourish skin from the inside.

ACTIVIA Increases scientific credibility



Of the six new clinical studies on Activia launched in 2007, four contributed to the scientific and regulatory dossiers relating to the brand. The dossiers were submitted to the European Commission to demonstrate that the health claims met European standards. Based on these studies, Danone should also be able to broaden its communication for Activia.

study's purpose and develop a set of specifications that will ultimately become a call for bids from outside partners: under internationally applicable Good Clinical Practices, studies must include independent entities to ensure the reliability and integrity of their results. The proposed study is then submitted to the relevant health authorities for approval. Once authorization has been granted, the experimental phase gets underway, with Danone teams working in partnership with the world's top scientific experts and highly specialized, independent subcontractors that perform clinical investigations for third parties.

Scientifically tested methodology

In conducting clinical studies on Danone products, independent laboratories apply the same charter of good practices used for pharmaceutical trials. The active ingredient's effects are compared to those of a placebo, and healthy volunteers are selected for the study according to specific criteria.

Laboratories follow the double-blind method, which means that only the study's directors know the content of the test products: to eliminate the risk of skewed measurements, this information is not provided to the patients or medical personnel. Unlike pharmaceuticals, however, fresh dairy products can present special logistical challenges.

Complex logistics

Because the Danone products tested in clinical studies are living, perishable products with extremely short shelf lives, they have to be delivered to the study's participants every two weeks. Likewise, logistics must be perfectly calibrated to supply stable test products—sometimes to the other side of the world, sometimes to a hundred different sites—often over a period of months. Production, packaging, labeling, and refrigerated shipping must be seamlessly coordinated, and shipments are tracked in real time for optimum traceability.

Science: the key to credibility

In the final phase, the thousands of data points gathered are processed, checked, and organized for publication in the study report. Scientific methodology and transparent results are essential to credibility, making it unthinkable to take only favorable outcomes into account and disregard the rest. Because credibility is vital for Danone brands now and in the future, clinical studies will continue to expand as more and more health products are developed.

Science and health are two of the Group's founding principles: when combined with taste appeal, they offer unimagined potential for growth.

KEY FIGURE

6

months on average for one Actimel study in 2007, with 4,000 subjects tested, 900,000 test bottles produced, labeled and packaged in 32,000 boxes, shipped to 150 different sites.



ACTIMEL

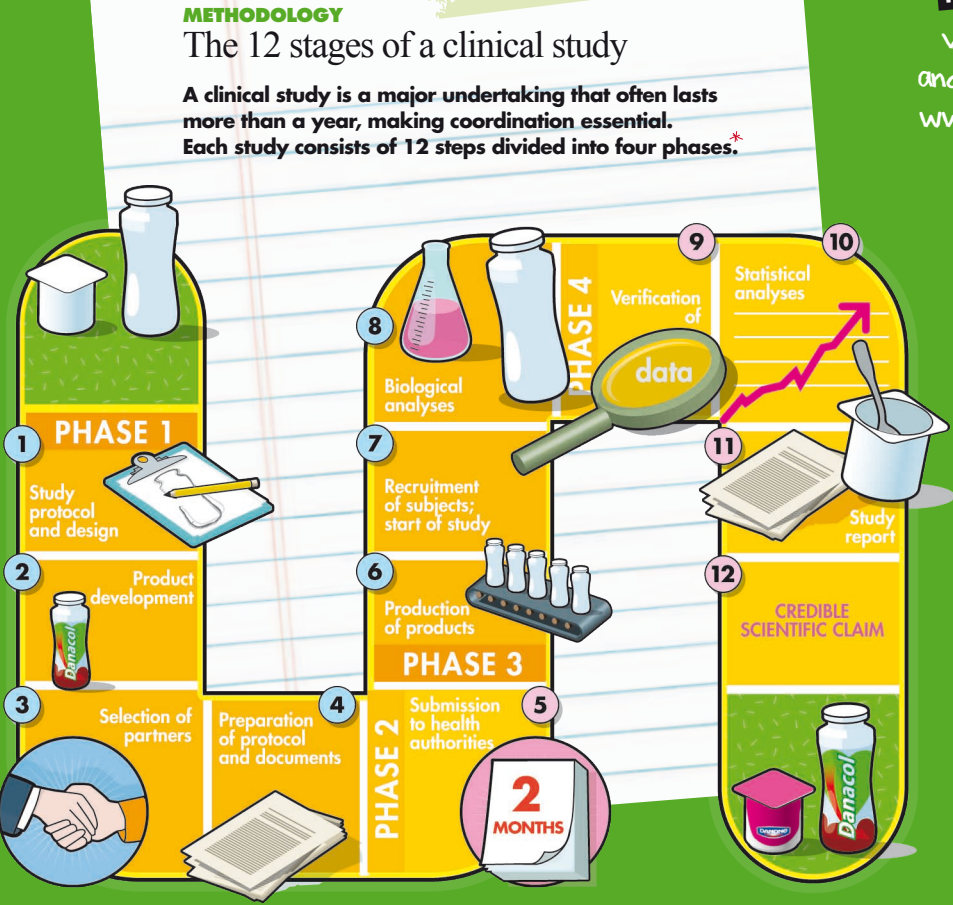
No. 1 in clinical studies

To date, Danone Research has conducted no fewer than 23 clinical studies on Actimel, a product first launched in 1994. These include seven recently completed studies reinforcing Actimel's claim to "help strengthen the body's natural defenses." The data showed that the probiotic strain *L. casei* DN-114 001 survives the human digestive process and examined its effects on the body's defenses, focusing particularly on three target groups—children, adults and seniors. Several recent studies have provided strong evidence that the number and duration of gastrointestinal and respiratory infections are reduced after consumption of Actimel.

DEFINITION

Probiotics are living microorganisms that benefit health when ingested in adequate quantities.



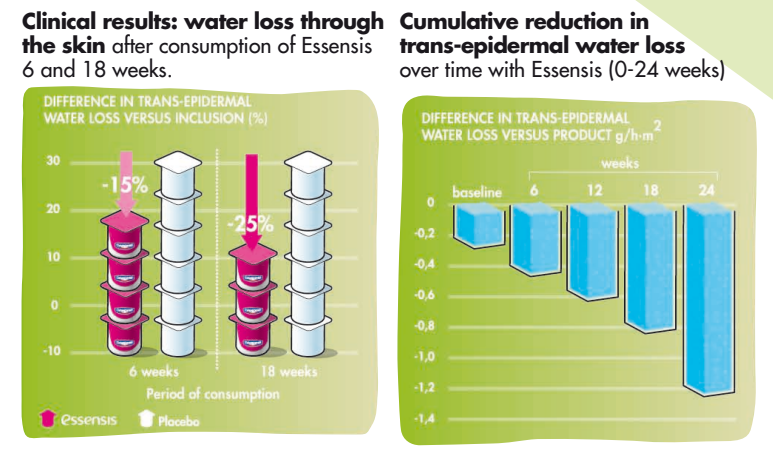


TO LEARN MORE
visit Research
and Innovation at
www.danone.com

SCIENCE IN PICTURES
Essensis

Essensis contains borage oil, green tea, vitamin E and exclusive Danone culture. A six-month clinical study involving 72 women showed that daily consumption of Essensis improves skin barrier function, helping to hydrate the skin, make it more supple, and reduce dryness.

see opposite



* 4 phases: preparation, validation by health authorities, experimentation per se, and –ultimately– statistical analysis and a write-up of the results.

EFFECTIVE HEALTH GOVERNANCE – CONCRETE PROGRAMS IN 2007

The Group's commitment to health and nutrition is now fully integrated into corporate governance, reflecting the critical importance of these values for Danone.

Governance structures in the areas of both health and nutrition are built around three fundamental principles applied by all Group companies, and are reflected in concrete initiatives.

The science behind the products

The first pillar of health governance is a rigorously scientific approach to developing products and to demonstrating their nutritional and health benefits. To that end Danone is party to more than 200 contracts with partner research organizations worldwide and has over 60 clinical studies under way in 18 countries. The principles of health and nutrition governance have, for example, led to Danone adapting the formula for Danonino in over ten countries, adding vitamins and minerals to offset specific deficiencies in children's diets. To take another example, let us consider a survey carried out by Danone Brazil in 2007. Working in partnership with 13 Brazilian universities, the subsidiary undertook a study of the daily nutrient intake of the nation's children—information not yet available in the country. These results will help Danone's development teams to adapt Danonino more closely to local nutritional needs.

Exceeding regulatory requirements

As a supporter of voluntary standards, Danone has joined other major food companies in providing objective nutritional labeling on packaging, enabling consumers to make educated decisions about the products they buy and enjoy. Based on recommended daily allowances, the labels show quantities of protein, carbohydrates (including sugars), fats (including saturated fats), fiber, and sodium in each serving. By late 2007, 35% of Danone products in Europe carried nutritional labels, a proportion that will rise to cover a majority of products in 2008. At the close of 2007, Danone demonstrated its commitment to responsible corporate citizenship in the European debate on advertising to children. Along with ten other companies, Danone pledged to limit advertisements targeting 3- to 12-year-olds to products appropriate for their nutritional needs, starting no later than the end of 2008. Actimel, Petit Gervais aux Fruits and Velouté are among the fresh dairy products in France to be affected by this move.

Lasting partnerships with all stakeholders

For Danone, health governance also means forging close ties to government agencies, the scientific community, business leaders, consumer groups

THE 3 PRINCIPLES OF HEALTH GOVERNANCE

A rigorous scientific approach, compliance with voluntary standards, and lasting partnerships with stakeholders.

and other stakeholders. Here, Danone Institutes dedicated to the promotion of health and nutrition education provide essential support. In mid-2007, our newest Institute opened in Jakarta, Indonesia, bringing the total number to 17 worldwide. By fostering awareness of health and nutrition in their host countries and by financing non-profit programs to educate children, train doctors and support scientific research, these Institutes advance and disseminate knowledge concerning links between diet and health. In Indonesia, where many people live on very low incomes, the Danone Institute will be placing special emphasis on programs promoting practical solutions for malnutrition-related problems.

PUSHING BACK THE FRONTIERS OF INNOVATION

In its quest for innovation, Groupe Danone has brought a select group of suppliers into the product development process, involving them in strategic products from the start.

Increasingly sophisticated innovation, ever-tighter regulations and escalating consumer demands are the backdrop for new-product development requiring technological expertise that is not always available in-house. That makes capturing the value in supplier innovation an imperative for both cost reduction and strategic differentiation. To meet this challenge, Danone has established preferred partnerships with a select group of suppliers. These special relationships provide access to new resources and specialized technical skills, even as they enable it to cut upstream costs and reduce time to market.

Preferred partners

Within these relationships, suppliers become partners, sharing responsibility for the development of competitive products in a structured, contract-based process that clearly defines the relationship—and speeds innovation. To take one example, Danacol requires high-level expertise in the management of cholesterol levels, and Germany's Cognis is known worldwide for its know-how in this area. In developing a partnership with Danone, Cognis provided knowledge, a laboratory and resources, dedicating five researchers exclusively to Danone. As a result, Cognis was able to develop the plant sterols that

go into Danacol—and after the product was launched, Cognis continued to work on taste, texture and other sensory properties, making Danacol the number one product in its market segment.

Accelerating the innovation process

Danone's internal organization has naturally evolved along with our changing supplier relationships. Our new Purchasing unit has shifted the focus from cost-cutting to the more strategic task of identifying and managing innovative suppliers. Purchasing now guides a genuine interchange between the Group's R&D needs and our suppliers' capacity for innovation, cultivating long-term relationships founded on trust and commitment. Reflecting this mutual trust, in September 2007 suppliers attended the annual meeting of Danone General Managers for the first time. At the meeting, special awards



were presented to suppliers who have contributed to innovation. Honorees included Cognis, the co-developer of Danacol; Polaris, a French nutritional lipids supplier that worked with Danone R&D for two years to perfect the recipe for Essensis; and Graham, a US packaging manufacturer that halved the weight of Actimel bottles. ■

Respect

As part of their changing role, buyers are also responsible for ensuring that suppliers comply with fundamental social principles. After a successful pilot phase, Danone extended its Respect program to buyers in the Group's business units from 2006 on. The program defines procedures and tools that buyers use to monitor their suppliers and help them improve compliance with seven principles derived from International Labour Organization conventions: freedom of association and the right to collective bargaining, workplace safety, compliance with national laws on working hours and wage conditions, non-discrimination, and abolition of child labor and forced labor. Since the start of the program, there have been 50 independent audits of Group suppliers.

NON
MI ACCONTENTO DI
UN FERMENTO
QUALUNQUE.
VOGLIO
IL MIO BIFIDO.



FERMENTI COMUNI



I fermenti contenuti nei normali yogurt riescono a superare solo in minima parte la barriera acida dello stomaco.

BIFIDUS ACTIREGULARIS



Solo Activia contiene l'esclusivo fermento Bifidus ActiRegularis che sopravvive in quantità maggiore ed aiuta la naturale regolarità.

R&D IN 2007

In 2007 Danone recruited a worldwide total of 50 scientists with PhDs or engineering degrees.

KEY NUMBERS

2 million
2,067,681 statistical data points were analyzed as part of seven clinical studies on Actimel in 2007.

20 patent applications were filed by Danone Research in 2007.

WATERS
A scientific first

In February 2007, Danone's Waters line convened its first Scientific Committee, consisting of six international experts on hydration and kidney function. The Committee's findings will examine the health benefits of water—elimination of waste products and improved physical and cognitive performance.



Nutrition mapping

In support of Groupe Danone's commitment to continuous improvement of nutritional quality, Danone Research has launched an ambitious nutrition mapping project to assess the products of each of the Group's subsidiaries. This compares the nutritional quality of every product against those of its main competitors and WHO recommendations. By late 2007, product analysis had been performed for subsidiaries accounting for 62% of Group sales, and the project will continue in 2008.



Yakult

In 2007 Groupe Danone signed an agreement with Japanese partner Yakult Honsha Co. on use of YIF-Scan, a new method for analyzing intestinal flora. Highly accurate, super-fast and less cumbersome than other technologies on the market, YIF-Scan will enable researchers to learn more about intestinal flora and the health benefits of probiotics.



Moscow

In December 2007, Danone signed a three-year partnership agreement with Moscow's Institute of Immunology and Moscow State University's Biology Department to collect and characterize new strains of probiotic lactic bacteria, further diversifying the collection at Danone Research, which already contains some 3,500 strains. The project is part of the Group's health innovation strategy, aimed at developing exclusive probiotic products with new health benefits. Danone's goal is to isolate and characterize 250 new strains over the course of the partnership.

CLINICAL STUDIES
Water and health



Danone's first two clinical studies on elimination, one of water's major health benefits, was initiated in March 2007 and rolled out at the end of the year. They focus on Bonafant water in Mexico and Font Vella in Spain, and will demonstrate that drinking two liters of either water every day improves the body's ability to eliminate waste products.



EU HEALTH CLAIMS REGULATIONS
Nutrition profiles

The European Union is currently rolling out regulations requiring food products to meet specific nutrition profiles before they can make health and nutrition claims. With legal definitions of the profiles slated for release in 2009, Danone Research

has brought its extensive expertise to bear, analyzing the main profiling systems currently in existence and enabling the Group to open talks with European authorities on science-based solutions for implementing the new regulations.

R&D OF THE FUTURE:
DANONE + NUMICO

218 million euros invested in research and development.

500 scientific partnerships worldwide.

