

BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE

DANONE

economic and social report

09

Interview with Franck Riboud
Stepping up the pace

SPECIAL REPORT
**BOUNCING BACK FROM
THE DOWNTURN, READYING
FOR THE FUTURE**

Features
New horizons in China, a stopover in
Argentina, making nature the destination



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DANONE 09



“From Madrid to Mexico and Tokyo to Warsaw, 2009 was as mixed and eventful as expected in many of the countries where Danone does business. Early on, our group decided to hold on course as storms raged.

Beyond the indicators and percentages showing our success in rebounding from the downturn, this year’s report testifies both to the responsiveness of our teams and to our group-wide commitment—market by market—to defining the right approach and the best responses to consumers’ changing expectations.

In 2009, the Danone adventure once again inspired new projects and initiatives that grew out of our convictions and gave shape to our mission. As we formed new partnerships, paid special attention to our ecosystem, and made the most of our natural resources, we were rewarded with a year of powerful experiences that we are proud to share with you in this report.”

The editorial team

danone09.danone.com
 Visit us on the web to learn more about the people who bring the Danone adventure to life.

GOODBYE DANIEL

Adapted from Lætitia Clavreul's *Le Monde* article of May 24, 2009

Although the Danone brand is now generally associated with the Riboud name, its origins and much of its success are due to another family—the Carassos. Daniel Carasso, who died on May 17, 2009 at the age of 103, was the second in a line of family heroes that began in Barcelona when his father first launched the business and named it after his son: “Danone” is derived from Danon, an affectionate Catalan nickname for Daniel. Then in his teens, the youngster would grow up to build the brand for over three-quarters of a century.

Daniel Carasso was born into a Sephardic Jewish family in Thessaloniki on December 16, 1905. In 1919, his father Isaac took the family back to their Spanish homeland where he began producing and selling yogurt using dairy cultures to favor digestion. In this, Carasso drew on the work of Russian scientist and Nobel laureate Elie Metchnikoff in the early 20th century, establishing a commitment to health that Danone continues to this day.

Danone has remained faithful to its origins with a focus on health that continues to this day.

In 1929, young Daniel decided to strike out on his own, setting up the Société Parisienne du Yoghourt Danone in Paris even though yogurt was practically unknown in France at the time. Where his father saw yogurt primarily as a health product sold in pharmacies, Daniel transformed it into an appetizing treat with a broader customer base and scope for large-scale production.

In 1941, Daniel Carasso was forced to flee Nazi-occupied France for the United States, where he grew his business, changing its name to Dannon to adapt to American spelling and pronunciation. Back in France after the war, he turned to industrial expansion in earnest, opening new plants and expanding the company’s product range to include fruit-flavored and low-fat yogurts.

In 1967, he tied up with Gervais, the market leader for *fromage frais*. Rapid growth of supermarkets had brought lasting change to French retailing, making further expansion essential to preserve bargaining clout. But Danone had sold its US subsidiary, and Daniel Carasso was no longer satisfied with running a purely French business. Enter Antoine Riboud: as head of BSN, which already owned Kronenbourg and Evian, he was looking for new opportunities to round out his company’s presence in food and beverages. “My dream was to make Danone a global brand,” Daniel Carasso often said later, “and that was the stage my thinking had reached when I met Antoine Riboud. Our strategies were a perfect match.”

In 1994, what was by then a multinational business dropped BSN and Gervais from its name to become simply Danone—a brand now present in 50 countries, with yogurt sales totaling 51 billion servings a year. After Daniel Carasso’s death, what remains is his legend—and Danone’s abiding commitment to innovation, which he never ceased to champion.



April 2, 2009: During celebrations marking the brand's 90th anniversary, Daniel Carasso visited the site of Danone's first premises in rue André Messager (Paris).

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Our cover photo features youngsters in Argentina, where Danone is market leader for fresh dairy products and bottled water.
 Photographer: Thomas Haley

Contributors



∞ Ron Oswald

After working with unions in Africa, the Caribbean and Central America, Ron Oswald joined the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations (IUF), where he has been Secretary General since 1997. (See p. 80)



∞ William Green

William Green has worked as a journalist in the United Kingdom, for Numico in the Netherlands, and for Avon Products and IBM in the United States. He currently heads the Communications team at Danone's Medical Nutrition division. (See p. 39)



∞ Stéphane Dupays

After serving as plant manager at Danone's Longchamps facility in Argentina in 2006, Stéphane Dupays was named Industrial Director at Danone Argentina in 2009. He began his career with Danone in France, in 1994. (See p. 72)



∞ Myriam Cohen-Welgryn

Myriam Cohen-Welgryn joined Danone in 1999. In 2002 she was appointed head of Marketing for our Biscuits line, becoming General Manager of Danone Ireland in 2007 and returning to headquarters in 2009 as General Manager Nature - VP Environment Worldwide. (See p. 64)



∞ Ricardo Uauy

Ricardo Uauy is currently Professor of Public Health Nutrition at the London School of Hygiene and Tropical Medicine in the United Kingdom, and at the University of Chile's Institute of Nutrition and Food Technology (INTA). (See p. 85)



∞ Jean-Léon Vandoorne

An Agence France Presse correspondent for ten years, Jean-Léon Vandoorne worked as a journalist, then Editor in Chief of Les Echos, and later L'Usine Nouvelle, LSA and other titles. He is currently a freelance writer and editorial consultant.



∞ Chris Terry

A photographer with more than nine years' experience in publishing and the press, Chris Terry also works for humanitarian organizations including the British Red Cross, Blesma, Combat Stress and Fifteen Foundation.



∞ Thomas Haley

A native of Oregon, photographer Thomas Haley has covered major international events for Sipa Press. He has lived in France since the 1970s.



∞ Jacques Ponty

Jacques Ponty joined Danone in 1986. After holding several other positions, he was named Managing Director of Danone Waters China in January 2009. (See p. 54)



∞ Peng Qin

Peng Qin was named Vice-President of Danone China in 1997, becoming Chairman in summer 2002. He holds dual French and Chinese citizenship. (See p. 54)



∞ Cecilia de Pierrebourg

Cecilia de Pierrebourg joined the Corporate Communications department at Danone China in Shanghai after serving in the Corporate Communications department at group headquarters in France. She was previously an account manager at Burston-Marsteller, where Danone was one of her clients. (See p. 54)



∞ Jeffrey Lu

After 15 years with Numico China and Johnson & Johnson in China and the United Kingdom, Jeffrey Lu is currently Managing Director of Danone Baby Nutrition China. (See p. 54)



∞ Jian Li

Jian Li worked at several corporations in the healthcare industry before joining Danone. He is currently Managing Director of Danone Medical Nutrition China. (See p. 54)



∞ Isabelle Domercq

Isabelle Domercq joined Danone in 1998 and has been Managing Director of Danone Fresh Dairy Products China since 2006. Her experience in Asia includes three years as VP Marketing in the Asia-Pacific region for Waters and Fresh Dairy Products. (See p. 54)

∞ **Our thanks** to all those who contributed to Danone 09, including Danone teams in Argentina, Austria, Brazil, Bulgaria, China, the Czech Republic, France, Germany, Hungary, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Poland, Portugal, Russia, Scandinavia, Spain, Turkey, Ukraine, the United Kingdom, and Vietnam. We are also grateful to Benoît Angénieux, Philippe Bassin, Cécile Bellot-Zind, Elise Brissaud, Christiane Butte, Marion Cazenave, Vanessa Delrieu, Adam Ehrat, Amine El Afrit, Sandrine Fossard, Nicolas Gausserès, Félix Goessi, Isabelle Goutorbe-Martin, Marc Grosser, Benjamin Hugonet, Christine Jean, Céline Kammerer, Emmanuel Marchant, Olivier Maurel, Dani Meyer, Guy Pelabon, Sébastien Périès, J.-P. Rennaud, Mario Reis, Nicolas Rolland, Ha-jin Shin, Victor Vallet and all the others who helped produce this annual report.



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INTERVIEW WITH FRANCK RIBOUD

“Using the crisis to accelerate”

Danone responded to a year of crisis with an aggressive strategy to strengthen positions and accelerate growth. A look back at a challenging year—and ahead to the cautious yet resolute ambitions announced for 2010.

Interview: Laurent Sacchi Photos: Mélanie-Jane Frey

What was Danone's strategy for getting through this year of crisis?

Franck Riboud: At the end of 2008, we decided to go on the offensive: we weren't willing to just sit there and take it, waiting for the storm to blow over or simply weather it out. Instead we wanted to turn the crisis into an opportunity—a chance to speed up or initiate changes that would give us a lead on the competition. With that in mind, we defined our priorities very early on, at the end of 2008, and did so far more quickly and clearly than many others.

Still, 2009 didn't get off to a very good start.

FR: You're right. And you really could describe the first three months of 2009 as “in crisis”—it was one of the slackest quarters in Danone's history. But we used it to prepare for a rebound, taking the first steps in deploying our strategy for the downturn. Which paid off very quickly: positive signs appeared in the next quarter and sales began growing again, especially in volume, for all our businesses. The rebound was confirmed and gathered strength in the third quarter. And we did even better in the fourth quarter, with organic growth over 5% and volumes up nearly 9%—some of the strongest

quarterly gains in volume in our history. So for Danone, the business dynamics for the year were actually positive in 2009, lifting our performance.

What about 2010?

FR: We're cautious. Visibility is still low, and I haven't got a crystal ball. The financial crisis could return. The economic crisis isn't over yet, and the social crisis linked to rising unemployment may not even have begun. Still, if we focus on Danone, 2009 gave us some grounds for satisfaction, bearing out some of our thinking. And we can now be pretty definite about our targets for this year—sales growth of at least 5% like for like, margin equal to last year's record level and a 10% increase in cash. Being cautious doesn't prevent us from being ambitious.

You've made volumes a clear priority. What does that mean exactly?

FR: Right from the end of 2008, we decided that the important thing in a slump is to maintain demand for our products—to ensure that consumers remain loyal and keep buying Danone products, perhaps even increase their



●●● purchases. And win over new consumers. Our experience of the local downturns we have been through in a number of countries over the past ten years has taught us that the best indicator of good health in a slump is sales volume—quite simply, how many kilos of yogurt or infant formula, or how many liters of mineral water you’re actually selling. If you succeed in holding volumes steady or increasing them, you win a lead that you can’t lose when business rebounds.

On top of that, for an industrial business, the focus on volume means keeping factories running and preserving jobs. In an economic downturn, I see safeguarding employment as the prime responsibility of a business. And that responsibility has its rewards—restructuring is expensive, and closing a plant is very expensive. Especially in a downturn. It’s in everyone’s interest to do everything possible to avoid it.

In practical terms, how do you go about boosting volumes?

FR: The crisis has brought a change in consumer behavior. Or, more accurately, it has accelerated changes that resulted from an increasingly complex set of underlying trends. Keeping step with those new trends, which vary from one market to the next and even from quarter to quarter, is not simple; there’s no single surefire solution, such as price cuts across the board. On that point, consumers have certainly shown a taste for low prices in the downturn, but they have also been very partial to premium products, even when these are relatively more expensive

than those of our competitors. So, adapting isn’t just a matter of tweaking one variable—you have to be willing to start from scratch and question all of the standard wisdom. You have to aim for the right combination of solutions, and be ready to change quickly if the results don’t live up to your hopes. At Danone we’ve called that a “reset”—because in a way, we’ve started all over.

Could you give us an example?

FR: One of the best comes from our Dairy Product operations in Mexico, where we’ve staged a spectacular rebound after going through a very tough time at the end of 2008. Our teams in Mexico adjusted their prices, sometimes drastically, slashing them by as much as 25% for certain ranges, while at the same innovating with new offers such as Activia in family-size containers and a very simple new line targeting the heart of the market—something that didn’t really exist in Mexico before, and that has got off to an extremely vigorous start. We have also continued to innovate with our premium lines, an example being the new “shot” of Activia—a mini-portion in a small bottle that is already a big success. We’ve deployed this multi-pronged strategy—with variations, of course—on a dozen of our main markets over the past few months.

And what about the overall result?

FR: Our success in Mexico isn’t the only one. In Poland, for example, we recorded double-digit volume growth in 2009. And an important point is that momentum has not been confined to emerging markets: our business has shown plenty of pace in the United States, in the United Kingdom and in Germany. In France, volumes are also trending up again, and in Japan annual growth rates are over 30%. The result is that our market shares were on the rise in the vast majority of countries, including in value, in the fourth quarter. Which was our main aim.

Sales volumes grew much more quickly than sales revenues in 2009, in keeping with your priorities. Some observers might see that as a change of strategy.

FR: They would be wrong; that idea is based on a misunderstanding. Given the emphasis we place on R&D and the way our premium brands



In 2009, Danone chose to maintain training commitments, boosting the average number of annual training hours per employee from 24 to 28. (See p. 49).

“To adapt, you must be willing to question the standard wisdom.”

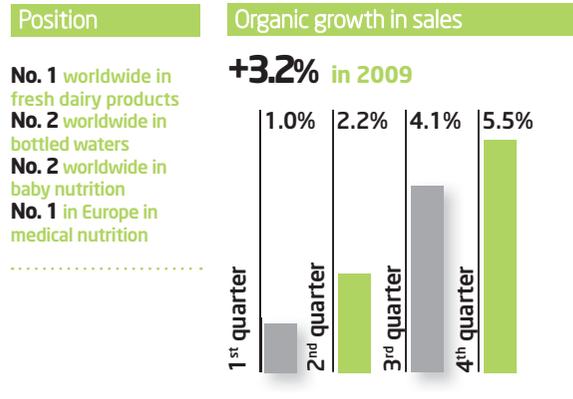
concern is to create more value by selling more Danone products, and doing that as efficiently as possible. There is a mathematical limit to margin rates, but not to the number of Danone product we can sell. So it’s really good news that we sold more in 2009 than ever before.

In all four divisions?

FR: Yes. I’ve talked a lot about Dairy Products, which account for nearly 60% of our sales, but sales volumes and revenues were up in all four of our business lines in 2009.

Some people are saying your water business is shaky.

FR: It’s not. Sales and profitability continue to rise. The fact is simply that there is still a big gap between emerging markets, where our organic growth is topping 10% and volumes are surging, and mature markets where conditions are still difficult but improving. You have to learn to live with that. But there is nothing inevitable about the way business works on mature markets. While we are obviously not expecting to achieve the same rates of growth in France, which has the highest per-capita consumption of still waters anywhere in the world, as in, say, Indonesia or Mexico, we can find a way ahead. As an example, the UK was our toughest market over the past few quarters, with double-digit drops in sales, but it was back on a positive track in 2009 for both volumes and revenues. And in France our Evian brand is gaining market share again, thanks to innovation, particularly in advertising. Its most recent TV spot got over 90 million views—the biggest audience ever for a commercial on the internet. More generally, innovation holds great promise in the sector, particularly for packaging and environmental concerns.





Danone Institutes are an international network of spanning in 19 countries*. Founded in 1991, they have lent their support to over 900 research projects, launched dozens of educational programs and organized nearly 100 symposiums to promote better understanding of the links between food, nutrition and health.

*Argentina, Belgium, Canada, Chile, China, the Czech Republic, France, Germany, Indonesia, Israel, Italy, Japan, Mexico, Poland, Russia, Spain, Turkey, the United States, and Uruguay.

“Health through food starts with meeting local nutritional needs.”

••• Are your two newest divisions, Baby Nutrition and Medical Nutrition, still driving growth?

FR: Yes. Which shows again that the acquisition was soundly based and that integration has been a success. Sales growth topped 7% for Baby Nutrition and was over 10% for Medical Nutrition. Those are exceptional results in current conditions, and our teams deserve to be congratulated. They also illustrate the resilience of the two sectors, even though they're obviously not completely immune to economic troubles.

Still, growth rates are no longer in double digits. Would it be fair to say they are leveling off?

FR: I'm sure a lot of businesses would like to be leveling off as nicely, if that's what you want to call it! In Baby Nutrition, our business in China is continuing to grow at a rate of around 15%. And while we're cautious on Russia, where some distribution networks are fragile, we're seeing growth of 15% in Indonesia, 9% in Poland and 7% in Germany. In France, our market share has risen to a record high of over 50%, beating our closest rival by 25 percentage points. So Baby Nutrition is still a very strong driver for growth. Our offering of milk products meets essential needs for the health of children that have stopped breast-feeding. And we are very well positioned in this area, particularly on

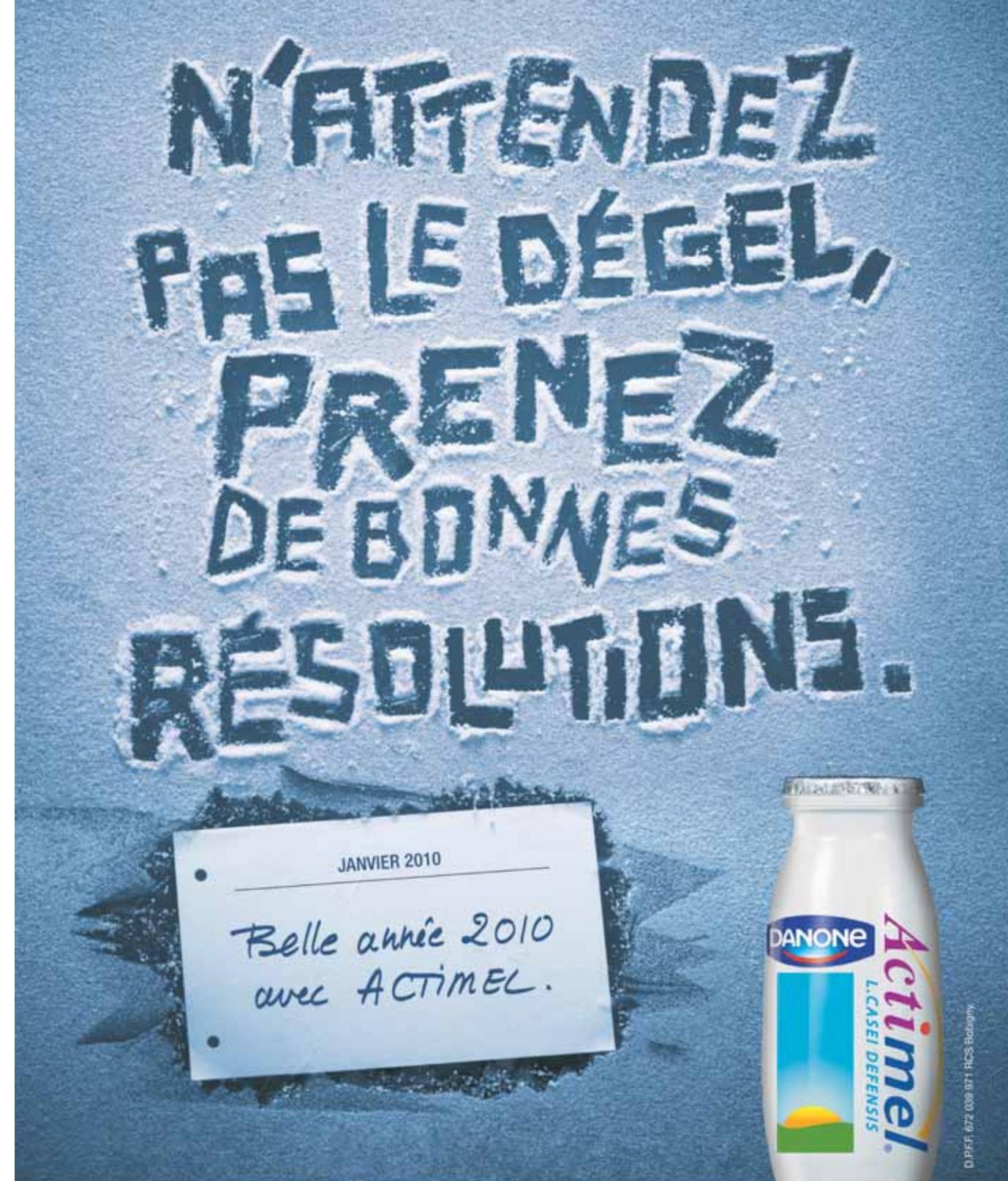
geographical markets with high rates of population growth.

And what about Medical Nutrition?

FR: With sales now close to €1 billion, our Medical Nutrition division is starting to carry real weight. Not only financially, but also from a strategic point of view. We are only beginning to see how it will affect Danone—and how Danone will affect it.

Are you going to tie it in with other businesses?

FR: Let's not get ahead of ourselves. Medical nutrition has its own logic—products are often reimbursed by public health insurance organizations, R&D lead times are very long, and distribution is through pharmacies and hospitals. It would be a dangerous mistake to try and impose a mass-market model in this area. I've heard talk, for example, about the work of our Medical Nutrition teams on Alzheimer's disease, with people saying that Danone is preparing to launch a yogurt for sufferers from the disease. That is obviously ridiculous and it would certainly be irresponsible for us to attempt anything of the kind. As well as counterproductive. What we can say, though, is that the discoveries made will certainly be factored into mass-market products one day or another. Note I say one day—I want to be very careful not to rush things.



Le Puy de Pariou (opposite) in France's Auvergne region, towers over the catchment area for Volvic mineral water.



●●●
Danone's strategic focus on health has been a powerful lever for growth over recent years. But isn't it increasingly questioned? For example, there is the EU regulation that imposes more stringent conditions for health claims about food.

FR: That's another area where there have been misunderstandings. People often seem to think that our health strategy concerns only functional foods, products that have a specific effect on a given function of the body, such as intestinal transit. It's true that we tend to advertise those products actively. But when we talk about health through food at Danone, we're talking primarily about fundamental issues of public health, which in most countries center on nutrition. So we're talking about basic nutrients and healthy, appetizing and affordable products. We're talking about giving people easy access to the one absolutely essential beverage: water. So believe me, there are no doubts about our strategic focus on health. It has the support and encouragement of health officials, nutritionists and public authorities—and we place a lot of emphasis on continuing, constructive dialog with all of them. About the EU regulation on health and nutrition, the principle behind it is clearly right—stricter standards for health claims about food are a very good thing. And over the medium to long term, it's not a threat—on the contrary!—for a business like Danone that invests massively in research, with results borne out in dozens of publications in leading scientific journals. It's even a great opportunity.

At the same time, it's only normal that there be some teething problems to start: the system will need some time to hit its stride. The EU authority is swamped with applications for approval and the assessment criteria aren't always clear. These will no doubt be more clearly defined in the months ahead, and the procedure itself could perhaps be improved. So we're likely to see a period of uncertainty and debate ahead of us. But we'll be able to deal with that. And if we have to do without health claims for some of our products for a few months, well, we'll manage. The success of Activia, for example, is built on many other factors, too.

Is Danone's strategy for dealing with the current crisis a sound basis for its long-term development?

FR: Our current strategy isn't just about the near term or simply a reaction to events. On the contrary, it's all about building the business. By focusing on volumes and market share, we are reinforcing our positions and creating new momentum. We've also consolidated our finances with a capital increase, and have positioned ourselves to take advantage of small and medium-size acquisition opportunities. At the same time, we are continuing to invest on a huge scale. Despite the slump, we haven't cut advertising; we've continued to support our brands and invest in opening up new markets. In 2009 we moved into South Korea and Mozambique and started up a first operation in India. In Thailand, we built a new dairy

“Investing in a voluntary program to cut CO₂ emissions by 30% in five years is investing in our future.”

products plant, and in Brazil we started up in water. In China, we've acquired new capacity for yogurt production and started work on a new mineral water plant near Shenzhen. We have projects just about everywhere.

About China, is it still a priority for Danone after the sale of your interest in Wahaha?

FR: One of the reasons we decided to put our involvement with Wahaha behind us and not get bogged down in a dispute that could have gone on much longer is that we wanted to be free to put all our energy into building our future there. We have some great companies in China in all four of our business lines, with leading positions across the country or in their regions. Overall growth has been very strong, reaching nearly 20% in 2009, and prospects are very promising. So China is very definitely a strategic market for Danone, in the same way as Brazil, Mexico, Japan and Russia.

More generally, there is recurrent talk of you making massive acquisitions.

FR: We haven't changed our thinking on that. We're not looking for acquisitions on a scale to transform our business, as was the case with Numico. We are on the lookout for smaller or medium-size opportunities in each of our four business lines.

In 2009, societal commitments were also very much in evidence at Danone, particularly with environmental initiatives, and including the creation of your Ecosystem Fund. What's the logic behind these very different initiatives?

FR: Investment in areas of societal concern is also an investment in the future of Danone. It's what we do when we invest in a voluntary program to cut CO₂ emissions, direct and indirect, by 30% in five years, or when we invest in dialog with employees and their representatives at a time when there are serious risks of tension. Or when we maintain high training budgets when the first temptation could be cut them. Or when we draw on the support of our shareholders, in the thick of the economic crisis, to set up a €100 million fund to back social and economic progress in regions where we do business. All that is certainly about responsibility, but as I said, it's a way of investing in our own future. In facing up to the big issues of the day, we are better attuned to society and make ourselves more useful. And that helps put continued meaning into our operations, making Danone stronger and placing us at the forefront of our industry. Which helps ensure that we'll be able to continue what we think of as a unique adventure. ■■■

Executive Committee

Franck Riboud (see p. 25)
 54, French, Chairman and CEO

Emmanuel Faber (see p. 52)
 46, French, Co-Chief Operating Officer

Bernard Hours (see p. 47)
 53, French, Co-Chief Operating Officer

Jordi Constans (see p. 25)
 45, Spanish, Co-Executive Vice President Fresh Dairy Products

Thomas Kunz (see p. 31)
 52, Swiss, Executive Vice President Waters

Felix Martin Garcia (see p. 25)
 49, Spanish, Co-Executive Vice President Fresh Dairy Products

Flemming Morgan (see p. 39)
 54, British, Executive Vice President Medical Nutrition

Christian Neu (see p. 35)
 53, German, Executive Vice President Baby Nutrition

Muriel Pénicaud (see p. 80)
 54, French, Executive Vice President Human Resources

Pierre-André Térissse (see p. 98)
 43, French, Executive Vice President Finance

Sven Thormahlen (see p. 85)
 53, German, Executive Vice President Danone Research



Two and a half million children from all over the world have taken part in the Danone Nations Cup every year since 2000.

This international soccer tournament for children aged 10 to 12 embodies the values of openness, humanism, proximity and enthusiasm that are fundamental to Danone. And we are proud to offer children and their families this opportunity to make their dreams come true.

"Believe in your dreams"

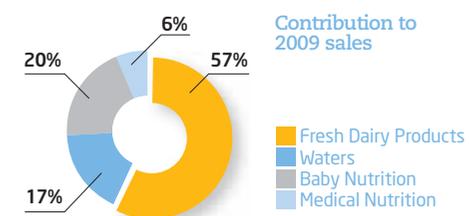
Danone
10



On course in 2009

Danone's consolidated sales for 2009 came to €14,982 million, showing a like-for-like rise of 3.2%. Operating margin rose 61 basis points to 15.3% and net income was up 11.5% to €1.41 billion on a comparable basis. While lower prices for raw materials played a part, these strong performances are first of all the result of the strategy deployed from the first quarter on, **focusing on sales volumes and an attentive ear for consumers**, whose behavior has changed radically in response to the economic crisis.

In concrete terms, this meant price adjustments, repositioning ranges and rolling out new, more affordable formats—all without diluting our mission of bringing health through food to as many people as possible. This new strategy does not in any way weaken **our commitments on health and nutrition**, built on products offering nutritional profiles to match consumers' specific needs and respond effectively to public health challenges at local level. The same commitments are also reflected in ongoing efforts to raise awareness and encourage better diet with the support of the 18 Danone Institutes. In 2009, action taken led to steady improvement throughout the year, with **gains accelerating in the closing quarter** for all four business lines: Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition.



- 24 Fresh Dairy Products
- 30 Waters
- 34 Baby Nutrition
- 38 Medical Nutrition

Danone worldwide 2009 Roundup

Throughout 2009, growth in sales volumes accelerated in most countries where Danone operates. Even on our historic markets in Western Europe—the most hotly contested and the most mature—sales showed like-for-like increases, driven by rebounds in Germany and the UK, and continued pace in Scandinavia and Switzerland. In North America, gains continued with 9%* volume growth in the fourth quarter of the year, bringing the total close to levels observed on emerging and recently entered markets.

Markets in the latter category already account for over 40% of Danone's total sales—and 51% for the Waters division—and volume growth topped 10% in Asia and South America. Major contributions to business development included like-for-like rises from 2008 of 14% in Mexico, 12% in Indonesia and 7% in China. Japan and Brazil were also main sources of momentum for Fresh Dairy Products.

Our investments to reach new consumers have continued. In 2009, the Fresh Dairy Products division made its first moves into South Korea, Mozambique, Syria and Lebanon, and consolidated operations in Colombia, Kazakhstan and Chile. It also launched its first operation in India and set up new production units in Thailand and China. In Waters, Mexican brand Bonafont made its debut in Brazil, while the Baby Nutrition division is now present in Chile, Rwanda and Nigeria. In Medical Nutrition, new bases were set up in Colombia, Indonesia and Thailand during the year.

* Like for like

- Top 10 contributors to Danone sales
- 1 • France
 - 2 • Spain
 - 3 • United States
 - 4 • UK and Ireland
 - 5 • Germany
 - 6 • Mexico
 - 7 • Indonesia
 - 8 • Argentina
 - 9 • Russia
 - 10 • China

Central Europe
13,648 employees
No. 1 in fresh dairy products
No. 1 in medical nutrition
19 plants

Western Europe
16,087 employees
No. 1 in fresh dairy products
No. 1 in baby nutrition
No. 1 in medical nutrition
No. 2 in bottled waters
36 plants

Asia-Pacific
23,136 employees
No. 1 in bottled waters
No. 2 in baby nutrition
50 plants

Africa and Middle East
4,620 employees
No. 1 in fresh dairy products
15 plants

North America
2,401 employees
No. 1 in fresh dairy products
6 plants

Latin America
21,084 employees
No. 1 in fresh dairy products
No. 1 in bottled waters
33 factories

53%
of group sales were generated outside Western Europe, up from 15% in 1995.

Businesses

Sales volumes were up 5.2% like for like for 2009 as a whole, compared with a 3.2% rise in revenue, and 8.9% in the final quarter, demonstrating the success of action taken from the first quarter on.

+ 4.2%

in volume*, +7.9% in sales*. The Baby Nutrition division raised its market shares in most Western European countries, in Russia and in Argentina.

+ 4.6%

in volume*, +1.6% in sales*. Growth was particularly strong for Fresh Dairy Products in the US, Brazil, China and Japan.

+ 6.2%

in volume*, +1% in sales*. Growth in the Waters division was driven by emerging markets, which account for 51% of its sales. Leading the field were Indonesia, Mexico, China and Poland.

+ 10.7%

in volume*, + 11.4% in sales*. The Medical Nutrition division is no. 1 in Europe with its Nutricia, SHS and Milupa brands.

* Like for like



Danone took early note of shifting patterns of consumer behavior and adopted a new strategic turn as of the closing quarter of 2008. Measures deployed included repositioning of ranges, price adjustments and increased advertising to boost volume growth, with the Fresh Dairy Products and Waters divisions a priority. The results speak for themselves: volumes rose 4.2%* for Baby Nutrition and 10.7%* for Medical Nutrition—the businesses least exposed to the economic downturn—and picked up for both the Fresh Dairy Products (+6.2%*) and Waters (+4.6%*) divisions from the end of the first half of 2009.

This combination of price cuts and heavy advertising outlays was not without risk at a time when many competitors were trimming budgets. But despite the troubled economic environment, our top brands—which are also the least flexibly priced—also scored strong gains, the case for Medical Nutrition products and for Activia in the Fresh Dairy Products division. Demand also held very firm for Danacol and Actimel throughout the year, and our Baby Nutrition lines scored significant gains in market share. Danone has thus emerged from a challenging year stronger than ever, with market share up by an average of half a point in all four core businesses. Building on those bases, we expect sales growth to reach at least 5%* in 2010.

Our Waters division now generates over 51% of sales on emerging markets, making strong showings in Indonesia, Argentina and Mexico. In Fresh Dairy Products, recently opened markets have shown continued pace, and good performances were once again reported in China, Japan, the United States and Mexico. Building on Danone's strong positions, our Medical Nutrition division will continue to expand in China, the United States and Brazil, while the priority for Baby Nutrition will be Latin America.

* Like for like

FDP*

78,000

Danone yogurts are eaten
around the world
every minute.

*Fresh Dairy Products

“The initiatives taken in 2009 revived volume growth and also increased the value of our brands.”

Jordi Constans and Felix Martin Garcia from Spain, Co-Executive Vice Presidents, Fresh Dairy Products

“We achieved two major objectives in 2009. After a difficult first quarter, sales volumes rose in each of the following quarters to close the year with an overall gain of 4.6%. And we increased market share in 70% of the geographical areas where we operate. So we’re heading into 2010 with plenty of momentum—and the drivers for that are far from exhausted, starting with our pricing strategy. We carried out an in-depth review to calculate prices that exactly match the value of our brands, market by market. We made adjustments for Actimel in Poland, and others in the US and Mexico, enabling us to increase volumes and overall results. And there has been no letup in our promotional efforts—on the contrary! They’ve gained pace, and on very favorable financial terms. For our functional lines, we’ve opted for advertising that appeals more to consumers’ emotions and emphasizes eating pleasure.

Brand extension by subsidiaries is another source of impetus, with launches of products such as Activia Breakfast in Bulgaria and Portugal, Activia Intensely Creamy in the UK, Activia Drink in Brazil, spoonable Bio (Activia) in China, Danimals Crush in the US and Danonino yogurts. All these products offer new ways to enjoy our ranges. In the same spirit, the inauguration of the Casa Danone yogurt bar in Barcelona underscores our commitment to direct ties to consumers by providing a new setting for them to try our products. Initiatives like these clearly reinforce the value of our brands. And of course there are more breakthrough innovations like Densia yogurts with added calcium and vitamin D for the over 45s. This has been a success in Spain and holds a lot of promise.

A third factor is increased attention to our leading local brands such as Danette, Fantasia, Nutriday, and Griego. Alongside our international brands, these have won a strong place with consumers looking for healthy, affordable products that they can enjoy regardless of the economy. Our resilience in the economic downturn rewards our continuing efforts to raise productivity. These help explain vigorous growth on markets including the UK, Germany, Japan—where volumes were up 36%—Indonesia, the US, Brazil, Mexico and China. And pace will continue in 2010. One thing we have learned from the crisis is that we can rely on the commitment of our teams and their capacity to respond effectively to change.”



India 3

Introducing Choco+Milk

“It’s not a drink, it’s a chocolate smoothie.” In November 2009, Danone Fresh Dairy Products entered the Indian market with Choco+Milk, a delicious pairing of chocolate flavor and smoothie texture. Currently available only in Hyderabad—India’s fifth-largest city, with six million potential consumers—the product had reached nearly 1500 points of sale by February 2010. It will soon launch in two other major Indian cities, Bangalore and Chennai, with the same product positioning.

United Kingdom 5

Intense Success for Activia Intensely Creamy

Just over a year after its launch in late 2008, Activia Intensely Creamy—a dessert yogurt that favors digestion—has expanded its success by adding new flavors. In 2009, the highly popular Velvety Vanilla was voted Best Fast-Moving Consumer Goods Launch by *The Grocer Magazine*, the UK’s leading industry magazine. Now number one in the premium yogurt segment, Intensely Creamy has outperformed projections by 142%. And with 36% market penetration, this innovative product accounts for 14% of Activia’s UK sales and 72% of the brand’s growth in the British market.

Scandinavia

40% growth in 2009

Danone Scandinavia—our business unit for Sweden, Denmark and Norway—posted 2009 growth of 40%, the strongest in any developed country where we do business. Sales have increased 80% over the past three years thanks to Activia, Actimel and Danonino, three products that account for 90% of the unit’s performance.



Innovation 1

Danoninho yogurt packs calcium and vitamin D for kids

Our Danoninho range of *fromage frais* products now includes a yogurt version sold in multipacks and individual servings to make the product more affordable for lower incomes. Thicker and creamier than traditional yogurt, Danoninho is fortified to give children aged three to eight the calcium and vitamin D they need. Danoninho yogurt has been launched in markets including Bulgaria, Romania, Russia, Ukraine and Brazil, where it is already generating 20-30% of sales for the brand with little displacement of other Danoninho products.

Russia

Activia still on top

Launched in 2001, Activia has become the leading brand in Russia's market for dairy products containing bifidus. In 2009 two innovative new products—a breakfast version and "Moment of Pleasure", an indulgent dessert—joined the highly successful drinkable Activia range, bringing better health to consumers and to the brand, which already accounts for nearly 50% of Danone sales in Russia.



2

Japan 2

New media spur growth

In Japan, where 99% of households have high-speed Internet access and 70 million people use social networks, the Web is a marketing powerhouse, and in 2009 our Japanese business unit revolutionized its approach, increasing total monthly visits to www.danone.co.jp by a factor of 13. And thanks to a more qualitative approach to search engine optimization, Danone Japan has quintupled search-driven traffic to its website and improved visitor registration, gathering information on the consumption habits and expectations of 700,000 new members of the Danone community in Japan. Other initiatives focused on bloggers and the general public, increasing awareness of Danone yogurts generally, and Activia—in particular. Coupled with an intensive point-of-sale advertising campaign launched in 2008, these outreach initiatives have given Danone Japan a multichannel presence, propelling it into the top ranks of a fiercely competitive market. Though Danone has been present in Japan for only three years, we now hold 6% of the fresh dairy products market—up from 4.4% in 2008—and Bio is the number-two brand in its segment.

40 clinical studies on Actimel and Activia are displayed on our dedicated website www.etudes.danone.com. The studies were made available in November 2009 and reflect Danone Research's efforts to expand access to its scientific results, which have previously been presented only at international conferences and in specialized journals.

New markets

Wider horizons

This year Fresh Dairy Products broke into new markets in Syria, Lebanon, South Korea and Mozambique, where our South African business unit launched its flagship yogurt brand Nutriday. These yogurts can be stored at room temperature for up to three months—a strong selling point in a country where reliable refrigeration is virtually non-existent—and are produced locally in a micro-plant in Maputo, the Mozambican capital. With a capacity of 5,000 metric tons a year, the plant supplies the Mozambican market and in the future will export to other countries on or near the Indian Ocean.

Our Fresh Dairy Products division continued to add new markets last year, expanding into South Korea, Mozambique, Lebanon and Syria. Danone also entered the Indian market.

Mexico 4

A business success story

After falling 10% in the first quarter of 2009, sales volume for Danone Mexico turned around to end the year up 13.3% from 2008. Driving the comeback was an ambitious, can-do strategy built on price adjustments, increased reliance on neighborhood sales outlets, and a number of innovations. These included revitalizing Danone's traditional yogurt range to provide healthy treats at more affordable prices, packaged in individual portions, a family pack, and a large economy size to accommodate different consumption styles. In launching Activia Flora, Danone Mexico met its goal—offering a less sophisticated, more affordable version of the product—and used the opportunity to remind consumers of the functional benefits of the entire range. Also key to the comeback were a campaign that appealed to young Mexicans with figurines based on the popular Dino City and a new jelly version of Danonino sold at 1 peso, Mexico's lowest price for this segment.

4.7 billion euros
total 2009 sales of Activia, Actimel, Danonino and Danacol, Danone's four flagship dairy products.



3



5



4



6

Bulgaria

Waking up to Activia Breakfast

Though our traditional yogurts are already number one in Bulgaria, Danone set the ambitious goal of launching a new product in May and June of 2009. Because the Bulgarian market is viewed as highly conservative, we researched the Activia Breakfast launch with special care, emphasizing grains for healthy growth, an affordable price, a lifestyle-oriented advertising campaign, and fun mix-it-yourself packaging. This innovative launch also urged Bulgarians to enjoy yogurt in a completely new way—by starting the day off right with Activia Breakfast. Sales exceeded targets by 292%, and Activia Breakfast already accounts for 25% of the brand's total sales.

Poland

Lasting success for Share Your Meal

Launched in 2003 to aid Poland's 170,000 malnourished children, the Share Your Meal program is now familiar to 84% of Poles. As always, its message gets right to the point: "When you buy Danone products, you help provide free meals." The program, which has already served nearly 9,000,000 meals, is run by Danone Poland in partnership with the Polsat Foundation, food banks and various NGOs, with additional support from an annual two-day food drive at Polish supermarkets. In 2009, nearly 300 volunteers, many of them Danone employees, took part in Share Your Meal.



7

China

Spoonable Bio in Shanghai

Relaunched in Shanghai in mid-January as a 100% Danone product, Activia—sold in China as Bio—has become the top product in the “digestive comfort” category in less than a year, outpacing local competitors. And new spoonable Bio—a thicker version complementing the original Bio drink, sold with a straw—has also been successful, propelling Danone into the number-two spot for fresh dairy products in Shanghai and the number-three spot in Guangzhou. In 2010, the Bio range will launch in Beijing, enabling Danone to reach the 17 million consumers in China’s second-largest city.

Ecosystem

Ukraine Milk Communities promotes reliable supply network

One of the very first projects backed by the Danone Ecosystem Fund (see page 50), Ukraine Milk Communities is a co-creation of Danone Ukraine and Heifer, an NGO. The initiative was inspired by Danone Turkey’s Milking Parlors and will help small, isolated, low-income milk producers form agricultural cooperatives for support in key areas such as milking, milk collection, cattle feed, and veterinary care. As milk quality improves and farmers gain expertise, milk prices and farm revenues will rise. Twenty cooperatives are slated for creation by May 2010, giving Danone a reliable supply of quality milk and raising the standard of living for 1200 farmers—a powerful boost for the local farm economy and villages.