1,150 individuals working in the international R&D community

Expertise in probiotics, prebiotics, bioactives and enteral medical nutrition is brought together within Danone Research.



INNOVATION SERVING SOCIETY—A FRESH APPROACH

Growth for its own sake is meaningless. Growth must have a purpose, and that purpose is the increased well-being of people."

These words, which could quite easily have come from a recent handbook on sustainable development, were actually spoken by Groupe Danone founder Antoine Riboud nearly 40 years ago.

They capture both Danone's commitment to social responsibility and its model for growth, which is based on the simple conviction that economic development is impossible without progress for people and vice versa.

Four decades later, this growth model is still alive, and being constantly revisited and reinvented. And it lies at the heart of the "new Danone" taking shape today.

New demands, new stakeholders

Danone has undergone a radical transformation over the past 40 years, driven by strong growth in emerging countries and an increasingly sharp focus on health. These

trends have had significant consequences, creating new challenges and new demands.

The business environment has changed, too. In their roles as consumers and citizens, individuals increasingly feel personally involved in ethical issues and the fate of the planet. Associations, NGOs, semi-public entities and other actors now have greater expertise and credibility, taking their places alongside government and business.

Where once corporate decision-making focused solely on shareholders, employees and suppliers, today's stakeholder community is increasingly diverse.

Danone is convinced that tomorrow's solutions will come from the complementary skills and philosophies of all these stakeholders, through dialog and joint initiatives—even in situations where the players are so dissimilar that this does not necessarily come naturally.

In collaborating with NGOs like the Global Alliance for Improved Nutrition (GAIN) in Bangladesh, and working closely with the International Union of Food Workers' Associations, Danone has committed to an attitude of openness and respect without losing sight of its unique mission—bringing health

through food to as many people as possible—or its responsibility to create wealth.

Better world, better bottom line

Which brings us to another deep-seated Danone conviction: that business should play a central role in meeting societal challenges, quite simply because it has special access to levers for change, both direct and indirect. For example, Danone supports development and local job markets in Mexico and South Africa through its purchasing policies and innovative local distribution models that create jobs for people with little or no training (see page 56). By voluntarily reducing the weight of packaging, expanding use of recycled materials, promoting research into new types of packaging, and rethinking transport, Danone also has concrete, measurable impacts on the environment—impacts that are worth measuring because they are also good for our business. Less packaging means less carbon for the planet, but it also cuts packing and transport costs, as Volvic's experience shows (see page 52). And when training and a guaranteed income are offered to small farmers

in Turkey, it not only encourages local development, but ensures a safe, adequate supply of quality milk for Danone plants (see page 49).

Taking societal innovation as our model

Living out this conviction means rethinking the way we do business, which in turn demands innovation and creativity. That is why Danone has deployed *Danone Way Ahead*, a program that encourages societal innovation at subsidiaries. The first step in the program is complying with

There can be no economic development without progress for people.

16 fundamental principles of social and environmental responsibility. Once these basic requirements are met, Danone *Way Ahead* encourages teams to do more, launching innovative projects in their local communities with the help of a detailed methodology called Sustainability

Mapping. Presented as an evaluation matrix, this tool helps teams identify local problems related to the Group's mission, quantify them, and then develop a prioritized list of key action items. Guided by these action plans, subsidiaries address issues which range from governance to the environment to health and nutrition, while Danone uses the program's experimental approach to nurture societal innovation, identifying new concepts that can be adapted and deployed in other countries. Networking and sharing of best practices among subsidiaries and business functions is critical to the program's success, and in July

2007 the Group held its first Social Innovation Lab, bringing more than 100 international managers together at Evian in the French Alps. Danone's Board of Directors also monitors the program through its Social Responsibility Committee, chaired by independent director Jean Laurent—an unusual level of attention that reflects the strategic importance of social responsibility at Danone. ■

 **TO LEARN MORE**
read about other
initiatives at
www.danone.com

LIMITING IMPACTS ON THE ENVIRONMENT

(1) Aqua packaging in Indonesia—ready for recycling.
(2) Farming accounts for 47% of milk's environmental impacts.



The year 2007 marked a turning point in environmental awareness, with high-profile figures—such as Al Gore in the United States and Nicolas Hulot in France—putting this critical issue in the spotlight and popularizing the work of scientists and international experts. The new public awareness they have created has begun to affect patterns of consumption. For Danone, which spearheaded the first packaging recycling initiatives in Europe in the 1970s, these developments add fresh impetus to existing environmental efforts.

Step one: production plants
For Danone, the first big step in reducing environmental impacts was cutting water and energy use at its production plants, since they are Danone's direct responsibility. This policy has been expanded to production facilities at all Group companies, reducing water and energy consumption 23% since the year 2000.

Moving upstream: new scope for action
But production plant impacts account for only 9% of Danone products' overall ecological footprint. Today people are beginning to understand that products affect the environment over their entire life cycle, from raw materials to distribution. The raw materials processed at Danone are largely agricultural: farming accounts for 47% of milk's

environmental impacts, including consumption of water for irrigation, greenhouse gas emissions, and pollution from fertilizers and pesticides. And as agricultural productivity increases, it inevitably creates more pressure on the environment. Danone is keenly aware that it can play a role—albeit indirectly—in promoting sustainable farming practices.

Managing milk and water resources
Promoting such practices starts with the thousands of dairy farmers who work with us. A set of specifications drawn up by the Group in 1997 provides a ten-point list of environment-friendly practices that each farm must adopt, including limited pesticide use, humane treatment of livestock, good hygiene in milking parlors, and responsible waste management. In managing water resources, Danone has already progressed from a regulation-based approach to a more proactive one. To ensure

long-term renewal of the springs we operate around the world, we never use more water than each spring naturally produces, and we process wastewater so that it can return to the natural water cycle. Danone is already using a portion of its wastewater for such tasks as maintaining green space, cleaning facilities, rinsing storage tanks, and producing steam, but in 2009 we expect to take a bold new step. Two sites in France are slated to launch our first phytoremediation systems, which complete the cycle by using plants to purify wastewater naturally.

The plastics recycling revolution
Until just last year, used mineral water bottles generally went to make textiles—a missed opportunity, since they can be recycled more efficiently. In a genuine technological revolution, Danone is now recovering part of the polyethylene terephthalate (PET) from used water bottles and

incorporating it into new ones. Approved for France by the French Food Safety Agency, the new process produces bottles containing 25% of recycled PET. In countries where recycling is largely undeveloped, Danone is launching pilot projects that create jobs, thus benefiting society as well as the environment. In one example, a new business model geared around PET recycling is being tested at Bonafont, Danone's Mexican water subsidiary. Because recycled PET costs less than new, the company can pay above-market rates to the supplier that collects the recyclables—and still cut costs. Bonafont is also helping a local NGO build an education center that will provide schooling for children who previously worked in the collection networks. ■

Carbon footprint ■
With Earth's temperature rising, reducing our carbon footprint is a priority. From the fertilizer used to grow feed for dairy cattle to the energy required to produce a plastic bottle, the Group's carbon load for 2007 was estimated at 20 million metric tons CO₂. Of this, 9% of direct emissions came from our production plants, 23% from packaging, 28% from distribution, and 40% from farming. To shrink its carbon footprint, Danone is encouraging integrated farming, promoting combined rail/road transport, and reducing packaging weight. In just one example, Evian's 1.5-liter bottle has become 35% lighter over the past five years.

Carbon footprint of a 1.5-liter bottle of Evian made with PET:
121 grams of CO₂/liter in 2007. Between now and 2010, use of recycled PET should reduce the total carbon footprint by 11% overall, including a 17% cut in the packaging component.



Figures expressed in grams of CO₂ per liter.



MILK

Each year, Danone processes around **0.8% of the world's total milk production**. Against a backdrop of steep rises in world commodity prices, the Group's priorities are reliability of supplies, high milk quality, and the promotion of integrated farming to limit environmental impact, with due regard for the diversity of local conditions.

 **TO LEARN MORE**
check out the key sustainable development themes at www.danone.com



FRANCE—FLAX FEED FOR HEALTHIER MILK

For the last three years, Danone teams in France have been working on a project with the promise of added value for health and the environment. But it should also cushion the impact of higher milk prices on Group business through increased productivity in dairy farming. Dubbed Linus, this project centers on enhancing milk quality by the use of flax in animal feed and is being pursued alongside Bleu Blanc Coeur, a European association dedicated to health-oriented farming. Adding flax to feed increases yields by an average of 10%, which presents a partial solution to the shortage of milk that affected Danone France in the course of 2007. But it also makes for healthier cows.

Benefits for farming, the environment and health
Just as important, milk from cows fed with flax offers health benefits for consumers, since its fat content is lower and it is rich in omega-3 fatty acids—essential for a healthy body, but often lacking in the diets of people in the developed world. Finally, the Linus project will benefit the environment, since flax crops require only limited quantities of water and pesticide, and on average cows fed on flax produce 10% less of the greenhouse gas methane. So far, some 30% of the milk processed by Danone in France has been brought within the scope of the project. Plans call for this to be extended to Spain and other countries, reinforcing links between farming, health and the environment. ■

KEY FIGURES

4.5 billion liters of milk processed for Danone Fresh Dairy Products in 2007.
24,000 dairy farmers in 20 countries supplying Danone plants.
10 environmental criteria for approval of dairy farms supplying Danone's 50 Fresh Dairy Products sites.
17% reduction over five years in energy consumption for the production of a Danone yogurt. ↙

HELPING SMALL FARMERS IN TURKEY

Danone's Milking Parlor project, launched in 2006, addresses the special problems of dairy farming in this fast-growing country, where milk production is highly fragmented and large numbers of small farmers use traditional methods that result in uneven quality. Most farmers milk their herds by hand and cool the milk themselves before selling it at auction. Working in cooperation with government agencies and local farmers' cooperatives, Danone Turkey has met these challenges with its new Milking Parlor. Located outside Cavusköy in the heart of Anatolia, the facility enables farmers with fewer than five cows to use milking machines that ensure optimum efficiency and

hygiene. Farmers also benefit from targeted training courses, making for further improvement in their working conditions. For Danone, the Milking Parlor means improved quantities and quality. **Automated milking center**
At the same time, Danone Turkey builds the loyalty of farmers and makes for more reliable, readily traceable supplies. Farmers enjoy better working conditions thanks to automated equipment and input from specialists. Close cooperation with government, unions, cooperatives and other local stakeholders has also made for deeper ties to community leaders, as well as a stronger image for Danone. Buoyed by this first success, in 2008 Danone Turkey will be setting up additional

milking facilities, in line with the approach taken by all Group businesses around the world for milk collection. This emphasizes integration within local communities to create added economic and societal value. ■

(1) Cavusköy village in Anatolia.
(2) Meeting local farmers at the Milking Parlor.

Milking Parlor ■

The Danone Milking Parlor enables Turkish dairy farmers to switch to modern milking methods and improve the quality of their production, even as they get higher prices under long-term contracts with Danone. It is also a gathering place where farmers and Danone people get to know each other better.

WATER

Fresh water—accounting for only **3% of the water on the planet**—is a rare commodity that is coming under increasing pressure from human activity. As a bottler of natural waters, Danone sees long-term water protection as vital, not only for its business but also for local communities.

EVIAN FOUNDS WATER PROTECTION SCHOOLS

(1) On the banks of Lake Beung Khong Long in Thailand.
(2) Managing an irrigation system in Indonesia.

In late 2007, Evian pledged to found Water Protection Schools in Thailand, Argentina and Nepal, the first three countries in a program designed to help wetland-dependent populations manage their water resources independently and sustainably—and raise their standard of living in the process. Developed in cooperation with the

Ramsar Convention* and local partners, projects were chosen on the basis of two main criteria: each is located at a Ramsar site, and each addresses a local problem that involves both environmental protection and community development.

Protecting wetlands

The first step for the Water Schools is to make the target communities aware of the critical importance of water and its preservation. In Thailand, for example, this will involve the development of educational materials on the role of wetlands for use in schools. In the next phase, the focus will be on farming and fishing, the two main sources of livelihoods for local communities. In Argentina, it will mean developing a fisheries management plan to prevent overfishing, and identifying alternative sources of income such as handcrafted products and ecotourism, since pre-

serving natural resources can require limiting their use. In launching this program, which combines management and development training with micro-credit initiatives, Evian is giving concrete shape to the principles of wise water use in support of human and economic development. Looking ahead, the Water School projects will contribute to the development of networks for shared water-management expertise that will continue to grow as new best practices are identified—a long-term Ramsar goal that the Danone Evian Fund has supported over the past 10 years. —

* Ramsar is an international convention for wetland protection, with 157 member countries.



TO LEARN MORE about the Ramsar Convention, visit www.ramsar.org



KEY FIGURES



70 underground springs

operated by Danone in different parts of the world. **17 billion** liters of water were bottled at the Group's **100 bottling plants** in 2007, a total representing less than 0.0000002% of the world's fresh water reserves.

Improved bottling processes saved **12% of mineral water** in 2007.

The Group paid **€63 million** for the collection of empty mineral water bottles. In ten years, Danone **cut the weight** of water bottles **by 20%** across all brands.

WATER THE WELLSPRING IN INDONESIA

Water management has long been a major challenge for Indonesia, with particularly severe consequences for its most vulnerable populations. Throughout the country, water resources are shrinking and water quality is deteriorating, especially on the island of Java, home to 120 million people. A related cause for concern is deforestation, the cause of recurrent floods and landslides.

The Aqua Lestari model

This situation naturally favors the emergence of environmental awareness, but it has also brought a broader response from Danone's Indonesian subsidiary Aqua, which owns eleven springs and operates 15 plants in the country, selling 6 billion liters of water a year.

In 2006, it launched Aqua Lestari, an innovative program addressing both the social and environmental impacts of the problem. Lestari has three components: local community development, sustainable management of water resources, and the creation of green sites. In 2007, Danone Aqua made community programs a priority and joined up with local stakeholders for initiatives in favor of reforestation, irrigation area management, organic agriculture, waste management and water access. All are based on participatory methods, with strong emphasis on education and additional support from teaching and health initiatives. With the Lestari model, "Aqua Community" projects foster close ties and trust between Aqua and local decision-makers. In 2008 Aqua will begin work

on an experimental production site in western Java, with the goal of controlling all of the site's environmental impacts—water resource management, energy management, recycling and transport. —

Lestari at a glance

In 2007, Aqua launched Lestari in Indonesia, an innovative development program that mobilized the company and local communities in more than 20 projects involving 50 schools and over 300 volunteers in eight locations. In 2008, more than ten additional projects will be launched. Lestari means "sustainable" in the local language.



VOLVIC'S "PET" PROJECT

Since 1992, Volvic France has been a member of Eco Emballage, the French recycling consortium that Groupe Danone helped found. Recycled bottles are transformed into fibers used for everything from fleece garments to other bottles, egg cartons, flower pots and more! In 2007, Volvic took a bold new step, incorporating 25% recycled PET into its 1.5-liter bottles. If recycled PET volumes go up, this will help cut production costs. Starting in the second half of 2008, all Danone bottles will carry a message encouraging French consumers to sort recyclable waste.

(1) Bottles are compacted before recycling. (2) Warehouse in Zeebrugge, Belgium.



UK—MORE TRAINS, LESS CARBON

Some 460 million liters of mineral water are sold in the UK on average each year, with Evian and Volvic brands accounting for around 95% of the total volume. Since Danone has no plants in the country and the product can only come from the Evian and Volvic springs, the water is imported from France, transiting through five warehouses in France, Belgium and the United Kingdom.