8

Indonesia 7

New Milkuat a hit with Indonesian children

In February 2009, we relaunched our chocolate milk drink Milkuat Pouch, driving sales up 251% by volume over 2008. While the recipe for success included several ingredients, the most important was reinventing the product as frozen yogurt. This new version, dubbed Frozen Ice Choco, is nutritionally equivalent to the original but much more appealing to children—able to compete with leading ice cream brands, but above all healthier. To leverage this innovative product, we expanded our distribution network to get closer to our target market and priced Frozen Ice Choco at IDR 1000—about ten US cents—to make it affordable for Indonesia’s underprivileged children, estimated at around 5 million.

Czech Republic

Healthy Alphabet spells a healthier life

Providing educational resources for a healthier lifestyle is the goal of Healthy Alphabet, an initiative launched in the Czech Republic by the Danone Institute in cooperation with NGO Aisis and local health groups in 2009. Designed for five-year-olds, the program aims to modify children’s eating habits by giving them—and their parents—a sense of responsibility for what they eat. Teachers also benefit from the expertise of leading Czech specialists in psychology, nutrition and exercise. Healthy Alphabet has already reached 5% of kindergartens, and organizers aim to raise participation to 75% in the next three years.

Spain 8

Densia: the first yogurt exclusively for adults 45 and over

In July 2009, Danone Spain launched new Densia yogurt to meet the special nutritional needs of consumers over 45. With 400 milligrams of calcium and 5 µg of vitamin D—twice as much as traditional yogurt—the new product helps maintain bone density in older adults, especially women. Buoyed by its warm welcome in Spain, Densia crossed the border into Portugal last October on World Osteoporosis Day. Today Densia is also sold in Italy, where studies show that 100% of women over 45 do not get enough calcium and two-thirds get inadequate vitamin D. (Source: INN-CA Study, INRAN, Italy.)

mamo, tato, wole wode!

...bo jest mi potrzebna, tak samo jak Tobie.



Waters

2.5L

The adult body eliminates
2.5 liters of water a day
on average.

(Source: Danone Research)

“Natural water is the only beverage the body really needs. Drinking it is a daily contribution to health.”

Thomas Kunz from Switzerland, Executive Vice President, Waters

“Drink more water, the only beverage you really need: the message is simple, but it’s fundamental to our strategy.

It won us renewed growth on British, German and French markets in the second half of 2009, as well as added pace on major emerging markets. We’ll be stepping up our efforts in this direction, promoting the health benefits of water to win back consumers who have opted for sweet beverages without thinking about all the harm these can do to their health. And we’ll be spreading the word, following the example of the roller babies in our Evian commercial—a video that has attracted over 90 million viewers from around the world on the internet.

We also have to get closer to consumers and ensure in particular that our products are available through all distribution channels. This second focus of our strategy is yielding rewards on emerging markets, which account for over 50% of our sales and where we scored 14% growth in 2009, despite the economic downturn. In China, sales of our vitamin-enriched Mizone water were up nearly 40%, and growth was firm for Aqua in Indonesia and Bonafont in Mexico—countries where our market shares reached 50% and 40%, respectively. And the success of our Mexican brand Bonafont in Brazil shows that these models can be exported. Our teams are working to achieve that with new sizes to match consumer expectations and purchasing power—as illustrated by 3 to 8-liter jugs, a segment where our market share is on the rise.

Another strategic priority I’m particularly attached to is sustainability. Choosing water is in itself an ecological decision—all other beverages have a much larger carbon footprint. In this area, Evian is an example for our group as a whole, with its ongoing efforts to safeguard its spring and its commitment to the Ramsar Convention for the protection of wetlands. Evian will have reduced its carbon footprint per liter by 50% from 2001 to 2011. At the same time, since reductions of this kind can’t go on forever, we’re investing in offsets to achieve the carbon neutrality that Evian is targeting for year-end 2011. In 2009, we provided support for the Oceanium association and local people to replant over 2,000 hectares—nearly 5,000 acres—of mangrove in Senegal. That creates shared momentum throughout our group.”



Asia

Mizone: beyond China

With 30% growth in 2008 and 38.8% in 2009, Mizone has continued its spectacular performance in China, where it is undisputed market leader in fortified water. Improving penetration in big cities and expanding the brand’s geographic coverage should sustain double-digit growth well into the future. But China isn’t Mizone’s only success story in Asia. The brand also has an extremely promising record in Indonesia, where it posted nearly 40% sales growth in 2009, only three years after launching an improved formula.

International 1

Evian roller babies rock the world

Eleven years after Evian’s “Baby Ballet” campaign became a French favorite, the brand has taken its youth concept global. Launched last July 3, Evian’s “Roller Babies” clip made the Guinness Book of World Records as the most widely viewed advertisement on the Internet, with a current total of 94,000,000 views. This enormously popular ad has given the brand’s image a powerful boost, lifting sales dramatically in every country and on every screen. Live young!

Safety

Wise safety program wins DuPont award

The Dupont Safety Awards program presented its 2009 Performance Improvement award to Danone’s Waters division for global deployment of the group’s Wise safety standards, which have reduced accidents by a factor of six over the past six years. The decision was announced on November 4 at the eighth annual Safety Awards ceremony in Düsseldorf, Germany. DuPont, an international leader in safety, works with about 100 businesses a year to improve their performance. Only five winners are selected.



1



2

7 billion liters! Aqua is Indonesia's leading water company, with more than 50% of the market. In 2009 Aqua sold 7 billion liters of water, making it the world's top-selling brand of packaged water by volume.

2

Portable water plants

Staying close to consumers

The Mexican market for home and office water delivery is one of the world's biggest by volume. Already one of the top players, our Waters division has stepped up growth in Mexico's 20-liter returnable segment by using an innovative portable water plant. The concept is simple: two containers equipped with water processing and production equipment pump water from below ground and are then transported by truck to areas where new markets are emerging. Small, economical and easy to transport, these portable water plants enable Bonafont to reach 70,000 consumers a week. Fifteen units should be available by 2011.

R-PET

The drive for 100% R-PET bottles

Despite different regulatory environments, both Evian/Volvic and Bonafont have found new ways to increase the quantity of recycled PET (R-PET) in their bottles—with the ultimate goal of reaching 100%.
 • As early as 2008, Evian and Volvic were pioneering use of R-PET. Today their 1.5-liter bottles—the most popular size—contain 35% R-PET, and their goal is to reach 50% by late 2010. Danone Eaux France is also working to develop bottles with 100% R-PET, beginning with its large three- and eight-liter sizes. To further these ambitions, Danone Eaux France is helping to improve recycling networks and collection rates, while Evian and Volvic have secured reliable supplies of R-PET by partnering with producer France Plastiques Recyclage.
 • Our Mexican business unit has already taken the next step. In 2009, after two years of research and development, Bonafont launched the first bottle manufactured from 100% R-PET. The breakthrough came in a country where an entire community—including children known locally as rag-pickers—now earns its living collecting plastic bottles. As the 100%

R-PET project has expanded, Danone has worked not only to recycle bottles and reduce our environmental impact, but also to help local bottle collectors regain their dignity by getting street children into school. To achieve our goals, we've partnered with an NGO and PETstar, a local producer of R-PET bottles based in Toluca. Bonafont now sells two million 100% R-PET bottles every month.

Brazil

Making a splash

Bonafont—the water market leader in Mexico—has now launched in Brazil, bottling natural mineral water from a spring near São Paulo. Drawing on lessons learned from Bonafont's success in Mexico and the experience of our Fresh Dairy Products division, Waters made a highly successful debut in Brazil's biggest city. And mineral water consumption has already shot up in São Paulo State, where per capita consumption of bottled water is among the lowest in the world, at five liters a year.

The Waters division generated 17% of group sales in 2009, with Europe accounting for 49% of business, Asia 27%, and the rest of the world 24%.

3



Poland

4

A place at the table

In 2009 Zywiec Zdrój flavored waters expanded its customer base, posting a 30% increase in sales by volume and a 17.5% rise in market penetration. The key to this extraordinary performance was offering consumers a whole new way to enjoy water—with a meal. Poles generally see water as having too little flavor, and prefer to pair food with fruit juice. So Danone launched a 360° ad campaign positioning light, delicately flavored Zywiec Zdrój water as the ideal table beverage. The entire campaign is geared around a new concept: "At mealtime you think about what you eat, but not enough about what you drink. Think Zywiec Zdrój flavored water—the perfect companion for all your meals." This appeal, the first of its kind in the flavored water segment, has persuaded many consumers to make the switch. Analysis shows that almost 60% of the brand's additional sales volume has come from fruit juice drinkers and nearly one-third from soda drinkers.



Mexico

3

Bonafont back in the lead in flavored waters

With 41% market share in 2009—up from 27.5% in 2008—Bonafont is back on top of the Mexican flavored water market after losing ground in late 2007. The turnaround was triggered by two key moves: relaunching Levité, a range of mineral waters with natural fruit extracts that saw a 35% sales increase in 2009, and launching Bonafont con jugo, a water with natural fruit juice. Sales got a boost from new fruit flavors and more effective advertising to attract new Mexican consumers who want natural products with little sugar and no artificial flavors. Bonafont's moves have revitalized Mexico's entire flavored water segment, which was up 24% at the end of 2009 after an 8% drop in 2008.

Social responsibility

Innovation in Le Chablais

Birthplace of Evian, the Chablais region in eastern France has always played a prominent role in Danone's groundbreaking corporate social responsibility efforts, and 2009 was no exception. Working through the French network Jardins de Cocagne, nonprofit *Les Pousses d'Avenir* (roughly, "Seeds of the Future") launched a market garden in the region last year, selling organic produce to local residents and providing jobs for adults struggling to find work. Also in 2009, the Evian water company's Corporate Responsibility and Sustainable Development department launched a program to support Evian employees interested in starting their own businesses.

18 billion liters of packaged water That's the rough total for Danone water sales in 2009, making the group the world's number-two producer by volume, with market share of around 8.5%.

4



Baby Nutrition

264

babies are born every minute worldwide, totaling nearly 139 million a year.*

*Source: Population Reference Bureau, 2009

“We’ve gained market share despite a sharp slowdown.”

Christian Neu from Germany, Executive Vice President, Baby Nutrition

“We increased our market share once again to end 2009 with sales up 8%—an excellent performance considering the slackening trends in many countries.

But while the economic crisis has led to lower birth rates and thus lower demand in industrialized countries, there has been no softening on emerging markets. Asia was once again a main source of momentum, with sales up 12%. Our team in China is doing an extraordinary job in unusually difficult conditions, and that market will become our biggest, ahead of France, in 2010. This despite the fact that our share of the French market has continued upward to reach 50%, placing us 20 percentage points ahead of our nearest rival. In Indonesia, sales were up 15% and there is a promise of even better to come. In Europe, too, we saw strong growth in Switzerland, Poland and the UK (a country where sales rose 18%). We have plenty of scope for future growth in Britain.

Our two business platforms both reported excellent results. The first, entirely dedicated to formula offering specific benefits, placing special emphasis on reinforcing the immune system—Aptamil, Nutrilon, Babilon and Dumex brands—scored sales growth three times the market average. The second, dedicated to “superior nutrition”, where our brands include Bebelac, Bledina, Cow & Gate, SGM, Milumil and Bebiko, relaunched its complete care offering that ranges from infant formula with high nutritional value to complementary foods—jars, cereals and stewed fruit—for toddlers.

Our strategy for growth and communications promoting the advantages of growing-up milks over cow’s milk for infants aged 10 to 12 months paid off in many countries. We will be continuing our drive to make mothers and healthcare professionals more aware of how such growth formulas can benefit children as a complement or follow-up for breastfeeding in their first three or four years of life.

Our role is to remind everyone that babies are not simply miniature adults—and to explain the difference. On another theme, our contribution to group efforts to reduce our carbon footprint has begun with a detailed assessment of the current situation, which will allow us to draw up an effective action plan for the next three years. We’ll be aiming at optimizing our milk drying and packaging technologies.”



R&D

Baby nutrition and metabolism

Recent studies show that infant and early childhood nutrition can play a crucial role in adult metabolic health, with specific nutritional ingredients and compositions influencing predispositions for chronic conditions such as obesity, diabetes, asthma, and heart disease. Danone’s Baby Nutrition division is participating in several research programs designed to increase understanding of human metabolic programming. New insights into the benefits of breast milk will help our researchers improve infant formulas.

China 3

Bebelac powers new segment

Launched in a single province for a six-month test in the premium segment of the infant formula market, Bebelac rapidly won 10% market share. The brand made its debut in nine Chinese provinces in 2009, and promises to be another growth engine for Nutricia in China. Bebelac joins Dumex, our umbrella brand, which leads the pack with 40% market share in the super-premium segment.

Austria

Aptamil honored for effective advertising

In September 2009, Aptamil Austria’s Aura campaign—developed and broadcast in 2008—won an Effie Award for effectiveness in advertising. The spot highlights the intrinsic benefits of Aptamil but underscores emotional value, showcasing a brand that goes beyond science to listen and stay close to mothers. Reaction was swift: since the campaign aired, sales have soared 33% and market share has increased in a slack market.



Six countries generated more than 40% of Baby Nutrition sales in 2009: France, the United Kingdom, Italy, Germany, Poland and Russia.



United Kingdom 2

Success for Aptamil and Cow & Gate

Baby nutrition brands Aptamil and Cow & Gate posted record growth in the UK last year, with Cow & Gate increasing market share from 33.4% to 35%, and Aptamil rising from 22.3% to 28.9%. Sales were up 17% for the two brands—and with no price adjustments, all of the gains came from increased sales volumes. The secret of their success? Both repositioned themselves more clearly within their markets: Aptamil helps the youngest children grow by offering high-quality formulas adapted to each age group, while Cow & Gate provides a complete care concept, with products ranging from infant formulas to balanced meals for older children.

Indonesia 1

Working with midwives to improve public health

Promoting best practices in nutrition and hygiene for newborns and their mothers is the heart of Srikandi, a program launched by Sari Husada, one of our Baby Nutrition units in Indonesia. With mortality rates high—35 per 1000 for children and 3.07 per 1000 for mothers—better public health means longer, better lives. Srikandi relies on a network of 110,000 midwives to disseminate lifesaving public health information, especially in isolated rural areas. In the program's education component, midwives study infant nutrition, learn how to advise mothers on breastfeeding, and visit model maternity hospitals. A second component instills personal initiative: trainees, who number 6000-7000 a year, are encouraged to submit practical ideas for reducing infant mortality or improving nutrition or hygiene. By late 2009, 500 projects had been submitted, 150 selected, and 83 implemented with funding from Sari Husada. Run in partnership with the Indonesian government, Srikandi has won several honors, including one recognizing its contribution to the Millennium Development Goals established by the United Nations.

30 scientific articles were published in specialized international journals by Danone Baby Nutrition researchers in 2009.

France 4

Blédina: rising star in a sagging market

With volume down 2.6%* overall, 2009 was a challenging year for the French baby food industry. But market leader Blédina proved more resilient than competitors, pushing its market share up 1.8 points to 49.4% and widening its lead over its closest rival, at 22.9%. That's cause for optimism in 2010, especially since Blédina plans to launch a number of innovative projects this year. These include prenatal positioning for Laboratoire Gallia, work on a new range to complement existing baby foods in jars and prepared dishes sold in plates/bowls, and our constant quest for innovations that bring Danone products closer to homemade—all to make life simpler for mothers.

* (Source: Nielsen en CAM)

Science

Danone Baby Nutrition shines at ESPGHAN

Danone Baby Nutrition played a prominent role at the 2009 conference of the European Society for Pediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN), a major event for pediatricians and other child and infant nutrition specialists worldwide. Danone personnel organized a satellite symposium on recent advances in the field and staffed an interactive booth designed with Danone Medical Nutrition, and representatives from Danone's center for specialized nutrition spoke at various sessions on specialized nutrition—a strong presence that bolstered Baby Nutrition's credibility within the scientific and pediatric community.

n°1

Danone is market leader for baby nutrition in Indonesia, China, Malaysia and Thailand, and our Dumex brand ranks second in the Asia-Pacific region as a whole.

Italy 5

Mellin's BabyCena and BabyBuonanotte named products of the year

Mellin's BabyCena and BabyBuonanotte—Italian for "supper" and "good night"—won Italy's Market and Innovation-Product of the Year 2009 award for the baby food category, marking the second year in a row that Mellin was recognized by a jury of over 30,000 Italian consumers. The new range focuses on evening nutrition with light, easy-to-digest meals and beverages for babies.

Vietnam

Dumex posts record growth

After five straight years of double-digit growth, Dumex posted another 50% sales increase in 2009—the product of a strategy geared around the super-premium market. Already number three in this segment, Dumex will use the next few years to bolster the group's position in Vietnam by launching more affordable products with greater mass-market appeal.

Medical Nutrition

3x
 Projections from WHO indicate that the world population of over-65s will increase three-fold by 2050, but that life expectancy for good health will decline.

(Source: WHO)

“Growth potential is huge on all our markets, in all parts of the world.”

Flemming Morgan from the UK, Executive Vice President, Medical Nutrition

“Our sales growth was in double digits again in 2009—all the healthier as the rise was entirely attributable to volume increases. We boosted our presence on European markets with growth reaching 9, 10, even 11%. And we stepped up the pace in Turkey and a number of emerging markets including Brazil and China, where sales rose by nearly 30%. We are now starting to move into new countries such as Indonesia and Thailand, which will drive growth in the future.



Our core products combating malnutrition among the elderly and other vulnerable groups did very well in 2009, as did our products for medical nutrition for children. Successes like these show we’re beginning to convince healthcare professionals that our products not only improve patients’ quality of life and health, but also have a very positive impact on the total cost of care.

Innovation is naturally another important source of momentum. This is illustrated by Fortimel Compact, which packs the same quantity of energy and nutrients into a 125 ml bottle as was formerly in a 200 ml bottle. Results in the UK, Germany, Poland and Belgium are excellent to date, and we plan to roll out Compact on all our markets. We are also working to meet the needs of lower-income groups; an example is Nutridrink, now available from Brazilian pharmacies in powder form at a price that is affordable for elderly people exposed to the risk of malnutrition. We are steadily increasing investment in clinical studies to establish beyond doubt the benefits of our products, thereby meeting the needs of both patients and healthcare professionals.

Drawing on the findings of ten years of research and clinical studies, we’ve developed Souvenaid, a product that may improve the memories of Alzheimer’s sufferers. Following very encouraging initial results, additional clinical studies are under way, one of them with funding from the European Commission. Other preliminary studies have shown the efficacy of another of our products in slowing the deterioration of HIV patients’ health, providing further evidence of the capacity of our scientific teams to achieve positive results. We will continue to make research and product development targeting global issues in health our priority.”

HIV - Immunity

Promising results for clinical study

In September, Danone Medical Nutrition announced promising results for a clinical trial testing the effects of its new NR100157 nutritional concept on the immune systems of HIV-positive patients. Nutricia scientists designed this concept to target the immune system and the barrier function of the gut. In 2007, they began an international clinical trial to assess the effects on several hundred patients not yet on antiretroviral therapy. After 52 weeks, CD4+T counts (T4 lymphocytes) were significantly lower for patients taking NR100157 than for those in the control group. CD4 count is an indicator of the strength of the individual’s immune system, and is now the main indicator used to track HIV disease progression and decline in immune response. The trial outcomes are an important step forward for researchers at Nutricia, the global brand for Danone Medical Nutrition.

Markets

Success for Fortimel Compact

In 2009, Nutricia consolidated its leading place in medical nutrition with the introduction of Fortimel Compact, a high-protein, high-energy beverage that packs the same nutritional value into 125 ml as the standard dose in 200 ml. Because many sick people have poor appetites and find it hard to finish their prescribed dosage, this first-to-market innovation has been welcomed by healthcare professionals and patients alike. By the close of the year, rapidly accelerating sales growth in markets such as the UK and the Netherlands made Fortimel Compact the fastest ever product launch for the division. In 2010, it will gain added potential with new flavors and variants.

NEW

Fortimel Compact

Less volume, more nutrition



NUTRICIA
Fortimel
Compact

Market

Very rapid growth in Brazil and China

Over the past five years, the Medical Nutrition division has extended its reach well beyond the boundaries of its domestic European market. The top ten contributors to 2009 sales included Brazil, China and Turkey, and a program is now under way for further expansion in Latin America, Africa and the Middle East, and Asia. With other Danone businesses already present in many of these countries, the group can leverage the presence of existing organizations and teams to win a place for its Medical Nutrition products more quickly.

15%

Only 15% of world's population has access to medical nutrition according to the WHO.

Partnerships

Raising awareness of malnutrition among the elderly

Malnutrition among the elderly is a social and medical problem with increasing repercussions in all parts of the world. When an older person starts to lose weight and become less active, family caregivers and even family doctors may accept this as a normal consequence of growing old. With adequate supportive nutrition, however, elderly people can maintain independent lives for longer, and those who are sick can gain the strength to fight their condition. In many countries, Nutricia partners with care associations and charities to raise awareness of the problem. In France, for example, the Nutrmission program campaigns for better care of the estimated 450,000 malnourished seniors living at home, along with many others being looked after in institutions and hospitals.



R&D

Infatrini—a response to childhood denutrition

About 5% of the world's children need special nutritional support to avoid long-term health consequences as they grow up. Within Danone, Nutricia has developed a large number of products in a range of formats, among them Infatrini, the only formula that satisfies WHO guidelines for children suffering from acute denutrition. Another example is Nutrini Low Energy Multi Fiber for children suffering from neurodisabilities.

Prevention

Diagnosing metabolic disorders in Turkey

A pioneer in programs to identify public health threats, Nutricia has launched an extended initiative in the Anatolia region of eastern Turkey to detect metabolic disorders early in infancy and provide access to appropriate treatment and follow-up care.

Healthcare

Reining in costs

Rapid innovation in medical nutrition enables Danone to offer products targeted to assist doctors specializing in diabetes, cancer, respiratory diseases and other areas of medicine. Nutritional products like Diasip and Respifor play an important role in managing disease and recovery, alongside conventional drug treatment, operative procedures and physiotherapy. Other solutions, like Ketocal for people suffering from drug-resistant epilepsy, may help patients after other treatments have failed. The advantages for both doctors and patients are better clinical outcomes and more rapid recovery. In cost-conscious healthcare systems, including medical nutrition in disease management protocols is also of value, since stronger, more active patients mean shorter treatment times and expensive hospital stays.

Sales growth in 2009

Medical Nutrition unfazed by the economy

Medical Nutrition sales continued on a firm upward path in 2009 despite the economic downturn, showing a rise of 11.4% for the year—nearly all driven by volume—to set the average annual gain over five years at 12.2%. Growth was evenly spread across geographic areas and product categories generally, although results were particularly strong in pediatrics and allergies, and in the core business of nutrition for the sick and elderly.



Danone bounces out of the slump

Boosting volume growth, building staff responsiveness and helping our business ecosystem prepare for the challenges of the future—these three critical levers are bringing Danone through the crisis stronger than ever.

Text by Jean-Léon Vandoorne

- 1 - Volumes
- 2 - Responsiveness
- 3 - Ecosystem

1-Volumes



"Reset", the program deployed in early 2009 by Fresh Dairy Product units in France, Spain, Mexico, the US, Russia, Poland, Hungary and other countries gave growth in sales volume a significant boost and raised market share. Above: a young consumer in a Tokyo supermarket.

As Danone told investors and financial analysts at the end of 2008, 2009 ushered in a new focus on volume growth amid fallout from the financial crisis. Volume means nothing more than the quantity of product sold, and our strategy was thus to expand, not retreat. Our goal: sell more yogurts, more bottles of water, more jars of baby food and more packages of growing-up milk despite the economic downturn. Which raises the question of why—why aim for higher volumes

rather than shore up margins or sales revenues, even if that means selling fewer products at high prices?

Part of the answer is basic common sense. With household spending down and real incomes under pressure, there is little hope of selling at higher prices. But it is also a matter of consistency: since the early 2000s, Danone has defined its mission in terms of reaching as many people as possible. That means making products affordable, within the reach of a majority of consumers and not just an affluent minority.

Focusing on volumes in difficult times has other advantages, too. When markets contract, it's important to ensure that consumers don't lose the habit of buying your products: if they do, they may not return when the economy bounces back. Preserving consumers' taste for your brand is also good for retailers—both large supermarkets and neighborhood stores—since to remain attractive distributors need products that sell and draw customers.

Finally, and perhaps most importantly, focusing on volumes is the way to keep factories and production lines running. This is critically important for three reasons that carry special weight in an economic downturn. To begin with, it helps preserve a sound financial structure by spreading fixed costs across larger volumes. It also ensures continuing demand for suppliers of raw materials who need to sell their output, particularly when it is perishable. And, most obviously, it preserves industrial jobs. On that point we have a responsibility not only to our employees, but also to society at large, since cutting jobs contributes to the downward spiral in consumer demand.

So volumes are our priority. That strategy applies first of all to Fresh Dairy Products, which account for nearly 60% of Danone's sales. By the end of 2008, the division had already opted for what we called a "reset"—a complete overhaul of strategy to lift

volumes by acting simultaneously on three fronts.

Firstly, with targeted price cuts. Rather than making sharp cuts across the board, we aimed to make selected ranges more affordable for households whose incomes have been squeezed. Demand has in fact remained very firm for premium products in all countries, in food just as in electronics. And volume sales of Actimel, Aptamil and Activia, our flagship brands, have continued to rise steadily despite the economic slump. At the same time, consumers with more limited resources want to pay less for other types of product they consider basic necessities. These adjustments call for finely tuned analysis—country by country, brand by brand and range by range—to adapt pricing and cover the full range of purchasing power with different products. Some changes were simple tweaking, but others were more spectacular, with price cuts of up to 15% for certain products in Mexico and Poland. In some cases, this meant offering an identical product at a lower price, while in others it involved offering more for the same price—a "giraffe" in our in-house jargon.

But our reset strategy didn't mean downgrading our range. To begin with, increased volumes fairly quickly offset the impact of targeted price cuts.

Secondly, there was no related move to slash spending: on the contrary, investments remained high, with our

Our Reset strategy at a glance

We adopted our new strategy at the beginning of 2009 in response to the market downturn triggered by the economic crisis. Dubbed "Reset," it aims to boost sales and market share by focusing on three main priorities:

- 1. Reweighting product portfolios** and adjusting prices to ensure that prices in each country are just right: attuned to market realities, consumer purchasing power, and brand value;
 - 2. Increased emphasis on promotion** and point-of-sale events.
 - 3. A shift in consumer advertising** to highlight product quality in terms of taste, pleasure and well-being in addition to functional benefits.
- By combining this reset strategy with major productivity initiatives, Danone has already consolidated its market shares.

Fresh focus on emotion and reason in advertising

Consumer advertising is a main focus of our Reset strategy, calling for new emphasis on perceived quality in terms of taste, pleasure and well-being in addition to functional

benefits. In difficult times, consumers naturally tend to focus on products they enjoy. This new advertising strategy has backed products like Danette in France, Fantasia in Germany and

Griego in Spain, as well as our top international brands. Far from cutting spending, Danone has bucked the general trend by holding outlays steady. This has enabled us to negotiate

contracts in more favorable market conditions and thus gain increased impact for advertising, promotion and point-of-sale events and displays.

Affordability by inventing new models

Drawing inspiration from Grameen Danone Foods in Bangladesh, the danone.communities fund was set up in 2007 to support and finance social businesses, more specifically initiatives fighting poverty and malnutrition around the world. Its first project was backing the expansion of Grameen Danone Foods, which by 2009 had recruited and trained 650 "Shokti ladies" to distribute Shokti+, a locally produced yogurt fortified with micronutrients and sold at an affordable price. But danone.communities didn't stop there. In 2008, two innovative new projects joined its business incubator: -In Cambodia, the fund provided financing for 100 Fontaines, set up to provide inexpensive drinking water to rural communities. In one year, 35 water treatment and distribution stations were installed. -In Senegal, it gave its backing to the Laiterie du Berger dairy, which uses milk collected by 600 Peul herders. In 2009, sales under the dairy's new Dolima label doubled with over 100 metric tons of yogurt sold each month. Another aim is developing partnerships with local stakeholders, NGOs (already the case with Gain, Care and Gret) and other investors, including AFD and I&P, to combine their expertise with that of Danone. Eight new projects are currently being studied, with a particular focus on South America and Asia. All are designed to fight malnutrition and poverty using a sustainable business model.

LEARN MORE AT www.danonecommunities.com

business units maintaining or increasing outlays on advertising and innovation—both critical to the choices of consumers in all countries, even when they want to pay less.

Advertising and promotion budgets were thus maintained. Danone remained one of the main local advertisers everywhere, building consumer awareness for our brands. In some cases, we have benefited from lower prices for advertising space, and in others we have adjusted the balance between traditional advertising, especially on TV, and point-of-sale promotions. But apart from the volume of advertising, our reset strategy has brought a shift in our message. Consumers change in gloomy economic times, becoming more receptive to some arguments and less receptive to others. For example, while there can be significant differences from country to country, in a downturn, consumers generally respond more readily to campaigns promoting taste than to campaigns geared around nutritional benefit.

Against this backdrop, the focus of Danone's advertising in several regions shifted by stages over the course of 2009, placing less emphasis on reasoning and more on feelings, pleasure and humor. The most recent campaigns for Actimel are a good illustration. They follow the example of water brands such as Evian and most of our Baby Nutrition brands, among them Blédina and Cow & Gate, which often appeal to a sense of humor and identification rather than rely on scientific demonstrations.

Finally, despite the downturn, innovation is as important as ever—not least because it is an important driver for volumes, since consumers are always looking for something new. In addition, innovation can be

the only way to meet the affordability requirements of some consumers. When it is simply not possible to lower the price for a product without endangering its profitability and thus its long-term viability, the solution is to invent a new product that can be made more cheaply—without compromising our superior quality standards.

In Fresh Dairy Products, for example, our Mexican business unit has invented a new range of basic products as well as a highly affordable Activia mini-serve, and both have been spectacularly successful. Not that affordability is limited to Dairy Products—the approach is shared by all our businesses and dates from well before the financial crisis. In Waters, larger, more economical containers holding 3 to 8 liters are increasingly common on all our markets, while our Medical Nutrition division has increased its sales revenue without raising prices. And our Baby Nutrition division, which has a well-deserved reputation for expertise in premium ranges, has been working for several months to develop ranges with more affordable products. Developments like these round out premium offerings and can lead to sharp increases in volumes, perhaps best illustrated by the new GiziKita brand in Indonesia. Although priced 30% lower than the market benchmark, it cuts no corners on quality, delivering nutritional content that perfectly matches the needs of young children and expectant mothers. ■



"We've built a stronger Danone, with market shares on the rise."

Interview with Bernard Hours, Co-Chief Operating Officer, by Christine Gas

How do you rate the results of your strategy for renewal in the midst of the crisis?

Bernard Hours: It's brought us through difficult times stronger than ever. We ended last year with a rate of volume growth that is one of the best in Danone's history—and we achieved that despite unemployment, recession, and a certain degree of consumer anxiety. We decided to invest in the thick of the crisis, which could only mean going for volume. To succeed in that, we built up our brands with competitive pricing, continuing innovation to extend existing ranges and launch new product formats. And we shifted our emphasis in advertising to match consumer expectations in a new context. In short, we've built a stronger Danone, with market shares on the rise. Our four business lines raised market share by an average of half a percentage point in 2009. Which is a lot—it takes a lot of time and effort to gain half a point, and losing half a point is painfully expensive.

You've coined a new expression: "Afford-Valuity." Could you explain what it means and how it relates to Danone's strategy and mission?

BH: Our overriding goal is to create value. A Danone product offers a plus for consumers; it tastes good and it's good for you. That recognized value is what we call valuity. And then we have the word "afford." Because the price has to be right, of course, keeping in mind that our mission is to bring health through food to as many people as possible. All of that adds up to what we call our Afford-Valuity strategy, meaning that Danone is committed to making value accessible on a daily basis. And for us, value means health combined with great taste.

Consumers have changed. How are they relating to brands now?

BH: Broadly speaking, they're more demanding. They are more skeptical and at the same time they expect more. A brand is not about a product with pretty wrapping. It's increasingly identified with commitments to buyers concerning quality, traceability, health and a new approach to sustainability.

Your advertising and other communications appeal more to emotions than in the past. Why is that?

BH: Our new approach aims to combine reason and emotion—we've coined a word for it: "emo-rational." The most obvious example is our Evian roller babies commercial. The babies obviously lend it an emotional side, but Evian also appeals to reason by explaining that its water has taken 15 years to filter down through the glacier, that it contains the best minerals for health, that it helps the cells in the human body work as they should. More broadly—and to answer your question—in difficult times people feel a need to turn to products they associate with pleasure.

2-Responsiveness



To get through a slump, you need the right strategy. But you also have to be able to deploy it very quickly, an area where Danone's culture of agility and responsiveness clearly gives us an edge. That culture owes a lot to the nature of our business in food for the mass market—a sector where product life-cycles are short and demand is fickle, requiring a constant ability to adjust. But we have also deliberately developed and fostered responsiveness through distinctive organizational processes and working methods.

First of all, that means short lines of command—regional and continental structures trimmed to the minimum, and no corporate organization by country. For example, there is no “Danone Mexico” with cross-functional management responsibility for business units in Water, Dairy Products and Baby Nutrition. Instead, the independent managers that head our business units are directly linked to the worldwide management of their business lines. Decisions taken at the center get through quickly and directly, without getting lost or distorted along the way.

Speedy execution is also favored by a form of decentralized organization that leaves ample room for local business units to take full responsibility for their own performance. That may seem slightly counter-intuitive, since it's easy to

Training hours rose 16% for the year. Of the additional 300,000 hours, 215,000 went to production and office workers, technicians and supervisors.

assume that a centralized model with everybody carrying out orders without any freedom of interpretation will move faster. But in fact, the opposite is true. It's more effective to define general goals—which in our case means the new focus on volumes and market share—and then leave business units in different countries free to find their own solutions, taking responsibility for the initiatives they adopt to achieve those goals. That is firstly because staff members assimilate the new strategy better and, by the same token, are more committed to it. And secondly because it allows for immediate adjustment to local conditions—in line with the well-worn management adage “Think globally, act locally.”

A third factor underpinning rapid response is the networking culture Danone has built up over the past five years through a variety of organizational initiatives. Our Networking program, launched in 2003, is based on a very simple idea—bypassing the hierarchy to encourage direct links between managers with similar functions and responsibilities in different countries. The aim was to accelerate sharing of best practices among business units, and our efforts have naturally benefited from new Web 2.0 technologies, particularly the development of social networking, which has helped local successes spread quickly from one country or region to another. An example is Activia with cereals. Launched as a breakfast specialty by business units in Portugal and Bulgaria, it was being exported worldwide in a matter of months. There are also some good examples in new promotional approaches suited to depressed economic times.

Our group management moved to reinforce the responsiveness that has become a hallmark of our business with the decision—taken at the onset of the crisis—to emphasize proximity management. Franck Riboud set the tone by spending much of his time in 2009 visiting business units and meeting with management committees to renew contacts and show group support—as he says, a captain has to stay close to his crew in stormy weather. We also invested in training programs specifically designed to help proximity managers. While many businesses instinctively freeze or scale back training outlays in difficult times, in 2009 Danone launched its biggest-ever training program, the Danone Leadership College. A virtual in-house university, the program aims to enhance the management skills of the 15,000 team leaders—executives and non-executives alike—who are charged with leading and motivating our employees and helping them grow. This is an initiative that would set Danone apart even under normal circumstances, but it's even more powerful in testing times. ■

The Danone Leadership College

The Danone Leadership College aims to create conditions that will help each staff member grow and renew Danone as a whole. The College has three priorities: developing the leadership skills of all team leaders, contributing to improved group performance, and helping all staff members recognize and accept personal responsibility.

To implement the program, we called on over 100 managers to act as in-house instructors and help train a majority of our team leaders. In 2009, the Danone Leadership College program was deployed at some 35 business units, reaching nearly 1,200 staff members.

n°.1

Danone UK took first place nationwide in the 2009 Great Place to Work® survey.

28 hours

of training per employee on average in 2009. Despite the tough economic conditions, Danone increased its training budget in 2009, with employees averaging 28 hours of training, up from 24 in 2008. Total training hours were up 16%, and the number of participating employees rose by 7%.

3-Ecosystem



In 2009, Danone set up the Danone Ecosystem Fund to develop and strengthen the business of direct partners, in particular milk producers, who make up its ecosystem.

In launching the Danone Ecosystem Fund, we've broadened our dual project for business success and social progress to include all the partners we depend on and who, in turn, depend on us—producers, farmers, suppliers and local retailers. A main focus of the fund is reinforcing employability wherever we do business. Our new emphasis on volumes means more work for

factories, more loads for trucks, more orders for our suppliers. And when Danone grows, the partners in our ecosystem grow too, whether they are temporary workers, service providers, farmers, subcontractors or transport and logistics operators.

Milk supply to Danone plants alone accounts for 60,000 full-time jobs in farming. But the economic slump is a threat to our ecosystem and, by the

same token, a threat for Danone. A business on our scale cannot succeed in an economic and social wasteland—we need the support of solid, long-term partners. As Danone's founder Antoine Riboud put it back in 1972, "Danone's territory does not end at the factory gate."

It is thus clearly in Danone's own interest to look after its economic and social environment, the communities where we do business, and our partners in mutually dependent relationships. We have already built up a rich and varied store of experience in this area, famously illustrated by our relationship with Muhammad Yunus in Bangladesh, which began nearly five years ago. In 2009, we decided that the time was ripe for a more systematic approach, taking commitments one step further to provide a lasting basis for action with a fund dedicated to reinforcing our ecosystem. The Danone Ecosystem Fund aims to support and strengthen all the stakeholders working closely with our business units and help them grow. This is not a top-down process. Instead the Fund relies entirely on initiatives proposed by our business units.

Almost as soon as it was established, the Fund began supporting its first projects. At the initiative of Danone Fresh Dairy Products France, the Fund is backing La Petite Reine (ARES group), an organization that brings

the unemployed into the workforce by hiring them to make small deliveries to bakers, take-away outlets and neighborhood shops on electric delivery tricycles. This is a perfect match with Danone's values, since it reduces carbon emissions, keeps us in touch with local consumers who are hard to reach through traditional channels, and provides jobs for people in genuine difficulty. The project is also very appealing as a means of exploring new approaches to distribution.

Danone Ukraine has also received the Fund's support for a local initiative. In partnership with the NGO Heifer Ukraine, the business unit will set up some 20 cooperatives bringing together small dairy farms near our Kherson factory and helping them to operate more efficiently and benefit more from their production. The project provides for training, investment in milking equipment, and pooling of services such as fodder purchasing and milk collection. In time, a more structured sector will emerge—and with it, improved supply for our plants.

As the number of projects grows, Danone's supply and purchasing processes will inevitably be affected. In view of this, the group VP for purchasing is directly involved in the operation of the Danone Ecosystem Fund, helping to smooth information flows and promote mutual understanding. ■



Danone Ecosystem Fund

Selection and decision-making process

- 1/ **The Guidance Committee** defines strategic directions and approves investment principles.
- 2/ **Business units** identify worthwhile projects.
- 3/ **The Fund team** assesses projects and documents proposals.
- 4/ **The Social Innovation Committee** reviews projects for consistency with Danone policies and the Fund's purpose.
- 5/ **The Board of Directors** decides on the amount and nature of investments.
- 6/ **The Guidance Committee** reviews the Fund's project portfolio and annual investments for overall consistency.

LEARN MORE HERE
www.ecosysteme.danone.com
www.danone.com

Initial contribution: €100 million

At the General Meeting on April 23, 2009, Danone shareholders approved the establishment of the

Danone Ecosystem Fund.
 • In 2009, Danone made an initial contribution of €100 million. For a five-year

period beginning in 2010, the Fund will receive contributions of up to 1% of Danone's annual net income.

•The impact of the Fund's actions will be assessed at the end of the first five years.



“We’re investing for the next ten years—not just a year or a few months.”

Interview with Emmanuel Faber, Co-Chief Operating Officer, by Armelle Jeandet

Was it hard to persuade shareholders to set up the Danone Ecosystem Fund in the middle of an economic crisis?

Emmanuel Faber: It was approved by 98% of our shareholders because they realized that it wasn't about philanthropy—and even less charity—but a matter of consistency with our business model. Our shareholders understood that because they've heard us talk about it for years, and some of them have been with us for over a decade. They've seen how we've developed our mission and taken decisions to move it forward. I think our shareholders realize how we progress. If we had suddenly pulled the Ecosystem Fund out of a hat, without connecting our dual project for business success and social progress to everything we've done over nearly 40 years, we would never have got anything like the support we've had. Over the long term, it is essential for us to ensure that Danone's ecosystem survives and thrives. Once again, we're investing for the next ten years—not just a year or a few months. Our shareholders understand that very well.

What criteria do you apply in selecting projects for the Fund to support?

EF: The first is return on investment as measured by jobs. The aim is to favor employment and, by the same token, employability. We want to know how many jobs we'll create or preserve with each euro we spend. Our second criterion is innovation—we are looking for projects that break new ground, that can be used to explore new possibilities. The third is replicability. When one of our business units presents a project, we try to imagine how it could be applied in 20 or 30 other sites if it works. A fourth criterion is potential for growth, and thus the Fund's long-term impact.

Will it gain enough scope to really make a difference? And then, finally, there is the human factor—how far is our business unit really committed to the project and what management resources are available to back it up? And what social businesses or NGOs will we be working with? Because success in this sort of project hinges on the motivation, the character and the know-how of the people behind it.

The Ecosystem Fund's Guidance Committee counts a good number of high-profile personalities such as Pascal Lamy, Martin Hirsch, Lourdes Arizpe, Bill Drayton, Esther Duflo and many others. Is that important?