Optimizing logistics
Since 2005, Danone has been working to reduce the carbon footprint of its logistics operations by optimizing the routes between French plants and British customers. Trains cover 70% of the distance between plant and warehouse, while trucks cover the remaining 30%, in addition to delivering the product from warehouse to end customer.

In 2007, Danone UK overhauled its logistics chain to increase the rail proportion in France by 35%, bringing an immediate improvement in environmental impact. Audits carried out every four months show that total carbon emissions have fallen by 26%. Reorganization initiatives have also included partnering with a UK distributor to share warehousing of shipments from Zeebrugge, optimizing loads and ultimately reducing the total number of trucks used. The resulting reduction in emissions of CO₂ has been estimated at 350 metric tons for 2007.

TO LEARN MORE, download the sustainable development report at www.danone.com

¿Por qué cuidar tu piel con Essensis?

PORQUE EL 90% DE LA PIEL ESTÁ EN EL INTERIOR
Nuestra piel está compuesta por varias capas y tan sólo vemos la más externa. ¿Pero sabrías que la piel que vemos es fruto del 90% que está en el interior?

PORQUE LA PIEL SE REGENERA DESDE EL INTERIOR
Las células de la piel nacen en las capas profundas, y van subiendo hacia el exterior. Durante este ciclo de vida celular, que dura aproximadamente 4 semanas, Essensis proporciona a tu piel los ingredientes esenciales que necesita. Por eso, Essensis de Danone nutre tu piel desde el interior.

PORQUE CONTIENE

Aportándole una combinación exclusiva de ingredientes naturales, que tu piel necesita a diario:

- Aceite de Boraja
- Antioxidantes naturales
- Vitamina E
- Fermentos exclusivos de Danone

www.essensis.es



1



2

SOCIETY

Aiming for positive societal innovation, Danone is experimenting with new models of local development that reverse traditional priorities, making benefits for people the first goal of business.



3

DANONE.COMMUNITIES: ALTERNATIVE INVESTORS

The danone.communities adventure began in October 2005, when Danone CEO Franck Riboud first met Muhammad Yunus, founder of the Grameen microcredit bank and soon to become the winner of the 2006 Nobel Peace Prize. The two men realized that they shared the same convictions on using development to benefit the world's neediest people, and agreed to start a joint business in Bangladesh—and in

March 2006 Grameen Danone Foods became a reality. The new company had a triple mission: to develop a yogurt with added nutritional value for children and priced within reach of even the poorest consumers (named Shoktidoi, “that which builds strength” in Bengali); to improve standards of living in the local community by creating jobs; and, finally, to protect the environment and use resources wisely. Grameen Danone

Foods also aims to be profitable, enabling it to continue the pursuit of these goals over the long term.

350 new jobs

Grameen Danone Foods is based on a pioneering business model that relies on micro-plants which have an annual capacity of 3,000 metric tons, a community distribution network, and development of local farms to supply milk. The first plant began operating in February 2007 in the town of Bogra: a year later it employed 50 people and was producing 10,000 cups of Shoktidoi yogurt a day. Shoktidoi is distributed door to door, creating 300 new jobs for rural women known as “Grameen Ladies.” And Grameen Danone Foods buys milk from some 400 local farmers, providing them with a stable source of income.

Creating danone.communities

As Grameen Danone Foods drew growing interest and began to deliver promising results, Danone was eager to promote what Muhammad Yunus calls the Big New Idea of social business enterprises. In April 2007, the Group founded the danone.communities project, combining a *sicav* investment fund and a venture capital fund with the goal of building a community of inves-

tors interested in investing wisely, but above all in helping to foster new models for development. The fund will support projects like Grameen Danone Foods in different parts of the world—driven by the same spirit of social entrepreneurship, consistent with Danone’s mission to bring health through food to as many people as possible, and guided by the golden rule of producing the maximum social benefit while remaining profitable enough to have a lasting impact. Danone will also make an annual contribution covering the fund’s operating costs—of €1.2 million in 2007—and invest a total of €20 million in the danone.communities *sicav* fund.

Serving others

The fund is governed by a Board of Directors that guides and oversees deployment of its operations. There is also a Societal Innovation Committee made up of experts drawn from each of Danone’s business lines, plus independent members with recognized expertise in socially responsible investment (SRI) and emerging economies. This Committee reviews and analyzes proposals, which are then submitted to the management of the associated venture capital fund that selects projects for funding. Up to 10% of the danone.communities *sicav* fund’s assets may be invested in social business enterprises. At each stage of an investment, a structure is put in place to work in partnership with local stakeholders and NGOs in the countries concerned.

Results that speak for themselves

By the second half of 2007, the danone.communities *sicav* fund had attracted €55 million from institutional investors and subscriptions from 30% of the employees at Groupe Danone’s corporate headquarters and R&D center. Managed by the French bank Crédit Agricole, this fund was opened to the private clients of Crédit

Lyonnais in November 2007 and is slated to open to the public in 2008. Also in 2008, the separate danone.communities venture capital fund will approve its first investment: the second phase of Grameen Danone Foods in Bangladesh, which will increase output at the Bogra plant and add a second production unit. This year will also mark the launch of a study by the NGO Global Alliance for Improved Nutrition (GAIN) to measure the impact of Shoktidoi on children’s health. The Societal Innovation Committee is also reviewing proposals for new projects in other Asian countries and Africa. ■

(1) and (2) 300 Grameen ladies distribute Shoktidoi to local residents. (3) Franck Riboud and Muhammad Yunus in Bangladesh in November 2006.



TO LEARN MORE,
visit www.danone.communities.com

Board of Directors

The danone.communities Board of Directors is headed by its President, Groupe Danone Chairman and CEO Franck Riboud, and Vice-President, Professor Muhammad Yunus, 2006 Nobel Peace laureate and founder of Grameen Bank. The members of the Board are:

Emmanuel Faber, Co-Chief Operating Officer, Groupe Danone
Gary Hirshberg, founder of Stonyfield Farm
Georges Pauget, CEO of Crédit Agricole SA
Jacques Bungert, Co-President of Young & Rubicam France
Jay Naidoo, Chairman of GAIN
Jean-Michel Sévérino, Managing Director, French Development Agency
Xóchitl Gálvez, Chief Executive of High Tech Services, Mexico
Zinédine Zidane, ambassador for Danone youth programs.

The Board of Directors has proposed appointing Maria Nowak, founder of the not-for-profit Association for the Right to Economic Initiative (ADIE), as director at a future General Meeting.

REDUCING POVERTY

They are called *cruceros* in Mexico, daniladies in South Africa, and Grameen ladies in Bangladesh.

However diverse these countries may be, for their poorest inhabitants the problems are the same. And though they have different names, they all share the same experience: helping Danone invent new distribution methods intended primarily to create jobs and provide maximum benefit to the local community.

The first experiment dates back to 2005 in South Africa, where the product was Danimal—a yogurt designed to meet children’s nutritional needs affordably. Ten percent of Danimal sales are through daniladies, jobless women who sell

(1) *Crucero* at work in a Mexico City street.



door-to-door in townships under the supervision of danigrandmas, township women with more education. In 2007, Danone set up another local distribution system in Bangladesh, where Grameen ladies sell Shoktidoi yogurt.

A new societal distribution system

The Mexican project is slightly different because the *cruceros**, who are among Mexico’s poorest, do not sell only one product. Instead, they offer a range of Danone Mexico’s fresh dairy products on the street, working out of refrigerators placed at major intersections. At 100 pesos for every 32 yogurts sold, *cruceros* earn more than the Mexican minimum wage, and they are entitled to social security.

To help them secure access to the mainstream job market, Danone Mexico also provides training through a partnership with the NGO Ashoka. The *cruceros*’ contribution to Danone Mexico’s business is marginal**, but the primary goal of the project is not financial.

While profitable enough to enable the *cruceros* to earn a living wage, the program seeks above all to improve living conditions for the poor. In addition to its existing initiatives, Groupe Danone is working to deploy this societal distribution model in other countries. ■

* The word *crucero* comes from the Spanish for “crossing”. *Cruceros* sell their wares at crossroads.
** Sales represent some 100,000 pesos—a little over €6,000 per month, against total sales of €10 million generated for Danone Mexico.

Key figures ■

One hundred and thirty *cruceros* sell Danone products in Mexico, and 40 are enrolled in Ashoka’s training program, attending three two-hour classes a week. About 20 have joined Danone as supervisors or plant operators. Danone Mexico’s medium-term goal is to provide work for 4,000 *cruceros*.



TO LEARN MORE

Since 2007 Danone has published a sustainability report providing investors, ethical funds and CSR rating agencies with analyses of the Group’s social responsibility performance. The report describes:

- Danone’s strategy and commitments in the three facets of sustainable development—the economy, society, the environment—as well as the challenges facing the Group and the primary impacts

and responsibilities of its business
- governance and management systems
- the Danone Way program. The report also includes indicators in accordance with the Global Reporting Initiative

(GRI), an international reporting standard for sustainable development. Consult the report at <http://www.danone.com>—choose International Version, Sustainable Development and Experts’ Corner.



ATTITUDE

**Irina Zaytseva,
Trade Marketing
Supervisor, Russia**

I believe everything's a question of attitude. You need to put yourself in other people's shoes, and be positive. Whether at work or in my private life, I try to keep smiling whatever I do.



ENTHUSIASM

**Guillaume Benezeth,
Wal-Mart Global Supply
Chain Manager,
Dannon USA**

Recognizing and inspiring enthusiasm helps our employees enjoy their jobs. That's why I've always tried to champion enthusiastic people—I know their positive attitude is contagious.



PEOPLE FIRST



VALUES

**Dhian Puspawati,
Aqua Human Resources
Supervisor, Indonesia**

I try to implement Danone values in relationships with my colleagues. It isn't always easy to adapt global goals to a local culture. So I take as much time as I can to share this new philosophy with the people around me, because it is crucial to the way we work and to achieving success.

The Human Resources function plays a critical role at Danone, fulfilling an ambitious dual mission to improve collective performance and strike a balance between business and social imperatives. One of Human Resources's 2007 priorities was an increased focus on all employees, not just managers—a new attitude that can be summed up in two words: People First. To be sure, many international corporations have adopted similar slogans, but at Danone it is put into action. HR teams have already begun to make this approach a reality, and preliminary results will be measured in the next internal survey, slated for

2009. (See page 66 for an interview with Douglas Rosane, Executive Director of Towers Perrin International Survey Research.)

**People at the core of
the Group's performance**

People First is a commitment to give all Danone employees—both managers and non-managers—the benefit of training programs, promotions, and increased job mobility. To spark creativity and encourage cooperation across units, Danone has set up cross-functional working groups so that people in finance, for example, can learn more about marketing, and vice versa. Recruiting policy, which focuses on attitudes as well as on skills, is

another key component, and over the past few years the Group has also stepped up its diversity initiatives. Expanding these best practices while continuing to implement Danone's social responsibility policy should allow the Group to reach its No. 1 human resources goal: to help employees grow, creating an environment in which every employee can thrive while cultivating the high levels of engagement and commitment that are the best guarantee of growth and strong performance. ■

SHARING
Doreen Welz,
Global Product Manager
Activia, Germany

For me, sharing is part of everyday life. When I exchange ideas with my colleagues about a task or a project, it gives me a chance to compare my views with theirs. It's amazing what you can learn from other people's experience.

MOVING AHEAD
Claudine Bouquillon,
Production Line Operator,
Bailleul, France

I was admitted into a career training program funded by Danone, and now my childhood dream is coming true: I'm earning a high school diploma. The whole experience has made me more aware of my strengths. And yes, I'm proud of myself!

DIALOG
Yilmaz Ozturk,
Human Resources Director,
Turkey

For some time now, I've been setting up more opportunities for dialog with my teams outside office hours. Spending time together away from the office strengthens social ties and gives us a better understanding of each other. It makes us much closer.

DIVERSITY
Malgorzata Cudzilo,
Overheads and Reporting
Controller, France

I'm Polish, but I've always felt at home at Danone headquarters in Paris. Employee diversity is a valuable resource, and we should continue to protect it.



LISTENING
Catherine Wong,
International Mobility
Manager, Singapore

Every day I deal with colleagues who are moving abroad for work. My role is to listen—to go beyond their surface concerns in order to understand their true needs, deep-rooted motivation, and constraints. Listening enables me to be more effective in my work.

RESPONSIBILITY
Christophe Grange,
Industrial Director, Poland

I try to bring out the potential in my production-line people: whenever the decision-making process affects them, I make them a part of it, and I encourage them to join our collective search for solutions. I want them to be as proud to work for Danone as the managers are.



IN TOUCH
Francisco Camacho,
General Manager,
Danone Argentina

A main challenge for the manager of a subsidiary is to stay close to all staff members. Which is why I arrange regular opportunities for meetings that let me gauge the mood and understand how my teams see things.

TALENT
Valérie Gent-Pietruszka,
Marketing Director,
Blédina, France

I'm convinced that all of us have inner riches just waiting to be revealed. And I can't stand the idea that I'm missing out on someone's talents or creativity! I try to focus on the things that make each of my fellow employees unique.



Danone's commitment to putting people first is meaningless unless it is lived every day. And though they express it in different ways, subsidiaries around the world share the conviction that employee development is at the heart of corporate responsibility—and corporate performance.

DREAM COME TRUE



BB I was born in Vietnam in 1975. An English family adopted me, and for many years I dreamed of going back to my native country to find my biological mother. I also wanted to visit the Go Vap orphanage near Ho Chi Minh City, where I spent the first few months of my life. When I heard about Danone UK's "Do you dare to dream?" project encouraging personal initiatives, I submitted an entry explaining what I wanted to do,

how much it meant to me, and my humanitarian motives. Much to my surprise, my entry was selected, and my dream came true! For four weeks, I did volunteer work with handicapped children at the Go Vap orphanage. I had collected donations at Danone UK to buy medical and cleaning supplies, books, and anything else an orphanage might need. Even now that I'm back home, I've continued to work for the children at Go Vap—some

of them are severely handicapped—by raising awareness both at Danone and in the larger community, in particular by going on the radio. I need to make this dream continue and grow, by being committed myself and by inspiring commitment in as many other people as possible. **BB**

Kim Browne spent four weeks in Vietnam as part of Danone UK's "Do you dare to dream?" project.

A LAB FOR DIALOG

Improving efficiency by creating a "networking attitude" among managers—and more broadly among team members—is not a new idea at Danone, but it was not until 2007 that the concept was tested in the Group's R&D centers.

"The more our researchers communicate with one another, the more we can share our challenges," explains Arielle Genton, head of organization and skills development.

"That's the reason we launched Impact, our R&D creativity program. At seven workshops, 200 researchers exchange ideas on what leadership means for

a group like Danone; they discuss how research can contribute, and what tools and resources are needed to make R&D more effective.

"Here researchers are the primary stakeholders, and their dialog on these issues will shape the future of Danone R&D."



GROW AND GROOM

Danone's Growing program, designed for experienced managers at Fresh Dairy Products subsidiaries in fast-growing Eastern and Central European markets, gives managers a bigger role in the Group's growth strategy and inspires them to share its values.

Since the program was launched in 2006, a total of 178 participants, or 55% of eligible managers, have attended four seminars in various countries.

The seminars highlight growth drivers identified by Danone, challenging participants' creativity and allowing them to exchange local best practices. Equally importantly, they offer managers an opportunity to step back and gain Group-level perspective.