EF: It's true, the people on the Guidance Committee don't need us to get attention. The fact that they have agreed to dedicate their time to the Fund and run the risk of taking part in our experiments shows that, based on their experience and individual expertise, they believe this initiative offers something entirely new with real promise for the future. I think that the urge to create something new is really their prime motivation. Which is very encouraging. And of course a big responsibility for us!

*Guidance Committee members include Franck Riboud, Emmanuel Faber, Bernard Hours and Muriel Pénicaud, all members of the Danone Executive Committee, plus **Pascal Lamy**, Director-General of the World Trade Organization; **Martin Hirsch**, President of the Agence du Service Civique; **Lourdes Arizpe**, University of Mexico, anthropologist, and member of the UN Economic and Social Committee; **Bill Drayton**, Chairman, CEO and founder of Ashoka; **Esther Duflo**, economist and professor at MIT and College de France; **Ron Oswald**, General Secretary of UIF; and **Gaby Bonnand**, National Secretary of the CFDT.

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DANONE'S
LONG MARCH
IN CHINA



A consumer market of over one billion people is a giddy prospect that can easily lead ambitions astray. But Danone is well aware that there are many different markets in China and takes a pragmatic, long-term approach based on clear assessments of local realities.

Text by Jean-Léon Vandoorne Photos by Jean-Charles Ast, Thomas Haley, Vincent Boreux

When your mission is bringing health through food to as many people as possible, China—with its population of 1.3 billion—is a market you can't ignore. But Chinese consumers have changed since 1987, when Antoine Riboud first introduced them to yogurt through an early joint venture. Increasingly city-dwellers, their disposable income is rising rapidly, as is their curiosity about the world outside. This is especially true for the under-30s—the “one child only” generation.

Despite some slowing at the beginning of the year, the Chinese economy expanded by over 8% in 2009, and many observers expect growth to exceed 9% in 2010. Although exports are still the main source of momentum, domestic demand is rising rapidly, spurred by government initiatives in the first half of 2009. This year China edged out the United States as the world's leading automobile market. And as purchasing power rises, Chinese consumers are increasingly turning to the top of the range: the infant formula market is powered by the super premium segment, with 40% of the total, and the premium segment with 30%, while basic brands are losing ground. With 20 million births annually, in 2010 China is expected



With over 1.3 billion inhabitants, China is home to one-fifth of the world's population. It counts 110 cities with a population over 1 million, and 20 million rural Chinese move to urban areas every year. One country, but a multitude of markets.



Sweeping change in recent decades has given rise to an urban middle class in China—a well-off population that contrasts with the majority still living in poor rural areas. In 2009 the number of middle-class households is expected to move past the 100 million mark and is projected to total 612 million in 2017. (TNS, Sept. 2008).

Nutricia China, the 180 health professionals on our sales and marketing team are 100% local, working closely with Chinese hospitals, surgeons, neurologists and emergency personnel to meet their needs.

Support from Danone's R&D center in Shanghai—our first in Asia—is also a powerful asset for our Waters and Fresh Dairy Products (FDP) divisions. The center's teams adapt Danone products to local tastes and health needs, and have helped Danone Dairy Products China propel Bio to the top of the “digestive comfort” segment in greater Shanghai, a market of 20 million.

“In China—as in Brazil and Indonesia—Danone prefers a gradual, balanced approach.”

FDP: a return to Shanghai and Guangzhou

After two decades of working with partners in China, Danone set out to win over the Shanghai and Guangzhou markets singlehandedly, propelling the Activia brand—sold in China as Bio—to the top of

Shanghai's “digestive comfort” segment. Robust advertising helped make Bio the hottest brand in its segment in 2009, using its Bio Green Wall displays to stand out on crowded super- and hypermarket shelves.

Medical Nutrition: Leading the enteral nutrition market

As a pioneer in enteral nutrition, in which patients are fed by a tube carrying nutrients directly to the digestive tract, our Chinese business unit holds 48% of the market and posted a 35% sales rise in 2009, the steepest in the division. Its

teams work closely with the scientific community and the medical profession. In 2010 the unit will focus on new pathologies such as diabetes and cow's milk allergies, which should make for continued double-digit growth over the next three years.

to become the top market for Danone's Baby Nutrition division, which leads the super premium segment with its immunity-building Dumex formula.

The health advantage

Long conscious of the health benefits of food, the Chinese think highly of the Danone brand. Our products continue to gain popularity as China's standard of living rises and more people discover the benefits of dairy products, strongly recommended by government authorities even though milk is not a part of traditional Chinese cuisine. Yogurt is mainly eaten in the evening to aid nighttime digestion, and Activia—sold as Bio in China—is positioned in the “digestive comfort” segment, which accounts for 30% of the market. That is hardly surprising: on March 31, 2009 the *Shanghai Daily* reported that 70% of citydwellers suffer from digestive troubles. Health benefits are also a selling

point for another Danone success story: Mizone, the number-one enriched water in China. With its low sugar, hint of natural fruit and added vitamins, Mizone is seen by consumers as a health drink that restores the body's natural balance and gives them the energy they need to handle the stresses of life in China's fast-growing megacities.

Local talent

More than ever, Danone's mission and four business lines are a perfect fit for the Chinese market. And with 22 years' experience in the country and 9,000 employees on the ground, we have a solid presence and the teams we need to succeed—Chinese teams who know their markets well. The management committees of Dumex and Danone Waters China, our two main business units, count only one non-Chinese member each, and at

Bio's success rewards a string of innovations, including new packaging sizes, new flavors (vanilla, walnut and aloe vera) and spoonable Bio—a novelty in China, where spoons are rarely used and yogurt is traditionally drunk through a straw. Surveys show that consumers consider Bio the best yogurt for digestive problems. Danone's first publication of a clinical study in China, showing Bio's benefits for women with constipation, certainly contributed to its success.

One China, many markets

With over 30 provinces, regions and autonomous municipalities—some of them home to over 90 million people—China is a mosaic of different markets, stretching across 9.5 million square kilometers and dotted with 110 cities with populations of over a million. Reaching these mass markets means relying on the

Like Brazil, Russia and Indonesia, China is a strategic market for Danone. The group is investing to increase and upgrade industrial capacity and train new talent, while recruiting young graduates.



Danone in China:
 18%
 growth in 2009
 24 plants
 producing mainly for
 the local market
 9,000
 employees
 and 4%
 of group sales.

Danone continues to expand in China and develop its operations which today include 9,000 employees and over 20 production sites.

powerful distribution networks that supply the Asian giant, and particularly the most prosperous coastal provinces.

Growing step by step

Even for a group as large as Danone, expanding in China requires a step-by-step approach and readiness to adapt. Bottled water is a good example. Chinese consumers still tend to drink it in the street, and traditional retailers account for 70-75% of sales. Offering a wide range of products—Mizone flavored waters with added vitamins, Health and Evian mineral waters, Robust purified water and Aquarius for home-and-office deliveries in Shanghai—Danone Waters China is present at 300,000 points of sale, but still reaches “only” 600 million Chinese consumers in 14 provinces. This is in line with a strategy that makes quality of execution the priority rather than uncontrolled geographic expansion.

The same principle shapes the unit’s marketing, with local television campaigns targeting some 20 major cities, as well as its approach to distribution networks through sales teams whose skills are constantly honed to ensure that Danone products are well positioned on store shelves. Dumex, which also relies on independent distributors to reach the 550 million consumers in China’s cities, has adopted a similar growth strategy. Now present in all of China’s megacities and 90% of its large cities, Dumex is gradually expanding into medium-sized cities as well. Before its 2009 launch of Bebelac in the premium market segment in eight provinces, Dumex fine-tuned its strategy, applying lessons learned in 2008 from a trial launch in a single region. Danone’s FDP unit adopted a similar approach in moving back into the Chinese market on its own: in 2009 it targeted greater

All four business lines are present in China, and Danone continues to invest in premium brands including flagships Bio (Activia), Mizone, Aquarius, Robust, Health, Nutricia and Dumex.





Dumex has led the Chinese market in its sector in both value and volume since 2006. In 2009 it launched a second infant formula—Bebelac—in eight provinces.

Chinese parents vote Dumex

The leader on China's baby nutrition market in both value and volume since 2006, Dumex continued to grow in 2009, with sales up 17% in a market still recovering from the 2008 melamine scare. Dumex teams responded aggressively to the crisis, reassuring customers on

both the quality and traceability of their super premium brand. A pioneer of growing-up milks in China, Dumex successfully launched the Complete Care concept for babies from 6 months to age 3, and expanded its share of the premium segment under the Bebelac brand.



Shanghai and the city of Guangzhou—markets where it had previously worked with local producers—before tackling greater Beijing in 2010.

The safety imperative

Like all our markets, China demands impeccable quality in processed foods. New and tighter regulations were adopted after the 2008 crisis involving melamine-contaminated infant formula, which involved several direct competitors of Dumex. It was largely to guarantee quality that the food safety arm of the FDP unit set up a secure supply chain and works only with a limited number of very large farms. With advice and support from

“Recruiting to train the managers Danone needs tomorrow.”

Danone experts, these suppliers are working hard to improve quality across the board, from feed to milking techniques and farm management. In the year following the melamine crisis, Dumex emphasized the safety of its supply chain and production facilities to reassure consumers. The message was heard and sales rose by 17% in 2009.

More broadly, higher consumer expectations and increasingly stringent requirements can only increase our competitiveness. Over the last few years, the group has deployed the Danone Manufacturing Way and Wise programs to optimize production and improve safety. Plants were quick to implement both programs and audit results have been extremely positive.

Attracting talent

China is a fast-growing country with a large population of well-educated, enthusiastic young people—who also have high expectations. In 2009 many multinational corporations responded to the economic downturn by cutting spending and recruitment, and for the first time graduates from top universities were struggling to find a job.

But Danone increased recruiting to train the managers we will need in China tomorrow. In 2009 we set up two dedicated campuses for management and operations courses, most of which are taught in Chinese. Chinese managers readily show personal commitment and value Danone's culture of local decision-making, entrepreneurship and employee empowerment. ■



Danone Waters has been distributing its products to 600 million customers in 14 provinces since 1998.

Waters: Mizone's rise to stardom

Since the end of our joint venture with Wahaha, all of Danone's Chinese water business is now conducted by a single business unit. Present in 14 provinces, Danone Waters China sells flavored waters with added vitamins under the Mizone brand, Evian and Health brand natural mineral waters, and Robust purified water, while delivering Aquarius water to homes and offices in Shanghai. In 2009 Danone Waters China broke ground on a new plant to bolster Health's lead in the Shenzhen region, and expanded its sales force

by recruiting a number of young college graduates. With 2009 growth of over 38%, up from 30% in 2008, Mizone lived up to its blockbuster potential, profiting from a complete overhaul of marketing and R&D to improve the brand's taste and aroma without sacrificing its health benefits. Sold in a generous 600-ml bottle, the brand's mainstay peach flavor now shares the stage with some newcomers: following the successful debut of lychee-flavored Mizone in 2009, a new pineapple version is already showing promise.

ZEROING IN ON CARBON

In 2008, Danone announced plans to slash its carbon footprint by an ambitious 30%. That vision has now been translated into an action plan for 2008-2012 in each business line.

Photos Hellio - Van Ingen

Mangrove ecosystems are an essential resource, capturing CO₂ naturally.



At Danone, environmental responsibility is in our genes—in two ways. First, it's our mission to bring health through food to as many people as possible, and that means preserving and renewing resources. Healthy food requires healthy ingredients that are as natural as possible.

Environmental responsibility is also inherent in a corporate culture founded on a dual commitment to business success and social progress. As Antoine Riboud explained back in 1972, "Corporate responsibility does not end at the factory gate (...). The energy and raw materials we consume change the face of our planet. Public opinion is there to remind us of our responsibility."

Since then, environmental awareness has become broadly shared across society as a whole. Against this backdrop, Danone took early action to formalize and quantify commitments, recognizing protection of resources as a strategic priority at the beginning of the 1990s and adopting an Environmental Charter in 1996. In 2000, we set precisely defined targets for limiting water and energy consumption and reducing waste and packaging. After achieving



●●● nearly all of those targets by 2008, we shifted up a gear and defined five priorities for action: reducing our carbon footprint, protecting water resources, stepping up packaging research to transform waste into a resource, promoting sustainable agriculture, and supporting biodiversity. We began by vigorously accelerating our efforts for the broadest indicator of environmental impact—carbon dioxide—and set the ambitious target of reducing our carbon footprint by 30% in kilos by 2012, taking into account not only our own direct impact and that of our factories but all the downstream stages in product life cycles we can effectively influence. To facilitate deployment, Danone set up a Nature management department to coordinate, assess and promote action throughout the group.

5 strategic priorities

-  Fight global warming
-  Rethink packaging to transform waste into a resource
-  Protect water resources and reduce our consumption
-  Support eco-friendly agriculture
-  Protect and restore biodiversity

Fighting climate change

We plan to reach our goal—reducing our carbon footprint 30% by 2012—through progress in three areas: measuring our emissions reliably, reducing them, and implementing carbon offsets.

Reliable measurement—an essential first step

Danone is working with experts at PricewaterhouseCoopers to develop a method to measure carbon emissions, and allow results to be both reliably audited and included as a fundamental component of corporate reporting.

In 2008, we finalized tools to measure carbon emissions in the Fresh Dairy Products division. Drawing inspiration from the work of our Waters division—where Evian played a pioneering role—we extended these methods to our Baby Nutrition and Medical Nutrition divisions in 2009. As a result, we can now measure emissions for all of our businesses. Already approved for the Waters division, the tools are now being assessed for certification by Ademe* in France and Carbon Trust in the UK (see box page 69). The aim is to generate audited carbon performance statements just as we produce audited financial statements. Looking beyond Danone, standardizing measurement is an important issue, since it is the only way to ensure that all manufacturers speak the same language.

Danone met its 2000-2010 target for reducing water consumption at plants a full year early, overshooting the 30% savings target at 32%. A critical contribution was the Waters division's excellent showing in 2009 (-13%).



Second objective: reducing emissions

Our 2009 target was a 5% reduction in our carbon footprint, which we beat with the actual result coming in at 7.4%. Momentum is set to continue with targets of 6.5% for 2010 and 30% by 2012, achieved through a comprehensive approach

Long-term progress report

	2000/2010 targets	2009 results
Water (l/kg produced)	- 30%	- 35%
Total energy (kWh/ton)	- 20%	- 45%
Packaging (pack ratio)	- 10%	- 5%
Waste recycling	80%	87%



In 2009, Evian's unstinting efforts were rewarded with its catchment area officially designated under the Ramsar Convention.

covering every stage in production.

At our production plants, a highlight of the year was the creation of Danone Energy Campuses, meetings bringing together experts from factories around the world to develop standard-setting models for energy consumption, compare these with actual performances and identify areas with room for improvement. In Fresh Dairy Products, this reduced energy consumption by 11%. Our Ochsenfurt factory in Germany made a particularly strong contribution with 47 best practices, most of them suggested by plant workers. We are now studying deployment of these practices in over 20 sites worldwide, with a special focus on renewable energy sources, production of methane from waste, co-generation and geothermal energy.

In packaging, the main initiative was our "foam" project. Using a technology

that injects air into packaging plastics to reduce density and CO₂ content, we cut plastic density by 19%. In 2009, 40 production lines participated in the project, and as many as 110 lines will be able to use the technology by 2011. Its critical advantage is that it does not detract from essential packaging functions such as food safety, display of nutritional

The first R-PET bottles produced in Danone's partnership with France Plastiques Recyclage were used in 2009. Aim: ensure secure supply sources for 50% of Evian Volvic World's R-PET needs.

EVIAN

As early as 1992, Evian made protection of its catchment area a priority, teaming up with other local stakeholders to create not-for-profit association Apieme. In 1998, Danone signed a long-term partnership agreement with the Ramsar International Convention on Wetlands, which

promotes the preservation and sustainable use of water resources. In 2009, the company's unstinting efforts were rewarded when the Evian catchment area was officially designated under the Ramsar Convention.



information and visibility.

Finally, in 2009 we produced our first bottles made entirely of recycled PET (R-PET) in Mexico, using a ground-breaking technology that converts old bottles into new ones without generating any fresh waste along the way. It naturally supposes active involvement in the collection of waste bottles used to make R-PET, and thus ensures a steady supply. Drawing on our successful partnership with PETstar, which supplies Bonafont with R-PET bottles in Mexico, Danone now plans to work with France Plastiques Recyclage to develop an R-PET factory in France to supply Evian Volvic Worldwide. Our long-term goal: 50% of bottles made of R-PET.

At Danone, our concern for the environment extends beyond our own plants and products to include **suppliers** upstream and transport downstream. Because 85% of the emissions linked to our operations are indirect, working with suppliers is essential. That is why we have set up the Danone Carbon Pact, a three-year action plan that helps our leading upstream partners measure and reduce emissions. In 2009, Danone signed 20 agreements with top suppliers accounting for 40% of raw material and packaging purchases for Fresh Dairy Products, and we will be extending the program to our other divisions in 2010.

Turning to **transport**, 2009 saw the implementation of our Marco Polo project adopted for bottled waters in the previous year, leading to a switch from road to rail for Volvic exported from France to Germany. The shift eliminated 26,000 truck deliveries, cutting carbon emissions by 30%, and business units in many other countries are now testing the program.

The third part of our carbon footprint program is carbon offsets.

However great our commitment and regardless of the efforts we make, there will always be residual CO₂ emissions that we simply cannot eliminate. In such cases, we turn to carbon offsets to leverage the planet's capacity to absorb emissions.



In this area, 2009 saw a major step forward with the first important project financed by the Danone Fund for Nature just six months after it became operational in 2008. Evian, the pioneering brand behind the initiative, aims to achieve 50% of the reduction in its carbon footprint through direct cuts in its own emissions and the other half through offsets. With the support of the Danone Fund for Nature—which identifies and finances projects contributing to CO₂ absorption—Evian launched its first offset project with a program for the restoration of mangroves in Senegal. Mangrove ecosystems are the planet's richest sources of biomass. The Plant a Tree campaign in the Casamance region and Saloum delta, headed by the NGO Oceanium, committed to this type of initiative since 2006, drew on the active participation of local people to replant 2,000 hectares (nearly 5,000 acres) with 36 million mangrove saplings.

Dow Jones SI

In 2009, the Dow Jones Sustainability Index (DJSI) recognized Danone as the benchmark in its category for environmental reporting.

Set up in 2008, the Danone Fund for Nature finances programs that protect biodiversity and support local economies while fighting global warming.



CLOSE-UP

A unique approach to nature

Looking beyond achievements in these three areas—and back over our efforts in the past ten years—Danone's approach to environmental protection sets us apart in three ways. Firstly, **we emphasize partnership**. We do not act alone. Instead we work with partners that are recognized for their expertise, such as the Ramsar Convention on Wetlands, France's national energy and environmental agency Ademe and institute for agricultural research INRA, Carbon Trust and the International Union for Conservation of Nature, as well as local NGOs.

Secondly, our action reflects a **comprehensive vision** that combines protecting the environment, managing and even restoring resources, and economic and social development.

Finally, these aims are now **an integral part of our business**. Targets for reducing our carbon footprint are built

into our management bonus system, which in turn has rallied employees as a whole to the cause. In the end, the challenge we face in zeroing in on carbon is not just reducing our footprint, but effecting profound change in our practices to ensure that our future economic performance is lasting. ■

Restoring mangroves in Senegal should capture the equivalent of 100 kt of CO₂ over ten years.

LEARN MORE AT
<http://lespiedssurterre.danone.com/>
<http://www.danone.com>

Our partners for Nature

Ramsar: the Ramsar International Convention on Wetlands.
Ademe: the French Environment and Energy Management Agency.
Inra: the French National Institute for Agricultural Research.
Carbon Trust: a private-sector organization helping businesses

and the public sector reduce carbon emissions and adopt technologies with low levels of greenhouse gases.
IUCN: the International Union for Conservation of Nature.



Below: co-generation reduces CO₂ in this star project.
Lower right: a new packaging chain for Activia molds plastic containers on the spot—directly on the yogurt production line—saving 50 tons of CO₂ a year.



Danone's Ochsenfurt plant in Germany is a pioneer in reducing environmental impact.



Our Ochsenfurt plant in Germany makes sustainable development and reducing consumption of natural resources a priority. The picture above shows residual milk protein in waste water being recovered for transformation into biogas.

Farming

As Danone naturally buys its milk from external suppliers, it cannot take all decisions on its own. We nonetheless do all we can to develop partnerships with farmers and agricultural organizations and find ways to limit the environmental impact of our dairy business. Since 2004 we have worked with the French National Institute for

Agricultural Research (INRA) and Vallorex, the flax-growers association, to demonstrate that adding flax to cattle feed significantly reduces methane emissions. In 2009 our France-based flax program, dubbed Linus, was extended to Spain and the US. We worked with the same partners to publish an article in the *Journal of Dairy*

Science in 2009, demonstrating for the first time the links between certain amino-fatty acids and methane emissions. Measuring methane emissions from dairy herds—and thus better controlling them—could well become routine procedure in the near future.