EMPLOYABILITY

Without a qualification, it's hard to get ahead. So around the world, Danone employees are improving their own skills—and the Group's performance—with Evolution, our international career development program. In France, workers with no formal education gain access to diploma-track courses through Evoluance, the program's French

component. More than 950 employees from 40 Danone sites have earned a degree through Evoluance, and in 2007 the program was renewed for another two years. At corporate level, Evolution consists of five modules: core instruction in reading, writing and basic math; operational training on new equipment; a Skills Passport program;

annual one-on-one career development sessions; and job mobility analysis for all employees. Evolution enables workers to take stock of skills and experience, round out training and know-how, and increase job mobility. At the same time, it gives Danone the benefits of a more efficient, more flexible workforce.



A DAY DEVOTED TO CHILDREN

Since 2002, Danone Children's Day has given thousands of Danone employees the opportunity to work with children's organizations around the world.

In the United States, Dannon White Plains chose to support New York-based Blythedale Children's Hospital on Children's Day 2007. A large contingent of employees turned out to visit children being treated at Blythedale, and a donation from Dannon enabled the hospital to hold two nutrition education seminars designed to help parents instill healthy eating habits in their children—a meaningful gift in one of the countries hardest hit by the obesity epidemic.

EMPLOYEES COMMIT FULLY IN PORTUGAL

Responses to the 2007 Danone People Survey—a tool for measuring attitudes to human resources policy, working conditions, fairness and company pride among Group employees worldwide (see pages 66-67)—were particularly striking in Portugal. Staff at Danone Portugal outperformed their counterparts at other subsidiaries in a range of key criteria, with employee engagement at 94% and 90% of employees stating they identified with the Group's culture and values.

BONUS WITH SOCIAL CONSCIENCE

Danone's dual commitment to business success and social progress is now an integral part of compensation for our 900 senior managers.

In the past, their variable compensation had been based solely on achieving business and managerial goals—standard practice in major international corporations—but our new formula includes societal and environmental criteria that reflect our unique

growth model. This focuses on people and the environment as well as business performance (see page 45).

More specifically, metrics include real-world criteria such as hours of training per employee, accident rates, water and electricity consumption, and recycling of packaging.

LEADERSHIP

BB Over the past three years, the Odyssey Leading Edge program has helped more than 80 of Groupe Danone's senior executives to develop their leadership skills and to rethink their business strategies in unique and unconventional ways. The goal is to help them to open up to the outside world, to find new levers for growth, to take

intelligent risks, and to deepen their self-knowledge through an innovative program that focuses on both the individual and on the collective. Odyssey Leading Edge uses field visits and debates on key ideas to take participants out of their comfort zone into an unfamiliar professional environment. This mindset led us to put a meeting with the founder of a

hospital for children with AIDS in South Africa on the schedule. Other activities include analyzing the supply chain of a flower distribution company's (which concerns fresh, perishable goods) and talking with a Greenpeace activist. All of these experiences have been powerful and thought-provoking, professionally and personally. **BB**

Marc Gosselin, General Manager, Africa/Middle East, Fresh Dairy Products.

It is worth noting that this very *à la Danone* leadership program operated at Executive Committee and directors level for two years (with some 125 participants in 2007). At the end of 2007 it was deployed as a pilot program for people reporting to directors.

"SPEED DATING" FOR NEW TALENT

Young engineers are often unfamiliar with the food industry. To attract new talent in France, Danone has launched an all-new program: Danone Explorers. This evening event for engineering students features a presentation on the Group's business lines, followed by 15-minute speed interviews with candidates interested in doing internships at Danone on graduation. Of the 113 students who attended the first gathering in 2007, 44 were placed in internships for 2008.

INTERNAL MOBILITY

In 2007, internal hires accounted for 68% of the managerial positions filled.

NETWORKING IN ALGERIA



At Danone Djurdjura in Algeria, everyone knows about the People & Organisation project! Launched in 2006-2007, the first phase focused primarily on empowering managers. It involved them in the subsidiary's policy

and strategy decisions, and encouraged them to pattern the subsidiary's guiding principles after the Group's. We have taken a number of steps to foster initiative and risk-taking under the motto "Nothing Is Impossible," and we've made

managers more aware of the critical importance of workplace safety and our zero-accident goal. Now we are re-focusing on the entire workforce. Our current priority is to eliminate barriers between teams and open up avenues of communication to foster a networking reflex, but we're also working on skills development and other projects. We doubled the training budget in 2007, and by making every Danone Djurdjura employee eligible for a bonus tied to business indicators, we've given everyone a personal stake in reaching our goals.

Zoheir Oumerzouk, Director of Human Resources, Danone Djurdjura.

SAFETY FOR ALL IN ARGENTINA

Launched in 2004 and later deployed Group-wide, Danone's Wise program makes workplace safety everyone's business. And in 2007 Aguas Danone Argentina pulled out all the stops to achieve zero accidents at its Alianza warehouse in Buenos Aires. By creating suggestion forms that any employee can use to report potential hazards, Alianza has heightened workers' awareness of their own safety and enabled them to make a personal contribution to improving

safety for everyone. Newsletters and posters give specific guidelines for safe work practices, which are further reinforced by Safety Days. Last October 130 employees participated in Safety Day programs, and 145 employees received safety training during 2007, up from 115 in 2006. And Alianza has reached its goal: in 2007, the warehouse reported zero accidents, down from three in 2006.



CZECHS SPEED TO SUCCESS

Harnessing the power of teams to work faster and more effectively, Danone Czech Republic has energized and updated its three leading brands—Actimel, Activia and Dobrá Máma—and optimized its strategy for serving top customers. All of the subsidiary's managers contributed, working together in eight Business Acceleration Teams organized as steering committees, with each business function represented.

Supplemented by training programs, this cross-functional approach has generated innovative solutions and become a powerful driver for employee engagement. The results speak for themselves: by late 2007, net sales on the Czech market were up more than 52% for Activia alone.

IMPROVING SAFETY

Workplace safety is given top priority at Groupe Danone. With awareness campaigns in effect at all Group sites throughout the world, our accident rate

dropped from 9.8% in 2004 to 6% in 2007.

Accident rate: the number of accidents resulting in at least one day of sick leave per million hours worked.

HEALTH AMBASSADORS

Since 2005, Groupe Danone has launched numerous initiatives promoting health through food and healthier lifestyles for our employees. In New Zealand, water subsidiary Frucor held a week of workshops led by a variety of health professionals, inspiring

employees to practice a philosophy of well-being and making them aware of the health benefits of Danone and Frucor products. In all, 419 employees were given individual counseling, and 126 received complete check-ups.

BEST PRACTICE

Sharing best practices is an article of faith at Danone. It is viewed as a way for people to pass on their tried and tested best practices to others who might need them, without having to go through the traditional managerial channels. In 2007 Bonafont, Danone's water subsidiary in Mexico, put this belief into practice by bringing its entire staff—280 employees from 22 warehouses—together

in Cancún so that each employee could promote his or her own initiatives. "We wanted to create a loop for idea-sharing among warehouses and encourage local initiatives," explains Martin Renaud, Bonafont's General Manager. In a setting modeled on a traditional market, 32 "givers" shared their best practices with 250 "receivers" in search of innovative solutions.

By the end of the event, 24 best practices had been identified, and several warehouses were rewarded for outstanding projects. These included Bonafont's Guadalajara site, recognized for significantly reducing the amount of industrial waste it produced.



TRAINING

Eighty percent of Danone employees participated in at least one training program in 2007, up from 74% in 2006. Among non-managers, the training rate was 78%.

LOCAL SKILLS

Of the Group's total workforce of 76,000, only 580 employees are expatriates. This low proportion reflects the Group's commitment to underpin its global reach with local skills.

ATTRACTING TALENT ON LINE



For the past five years, Danone's Trust* Days have invited students to immerse themselves in Danone strategy by playing a business game based on real-life scenarios. This innovative tool opens a window on players' reactions, allowing the Group to identify and even recruit talented young people. To promote the fifth edition of Trust, Danone Turkey supplemented the usual posters and brochures with the power of Facebook, leveraging the explo-

sion of social networking sites to circulate registration procedures and game rules to a larger group of students. At one of the universities partnering with Danone Turkey, a Trust group was created on Facebook, expanding the game beyond the university's walls to provide program information and allow students to share experiences, post questions and chat on line.

*For more on Trust, visit www.trustbydanone.com

Interview

—Employee engagement as a driver for growth

Douglas Rosane, Executive Director
Towers Perrin International Survey Research, Paris office



Every two years since 1999, Douglas Rosane has analyzed Danone from the inside out, assessing how employees view the company, what creates a sense of personal investment or dissatisfaction, and how well the corporation lives up to its values. In 2007, the Group’s staff survey went out to a total of 31,900 employees and 23,000 responded. Here Rosane explains why more and more companies are listening to their employees and spotlights trends at Danone.

Why are self-assessment tools so popular with businesses now?
Douglas Rosane: For a number of years, major corporations have noticed a strong correlation between performance and employee engagement. As a result, they’ve felt the need to measure that engagement so that

they can take strategic advantage of their strengths and correct their weaknesses. No one can sell a product effectively without loving it—or at least believing in it—and the same is true at the corporate level. Corporations don’t just do this as a feel-good exercise. They do it to improve their employees’ motivation, and with it their performance. That’s why Danone has conducted regular large-scale surveys since 1999.

Have employee expectations changed?
DR: Like the society around them, today’s employees are searching for meaning. More and more of them believe that the values communicated by their employer are important. Employees of 21st-century corporations never forget that they’re also citizens and consumers—and they expect their employer to show a certain level of social responsibility. Considerations

like salary were more critical to employee satisfaction in the past, but today they’re weighted by expectations that are broader and more people-oriented. At Danone, for example, the 2007 study showed that employees at all levels identify strongly with the Group’s mission and values. Which puts Danone’s engagement level among the highest in the very sizable sample of corporations that we’ve studied, and that’s a powerful driver of corporate performance.

What makes Danone different?
DR: As I’ve said, Danone employees show a level of engagement that is well above the average. They believe strongly in the Group’s vision and are actively committed to achieving its goals. They overwhelmingly support Danone’s role as a major player on international markets. In short, they have a very clear grasp of the Group’s competitive image and leadership skills, and they have real belief in Danone’s health positioning and the quality of its products. But the most striking aspect of Danone employee

attitudes is the importance attached to corporate culture. Willingness to take risks, participatory style, adaptability, and absence of red tape are all fundamental sources of satisfaction.

Where has the Group made significant progress?
DR: Employees see a considerable improvement in Danone’s ability to disseminate best practices. That’s no surprise. In 2003, after the initial surveys, the Group began actively promoting networking among managers in different business units, and the effort has clearly paid off. In the past, Danone also received fairly low marks for its ability to set priorities, and that problem has been corrected as well. Similarly, non-manager satisfaction with information and personal development opportunities has risen since 2005. That said, favorable opinions are still much more common among managers than non-managerial staff.

Which areas need the most work?
DR: The first priority is to bring non-manager satisfaction up to the higher levels found among managers. Danone plans to close the gaps we’ve seen over the past few years with People First, a core component of human resources policy that calls for equal attention to every employee. This will probably be one of the big issues in the 2009 survey. Secondly, expectations regarding social responsibility and corporate citizenship have changed significantly in recent years. Historically, Danone has been in the forefront on these issues, and it makes sense to respond to this growing desire now, to head off employee frustration. Finally, the Group wants to encourage sharing and recognition. More and more, what Danone employees want is values—and they want to see them in action at the workplace.

82%

is the 2007 engagement score for Groupe Danone employees participating in our internal survey. With managers at 85% and non-managers at 80%, Danone performed extremely well, exceeding the 77% average for consumer goods companies.

Employee engagement measures commitment and sense of belonging. Danone monitors this indicator very closely, since studies show a direct correlation between employee engagement and corporate performance.

High engagement levels among Danone employees reflect pride at belonging to the Group, identification with our corporate goals and values, and confidence in management’s ability to generate growth.

2007 DANONE SURVEY RESULTS



2007 survey results show that employee opinion has improved noticeably since 2003 and 2005 in most of the areas measured, with overall scores significantly better than those for managers at the average consumer goods company. More than ever, the survey highlights Danone’s unique corporate culture. Employee engagement has clearly become one of its strengths, and leadership—another key asset, defined as commitment to strategic goals, individual empowerment and autonomy—is also up significantly. But the gap between managers and non-managers is still too wide, particularly for access to information, leadership, direct management and training. Closing this gap will continue to be a major goal for the Group in coming years.

Figures show the percentage of positive responses to a set of questions organized by topic.

Danone employees show a level of engagement well above the average.



20%

Sales of **FRESH DAIRY PRODUCTS** posted a record rise of 12.2%, buoyed by the performance of four star brands—Activia, Actimel, Danonino/Petit Gervais and Vitalinea/Taillefine—which reported growth of nearly 20%, and the geographic expansion on several continents.

20 bns

WATERS sales for 2007 totaled some 20 billion liters, setting growth for the line at 4%. This reflects resilience to unfavorable weather in Western Europe and a highly focused growth strategy geared around natural waters and their contribution to health.



17%

The new **BABY NUTRITION** line has global reach and promises especially robust growth, spurred by innovation and internationally applied best practices. Baby Nutrition sales are expected to account for 17% of Danone's business in 2008.

Number 1

The **MEDICAL NUTRITION** line is number one in 19 countries, primarily in Europe and Asia. Sales reached €800 million in 2007, with 35% from Special Needs Nutrition including food supplements to fight malnutrition, and 65% from Targeted Nutrition products designed to help patients.



Percentages for Fresh Dairy Products and Waters are expressed at constant scope of consolidation and exchange rates. Percentages for Baby Nutrition and Medical Nutrition reflect pro forma accounts.

BUSINESS

In 2007, Danone turned in another year of firm growth in sales and operating income—a performance all the more impressive in view of challenging economic conditions marked by rising commodity prices and adverse summer weather in Western Europe. Scientifically proven health positioning for leading brands and geographic expansion were key contributing factors.

Das neue  Joghurt mit dem  an Nährstoffen für die Frau.



Das PLUS für mich.

- + Folsäure für Konzentrationsfähigkeit, Zellteilung und Zellneubildung, beteiligt am Proteinstoffwechsel
- + Vitamin B5 (Pantothensäure) für Lipidstoffwechsel, Abbau von Kohlenhydraten
- + Vitamin B12 für die Blutbildung, Abbau einzelner Fettsäuren
- + Vitamin D für Knochendichte, Calciumaufnahme im Knochen, Muskelaufbau



FDP

SCIENCE FOR PROGRESS

Fresh Dairy Products (FDP) had a record year in 2007, reporting 12.2% growth at constant structure and exchange rates. Sales came to €8.8 billion* — over half of the Group total.



4 brands

Blockbuster products under four brands—**Activia, Actimel, Vitalinea/Taillefine and Danonino/Petit Gervais**—account for over €4.5 billion in sales. Activia alone represents nearly €2 billion of this figure.

A

strong 12.2% rise in Fresh Dairy Products sales in 2007 once again reaffirms this line's ability to innovate and win new territory for its leading brands. With operating margin up from 13.7 to 14%, the business was also more profitable, despite a steep rise in raw material costs. Milk prices saw a record increase, generating €300 million in additional costs, while spiraling oil prices made transport and packaging more expensive. These increases forced Danone to raise prices an average 5.5% for the year, though actual increases varied by country. Yet higher prices were well tolerated overall, with volume growth keeping pace with last year to reach 5 million metric tons.

Growth by region

Sales in Europe rose nearly 10%, buoyed by robust trends in Spain—the FDP sales leader—and strong showings in Italy and Greece. There were also impressive gains in Northern Europe, with 22% growth in the Netherlands and 20% in Scandinavia. Eastern Europe confirmed its potential with an overall increase of nearly 23%. In North America, volumes in Canada were up a vigorous 19%, while US growth of nearly 10% in the first half of 2007 jumped to almost 20% in the second, spurred by the success of Activia and DanActive. Launched in 2006 and 2007, respectively, these high performers have underscored the power of brands with strong health positioning. Sales were also up 10% for US-based Stonyfield, which leads the North American market for organic dairy products and is the largest producer of organic yogurt in the world. Growth in Latin America averaged 17% overall, with remarkable performances in several individual countries. Sales were up 23% in Argentina, 19% in Brazil and 12% in Mexico, a trio that now accounts for nearly 14% of FDP's total business. The Group also made impressive gains in Africa and the Middle East, with 35% growth in South Africa, 18% in Algeria, and 11% in Saudi Arabia. In Asia, 2007 brought 18% growth in Japan, where the Group took full control of its FDP business after buying out its original partners, Calpis and Ajinomoto. In China, experience acquired through partnerships plus gains in brand awareness led Danone to maintain its growth strategy. In late 2007, the Group launched several new initiatives designed to further its continuing goal of expanding market share for Danone brands in China.

Health benefits drive growth

With 2007 sales of nearly €2 billion, Activia—a fermented dairy product that, when eaten daily, helps promote

transit regularity within two weeks—reaffirmed its status as a powerful growth engine, while Danacol, another star health performer in 2007, chalked up growth of 35%. A market leader for ultra-fresh cholesterol-lowering products, Danacol saw sales rise by around 35%, as deployment continued in Russia and Poland. Now sold in more than ten countries, it commands over 60% market share in each. Essensis, a new dairy product that improves skin barrier function by nourishing skin from the inside, was launched successfully on the French, Italian, Spanish and Belgian markets in 2007. Actimel, which helps strengthen the body's natural defenses, topped €1 billion in sales on continued strong growth of 13%, and sales were up 7% for Danonino/Petit Gervais, a children's yogurt fortified with bone-building calcium and vitamin D. Danone's strategy of continually improving the health benefits of products through sizeable R&D investments and backing claims with solid science has set its products apart, establishing a sound foundation for growth. The same products are differentiated through improved taste appeal and the Group's combined marketing and manufacturing prowess. In the indulgence segment, Danette topped €500 million in sales, confirming its potential in emerging countries.

Ever broader horizons

Although Danone expands into three to five new countries each year, 2007 set a record, with FDP moving into Chile, Colombia, Egypt, Thailand and Indonesia, and beginning to sell products in Kazakhstan. Danone has grown steadily on emerging markets, taking the leader's spot in only a few years. Early results in Thailand are promising, and in Indonesia the Group inaugurated a new plant that will give Indonesians access to Activia in addition to Milkuat, a long-life dairy product. Bangladesh-based Grameen Danone Foods, Ltd. (see page 54) is also gearing up for expansion, with a new plant set to distribute Shoktidoi yogurt in the Dhaka area. And in the Indian market, where Danone has formed a joint venture with Japan's Yakult Group, the partners launched their first products under the Yakult brand in late 2007.

8.8

billion euros—sales* recorded by the Fresh Dairy Product business line in 2007 versus €7.9 billion in 2006.

* Blédina is included in 2007 sales.

Bringing fresh dairy products to Indonesia



With the construction of a new plant near Jakarta in 2007, Danone is stepping up its presence in Indonesia, expanding its activity to include fresh dairy products. Based on nutritional studies of Indonesians, Danone chose Activia as its first locally made product. And since dairy products were still relatively new in Indonesia, the priorities established were to set an affordable price of between 20 and 28 eurocents per portion and develop a milk supply network consistent with the Group's quality standards. Here Danone has worked with local banks, setting up a microcredit system to help small farmers buy cattle. Groupe Danone is the first international group in Indonesia to launch local production of yogurt and hopes to become market leader.



DANACOL: A STAR IS BORN

Danacol continues to grow, with 2007 sales of €135 million and market share topping 60% in the ten-plus countries where it is sold. Behind its success: solid scientific backing for its health benefits, increased taste appeal and an expanded product range.

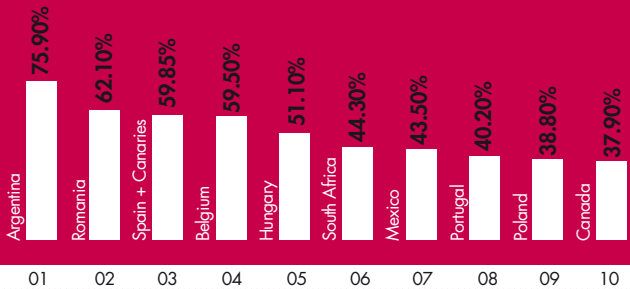
FOCUS ON DISTRIBUTION IN THE COMMUNITY

Small neighborhood outlets accounted for 35% of Fresh Dairy Products growth in 2007, primarily in Latin America and Eastern Europe. To keep dairy products fresh and available in as many shops as possible, Danone installs refrigerators and stocks them several times a week. Combining sales and logistics, this strategy gives our brand a crucial competitive edge in countries where the traditional neighborhood store dominates the market. In 2007, Danone installed 15,000 refrigerators in 12 countries, bringing the total number to 120,000 in 20 countries.



MARKET SHARE: THE TOP TEN FDP around the world

Growth in sales of FDP products has led to an increasingly balanced spread across geographic regions. The graph at right shows the ten countries with highest market share by value for 2007. Argentina tops the list with nearly 76%, followed by Romania.



Danone goes Russian

Ten years after entering the Russian market, our Fresh Dairy Products line generated 2007 sales of over €500 million, and Danone Russia is one of the biggest contributors to FDP sales in absolute value. Growth is powered by four blockbusters (see page 74) that together account for more than 75% of its performance, reflecting Danone's ability to adapt to local culture and respond to the taste and eating habits of Russian consumers. Thus Rastishka, the Russian version of Danonino, is fortified with calcium, iron and vitamin D to fight dietary deficiencies affecting one of every two children. Activia is another example of successfully going local. Launched in 2005, Activia Kefir—a traditional Russian beverage made from fermenting milk with kefir grains—now accounts for 20% of sales in the Activia range, and 2007 saw the debut of low-fat Activia Kefir. The product is sold in single servings to accommodate local consumption habits. In yet another example of Russian style, Danone has adapted the recipe for Actimel to include a version flavored with pomegranate, a fruit traditionally credited with strengthening the immune system. The strategy has paid off: between 2005 and 2007, Danone Russia sales jumped 62%.



Active growth for Activia

In 2007 Activia's sales neared the €2 billion mark at €1,877 million, fueled by annual growth averaging over 40% since 2000. The brand is also expanding steadily into new territory, moving into Greece, Switzerland, Thailand and Chile in 2007. Geographic targets for 2008 include Colombia and Egypt.

TURKEY SCORES WITH DANONE NATIONS CUP

Each year over 100,000 children—and many of their parents—flock to soccer fields in 81 Turkish provinces for the Danone Nations Cup (DNC) from September to May. Known in Turkey as “the Danone,” this international soccer championship for 10- to 12-year-olds is now a national fixture. The Ministry of Education is actively involved, and the number of participating schools has risen from 200 to 8,000 in eight years. At the 2007 DNC, some 115,000 youngsters found an outlet for their talents and shared a unique experience with fellow players throughout the country. Although the program is essentially community-oriented, it is central to Danone Turkey's strategy and has a real economic impact. “The DNC generates extensive media coverage,” says Serpil Timuray, General Manager of Danone Turkey. “There were over 300 articles in the press and 23 television

reports for the 2007 championship alone, and we've seen a marked improvement in our brand image. There's a ten-point gap in preference for Danone between people who are familiar with the DNC and those who aren't.” Turkey is one of 40 countries participating in the Danone Nations Cup, which has engaged over 15 million children and touched nearly 200 million lives worldwide since it was founded in 2000. The national tournaments culminate in the world finals, where over 800 youngsters compete annually in the company of French soccer star Zinedine Zidane, the DNC's international ambassador since 2003. Now the gold standard for youth soccer, the championship is grounded in four core values: openness, accessibility, fair play and sheer enjoyment



of the game. The bottom line? The DNC significantly enhances the Danone brand's international image, creating a genuine sense of community with the family audience attending the event.



BLOCKBUSTERS: A BREED APART

In 2007 Danone reaffirmed its strategy of differentiating its four blockbuster products: **Activia, Actimel, Danonino** (sold in France as **Petit Gervais**) and **Vitalinea** (also known as **Taillefine**). This differentiation strategy relies on establishing and promoting a unique positioning for each product, based on its nutritional value and health benefits. To ensure that health claims are well founded, Danone invests heavily in R&D and clinical studies, devoting €25 million to studies in 2007 alone (see page 32). It also differentiates products through innovative packaging and use of exclusive cultures and other ingredients. Examples include the success of new **Activia Cheese**—launched worldwide but tailored to local markets—and new market segments opened up by **Activia Drink**.

Asia—three models

One goal for Danone's Fresh Dairy Products line is to make products affordable for every consumer, in every country. To do so, it has developed three business models that adapt to local conditions everywhere—from mature to emerging markets. Asia offers a good example of deployment, since all three approaches have been applied in the region.

The first model is intended for mature countries like Japan. Here Danone regularly launches innovative new versions of its flagship products, introducing new flavors and formats and improving nutritional value—by reducing sugar in Actimel and Danonino, for example, or increasing Activia's bifidus content. The Group is also careful to make these products more competitive by holding price increases below inflation to make brands more and more affordable. Over the past 15 years, its prices have risen less than 15 base points.

The remaining two approaches are designed for emerging markets. The same blockbuster products are also sold in China, Thailand, and Indonesia, but by using local raw materials and the right packaging, they are priced so that consumers can

afford to enjoy them regularly. The third model is applied in poorer countries like Bangladesh. Under this approach, populations with incomes below €1 a day can regularly enjoy products with significant health benefits, and poverty is reduced at the same time. Shoktidoi yogurt, affordably priced at 5 BDT or around 6 eurocents, is sold door to door by 300 Grameen Ladies (see page 54). And the model has proved just how effective it is: 10,000 units were sold every day in 2007.



2008 HOLDS PROMISE

In 2008, Danone's Fresh Dairy Products line is aiming to accelerate growth. How? By leveraging its well-balanced presence on markets around the world, and by taking advantage of certain markets, now mature, that are growing at an annual rate of 20%. Growth drivers will include continued deployment of Danacol worldwide, accelerating sales of Activia and DanActive in the United States, and expanding business in Indonesia, Colombia and China, where the outlook for Activia is excellent.

MARKET OUTLOOK

Rising demand

In recent years demand for Fresh Dairy Products market has grown steadily around the globe. Danone is the world's number one maker of Fresh Dairy Products, with total market share of around 22% worldwide and weighted average market share of 32% in the countries where it does business.

SALES GROWTH

Strong momentum

The Fresh Dairy Products line posted sales of €8.8 billion—representing some 5 million metric tons—in 2007, with 67% of the total in Europe and the remaining 33% in the rest of the world. A steady stream of product launches and overhauls have fueled the line's success.

* All figures in millions of euros.



WATER POWERED BY NATURE

In 2007, **Danone refocused on natural waters**, using products with high added value to develop new markets. The Waters line's growth strategy is increasingly based on emphasizing the health benefits of leading water brands from Danone's own springs.

The year 2007 was a good one for the Waters business line, with 4% growth at constant structure and exchange rates, and 6% growth outside Asia. It was a commendable performance given the especially cool summer weather in Western Europe and a complex relationship with Wahaha in China. The Waters business line's sales totaled €3.5 billion, while the trading operating margin rose from 12.5% to 13.6% for the year.

Growth by region

In North and South America, Waters posted overall gains of 21.4%, with a rise of nearly 40% in Argentina. In

Mexico, Bonafont sales were up 18%, due largely to its success in the home and office delivery (HOD) market. In Europe, poor summer conditions in France, the United Kingdom, Germany and Belgium pushed sales down 2%. By contrast, Poland posted a steep 16% rise, as did Turkey, with sales up 14% against a backdrop of more favorable weather. Outside Europe and Japan, export sales were up 12%, driven primarily by Evian. In Japan, export sales grew a record 32%, buoyed by natural Volvic and Evian waters and by the launch of Volvic Fruit Kiss.

In China, 2007 saw a disagreement with Wahaha over the management of jointly owned companies, and negotiations for a long-term solution began in the second half of the year. At the same time, Danone Health Drink took over the number one spot in the Chinese spring water market, with growth accelerating to 19% in the Shenzhen region, its core market. In Indonesia, Aqua consolidated its position as the world's largest ■■■

producer of packaged water by volume, a performance matched by substantial investment.

Focus on waters

The Waters line has grown its business by leveraging the health benefits of water, using a differentiation strategy that positions each product based on water's four primary effects on the human body:

- elimination of toxins, a particularly important concept for Bonafont in Mexico, Font Vella in Spain and Villa del Sur in Argentina
- renewal: the human body is 79% water, which must be renewed every six weeks. This positioning relies on the association of our brands with springs that evoke ideal qualities, "mythical places" such as Evian in France, Lanjarón in Spain and Villavicencio in Argentina
- deep hydration and beneficial minerals, with Volvic in France, Zywiec in Poland and Hayat in Turkey, and
- weight management with Taillefine/ Vitalinea.

Refocusing on natural waters has strengthened the Group's positioning and increased market share in almost every country where the Waters line does business. At the same time, a new strategy—DNH for "drinkable, natural, hydrating"—has led to the launch of flavored waters with significant added value.

Sold under major brand names, these include Volvic Fruits in France (a new-generation water including 15% fruit juice); Villa del Sur Levité in Argentina; and Volvic Fruit Kiss in Japan (see opposite). Early results are positive, with flavored waters taking much of the credit for Waters' very strong growth in Japan last year. Following its launch in 2006, Argentina's Villa del Sur Levité flavored water was successfully renovated in 2007, joining with newly launched SER Sport to give Danone's Argentine Waters business a fresh boost.

Distribution a driver for growth

Also fueling growth are new Aqua Drink in-store sales areas in France, Argentina and the United Kingdom. With a dual emphasis on pleasure and health, these are introducing consumers to a new generation of products based on natural water. Another Danone priority is to continue building local distribution networks, stepping up the presence and visibility of the Group's brands in everyday life by creating more points of sale in each country, often in small neighborhood outlets. This strategy, which the Group has been implementing independently and in partnership with exclusive distributors, has already been deployed in Poland, the United Kingdom, Mexico and Argentina. ■



VILLA DEL SUR LEVITÉ TAKES OFF

Relaunched in Argentina in 2006, Villa del Sur Levité flavored water had another successful year in 2007. The brand is sold in three flavors—orange, grapefruit and apple—and sales grew 62% in a single year, adding more than four points to Villa del Sur's share of the total market for bottled waters (by value).

1 for 10 means water for everyone

Since 2006, Volvic has worked with UNICEF on an ambitious program to improve access to safe drinking water in developing countries.