Welcome to our factory



MANAGEMENT: EMPLOYEE ENGAGEMENT AT THE FRONT LINE



Employee safety and performance at Danone's Longchamps plant, outside Buenos Aires in Argentina, are among the best in the group. The plant's success is grounded in participatory management and the empowerment and initiative of its 900 employees, who are constantly growing and expanding their skills.

For every employer, one responsibility stands out: keeping workers safe. At Danone, the key to safety is Wise, a rigorous program that we began deploying in 2004 and is now in effect in all our business units. Though industrialized nations might be expected to outperform emerging countries, Longchamps is the top performer in our Fresh Dairy Products division. But that hasn't always been true.

The road to safety

Just three years ago, Longchamps had one accident requiring sick leave every month, and around 100 safety incidents a year in all. But in 2009 the giant plant, now counting over 900 workers, had no accidents and only 16 incidents in all. Managers achieved these impressive results with three key tools: the Wise program for workplace safety; our

Proximity management and employee development spur performance at Danone's Longchamps plant in Argentina.

Text by Jean-Léon Vandoorne Photos by Thomas Haley, Côme Courteault 2010



The Museo Conventillo Marjan Grum cultural center in Buenos Aires' colorful La Boca neighborhood.

Wise, a program that began in 2004, is designed to help management and workers adopt a rigorous approach to safety on the job. From 2006 to 2008, the frequency of work-related accidents requiring sick leave declined from 7.6 per million hours worked to 5.2—a 32% decline. The most striking reduction came in the Waters division, where the figure dropped 77%, from 13.4 to 4.7.

••• Danone Manufacturing Way (DaMaWay) program to optimize production processes; and DanOwners, which empowers machine operators by making each of them responsible for a specific mission or task within their units. Implemented together, the three programs established an immediate link between improved performance and workplace safety.

The plant's teams quickly adopted the new system. Each worker is now the *dueño* or owner, of his or her position, and if a problem appears, any employee can report it and suggest ways to prevent it. The enormous facility, which converts 1.2 million liters of milk into yogurt, *fromages frais* and other fresh dairy products daily, has thus been divided into small, human-scale sectors, enabling team members to fine-tune their equipment and adapt their own behavior.

The DaMaWay program began in late 2006 with a pilot project involving 20 people and one machine. At the end

of 2007 it was expanded to include all 200 employees in the cheese and dessert sector, and in 2008 it was rolled out plant-wide.

Reaching out to partners

With Wise deployed simultaneously, several hundred small improvements were gradually made to the production line. Safety is now second nature for all employees, all the time. Once an operator has identified a problem and proposed a solution, it must be taken seriously.

While Danone provides the tools, each business unit is free to adapt them to its own situation in the interest of efficiency. To give its new safety program deeper roots, Longchamps launched a community initiative called *El Camino de la Seguridad*—the Road to Safety. The plant was divided into eight sectors, and each adopted a local school. Whenever a team wins a safety contest at the plant, it donates the prize money to its school, funding a project to make the



Youngsters in this Buenos Aires school are enrolled in the Danone Foundation's Nutrition program.



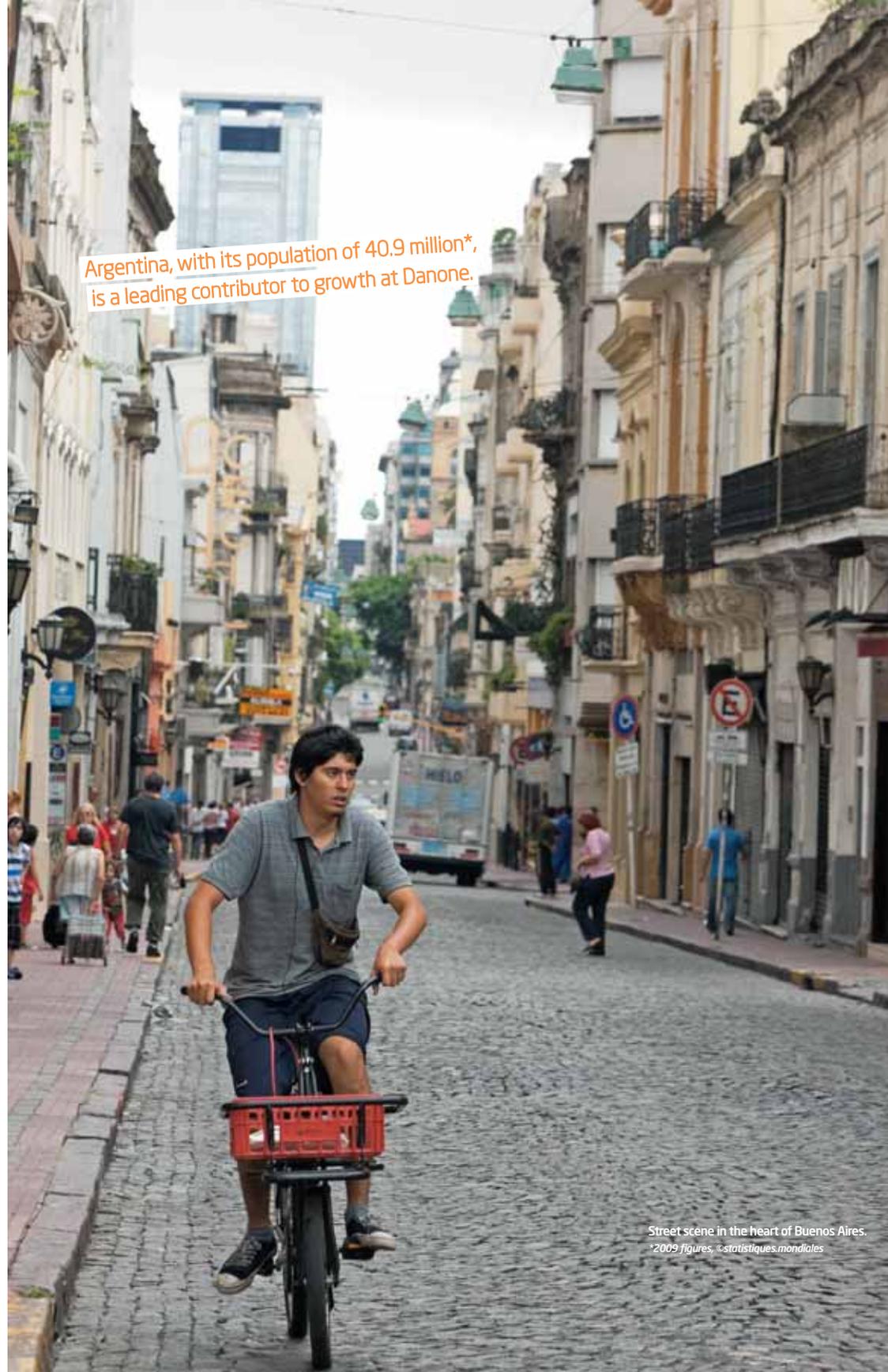
●●● school safer as well. Buoyed by its success, Longchamps has now taken on a new challenge: keeping employees safe on the roads they travel to get to work.

Empowering operators

Longchamps owes its success primarily to proximity management built on small cells averaging about 20 employees each. Each team has a leader: many are talented former production workers who were promoted internally, while others are former supervisors who have learned a more participatory management style to encourage employee initiative. Twice a day, each team takes a 10-15 minute break to discuss any malfunctions and ideas for improvement, writing up a quick report on a color-coded form. Blue forms are issues handled directly by workers, red forms go to the maintenance team, and green forms are used for suggested improvements that require further review.

This constant attention to detail enables the plant to anticipate problems—and if there is an incident, the worker is fully involved in the solution process. In 2009, the system generated over 8,000 ideas, resulting in improvements to processes and equipment. Such small changes

Argentina, with its population of 40.9 million*, is a leading contributor to growth at Danone.



Street scene in the heart of Buenos Aires.
*2009 figures. ©statistiques.mondiales

Lasting foundations for A Great Place to Grow

Danone Human Resource policies carry on the dual commitment to social progress and business success first spelled out in 1972. The mission of HR teams is to facilitate change and consolidate corporate culture in the interest of individuals and teams, creating the conditions for successful business development. In 2009 there were four major priorities:

1. Broadening and deepening dialog

Fruitful dialog with employees and their representatives necessarily covers a full range of issues, both business and social. Danone has been a pioneer in this area, signing eight agreements with the IUF, the International Union of Food workers, as of 1976. We have followed this up with ongoing initiatives including talks on working conditions, health and safety in all parts of the world. This is first of all a matter of dialog at local level, with results illustrated by a large number of agreements in different countries. One recent example in France is the framework agreement reached with all representative unions on the prevention of stress at the workplace (see p. 82).

2. Enhancing efficiency to speed growth

Our HR policies aim to enhance business performance as well as to help individuals progress. At all our businesses, HR teams work in close cooperation with operational staff, deploying programs to boost efficiency such as DaMaWay for industrial processes. A key lever for progress in this area is the sharing of good practices, which has gained added momentum following the 2009 launch of Dan 2.0. This program puts new technologies to work in support of a networking culture, favoring quick responses, agility and cross-functional cooperation. Preparing for continued business growth and geographical expansion also means initiatives to attract and develop talent in a global perspective.

3. Bolstering proximity management

Recognizing the need for new approaches to leadership to underpin business transformation and success over the long term, in 2009 we launched the Danone Leadership College. A multi-annual program built on shared values

and attitudes, this centers on personal responsibility and proximity management as the key to engagement and progress for staff members—as individuals and as contributors to business performance. Initially, it aims to bolster the leadership skills of 15,000 team leaders and their readiness to accept responsibilities, enabling them to help all their team members progress in the same spirit.

4. Spurring societal innovation and favoring employee engagement

Two major initiatives set their mark on 2009. The first was the launch of the Ecosystem Fund, which extends the horizons of our dual project to the support, reinforcement and development of our business ecosystem as a whole—encompassing all the stakeholders affected by our operations and whose activities are in close contact with our own at local level, in social and economic terms, and in relationship with public institutions. (see p. 50). The second concerned the Danone Supporting Life platform that links up the local community initiatives of our business units. The impact is three-fold: communities concerned benefit significantly, as do businesses, reinforcing brand credibility and their operational environment. At the same time, employee engagement and pride are boosted. A good 50 projects are now being actively pursued, testifying to the energy and enthusiasm of our business units.

The consistency of these projects' longer-term aims confirms the effectiveness of action taken by Danone's HR team. Most importantly, they are built on the active support of management and staff members generally. This is borne out in the Danone People Survey for 2009—the first covering employees at all levels, which showed engagement reaching a high 85%.



Some 900 employees work at Danone's Longchamps fresh dairy products plant in Argentina. Like all of Danone's 80,976 employees, they are eligible for professional and personal development programs.



Markets in Argentina—where Danone has done business since 1995—are growing steadily. We are now number one nationwide for fresh dairy products and waters, and number two for baby nutrition and medical nutrition.

Mi fabrica es linda (my plant is beautiful) —Longchamps employees have made the slogan their own.

... make the difference between “good” and “excellent”—and they wouldn't happen without the intelligence and commitment of the plant's 900 employees. At Longchamps, employees know that their personal input is valued and that they make a difference.

A great place to grow

Production at Longchamps has risen sharply over the past 10 years, and the plant recruits regularly. It's known as a good place to work: workers who log occasional overtime hours on Saturday earn twice the average salary for Argentina, and all employees receive health insurance in addition to medical and other benefits managed through their unions. The company also provides a top-up to all employees who want to increase their basic life insurance. Longchamps also has close ties to the educational ecosystem formed by nearby schools and universities. The plant hosts around ten graduate trainees and 15-20 technicians and vocational

graduates at all times, offering access to a relatively young, well-educated labor pool. That's an advantage, but also a responsibility. Longchamps is not satisfied with being only a great place to work—an attractive plant where people like to be. It also wants to be a great place to grow. Over the past three years, investment in training has risen 50%, with managers receiving more instruction and operator training time increasing sharply, from four hours a year to 24. Training for operators is always provided by their supervisors and focuses on the practical realities of their job. And outstanding workers may be entrusted with managerial responsibilities after submitting the Best Idea of the Week or winning one of the plant's many other contests. At Longchamps, training people is more than a responsibility—it's an honor. ■

2009 Danone People Survey

Danone has conducted an employee survey every two years since 1999. In 2009 this was extended to all group staff with a questionnaire translated into 34 languages distributed to 68,000 people in 66 countries. Results show employee engagement—an indicator measuring employees' commitment and personal involvement in the business—reaching a high 85% compared with a 78% average for the consumer goods sector. Similarly, 85% considered Danone a good place to work, compared with the average of 74% for consumer goods businesses. Results for 2009 also show significant improvement in opinions on all criteria from 2007, and a narrower gap between findings for managers on the one hand, and supervisors and workers on the other.



Every morning 1,200,000 liters of fresh milk arrive at the Longchamps plant, which makes an essential contribution to the local community's social and economic well-being.

LABOR RELATIONS

Can labor unions and management build a global dialog?

Danone has maintained ties to IUF*, the leading international union in the food sector, since 1976, with bilateral agreements dating back as far as 1986. In 2009, they took their European relationship global. How have they benefited?

Ron Oswald, General Secretary IUF, Muriel Pénicaud, Vice President, Human Resources, Danone



How does the historic 20-year relationship between IUF and Danone benefit you?

Ron Oswald: I think both sides benefit. We can discuss problems and solve them around a table instead of being forced into confrontation. It's an opportunity to reason things out with the management of an international corporation.

Muriel Pénicaud: Our relationship has helped everyone move forward on both business and social issues. Today, representatives of labor unions and management address

*IUF: The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations (IUF) is an international union federation with 383 affiliated union organizations in 120 countries, representing more than 2.6 million members. IUF is headquartered in Geneva, Switzerland.

“Danone is the first company to have this kind of dialog with IUF—on this scale and at the global level.”

Ron Oswald

cross-border business issues through the European Works Councils, but our international dialog with IUF has been a continual source of innovation since before they ever existed. In particular, we've used it to reach eight worldwide agreements setting out a general framework and guidelines that local stakeholders can adapt and implement to reflect their own environment.

In 2009, the Consultation and Information Committee (CIC) was expanded to include non-European countries. What has that changed?

MP: In expanding the Committee, we've developed a global dialog on business and employment issues for all four Danone divisions, and we plan to join forces with Numico's European Works Council by 2011. Opening up internationally has given us a broader view of our employees' hopes and concerns, and we've gone beyond the requirements of European law to extend the dialog to emerging countries. With delegates from countries such as Indonesia, Argentina and Poland, we have a better grasp of the issues—what the different countries have in common and what sets them apart. **RO:** We called for a worldwide meeting. Our members appreciated the opportunity for dialog with Danone's senior management. And I think the unions in the Water and Dairy Products industries really appreciate having division-level dialog for each sector. They asked for these talks too. As the Committee evolved, it was a simple matter of good sense to move the

relationship up to a global level. I have to say that Danone is a little ahead of other companies—as it often is. Danone is the first company to have this kind of dialog with IUF—on this scale and at the global level.

What are the main challenges for international corporations today?

RO: Job security has become the number-one issue for many of our members. Growing job insecurity is the major concern because it affects family income and fundamental rights. We need to decide how far we can go in accepting the social consequences of increased job insecurity, which is becoming far too widespread in more and more multinational corporations.

MP: The economic downturn and the uncertainties it has created have intensified two major concerns at the heart of our relationship with employees. The first is jobs. The best way to promote job security for our employees collectively is to stay competitive by increasing sales volume. From the individual standpoint, the solution is employability—investing in skills that will equip each employee for the challenges of professional life. We need to ensure that our employees have the resources they need to develop new skills so that they can thrive and succeed at Danone—and also stay competitive on the job market. The second concern involves security in the broader sense: working conditions, employee health—including stress prevention—and workplace safety. Safety is a major issue, and we've begun negotiating a worldwide agreement on that.

Muriel Pénicaud

- **1991:** adviser to the French Ministry of Labor, Employment and Vocational Training
- **1993:** joined Danone as head of training, then head of organizations and HR policies
- **2002 to end 2007:** Executive Vice President at Dassault Systèmes in charge of organization, human resources and sustainable development
- **Since 2008:** Vice President, Human Resources at Danone, and member of the Executive Committee

Muriel Pénicaud is responsible for maintaining and expanding the social innovation approach adopted by Danone. Since 2009, she has chaired the Board of Directors of the Danone Ecosystem Fund. She is a member of the France's National Council on Labor Relations (*Haut Conseil du dialogue social*) and was recently appointed by the French Prime Minister to take part in a national stress-prevention initiative.

Ron Oswald

• **Since 1997:**
General Secretary
of the IUF

British-born Ron Oswald has been General Secretary of the IUF since 1997. He became a union member in 1969 while working as a baggage handler for a British airline. From 1982 to 1987, he worked with unions in Africa, the Caribbean and Central America. He then joined IUF where he has been ever since, championing its efforts to win recognition of unions and workers' rights from companies in the food, agricultural and hotel sectors, and eventually taking over from Dan Gallin. He has signed several international agreements with Danone, including a 1997 workers' rights agreement, a 2005 accord on fundamental social principles, and a 2007 diversity agreement.



Are priorities the same everywhere, or are we moving toward a complex country-by-country approach?

RO: You can't compare salaries from country to country because their situations are very different. But issues like health and safety are everywhere, and that's why the worldwide agreement we're negotiating with Danone is so important. Getting back to rising job insecurity, we're trying to reach an agreement with management on insecure jobs, to limit that type of contract. Danone isn't the worst case—far from it. Other groups have plants where 85% of the employees are in insecure jobs. That's unacceptable.
MP: Salaries, unemployment and benefits are all determined by local conditions, even though we have a group-wide philosophy. And even though everyone's starting from a different place, working conditions and workplace health and safety are priorities for everyone. At the CIC, we heard the concerns of our employees around the world, and that's why we offered to negotiate a worldwide agreement on all these issues, including stress, with IUF.

Is negotiation the way to handle these issues?

MP: Yes. Once you get past the core legal requirements on employee rights, dialog and then negotiation are essential. To be effective, the dialog must address both business and employment issues, and it has to take the corporation's goals and challenges into account.

RO: We tell companies, and even countries, that they have to respect a minimum set of rights. Economic and social conditions change from country to country, but union rights

and workers' rights—including the right to a decent job—are not negotiable.

IUF and Danone are considering a master agreement that addresses stress in the workplace. Is that really a concern?

RO: This issue has come in for a lot of media attention in France, and it's very important. Work is changing, and people are feeling the effects. Danone is the first food company that's willing to talk about a worldwide agreement on workplace stress and health issues.

MP: Stress is one of the growing risks that every business faces in promoting employee well-being. In France, we've signed a group-wide stress-prevention agreement with all of the unions. We're also working in a number of different places to advance our new worldwide talks on working conditions, health—including stress—and workplace safety. I believe that efficiency and well-being in the workplace reinforce each other. That's the heart of our dual commitment to business success and social progress.

Why did you ask Ron Oswald to join the Guidance Committee for the Danone Ecosystem Fund?

MP: We chose economists, heads of NGOs, leaders in social innovation and representatives of civil society to be on the Committee. Because the Fund is designed to support, strengthen and develop the activity of all of the stakeholders in the Danone ecosystem, we thought it was important for Ron—with his long experience at IUF, which represents both food and farm unions—to contribute a labor representative's vision of the Danone ecosystem.

Why did you accept?

RO: It really is unusual for IUF to participate in a project like this. We've always preferred sector-wide projects to avoid creating the impression that we prefer one company to the others. But we were impressed. The Ecosystem Fund project is totally new and different—it goes beyond the traditional idea of corporate social responsibility. The business units are very involved in the project, and our teams in the units want to be involved too. So IUF made an exception and agreed to be a part of the initiative.

What do you think is most useful about Danone's approach?

RO: Danone is a business—operating in a capitalist system—and not a charity. It isn't always the only company that impresses us, but Danone's dual commitment to business success and social progress has always been very tangible and real. What surprises most of our members is that Danone uses dialog and negotiation to get things done. That isn't true of every company, and it's what people remember most about Danone. We're not naive: Danone has to meet the same market demands as the others. But the consideration shown to employees and management's dialog with them are qualitatively better with Danone than with some other companies.

MP: Danone doesn't claim to be perfect. But because the dual commitment to business success and social progress is in our corporate DNA, we have a coherent purpose, and that's our great strength. Our social initiatives aren't just a jumble of opportunistic moves with no connection to our business. Danone's long-term growth depends on the success of our partners—both upstream and down—so it's essential for us to create business and social value within our ecosystem. ■

Danone and IUF launch global partnership

On October 12, 2009, Danone and the International Union of Food Workers' Associations (IUF) formalized their shared experiment in developing a global forum for labor-management dialog.

The goal is to update the existing Consultation and Information Committee (CIC), giving it global scope and allowing for broader representation of Danone employees in all of the group's businesses worldwide. The CIC was formed in 1996 and acts as a Europe-wide works council or labor/management committee. It grew out of the first annual meetings between IUF-affiliated unions and Danone management, which began in 1987. In the past, employee

representation was based largely on geographic Europe, including countries outside the European Union, although regional IUF representatives from Europe, Latin America and Asia and union representatives from Central and Eastern European countries attended as full members.