Worldwide statistics confirm that diarrhea from contaminated water is one of the major killers of children under five. From its beginnings in Niger, the "Drink 1, Give 10" campaign has helped dig and maintain wells that give local populations reliable access to 40 liters of safe drinking water per person per day—twice the absolute minimum established by the World Health Organization. Originally launched in Germany and France, the program was expanded to Japan, Indonesia, Mexico, the United States, and other countries in 2007. In mature markets, proceeds are donated to UNICEF programs in African countries such as Niger, Ethiopia and Mali, while proceeds in emerging countries are used to finance local programs. In Mexico, Bonafont has partnered with a local NGO, concentrating on rural areas like Chiapas province, where 32% of the population lacks access to safe water. With backing from both Volvic and UNICEF, the program has rallied massive support from employees.



Volvic takes Japan by storm

First launched in Japan in May 2007 Volvic's flavored water Fruit Kiss Lemon helped boost the brand's market share in that country from 17% to 21%. It was one of the line's greatest achievements for the year in the fiercely competitive Japanese market. With full-year sales totaling almost 3 million liters, Fruit Kiss outperformed projections for both distribution and rotation.



79% of the human body is water. An adult of average height, living in a temperate climate and without significant physical effort, needs around 2.5 liters of water a day. Beverages supply 1.5 liters, while the remaining 1 liter comes from food.

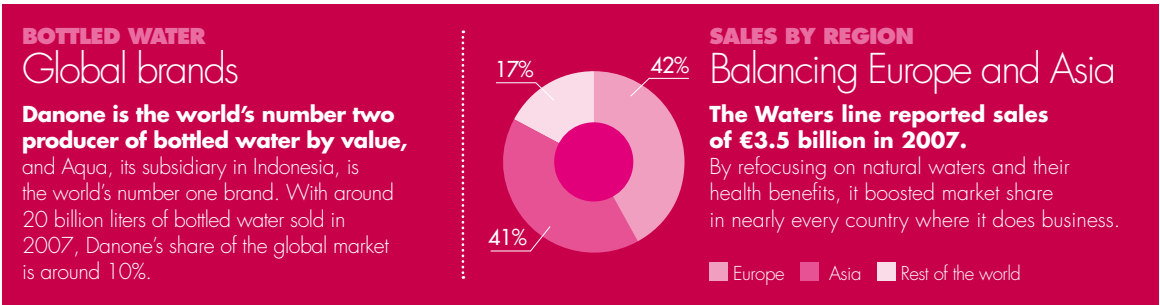
EVIAN TARGETS THE TOP

Overall, Evian sales are up 3.4%, and the brand has strengthened positions on all markets—starting with France, where it delivered its best performance in over 10 years with 2.5% growth by volume. This reflects the brand's unique assets, which Evian enhanced in 2007 by focusing on three core themes. The first, developed in France, Japan, Belgium and the United Kingdom, is the brand's core health positioning—its contribution to renewing the body's water content. The second is its responsible attitude towards sustainable development, as reflected by Evian's practice of qualitative and controlled water resource management, plus its commitment to protecting the world's wetlands. Both Evian and Danone are parties to the Ramsar International Convention on Wetlands, and the two companies teamed up to found the Evian

water schools in 2007 (see page 50). The third theme is Evian's up-market image, which the brand built on in 2007 by emphasizing its positioning as a luxury product. Two versions of a bottle specially designed by Christian Lacroix for the 2007 holiday season were put on the market: a "ready-to-wear" bottle sold to two million customers worldwide; and a hand-blown "haute couture" version produced in a very limited series of 99 bottles and sold for €5,000, with proceeds donated to the Ramsar Convention. In the United States, Evian also sells a premium bottle made of PET* and fitted with a pouring spout made of stainless steel, made available exclusively to restaurants. To round out this new positioning, the brand has relaunched the Evian spray bottle with



an updated design. Inspired by the world of cosmetics, the spray is positioned as a beauty product, with claims emphasizing its ability to set makeup and hydrate skin. * Polyethylene terephthalate



SPOTLIGHT ON NUMICO AND BLÉDINA

With Numico, Danone has acquired worldwide positions in two new business areas—**Baby Nutrition and Medical Nutrition**. Key 2007 figures for Numico* and Blédina point to particularly robust future growth.

BABY NUTRITION (FORMERLY NUMICO)

Baby Nutrition's trading operating margin reached 14.4% in 2007, offsetting price hikes for milk and other raw materials by simultaneously raising prices and cutting costs. Sales growth was strongest for the Fruit Dessert category, up 21.4%, followed by Growing Up Milk with 15.8% and Infant Formula and Follow On Milk with 12%.

9.7%

sales growth

The Baby Nutrition line posted an increase in sales of 9.7% from 2006 to 2007.

14.4%

margin

In 2007, the Baby Nutrition business line's trading operating margin reached 14.4%.



Sales
(in millions of euros)

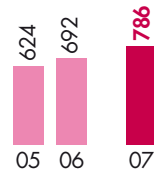
MEDICAL NUTRITION (FORMERLY NUMICO)

Despite rising raw material costs, Medical Nutrition widened its trading operating margin by 20 base points between 2006 and 2007, primarily by boosting productivity. The line's strongest sales growth came in the oral nutrition category, up 16.5%, and lactose GI intolerance/allergies category up 23.6%.

13.4%

sales growth

Medical Nutrition posted 13.4% growth in sales from 2006 to 2007, up from 10.8% between 2005 and 2006.



Sales
(in millions of euros)

21.8%

margin

In 2007, the Baby Nutrition business line's trading operating margin reached 21.8%.

* Figures for Numico are based on full-year 2007, although Numico did not become part of Groupe Danone until October 31, 2007. Growth in trading operating margin is based on Numico's accounting methods.



Robust growth for Blédina

Blédina reported a vigorous 10% rise in sales in 2007, to €492.4 million. Its market share in France topped 50% for the first time, due largely to investments in developing products for infants aged 18-36 months. The brand is also expanding internationally, especially in North Africa (see page 29). Success is built on a genuine capacity for innovation that strengthens its positioning as a welcome support for busy mothers, with breakthroughs ranging from food products under the Petits Grands label to new milks developed by Blédilait and Gallia.

blédina
Les Petits Grands
Les petits ont enfin leurs plats de grands.



1 portion
de viande
ou de poisson

1 portion
de légume
ou de féculent

Et clic...
1 plat complet
équilibré!



C'est nouveau, c'est varié,
c'est équilibré, c'est la liberté!

- 10 nouvelles recettes gourmandes en portions séparées
- 25 menus possibles à composer selon les envies de votre petit grand.
- Des plats complets adaptés à ses besoins nutritionnels.

Retrouvez les Petits Grands sur www.blédina.com



blédina

BOUGER, JOUER EST INDISPENSABLE AU DÉVELOPPEMENT DE VOTRE ENFANT.

www.mangerbouger.fr

CORPORATE GOVERNANCE THE DANONE WAY

Extending beyond the traditional areas of internal control and risk management, corporate governance at Danone addresses social responsibility, public health and other critical new challenges. For, in today's environment, the importance of good corporate governance is in no doubt for international businesses. Danone has long been sensitive to these issues and since 1995 has redoubled its efforts to meet the highest standards of governance. With comprehensive rules and procedures for

areas where improvement is necessary. Over 40 field audits were performed in 2007 alone. Danone also remains firmly committed to maintaining a transparent, reliable financial reporting system, even though the Group is no longer subject to Sarbanes Oxley requirements since it delisted from the New York Stock Exchange last July. In 2007 our internal regulation efforts benefited from a robust set of tools. Vestalis, an approach deployed in most of Danone's business units, helps identify and rank operational risks for entire countries or business lines and evaluates their potential impact on the Group. More recently, the DANGo (Danone Governing and Operating) program has centralized best practices from all business lines, ensuring that these are consistent Group-wide. Danone has also stepped up internal anti-fraud measures through a special program and related awareness campaigns. These efforts were rewarded in 2007 when Danone was recognized by the

Corporate governance the Danone Way takes in new business challenges, while still being driven primarily by dialog and the ability to listen.

regulatory compliance and effective risk management already in place, Danone's Corporate Risk Management department is now focusing on implementation at subsidiaries of the Group's operating principles and its commitment to transparency. As part of its internal audit and risk management responsibilities, the department works with the Board of Directors and senior management to improve internal control mechanisms and ensure compliance in each Group company using self-assessment tools. Internal Audit teams take a hands-on approach, going out into the field to track progress in achieving goals, while identifying good practices and

Dow Jones Sustainability Index (DJSI) for its outstanding performance in corporate governance, more specifically in the areas of risk management and codes of conduct. Danone applies its code of conduct to address an increasingly broad range of issues, which now includes societal and environmental responsibility. Its Audit and Social Responsibility Committee—set up in late 2006 to make environmental, social and ethical issues an integral part of the Group's approach to governance—regularly review the primary risks and opportunities associated with Danone's operations. These include environmental issues as well as internal social



Philippe-Loïc Jacob,
Secretary General (1)
Bernard Hours,
Co-Chief Operating Officer (2) in charge
of the Group's four business lines

Felix Martin Garcia, Executive Vice President
FDP Central and Eastern Europe, Africa/Middle
East, Asia and Oceania (3)
Muriel Pénicaud,
Executive Vice President Human Resources (4)

Thomas Kunz,
Executive Vice President Waters (5)



policies, reporting systems, ethical guidelines, and the impact of socially-oriented initiatives on the Group and local communities. But Danone's vision of governance is even more comprehensive. In adopting its mission of bringing health through food to as many people as possible, it effectively made a commitment to developing "health governance" guidelines (see page 39). That means tracking social trends, cultivating partnerships with scientists and nutritionists, regulating its own conduct, providing reliable nutrition information to the public, and pursuing a rigorous Research & Development program to validate the health benefits associated with Danone products. The commitment became even more important when the Group added baby nutrition and medical nutrition to its business lines, since these industries are already in dialog with stakeholder organizations and institutions. The common starting point in all these areas is the unique vision that grew out of the Danone Way program, which back in 2001 made governance a priority for all 9,000 of Groupe Danone's managers. Updated in 2007 under the new name

Danone *Way Ahead*, this initiative focuses on societal innovation, stressing 16 core principles—universally applicable and regularly audited—and giving Danone's subsidiaries a methodology for evaluating the impacts, risks and opportunities of proposed projects. Societal innovation can also address environmental issues such as protecting water resources, and even includes experimenting with new models for local development, as in the case of Grameen Danone Foods Ltd (see pages 44-57). An even more fundamental source of inspiration dates back to the 1970s, when Antoine Riboud insisted on making the environment an integral part of the Group's dual commitment to business success and social progress. Since then, Danone's internal decision-making processes have been grounded in outside realities and feedback, benefiting from the ideas and criticisms of sources ranging from local officials and associations to the international scientific community. Openness to dialog with all stakeholders has enabled Danone to identify new social issues, particularly in public health, and to anticipate changes in the regulatory environment. ■

Executive Committee

- Franck Riboud**,
52, French,
Chairman and CEO
- Emmanuel Faber**,
44, French,
Co-Chief Operating
Officer
- Bernard Hours**,
51, French,
Co-Chief Operating
Officer
- Jordi Constans**,
43, Spanish,
Executive Vice
President Fresh Dairy
Products
Western Europe
- Philippe-Loïc Jacob**,
43, French-
Canadian,
Secretary General
- Thomas Kunz**,
50, Swiss,
Executive Vice
President Waters
- Felix Martin Garcia**,
47, Spanish,
Executive Vice
President Fresh Dairy
Products Central
and Eastern Europe,
Africa/Middle East,
Asia and Oceania
- Christian Neu**,
51, German,
Executive Vice
President
Baby Nutrition
- Muriel Pénicaud**,
52, French,
Executive Vice
President
Human Resources
- Sven Thormahlen**,
51, German,
Executive Vice
President
Danone Research
- Dirk Van de Put**,
47, Belgian,
Executive Vice
President Fresh Dairy
Products and Waters
Americas

New members of the Executive Committee

The Committee has welcomed five new members reflecting changes in its scope of consolidation including changes in business lines and management structures.

JORDI CONSTANS joined Danone Spain in 1990. In 2002 he became General Manager, before taking charge of Danone France in 2004. In 2007 he was appointed General Manager Fresh Dairy Products, Southern Europe. Since January 2008 he has headed the general management of Fresh Dairy Products Western Europe.

FELIX MARTIN GARCIA joined Danone Mexico in 1998 as General Manager after working with Unilever. In 2001 he took charge of Fresh Dairy Products, Central and Eastern Europe, before becoming General Manager, Fresh Dairy Products Central and Eastern Europe, Africa/Middle East, Asia and Oceania in January 2008.

CHRISTIAN NEU began his career with Procter & Gamble. He joined Danone in 1986 as General Manager, first in Germany, then Belgium and the Benelux. In 2001 he was appointed General Manager of the Northern Europe area. Since early 2008 he has been General Manager, Baby Nutrition.

MURIEL PÉNICAUD was initially a civil servant, holding positions including adviser to the Minister of Labor. She joined Danone in 1993 as Director of Training, then Vice President Organization and HR Policies. In 2002 she moved to Dassault Systèmes as Executive Vice President charged with Organization, HR and Sustainable Development. In 2008 she rejoined Danone as Executive Vice President Human Resources.

DIRK VAN DE PUT began his career with Coca-Cola in Brazil. He joined Groupe Danone in 1998 as General Manager of Fresh Dairy Products Latin America, and also General Manager of the Beverages business line for the same markets. Since 2008 he has been General Manager Fresh Dairy Products and Waters, Americas.



“OUR STRATEGIC SHIFT MAKES GOVERNANCE EVEN MORE CRITICAL”

On July 31, 2007, Danone announced the reorganization of its management team and on January 1, 2008, appointed two Co-Chief Operating Officers—**Bernard Hours** and **Emmanuel Faber**. Interview.

What are the new priorities for the Group and its corporate governance?

Bernard Hours: There are many of them, but they are all guided by the conviction that health is shaped by

Emmanuel Faber: Our ambitions are to live up to the importance of our commitments to economic success—which means growth and increased profitability—but also to the social progress that is an integral part of our mis-

So the challenges Danone faces include societal and business issues?

EF: There’s definitely a link between societal and business issues. Of course we want to create wealth, but we also want

makes investing to protect the environment both a societal imperative and a business imperative.