Under the structure IUF and Danone are currently experimenting with, both sides have factored in new corporate realities, organizing the annual meeting of the CIC around two core issues:

-expanding geographically to include employee representatives from the group's business units in Asia (Indonesia), North America (the US and Canada), Latin America (including Mexico,

Argentina, Brazil and other countries) and Africa (including South Africa and Algeria). -establishing targeted economic and social dialog with the group's employees by setting up specific committees for Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition. Senior management will work closely with employee representatives from each division to address labor-related issues and share group strategy with our employees. This new forum will help employee representatives understand and buy into Danone's strategic challenges, and enable committee members to address each division's key issues, including organization, HR, management and special projects.

“Labor union/management dialog at global level should be a trigger for local action.”

Muriel Pénicaud

(See pages 50 to 53: Ecosystem)

HEALTH & NUTRITION

Nutrition: identifying the global challenges

Rich countries are fighting obesity and high blood pressure even as emerging countries struggle with undernutrition. Across the widening divide, people everywhere are paying the price for unhealthy diets. Can the food industry contribute to the search for solutions?

Prof. Ricardo Uauy, professor of Public Health Nutrition (INTA), University of Chile, and London School of Hygiene and Tropical Medicine, Sven Thormahlen, General Manager, Danone Research

What are the major nutritional challenges facing the world today?

Prof. Ricardo Uauy: It all depends on where you're born. In industrialized countries, the threats are obesity, with all its consequences, and chronic conditions like diabetes and heart disease. In emerging countries—depending on how developed they are—it's undernutrition, with vitamin, zinc and iron deficiencies. There's also the problem of malnutrition among young children in Asia and Africa, and of pregnant women in Asia, particularly India and Bangladesh.

Sven Thormahlen: The big challenge is malnutrition. On the one hand, obesity continues to rise. On the other, some regions have enormous dietary deficiencies—even famine, which has still not been eradicated today. That's a huge disappointment. WHO, the World Bank and other international organizations called for an end to world hunger by 2010. That sounded the alarm, but it still hasn't happened. Conditions are very uneven around the world; some populations eat a varied, perfectly balanced diet. But others are getting too many calories and not enough nutrients, which ultimately leads to overweight or obesity, as well as significant deficiencies.

Do the main stakeholders—national and international health authorities, the scientific community and big manufacturers—recognize these challenges clearly?

ST: For the first two, I'd say yes. I think they understand the challenges very well today. Those in the food industry are at very different levels: some are fully aware of the challenges and have taken a clear position, while others lag far behind. The industry as a whole has failed to adopt shared priorities. The regulatory authorities overseeing food manufacturers find that they make all sorts of conflicting claims to suit their product portfolios. For several years now, Danone has made

“Our products must contribute to the aims of public health.”

Sven Thormahlen

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“A good diet would cut health care costs significantly.”

Professor Ricardo Uauy

healthy food a priority: we’ve formalized our commitment to progress in our Food, Nutrition and Health Charter (see box p. 88), and we’re working with public health stakeholders to understand and analyze nutritional trends, the better to adapt the nutritional content of our products to consumers’ needs and help move markets towards improved nutrition. Danone supports and is committed to nutrition research. We’re trying to play an active role in promoting public health.

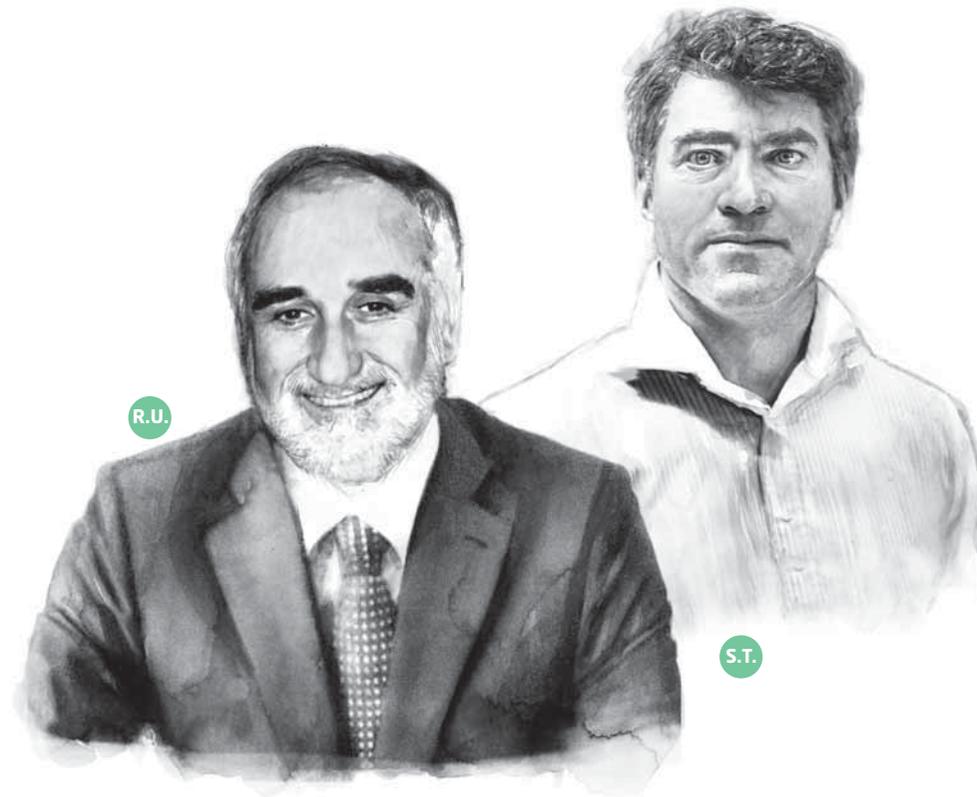
RU: If we really wanted to create conditions for healthy human development, we wouldn’t do what we’re doing today. For example, poultry and livestock farmers do everything they can to help their animals grow at the start of life. Why? Because it’s a profitable investment in the long term. If we took the same

approach with humans, we wouldn’t have today’s health problems. Malnutrition is very expensive later on, in terms of cost of health and disability, and—more importantly—because of lost productivity resulting from malnourished populations. Healthier people are a good investment if you look at lifetime productivity.

In what main areas can a group like Danone help solve these problems?

ST: Can we have products that help eliminate obesity? And can we make our products both nutritious AND affordable? Can we reach people with very low purchasing power? Those are our main challenges. So the mission Danone has adopted is to create products with health and nutritional benefits—products that promote public health and make a meaningful contribution to consumers’ health goals wherever we do business. Our teams are putting enormous effort into understanding the immune system, and we’re maintaining our focus on the nutritional value of our products. In 2009, we successfully showed that combining certain nutrients may help slow the progress of Alzheimer’s and other neurodegenerative diseases. Bangladesh is a good example of our contributions to nutrition. In 2010 we expect to get results from the study on the nutritional impact of our Shoktidoi yogurt on children in Bogra. Finally, one of our primary contributions is our practical commitment to offering and encouraging the best possible diet for babies. That’s fundamental to our mission, because nutritionally, everything hinges on the first few years of life.

RU: If food companies still want to be around 10 or 15 years from now, they need to do things that are less harmful to consumers’ health: less salt, less sugar, more fiber, more high-quality ingredients. They need to get rid of saturated fats and replace them with unsaturated fats, vegetable oils, olive oil and fish. Sometimes the best fats are also the least expensive. We get



Prof. Ricardo Uauy

- **1994-2002:** Director of INTA (Chile)
- **2005-2009:** president of the International Union of Nutritional Sciences (IUNS)

Prof. Uauy currently teaches public health nutrition at the London School of Hygiene and Tropical Medicine in the United Kingdom and at the University of Chile’s Institute of Nutrition and Food Technology (INTA). He began his career by training as a pediatrician and neonatologist at Harvard and Yale, respectively, and later earned a doctorate in nutritional biochemistry, metabolism and international nutrition planning at the Massachusetts Institute of Technology.

7th Danone International Prize for Nutrition—remarkable gains

Danone supports academic nutrition research to find new ways of making people healthier. One of the best examples is our work through the Danone Institutes, whose mission includes promoting research by awarding the Danone International Prize for Nutrition, among other programs. Established in 1997 with the support of the French Foundation for Medical Research and awarded every two years, the prize recognizes a researcher or research team for outstanding work in human nutrition. In October 2009, the Seventh Danone International Prize for Nutrition was presented to Belgian-born researcher Johan Auwerx, at the 19th International Nutrition

Congress in Bangkok, Thailand. Dr. Auwerx, who is on the faculty at the Ecole Polytechnique Fédérale in Lausanne, Switzerland, received the prize for discovering the mechanisms used by certain nutrients to “communicate” with human cells, giving them instructions much as hormones do. Dr. Auwerx’s work focuses more particularly on fat-shedding processes in adipose tissue, paving the way for new strategies to prevent and treat obesity and cardio-metabolic diseases such as type 2 diabetes and high blood pressure.

LEARN MORE HERE
www.danone.com

into the habit of consuming salt very early in life, and we get hooked. Less salt means less high blood pressure, fewer strokes and cardiovascular diseases. If we could reduce our salt consumption from 10 to 5 or even 3 grams, we’d reduce the number of high blood pressure-related deaths by 60-70%. Food companies should do it gradually: if you cut 3-5% every year, within 10 years you’ll have cut total salt consumption by 50%. Corporations need to rethink their business model. It’s easier to do nothing, but if you still want to be in the market 10 years from now, you’ll need to change.

How do healthy foods and pharmaceuticals complement each other?

RU: Before we start looking at healthy foods and pharmaceuticals, we should remember that a good diet would cut healthcare costs significantly. The US has the best medical care, but mediocre health because of poor

eating habits. Good health starts with a balanced diet and exercise. **ST:** There’s a continuum between being healthy and being sick—there’s no perfect state of health or disease. How can I address the issue of health as a whole, think preventively, instead of waiting until disease is already there? What can we do to avoid diseases or slow their effects? That’s where food should make its biggest contribution and complement a purely pharmaceutical approach. People often talk about a negative relationship between food and health, but in fundamental terms the relationship is eminently positive: a better diet means a better life.

Can a big corporation like Danone influence consumer habits in the medium or long term?

ST: Clearly it can, absolutely. And I think we have abundant evidence of that in Europe, where we’ve been doing business for a very long time,



but also in the rest of the world. Danone has developed policies centered on information, advice and personal service, providing day-to-day support not just to consumers but to our employees as well. As a result we've influenced consumers' eating habits. Take beverages: in countries like Mexico, excessive and even exclusive consumption of sweetened beverages is a major cause of the rise of obesity. We can—we must—convince consumers that water will hydrate them better than anything else.

RU: Again I say to the food industry: use less sugar, improve your products with ingredients that add to health, not detract from it. Often what stops people from replacing sweetened beverages with water is a perceived lack of flavor. So eliminate sugar but not the sweet taste; use other sweeteners. It's marketers that define markets, not people like me. I'm not against the food industry, and I have nothing specific against marketers. But I'd like to see them apply their skills to healthy products—products that are good for people's health—and start working to change the short-term model that they presently follow.

How can food manufacturers work better with scientists?

RU: Some manufacturers are looking for good advice. Others don't want anything to change. Industry should pay attention to recommendations from international organizations, because in time they'll become the standards adopted by countries, and in some cases they are the basics for international law and trade. Here's what I want to say to Danone: you need independent advice. If you've asked the wrong questions, sometimes you're given the wrong answer, too. Take advantage of the independent opinions and advice all around you, the directives from international organizations. There's room for innovation. The best approach is to get confirmation from

researchers' findings within the framework of international organizations.

ST: My answer points in the same direction—towards dialog. I'd say we need to expand our network of scientists even more. We have historic partnerships with organizations like the Pasteur Institute, and we'll continue them. In addition, we have more and more partnerships with prestigious academic institutions in the United States and Canada. We also need to expand our contacts with the scientific community in every country where we want to succeed, because they have knowledge that we need. So the more we go into different countries, the more we need to develop products designed for their consumers, and the more we need to develop close ties to the local scientific community. ■

Sven Thormahlen

• **2002:** joined Danone, where he is currently General Manager of Danone Research.

German-born Sven Thormahlen, age 53, holds a doctorate in organic synthetic chemistry from the University of Hamburg and has held various research and development positions at leading consumer goods companies, working in Germany, the United States and France. His experience includes product research, product development, clinical studies and quality assurance.

Danone's Food, Nutrition and Health Charter

More rigorous than the previous one, this new Charter provides an initial response to the growing concerns expressed by national and international authorities on food-related public health issues. It is intended for stakeholders outside Danone as well as for our employees, and is based on five commitments that reflect Danone's increasingly significant contribution to nutrition:

1. Offer solutions that are increasingly tailored to nutritional needs and

2. Develop products with relevant, scientifically proven health benefits.
3. Provide consumers with clear, factual information and advertise responsibly.
4. Promote healthy diets and lifestyles.
5. Address society's leading health and nutrition challenges.

● Learn more here: www.danone.com

DANONE RESEARCH, Spearheading our mission



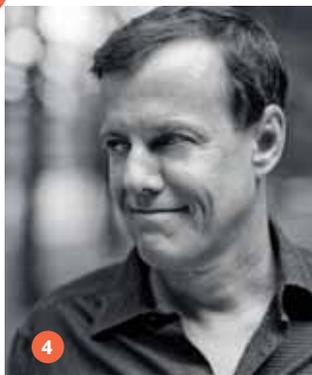
RESEARCH plays a fundamental role in Danone's strategy, with action focused on three priorities:

- Reinforcing the existing benefits of our products for digestive and cardiovascular health, the immune system, bone formation and weight management while at the same time exploring new benefits to underpin future innovation;
- Developing affordable solutions to open access to healthy food for low-income groups;
- Building recognition for the place of nutrition as a component of treatment for certain illnesses.

Danone Research brings together our worldwide R&D capabilities, representing a total workforce of over 1,200 present in some 15 countries.



**DANONE
RESEARCH**



See p. 95 for names of the board members pictured above

"IT'S IMPORTANT TO WORK WITH PEOPLE WHOSE VALUES ARE CLOSE TO YOUR OWN."

Guylaine Saucier joined Danone's Board of Directors on April 23, 2009. Here she shares insights from her first few months on the job.

You joined Danone's Board in April 2009. Why did you accept this responsibility?

Guylaine Saucier: I share Danone's values, particularly in the area of social responsibility. It's important to work with people whose values are close to your own. That was a big factor in my decision, and so far events have proved me right.

You've sat on a number of boards in Canada and France. What's different about this experience?

GS: What strikes me is Danone's ability to stay entrepreneurial. That's rare in a company with over 80,000 employees in nearly every part of the globe. Decision-making is very decentralized: broad goals come from the top, but they gain enormous momentum from the people on the ground.

Danone still has the entrepreneur's ability to innovate and motivate. That's really been a pleasant surprise. You don't expect a group this big to keep that entrepreneurial energy.

Can you give an example?

GS: I went to this year's seminar in Evian. The group's general managers meet there annually, and Franck Riboud invites Board members to sit in. It was a breath of fresh air! All of the presenters—from headquarters and from the various countries—spoke very seriously, but they really got us on board. It was extraordinary. Attending the seminar also helps us understand the decision-making process—with so many departments, many decisions are decentralized.

You mentioned social responsibility. How does the Board of Directors contribute to that and evaluate it?

GS: I knew about Danone's project in Bangladesh before I joined the Board, but I thought it was a one-off thing, rather marginal. Once I joined the company, I realized that it wasn't just an isolated exercise in social responsibility—it's part of a mindset, a philosophy that permeates the whole business. Creating the Danone Ecosystem Fund this year is another example. Working with local dairy farmers in Turkey, Egypt, and Mexico to help them structure their businesses and meet quality standards is another. A lot of companies talk about social responsibility, but actually putting it into practice without losing sight of the bottom line is hard.

Do you discuss these issues frequently in Board meetings?

GS: That's just it: it's not on the agenda. It's not a specific topic—it's ingrained in Danone's culture and operations. So it's always there, in every discussion. That really impressed me, because I'd never seen anything like it. I'm not saying that other companies don't think about social responsibility, just that their approach isn't always as well integrated as Danone's.

Has anything else struck you since you joined the Board?

GS: Research, especially for dairy products. I had no idea that researchers worked so hard to tailor products to the needs of local communities and evaluate the nutritional deficiencies that come with age and other health problems. Yogurt may be a simple product, but a lot goes into it.

2009 was a year apart for business, and it brought some tough decisions. Were any of them particularly memorable for you?

GS: The group is dynamic and innovative, but it also takes a prudent approach to the future. The capital increase in June is a good example. We didn't need it right away, but we decided to get out in front, to make the future more secure. At the time it was still April, and it was hard for us to see then what the economy would do in the next two years. So it was a precautionary measure. At Danone, there's always that link between tremendous drive and a certain degree of prudence. Which happens to be how I work and think, too.

Has the economic crisis changed your approach to governance over the past 12 months?

GS: During one of our Board meetings, Franck Riboud stressed the importance of staying in touch with people on the ground. The Board felt the same way. We don't take management's place, obviously, but a good board should contribute added value, a wide range of experiences that it can share with management when it's time to make strategic decisions. So we tend to be a little more involved. Mind you, that's happened with every board of directors I sit on.

France is often criticized for having boards that are too... French. Do things work differently in Canada?

GS: Once or twice a year, Canadian companies ask their boards to participate in one- or two-day strategy retreats. It's nothing but strategy, and you don't make any decisions—you just brainstorm. That makes it easier when the board meets later for more formal discussions on issues like the





... future or the budget, because we're more involved upstream. We've had the time to look closely at corporate strategy, analyze it, and occasionally add our two cents. I like working that way, and I don't always find that willingness in France.

Is there a message that you'd like to share with Danone employees?

GS: Don't lose the vitality and momentum that I've felt at Danone. It isn't easy, because there's a tendency to rest on your laurels as the years go by. This company has an energy that you don't often see, and it's critical to find a way to preserve that.

Can that be replicated in other companies?

GS: I think it's unique to Danone. I never knew Antoine Riboud, but I'm told he was a force of nature. The original drive probably came from him, and his son Franck has succeeded in maintaining the momentum. It's never easy for the second generation—I saw that when I stepped into my father's shoes. When the time comes, you have to be able to pass it on to the next generation. Danone is strong today because that momentum has already been shared with all the people who put life into the business. ■

Guylaine Saucier

Guylaine Saucier, a native of Noranda, Quebec, is one of a growing number of professional directors.

From 1975 to 1989, she served as Chair and CEO of Groupe Gérard Saucier Ltée, a major forest products corporation. She has been certified as a Director by the Institute of Corporate Directors and is a former Chair of Canada's Joint Committee on Corporate Governance, which was set up in 2000 by the Toronto Stock Exchange, the Canadian Institute of Chartered Accountants, and the Canadian Venture Exchange. She sits on the boards of numerous

corporations, including Axa Assurances, Inc., Bank of Montreal and Groupe Areva, and has served as chair of many other boards. The first woman president of the Quebec Chamber of Commerce, Guylaine Saucier has also been active in the community, serving on the boards of Montréal University, the Montréal Symphony Orchestra, Hôtel-Dieu de Montréal, and other organizations. In 2004 she was named a Fellow of the Institute of Corporate Directors, and in 2005 she received McGill University's 25th Management Achievement Award (see p. 95).

"Exchanging views with shareholders—a daily dialog"

"Developing good relationships with our shareholders is something we work on every day. And we maintain an ongoing dialog—through our Board, of course, but also through direct contact with some of our largest shareholders, including managed funds in the US, the UK and France, and Caisse des Dépôts et Consignations in France. We also stay in touch with groups like Proxinvest and Fi Trust that work independently to improve corporate governance. We discussed the creation of the Danone Ecosystem Fund with our major shareholders well before the General Meeting. One by one, we called or met with them to assess its importance together, and discuss what it meant for our company. As a result, we fine-tuned the project in a number of ways before submitting the final version to the Board and the General Meeting."

Emmanuel Faber, Co-Chief Operating Officer

ACTIVITIES OF THE BOARD OF DIRECTORS

Danone's Board of Directors counts 14 members, eight of them independent, and has three specialized committees. Here we take a brief look at their activities in 2009.

The Board of Directors met ten times in 2009, with meetings lasting 90 minutes on average, and attendance averaging 86%. Recurring agenda items included business developments, the group's finances and treasury, guarantees and endorsements, adoption of financial statements, financial communications, acquisitions and divestments, Danone's share price, annual business plans and budgets, the annual contribution to danone.communities, corporate governance issues, and reports from the three Board Committees. In 2009, the Board focused particularly on performing its regular review of the group's finances; studying and monitoring action plans in response to the changing economy; monitoring corporate governance issues under the Afep-Medef Code of Corporate Governance, including a review of the Board's self-assessments; reviewing divestments, acquisitions and the group's business plan; and renewing auditor appointments. Drawing on insights from its 2008 self-assessment, the Board changed

its internal regulations in 2009. New procedures for better information on corporate strategy, the budget and monitoring of acquisitions were established, requiring that the Board be briefed on the group's finances at least once every six months. The Directors also reviewed and discussed the group's business plan and budget during a half-day session in December 2009, and they attended our September seminar in Evian, an annual forum for heads of all Danone business units around the world.