BH: Both of our new businesses—baby nutrition and medical nutrition—serve vulnerable groups, and we

Sven Thormahlen,
Executive Vice President Danone Research (6)
Jordi Constans,
Executive Vice President Fresh Dairy Products
Western Europe(7)

Christian Neu,
Executive Vice President Baby Nutrition (8)
Dirk Van de Put,
Executive Vice President Fresh Dairy Products &
Waters Americas (9)

Emmanuel Faber,
Co-Chief Operating Officer (10)
in charge of Corporate Functions



Listening to all stakeholders and encouraging dialog have long been a priority for Danone, and will continue to structure our governance policies. 



the food you eat. Our first goal is naturally leadership on our market—food with a focus on health—for all four of our business lines. That in turn demands credibility, so we back up our products and growth with airtight clinical studies. Credibility is essential to all our businesses, but perhaps even more so in medical nutrition, which is a highly regulated segment—almost on the line between medicine and food. Then there’s innovation, always a priority for driving performance and meeting local nutrition needs.

sion, in other words, to bring health through food to as many people as possible. These two objectives are closely related. For a business like Danone, it is not enough to simply pile up financial results. Stakeholders including consumers and public authorities keep a close eye on what we are up to; they are very attentive to the quality of the products that we put on the market, how we communicate about them, and their overall impact on society. We have to take this into account in our governance practices.

to share it, because sharing it is the best way to ensure lasting performance. Put another way, when we invest to develop the skills and talent of all our employees, we contribute to their personal development but also to their professional performance over the long term. That is the core priority of human resource policy at Danone. The same applies to the environment. At Danone, we have an objective alliance with nature in that natural produce is the raw material for our own products—milk, water, fruit and so on. Which

simply cannot afford to miss the mark. These sectors are subject to strict regulations and standards—demanding requirements that mean we have to put more effort into organization and quality control than ever. The stakes could not be any higher. People can also be very suspicious of big food companies, so we will have to meet even more stringent standards for transparency and information. Clearly a new approach to governance is needed for Groupe Danone to meet the challenge. ■

Salle
Carasso

THE BOARD OF DIRECTORS

Franck Riboud,
52, Chairman and
Chief Executive Officer,
Groupe Danone

Jacques Vincent,
62, Vice-Chairman
of the Board of Directors
and Co-Chief Operating
Officer, Groupe Danone

Emmanuel Faber,
44, Co-Chief Operating
Officer, Groupe Danone

Bernard Hours,
51, Co-Chief Operating
Officer, Groupe Danone

Bruno Bonnell*,
49, Chairman,
Robopolis SAS

Michel David-Weill,
75, Vice-Chairman
of the Board of Directors,
Chairman of Supervisory
Board, Eurazeo

**Richard
Goblet d'Alviella***,
59, Deputy director,
Sofina SA

Christian Laubie*,
69, member, Haut
Conseil du commissariat
aux comptes

Jean Laurent*,
63, Chairman of
the Pôle de Compétitivité
"Finance Innovation"

Hakan Mogren*,
63, Deputy Chairman,
Astra Zeneca

Jacques Nahmias*,
60, Chairman and
Chief Executive Officer,
Pétrofrance Chimie SA

Benoît Potier*,
49, Chairman and
Chief Executive Officer,
Air Liquide

Naomasa Tsuritani*,
64, Senior Managing
Director, Yakult Honsha
Co. Ltd.

* Independent director.



DANONE

Activities of the Board of Directors

The company's Board of Directors is made up of 13 members, appointed for renewable terms of three years. Each director is required to hold 4,000 shares in registered form. An eventful year made for a full agenda in 2007, when the Board met nine times for an average of two hours, with attendance averaging 86%. The recurrent subjects considered included business reviews, Group finances, treasury, guarantees and endorsements granted, share buybacks and cancellation, the adoption of financial statements, financial communications in connection with the publication of annual and half-year accounts, acquisitions and divestments, Danone share prices, reports from the three Board committees, business plans and budgets. The Board also considered the sale of the Biscuit business line to Kraft Foods, the tender offer for Numico, financing and refinancing for the acquisitions, the two-for-one share split, withdrawals of listing with the New York Stock Exchange and registration with the SEC, the Wahaha issue, and changes to the Group's general management. Following the self-assessment conducted during the year, the Board also amended internal regulations at its meeting on July 30, providing for Directors to receive more information concerning operational management of the Group as well as acquisitions and divestments.

Audit Committee

The missions of the Audit Committee were defined at a meeting of the Board of Directors on December 15, 2006, then transposed into the Committee's internal regulations. The Committee is charged with reviewing parent-company and consolidated financial statements before their adoption by the Board of Directors, selecting statutory auditors, and reviewing audit plans. It also verifies the existence and effective implementation of internal control and risk management procedures, reviews internal control reports and validates and comments on internal audit plans. In 2007, the Committee met five times to consider, among other things, progress on internal control procedures, risk assessment and control, audit plans and findings, pre-approval of statutory auditors' assignments, and the method used to account for Wahaha in consolidated accounts.

Social Responsibility Committee

Set up on December 15, 2006, the Committee adopted internal regulations defining its mission and organization in February 2007. It is in particular charged with considering the main environmental risks and opportunities for the Group and reviewing social policies, their objectives and results. It also reviews reporting, assessment and control procedures to ensure the reliability of the non-financial information the Group supplies, and examines this information, in particular as it concerns social and environmental issues. It conducts an annual review of non-financial ratings of the company and its subsidiaries from independent agencies and oversees compliance with the Group's code of ethics. Similarly, it assesses the impact of the Group's CSR (Corporate Social Responsibility) initiatives and compliance with Group principles where investments and action in this area are related to the Group's business. It is attentive to the protection of the Group's interests and acts to avoid any conflicts of interests between CSR investments and the Group's other activities. In 2007, the Committee met three times, considering in particular new sustainability policies for water management, the impact of social, environmental and governance issues in the food sector, and the Group's plans for societal initiatives.

Nomination and Compensation Committee

The Nomination and Compensation Committee submits proposals for the appointment of Directors to the Board, conducts preparatory work for the Board's consideration of governance issues, takes charge of the assessment of the Board of Directors and other Committees, proposes methods for the calculation of the various components of corporate officers' compensation, proposes distribution of Directors' fees, and submits any other proposals it may have concerning the Group's compensation policies. In 2007, the Committee met four times, considering in particular salaries and benefits for members of the Executive Committee, as well as a number of appointments. These include the co-optation of Naomasa Tsuritani to the Board of Directors, the appointment of the members of the new Social Responsibility Committee, and renewal of senior management with the appointment of two Co-Chief Operating Officers, Bernard Hours and Emmanuel Faber. It also reviewed conditions for the termination of the mandates of corporate officers.

Executive Compensation

Compensation of the Chairman and Chief Executive Officer, Franck Riboud, and the Vice Chairman, Jacques Vincent, is set by the Board of Directors on the basis of recommendations from the Nomination and Compensation Committee. Policies regarding compensation of other members of the Executive Committee are reviewed annually by the Committee. Executive compensation includes a fixed portion and a variable portion, the latter ranging from 40 to 60% of the total. The variable portion is dependent on targets for financial, social and personal achievement. In the case of Chairman and Chief Executive Officer, Franck Riboud, and the Vice Chairman, Jacques Vincent, the business performance criteria of the variable portion is based on the Group targets announced to financial markets for sales, operating margin on ordinary business (trading operating margin), free cash flow and net income per share on ordinary business. Total compensation and benefits in kind received by members of the Board of Directors in 2007 were as follows: Franck Riboud, Chairman and Chief Executive Officer, €2,503,948; Jacques Vincent, Vice Chairman and Chief Operating Officer, €1,553,668; Emmanuel Faber, Executive Vice President, Asia-Pacific, €1,121,220; Bernard Hours, Executive Vice President, Fresh Dairy Products, €1,353,620.

Full details of compensation and benefits received by executive officers and board members are presented in the Group's 2007 reference document, accessible at www.finance-danone.com.

Audit Committee

Benoît Potier*, Chairman
Richard Goblet d'Alviella*, Christian Laubie*

Nomination and Compensation Committee

Michel David-Weill, Chairman
Jean Laurent*, Hakan Mogren*

Social Responsibility Committee

Jean Laurent*, Chairman
Bruno Bonnell*, Emmanuel Faber

* Independent director.



www.evian.co.jp



カラダの水は6週間に入れかわる。

evianでカラダの水を入れかえよう。



KEY FIGURES

2007 RESULTS EXCEED TARGETS

➔ In 2007, Groupe Danone's growth model proved its effectiveness once again. Organic growth in sales reached 9.7% at constant scope of consolidation and exchange rates, while trading operating margin rose three basis points to 13.27%. Excluding non current items, net earnings per share, Group share, were up 1.2%.

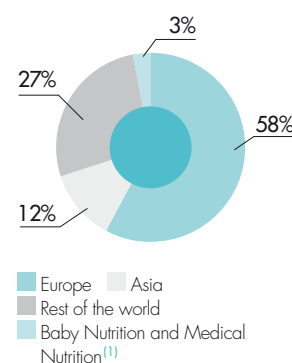
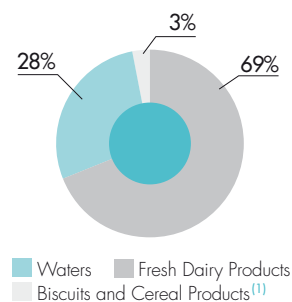
Financial information presented in this section is taken from Groupe Danone consolidated financial statements, prepared under IFRS unless otherwise indicated.

9.7%

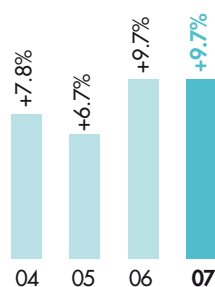
Organic growth in sales in 2007 totaled 9.7% for Groupe Danone.
Approximately 5.5% of the rise reflects an increase in volumes sold, and 4.2% a rise in prices.

FINANCIAL HIGHLIGHTS	2006	2007	changes 2007/2006
€ millions			
Income statement data			
Net sales	12,068	12,776	+5.9%
Organic growth	+9.7%	+9.7%	
Trading operating income	1,597	1,696	+6.2%
Trading operating margin	13.24%	13.27%	45 bp ⁽¹⁾
Current net income (attributable to the Group)	1,194	1,185	
Net income (attributable to the Group)	1,353	4,180	
Cash flow data			
Cash flow provided by operations ⁽²⁾	1,647	1,430	
Capital expenditure	(621)	(726)	
Purchase of businesses and other investments ⁽³⁾	(564)	(12,100)	
Free cash-flow ⁽⁴⁾	1,329	984	-26%
Financial position			
Net debt	2,902	11,261	
Stockholders'equity (including minority interests)	6,069	9,100	
Debt/equity ratio	47.8%	123.7%	
Current per-share data (€)			
Underlying diluted EPS (attributable to the Group)	2.44	2.47	+1.2%
Dividend per share ⁽⁵⁾	1	1.1	+10%
Market			
No. of shares at Dec. 31 (000) ⁽⁵⁾	512,729,492	512,851,460	
Share price at Dec. 31 (€) ⁽⁵⁾	57.4	61.4	
Market capitalization at Dec. 31 (€ millions)	30,000	32,000	
Personnel			
Total employees at Dec. 31	88,124	76,044	
Europe	32,384	30,428	
Outside Europe	55,740	45,616	

(1) At constant scope of consolidation and exchange rates.
(2) Excluding changes in net working capital.
(3) Net of cash acquired.
(4) Cash flow from operations less change in working capital requirement less capital expenditure net of disposals. In 2007 this excluded cash generated by operations of the Biscuits line (sold) in an amount of €200 million.
(5) After two-for-one split on June 1, 2007.

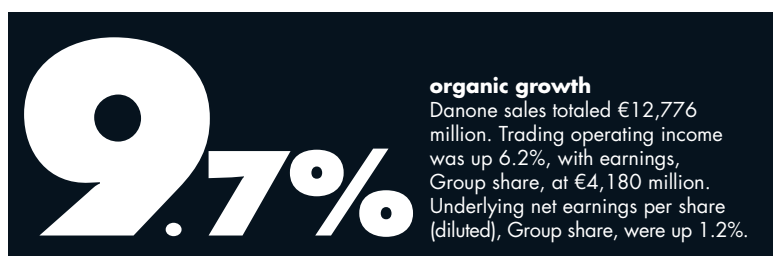


ORGANIC GROWTH



NET SALES BY BUSINESS LINE	2006	2007	rise on like-to-like basis
€ millions			
Fresh Dairy Products	7,933	8,791	+12.2%
Waters	3,942	3,535	+4.0%
Medical Nutrition and Baby Nutrition ⁽¹⁾	–	450	
Other Items	193	–	
Group Total	12,068	12,776	+9.7%

NET SALES BY REGION	2006	2007	rise on like-to-like basis
€ millions			
Europe	6,814	7,370	+7.4%
Asia	2,206	1,539	+4.8%
Rest of the world	3,048	3,417	+17.4%
Medical Nutrition and Baby Nutrition ⁽¹⁾	–	450	
Group Total	12,068	12,776	+9.7%



Factors driving this performance include Danone's strategic focus on innovation; strong positions in products centered on health; leading position in its business lines; and ever wider geographical spread.

TRADING OPERATING INCOME	2006	2007
By business line (€ millions)		
Fresh Dairy Products	1,089	1,229
Waters	494	480
Medical Nutrition and Baby Nutrition ⁽¹⁾	–	(15)
Other items	14	2
Group Total	1,597	1,696

TRADING OPERATING INCOME	2006	2007
By region (€ millions)		
Europe	1,024	1,122
Asia	206	177
Rest of the world	367	412
Medical Nutrition and Baby Nutrition ⁽¹⁾	–	(15)
Group Total	1,597	1,696

Blockbusters

Actimel, Activia, Danonino and Vitalinea are growth drivers for Fresh Dairy Products, with sales up nearly 20%.

TRADING OPERATING MARGIN

In 2007, operating margin rose for the 13th year running to reach 13.27%—3 basis points higher than in 2006. At constant scope of consolidation and exchange rates, Group margin was up 45 basis points. These increases, driven by innovations

with greater added value, gains in productivity, and optimization of fixed costs, came against a backdrop of higher raw material prices (primarily milk), which were offset by rises in price.

TRADING OPERATION MARGIN BY BUSINESS LINE	2006	2007	change on like-to-like basis
Fresh Dairy Products	13.7%	14.0%	+62 bp
Waters	12.5%	13.6%	+1 bp
Medical Nutrition and Baby Nutrition ⁽¹⁾	–	(3.3)%	
Other Items	7.3%	–	
Group Total	13.2%	13.3%	+45 bp

TRADING OPERATION MARGIN BY REGION	2006	2007
Europe	15.0%	15.2%
Asia	9.4%	11.5%
Rest of the world	12.0%	12.1%
Medical Nutrition and Baby Nutrition ⁽¹⁾	–	(3.3)%
Group Total	13.2%	13.3%

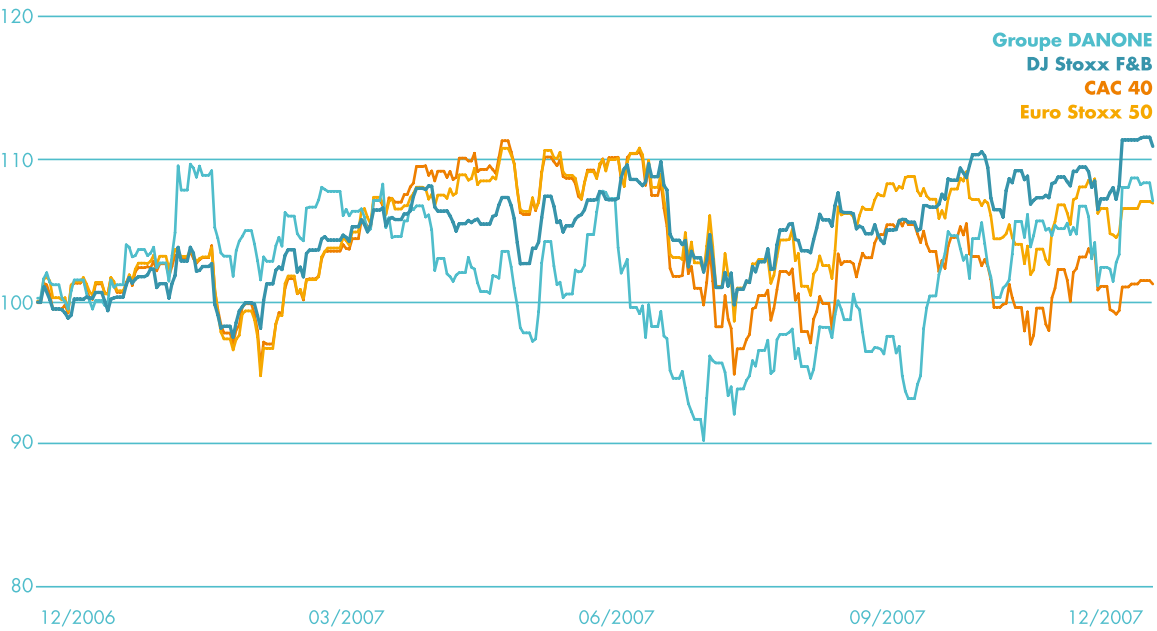
BLOCKBUSTERS: 20% GROWTH

Fresh Dairy Products have gathered momentum, driven by four blockbusters.

These brands' success is based on their focus on health backed by specialized research. Boosting innovative capacity in health-oriented products is the Group's prime objective for the years ahead—an approach whose appeal is underscored by strong showings for Activia, Actimel, Vitalinea and Danonino. After developing product lines dedicated to regulating intestinal transit, strengthening the body's natural defenses, addressing obesity and bone structure, and, in 2006, Essensis, "a dairy product that nourishes the skin from the inside to improve water barrier function", Danone made a strategic shift in autumn 2007 with its acquisition of two new business lines: Baby Nutrition and Medical Nutrition.

⁽¹⁾ Baby Nutrition and Medical Nutrition include two months of business at Numico, starting on October 31 (acquisition). Business was not yet broken down by geographical area on December 31.

MAJOR STOCKMARKET INDEXES (FROM DEC. 31, 2006, TO DEC. 31, 2007)



KEY MARKET DATA AT 12/31	2003	2004	2005	2006	2007 ⁽¹⁾
€ thousands					
Market capitalization at Dec. 31	17,466	18,230	23,252	30,000	32,000
€					
Closing price for the year	65	68	88	114.8	61.4
High for the year	69	73	96	121.1	62.2
Low for the year	52	62	68	85.2	61.1
thousands of shares					
Average number of shares traded daily	1,599	1,271	1,427	1,212	3,076

(1) After two for one split on June 1, 2007.

DIVIDEND PER SHARE	2003	2004	2005	2006	2007
thousands of shares					
Number of shares	134,975	268,095	264,235	260,865	512,851
€					
Net dividend per share	2.45	1.35	1.70	2.0	1.1 ⁽¹⁾

(1) Subject to the approval of the Annual General Meeting.

DIVIDEND AND SHARE BUYBACKS

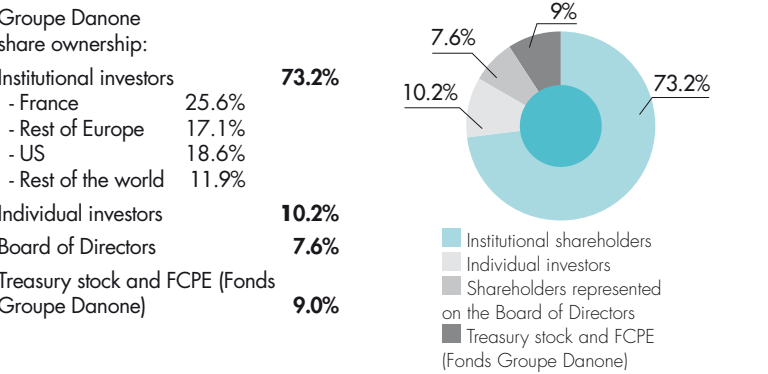
Stockmarkets underwent successive rises and falls in the course of 2007. The peak came just before the end of June, with trends falling back to end the year up 1.3% for the CAC 40, +6.56% for the Euro Stoxx 50, and +10.89% for the DJ Stoxx Food & Beverage. Against this backdrop, Danone shares outperformed benchmark indexes at year end to rise 7% over the 12-month period.

The Board of Directors proposed that the General Meeting of Shareholders held on April 29, 2008 approve a dividend of €1.1 per share for 2007. This is up 1% on the 2006 payment (adjusted for the two-for-one split on June 1, 2007). The coupon will be detached on May 9, 2008, and the dividend will be payable from May 14 on shareholdings at the close of trading on May 13.

1.2%

Underlying net earnings per share (diluted), Group share, rose 1.2% from €2.44 in 2006 to €2.47. Net income (excluding non-current items), Group share, totaled €1,185 million in 2007, compared with €1,194 million in 2006, reflecting the impact of operations sold (Biscuits and Cereal Snacks).

SHARE OWNERSHIP

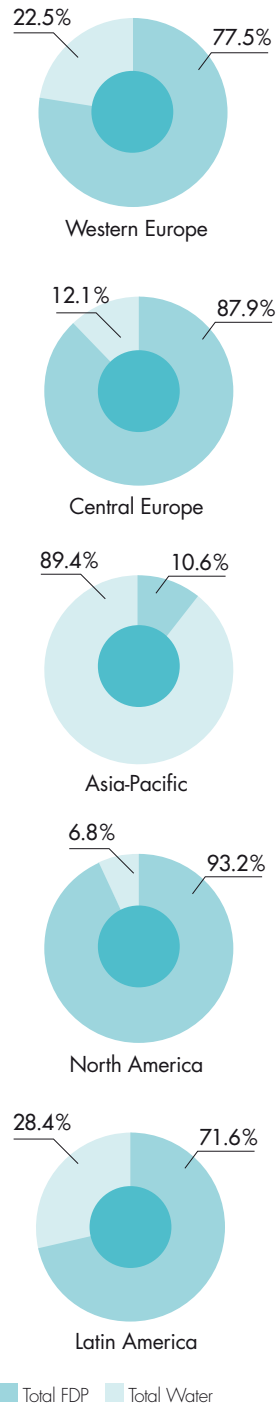


DANONE SHARE KEY DATA

Value: €0.25 per share (at 31/12/2007)
Number of shares: 512,851,460 (at 31/12/2007)

Stock exchange listings: Euronext Paris and the SWX Swiss Exchange

BREAKDOWN OF SALES BY LINE AND AREA*

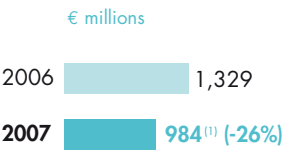
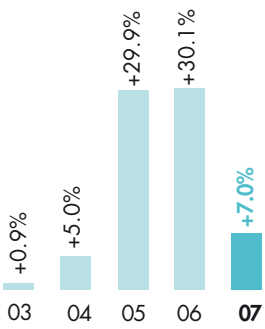


* Excluding Biscuits, Numico and Wahaha.

KEY FIGURES



SHARE PRICE



(1) Excludes cash from operation of the Biscuits and Cereal Snacks lines (sold).

Share buybacks and cancellations

Number of shares canceled in July 2007: 10 million
Group shares bought back in 2007: 8,618,954 shares (adjusted for two-for-one split on June 1, 2007)
Own shares held at 31/12/2007: 31,631,439 shares

CAPITAL EXPENDITURE

Capital expenditure rose from €621 million in 2006—5.2% of sales—to €726 million in 2007 (5.7% of sales) reflecting the Group’s commitment to expanding its production and distribution capacity in high-growth markets.

Net financial debt rose from €2,902 million at December 31, 2006, to €11,261 million at the same date in 2007, due primarily to the acquisition of Numico.

Workforce

At December 31, 2007, Groupe Danone had 76,044 employees, including 30,428 in Europe and 45,616 in the rest of the world.

FREE CASH-FLOW

Free cash flow declined by 26% from 2006 to 2007, reflecting the combined impact of a reduction in working capital requirement and a decrease in cash flow from operations. This decline is due in particular to the consolidation of Wahaha under the equity method from July 1, 2007.

MAIN SHAREHOLDERS AT 12/31/2007	% of capital	% of voting rights
Eurazeo	5.5%	9.2%
Caisse des Dépôts et Consignations	3.5%	3.5%
Predica	1.8%	1.8%
FCPE "Fonds Groupe Danone"	1.6%	2.9%
Group Sofina and Henex (ex-Glaces de Moustier)	2.1%	2.6%

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Groupe Danone, 17, bd Haussmann, 75009 Paris - www.danone.com
Toll-free telephone number for shareholders in France: 0800 320 323
Email: finance@danone.com



UN AGUA DE ORIGEN ÚNICO
MERECE ESTAR
EN UN LUGAR ÚNICO



Sofisticada, Exclusiva,
Cosmopolita.

Con esta nueva botella, Lanjarón le acerca
las vistas más hermosas de Sierra Nevada

Social and environmental indicators

Indicators are taken from Groupe Danone’s 2007 sustainable development report*. Indicators for Fresh Dairy Products, Water and Blédina were examined and published in an investigation report by PricewaterhouseCoopers.

(*) Indicators for Fresh Dairy Products, Water and Blédina, the investigation report by PricewaterhouseCoopers, and full 2005 and 2006 data at comparable structure are available in the sustainability report downloadable from www.danone.com, ("Sustainable Development"/Experts' Corner).

ENVIRONMENTAL INDICATORS	2007 FDP, Waters, Blédina	2007 Numico ⁽¹⁾
Production (000 metric tons)	22,254	502
Agricultural raw materials (000 metric tons)	6,218	578
Consumption of primary and secondary packaging, excluding re-used bottles and demijohns (000 metric tons)	582	146
Recyclability of plastic bottles	100%	na
Proportion of plastic bottles actually recycled	24.8% in Europe of 27	na
Recyclability of paper and cardboard containers	100%	na
Proportion of paper and cardboard containers actually recycled	73.5% in Europe of 27	na
Surface area of land owned in richly biodiverse habitats (in hectares)	74,000 (Villavicencio)	na
Production sites ⁽²⁾		
Total number	139	20
Cover rate	92% ⁽⁶⁾	100%
Total number of sites certified compliant with ISO 14001	79	4
Thermal energy consumption (000 MWh)	1,912	620
Electricity consumption (000 MWh)	1,614	168
Total energy consumption (000 MWh)	3,526	788
Total amount of waste generated (000 metric tons) ⁽³⁾	201	46
Total amount of waste eliminated through specific waste management path (000 of metric tons) ⁽³⁾	165	40
Proportion of waste eliminated through specific waste management path ⁽³⁾	82%	88%
Water consumption (000 of cubic meters) ⁽⁴⁾	37,609	3,480
Wastewater COD (chemical oxygen demand) in 000 metric tons ⁽⁵⁾	4,633	593
Significant emission incidents (chemical and hydrocarbons)	2	0
Emissions of greenhouse gases (CO ₂ , CH ₄ , N ₂ O, CFC, etc.) in metric kilotons CO ₂ equivalent	429	166
SO _x (sulfur oxide emissions) in metric tons SO ₂ equivalent	2,052	1,793
NO _x (nitrogen oxide emissions) in metric tons NO ₂ equivalent	987	422
Gases depleting the ozone layer (in kilograms CFC equivalent)	794	130

(1) Indicators for Numico cover 12 months, provided by Numico for information purposes; na: not available. (2) For some business units, these figures may also include logistics, notably when distribution is adjacent to a production plant. (3) Excluding sludge from wastewater plants. (4) Water consumed by plants, excluding water put into bottles and containers. (5) Based on 89% of sites representing more than 99% of total Group COD. (6) 92% of sites representing 99% of sales.

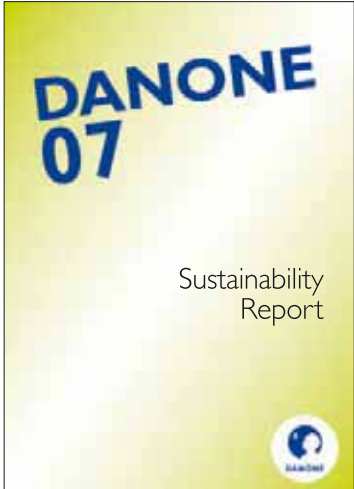
SOCIAL INDICATORS	2007 FDP, Waters, Blédina	2007 Numico ⁽¹⁾	Cover rate ⁽²⁾
Total employees at Dec. 31	63,793	12,251	
Net rise in employment	+2,804	+477	
Europe	+895	+107	
Asia	-383	+306	
Rest of world	+2,292	+64	
Employees by region			
Europe	36%	63%	
Asia	27%	33%	
Rest of world	37%	4%	
Total salaried employees at Dec. 31			
Managers	13%	na	100%
Other	87%	na	100%
Male managers	61%	na	100%
Female managers	39%	na	100%
Other employees, male	79%	na	100%
Other employees, female	21%	na	100%
Permanent employees at Dec. 31 (by age)			
< age 18	0.1%	na	100%
18 to 24	12%	na	100%
25 to 34	43%	na	100%
35 to 44	30%	na	100%
45 to 54	13%	na	100%
> age 55	3%	na	100%
Average employees for the year			
Permanents	85%	na	99.3%
Non-permanents	15%	na	99.3%
Turnover of permanent employees as % of total workforce	21%	na	99.3%
% of business units whose employees are covered by a company or multi-sector collective agreement	76%	na	94.0%
% of business units with employee representatives ⁽³⁾	84%	na	94.1%
Number of labor disputes with work stoppages	20	na	95.1%
Number of workplace accidents with stoppages	720	na	87.3%
Number of fatal accidents	0	na	87.3%
Frequency of workplace accidents	6.0	na	87.3%
% of employees insured for major risks (death/incapacity)	100%	na	95.1%
% of business units with profit-sharing agreements	51%	na	95.1%
Number of employees receiving training during the year	50,458	na	98.4%
Managers	7,279	na	98.4%
Non-managers	43,179	na	98.4%
Average number of training hours in the year	20	na	98.4%
Managers	41	na	98.4%
Non-managers	16	na	98.4%

(1) Numico indicators at December 31, 2007, provided by Numico for information. na: not available. (2) To reflect disparities in the scope of consolidation and their impact on reporting, a "cover" rate is calculated for each social indicator; this is based on the total number of Danone salaried employees at yearend 2007 (63,793 people). (3) Elected or designated by a trade union.

TO LEARN MORE:



Download our Registration Document at www.finance.danone.com



Download our Sustainability Report at www.danone.com, "Sustainable Development"/Experts' Corner



Visit our website: www.danone.com



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Elie Metchnikoff

Nobel Prize for Medicine, 1908



SETTING THE EXAMPLE **FOR ALMOST A CENTURY.**

The first Danone yogurts were made in 1919 with lactic ferments from the Pasteur Institute in Paris — cultures which Elie Metchnikoff, winner of the 1908 Nobel Prize for Medicine, had a few years earlier shown to be beneficial for health.

Today, almost a century later, Professor Metchnikoff remains an example for Danone Research, where 800 people and 110 nutritionists continue his work, with the support of more than 200 outside partners.

- We invest over €115 million a year in research.
- We conduct over 30 clinical studies a year to identify all the health benefits of our products.
- We continue to discover and develop new ferments offering new benefits.

**And we remain inspired by the same ideals as Elie Metchnikoff,
dedicated to bringing health through food to as many people as possible.**

Danone, a research partner of the Pasteur Institute for the past three years, is providing its support for the Legacy of Elie Metchnikoff symposium organized by the Institute to mark the centennial of his Nobel Prize.



**DANONE
RESEARCH**

CENTRE DANIEL CARASSO