Audit Committee. The Board of Directors redefined the Audit Committee's mission on December 17, 2009. The Committee is now charged with reviewing and commenting on company and consolidated financial statements before they are presented to the Board of Directors, and with coordinating the selection of statutory auditors. It verifies procedures for internal control and risk assessment and management, reviews the Chairman's internal control report, and validates and monitors audit plans. In 2009, the Audit Committee

“Drawing on the insights of its self-assessment, the Board amended its internal regulations.”

met six times. Agenda items included the group’s finances and financial statements, proposed financial transactions such as the capital increase in June 2009, internal control systems, validation of audit plans, procedures for assessing and monitoring risks, approval of new internal regulations, and coordination and monitoring of the tendering procedure for auditors.

Social Responsibility Committee. Set up in late 2006, this Committee has a specific governance role. On December 17, 2009, the Board of Directors adopted new internal regulations for the Committee, providing for regular evaluations of its performance. In particular, the Committee is charged with considering the group’s main environmental risks and opportunities and with reviewing its social policies. It also reviews non-financial information published by the group on environmental and social issues, and monitors reporting, assessment and control systems to ensure that non-financial information published by the group is reliable. The Committee conducts an annual review of non-financial ratings for the company and its business units from independent agencies, and monitors compliance with the group’s code of ethics. Similarly, it assesses the impact of the group’s social business investments and compliance with group principles where social investments and activities are related to the group’s business. Finally, it ensures that the group’s interests are protected and works to prevent conflicts of interest between social business investments and the group’s other activities. The Committee met three times in 2009. Agenda items included the group’s overall social policies as well as individual social projects; the creation and progress

of the danone.communities fund, the Danone Fund for Nature and the Danone Ecosystem Fund—all founded by Danone; the amount of the group’s financial contribution to danone.communities; and Danone’s new Food, Nutrition and Health Charter. At its meeting on June 29, 2009, the Committee made a preliminary assessment of its own activity, prompting members to considering its positioning, particularly as regards the Audit Committee. At its meeting in October 2009, the Committee decided to re-assess its activity and will report to the Board in 2010.

Nomination and Compensation Committee. This Committee counts three members, two of them independent. Its tasks include submitting proposals for appointments to the Board of Directors; preparing for the Board’s review of corporate governance issues; assessing the Board of Directors and the Audit Committee; proposing criteria for calculating the various components of corporate officers’ (*mandataires sociaux*) compensation and distributing directors’ fees; and making any other recommendations concerning the group’s compensation policies. On February 10, 2009, the Board of Directors amended the Committee’s internal regulations. It is now charged with preparing for the Board an annual review of corporate governance issues; presenting the group’s policy on Executive Committee compensation in the presence of one or more corporate officers, and regularly assessing its own performance. In 2009, the Committee met six times. In particular, it considered the appointment of Guylaine Saucier to the Board of Directors, as well as compensation and benefits for corporate officers and members of the Executive Committee. It

also reviewed the Afep-Medef Code of Corporate Governance and Danone’s compliance with it; the fixed and variable components of compensation for the four corporate officers (*mandataires sociaux*) and the other members of the Executive Committee; and changes to its own internal regulations.

Corporate officer compensation. Policies on compensation for corporate officers are based on principles governing all of Danone’s general managers and over 1,400 managers around the world. For Chairman and Chief Executive Officer Franck Riboud, Vice Chairman of the Board and Co-Chief Operating Officer Jacques Vincent, and the two Co-Chief Operating Officers, Emmanuel Faber and Bernard Hours, the variable economic portion of compensation is calculated based on group targets for sales, operating margin, free cash flow and underlying earnings per share, as announced to financial markets. It also takes into account the group’s social business aims and assessment of strategy deployed over the year. Direct and indirect compensation paid to members of the Board of Directors and Executive Committee in respect of the 2009 financial year totaled €21.7 million. In respect of 2009, the four members of the Board of Directors who are also corporate officers received the following compensation: Franck Riboud, Chairman and Chief Executive Officer, €2,783,970; Jacques Vincent, Vice Chairman of the Board of Directors and Co-Chief Operating Officer, €1,529,800; Emmanuel Faber, Co-Chief Operating Officer, €1,373,620; Bernard Hours, Co-Chief Operating Officer, €2,863,620. ■

The Board of Directors has 14 members

(as appearing, left to right, in the photo strip on pages 90-91)

Each director must own at least 4,000 registered shares. Terms of office are set by Company by-laws at three years and are renewable.

- | | |
|---|--|
| 1 Jacques Alexandre Nahmias ⁽¹⁾
62, Chairman & CEO, Pétrofrance SA | 11 Richard Goblet d’Alviella ⁽¹⁾
61, Vice Chairman and Deputy Director, Sofina SA |
| 2 Emmanuel Faber
46, Co-Chief Operating Officer, Danone | 12 Christian Laubie ⁽¹⁾
71, member, Haut Conseil du commissariat aux comptes |
| 3 Guylaine Saucier ⁽¹⁾
63, company director | 13 Hakan Mogren ⁽¹⁾
65, company director |
| 4 Bernard Hours
53, Co-Chief Operating Officer, Danone | 14 Bruno Bonnell ⁽¹⁾
51, Chairman, Sorobot SAS |
| 5 Franck Riboud
54, Chairman and Chief Executive Officer, Danone | 15 Michel David-Weill
77, Chairman of the Supervisory Board, Eurazeo |
| 6 Benoît Potier ⁽¹⁾
52, Chairman & CEO, L’Air Liquide SA | 16 Jean Laurent ⁽¹⁾
65, Chairman of Finance Innovation competitive-business cluster |
| 7 Jacques Vincent
64, Vice Chairman of the Board, Danone | 17 Naomasa Tsuritani
66, Chairman, Yakult Materials, Co. Ltd |

Board Committees

Audit Committee⁽²⁾: **Benoît Potier**⁽¹⁾, Chairman, **Guylaine Saucier**⁽¹⁾, **Richard Goblet d’Alviella**⁽¹⁾, **Christian Laubie**⁽¹⁾

Guylaine Saucier was named chair of the Audit Committee with effect from the close of the General Meeting on April 22, 2010. Benoît Potier stepped down from the Audit Committee at that date.

Nomination and Compensation Committee⁽²⁾: **Michel David-Weill**, Chairman, **Jean Laurent**⁽¹⁾, **Hakan Mogren**⁽¹⁾

Social Responsibility Committee⁽²⁾: **Jean Laurent**⁽¹⁾, Chairman, **Bruno Bonnell**⁽¹⁾, **Emmanuel Faber**

1. Director recognized as independent by the Board of Directors.
2. As of February 28, 2010.

2009 KEY FIGURES

+3.2%*

This like-for-like sales growth was driven by a 5.2% rise in volume and a 2% decline in price/mix.
* like for like: at constant scope of consolidation and exchange rates

€14.98 bn

Danone's sales are from Fresh Dairy Products (57%), Waters (17%), Baby Nutrition (20%) and Medical Nutrition (6%).

A major presence in the world food industry, Danone reported sales totaling €14,982 million and trading operating income of €2,294 million in 2009.

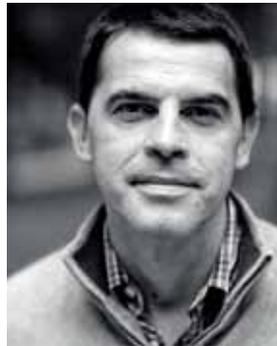
Keeping an eye on the long term

Action taken in 2009—changes in pricing and product portfolios, a capital increase, and continued improvement in cash flow management and productivity—will pay off in 2010 and beyond.

Pierre-André Térissé, Executive Vice President, Finance

How has Danone's new pricing strategy affected your financial results?

Pierre-André Térissé: Our pricing strategy and adjustments to our product portfolio led to renewed growth of nearly 5% in the second half, enabling us to keep our promise and deliver a 10% like-for-like rise in earnings per share in 2009. These changes also put us in a much better position to meet consumer expectations going into 2010.



and Medical Nutrition, our two new divisions. At corporate level, a sharper focus on generating cash contributed to this good showing and laid a solid foundation for the future. We've reduced our debt, giving us the flexibility to acquire small and medium-sized businesses and make new local investments.

Aren't you concerned about rising volatility in currencies and raw material prices?

P-A T: Currency risk is a long-term issue, and we're already planning steps to address it. Many of our costs are in euros, but our growth comes primarily from emerging countries with currencies tied to the dollar. So we'll adapt our cost base to that reality—purchasing, fixed costs, interest expense, and so on. That will move us closer to our markets and make us more and more competitive. The same applies where the environment is concerned. This issue is increasingly important to consumers. We've made a lot of progress this year, and we're going to step up our programs in 2010. We're showing once again that clear thinking can turn a risk into an opportunity. ■

Isn't this trend likely to taper off?

P-A T: If we'd done nothing but cut prices, the benefits would have been short-lived. But we did much more, with sweeping changes to our product portfolios. That was important for our 2009 results, but it is equally critical in laying the groundwork for 2010 and beyond. Our results have yet to reflect many of the efforts launched in 2009: our group's higher market share, capital increase, and enhanced financial structure will increase our flexibility and security in years to come. And higher productivity has let us head into 2010 with much stronger cost structures.

Have you strengthened financial management?

P-A T: In terms of improving cash flow, 2009 was one of our best performances ever. Which shows that our business is fundamentally healthy, and that there's room to improve working capital requirements for Baby Nutrition

Income statement	2008	2009	2009/2008 Change
in € millions			
Net sales	15,220	14,982	+3.2% ⁽¹⁾
Trading operating income	2,270	2,294	+7.4% ⁽¹⁾
Trading operating margin	14.91%	15.31%	+61 bps ⁽¹⁾
Current net income (attributable to the Group)	1,313	1,412	+11.5% ⁽¹⁾
Net income (attributable to the Group)	1,313	1,361	-
Underlying diluted EPS (attributable to the Group)	€2.66	€2.57	+10.2% ⁽²⁾

(1) Like for like: at constant scope of consolidation and exchange rates

(2) At constant scope of consolidation and exchange rates, and excluding the impact of the capital increase on June 25, 2009

Cash flow	2008	2009	2009/2008 Change
in € millions			
Cash provided by operations	1,699	2,092	-
Capital expenditure	(706)	(699)	-
Purchases of businesses and other investments ⁽³⁾	(259)	(148)	-
Free cash flow ⁽⁴⁾	1,183	1,427	+20.6%

(3) Net of cash acquired

(4) Cash flow from operations less change in working capital requirement less capital expenditure, net of disposals

Financial position	2008	2009	2009/2008 Change
in € millions			
Net debt	11,055	6,562	-
Stockholders' equity (including minority interests)	8,700	13,309	-
Debt/equity ratio	127.1%	49.3%	-

Current per-share data	2008	2009	2009/2008 Change
in €			
Underlying diluted EPS (attributable to the Group)	2.66	2.57	+10.2% ⁽⁵⁾
Dividend per share	1.2	1.2 ⁽⁶⁾	-

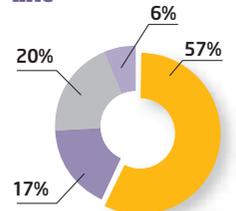
(5) At constant scope of consolidation and exchange rates, and excluding the impact of the capital increase on June 25, 2009

(6) To be submitted to the Annual General Meeting of shareholders on April 22, 2010

+5.2%

Growth in sales volumes in 2009 for all divisions combined. (Like for like)

Sales by business line



■ Fresh Dairy Products
■ Waters
■ Baby Nutrition
■ Medical Nutrition

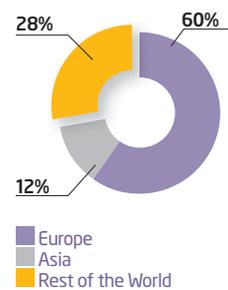
Positions

Measured by sales volume, Danone is:

- the world's leading producer of fresh dairy products
- the world's second largest producer of bottled waters
- the world's second largest producer of baby nutrition specialties
- the European leader in medical nutrition



Sales by region



31%

of Danone sales in 2009 were in countries with high growth potential: China, Indonesia, Brazil, Argentina, Poland, Russia and the United States. This results from a growth strategy aimed at geographical balance between developed and emerging markets.

Stockmarket data	2008	2009
Number of shares in capital stock at Dec. 31	513,802,144	646,990,850
Share price at Dec. 31 (€)	43.18	42.83
Market capitalization at Dec. 31 (in € millions)	22,200	27,710

Sales by business line	2008	2009	Like-for-like change
in € millions			
Fresh Dairy Products	8,697	8,555	+1.6%
Waters	2,874	2,578	+1.0%
Baby Nutrition	2,795	2,924	+7.9%
Medical Nutrition	854	925	+11.4%
Group total	15,220	14,982	+3.2%

Sales by region	2008	2009	Like-for-like change
in € millions			
Europe	9,524	8,960	(0.3)%
Asia	1,854	1,877	+11.0%
Rest of the World	3,842	4,145	+8.0%
Group total	15,220	14,982	+3.2%

Trading operating income by business line	2008	2009
in € millions		
Fresh Dairy Products	1,224	1,244
Waters	368	324
Baby Nutrition	489	536
Medical Nutrition	189	190
Group total	2,270	2,294

Trading operating income by region	2008	2009
in € millions		
Europe	1,496	1,437
Asia	313	333
Rest of the World	461	524
Group total	2,270	2,294

Trading operating margin by business line	2008	2009	Like-for-like change
Fresh Dairy Products	14.1%	14.5%	+24 bps
Waters	12.8%	12.6%	+35 bps
Baby Nutrition	17.5%	18.3%	+201 bps
Medical Nutrition	22.2%	20.5%	(61) bps
Group total	14.9%	15.3%	+61 bps

+61 bps⁽¹⁾ in 2009

Trading operating margin on current business came in at 15.31% in 2009, a rise of 40 basis points (bps) from 2008, or 61 bps at constant scope of consolidation and exchange rates. In Fresh Dairy Products, there was a 24 bps rise during the year⁽¹⁾, due primarily to productivity gains and the easing in raw material prices. The Waters division reported a 35 bps rise in trading operating margin⁽¹⁾ in 2009. The 201 bps rise⁽¹⁾ for Baby Nutrition was due mainly to the downward trend in raw material prices, a favorable product mix and deployment of productivity programs. In Medical Nutrition, there was a slight decline of 61 bps⁽¹⁾.

⁽¹⁾ like for like

Trading operating margin by region	2008	2009	Like-for-like change
Europe	15.7%	16.0%	+68 bps
Asia	16.9%	17.7%	+82 bps
Rest of the World	12.0%	12.6%	+46 bps
Group total	14.9%	15.3%	+61 bps

41%

of Danone's total net sales are from emerging countries in 2009.

This rises to 51% for the Waters division. In Medical Nutrition, where Danone is European market leader, 80% of sales are in Europe and the group is seeking to expand its geographical reach by leveraging the strong local positions of other divisions.

54%

of Fresh Dairy Product sales are in the division's four flagship lines: Activia, a fermented dairy product; Actimel, a probiotic dairy product; Danonino (also sold as Danimals and Petit Gervais), fortified *fromage frais* especially for children; and Danacol, a dairy product that helps combat cholesterol.

59%

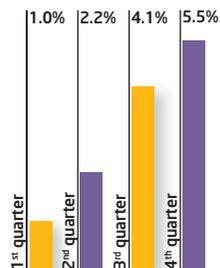
of Baby Nutrition sales are in Europe, 31% in Asia and 10% in the rest of the world. Indonesia, the UK and Poland were the top contributors to sales growth in 2009.

+11.5%

Current net income attributable to the group rose 11.5% like-for-like, to reach €1,412 million.



2009 organic growth

**+3.2%**

on average for the group as a whole over the year. Organic growth accelerated from quarter to quarter, reflecting adjustments to market conditions.

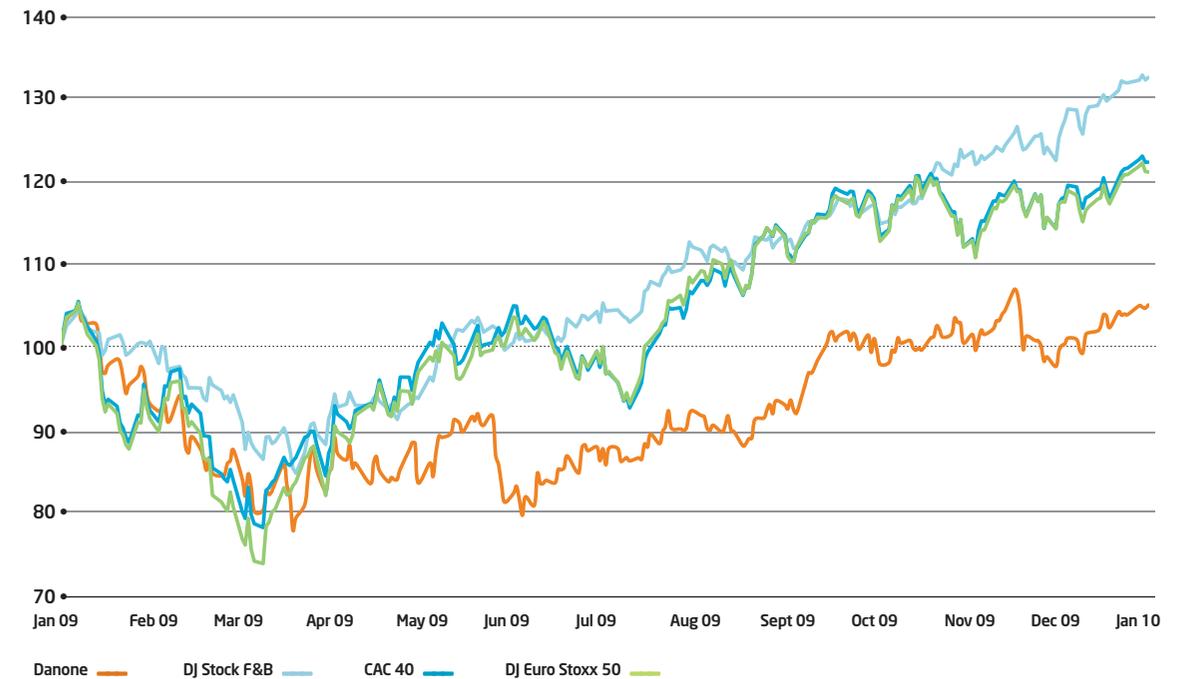
€315_m

Growth in trading operating income was driven mainly by productivity gains in 2009 and favorable trends in raw material prices, as well as the sale of some businesses, in particular Frucor (Waters, New Zealand and Australia), generating a net capital gain of €315 million. This was partially offset by a €100 million contribution to the Danone Ecosystem Fund.

Results	2008	2009
in € millions		
Trading operating income	2,270	2,294
Other operating income and expense	(83)	217
Operating income	2,187	2,511
Cost of net debt	(439)	(264)
Other financial income and expense	(145)	(225)
Income tax	(443)	(424)
Net income of companies included in consolidated accounts	1,160	1,598
Net income of equity-accounted affiliates	62	(77)
Net income of operations discontinued, sold or in the process of being sold	269	-
Net income	1,491	1,521
Attributable to the Group	1,313	1,361
Minority interests	178	160
Current net income attributable to the Group	1,313	1,412
Diluted current net income attributable to the Group (EPS in euros)	2.66	2.57

The reduction in the cost of gross debt in 2009 reflects restructuring of debt and a reduction in total group debt following the capital increase on June 25, 2009. The current effective tax rate was 23.4% in 2009, showing little change from 23.5% in 2008.

Main stockmarket indices from December 31, 2008 to December 31, 2009 (100: December 31, 2008)



The 2009 financial year was a period of persistent turbulence in general, and on financial markets in particular.

The macro-economic environment remained challenging and unpredictable, with negative consequences for business performances and consumer sentiment. Caution was the watchword against a backdrop of high market volatility and poor visibility, with no consensus emerging on when a structural recovery might finally take shape.

In response to these uncertainties, Danone decided to strengthen its financial structure with a capital increase through a rights issue in the second quarter of 2009. Resulting dilution brought an automatic decline

in the share price at the close of the first half of the year, but it rebounded in following months, reflecting the benefits of balance-sheet consolidation and the continued faith of financial markets in the strong fundamentals of Danone's business model, as well as the resilience and potential of the sectors it operates in. Added impetus came from the continued quarter-on-quarter acceleration of organic growth in sales volume and revenue, combined with healthy operating-margin and cash-flow performances.

Danone shares thus gained 20% in the last six months of the year. Over 2009 as a whole, the rise in Danone's share price was 5%, compared with gains of

22% for France's CAC 40 index, 18% for the Dow Jones Euro Stoxx 50 and 33% for the broadly diversified, defensive Dow Jones Food & Beverages Index.



2009 Highlights

• **Growth in Danone sales revenues:** +3.2% in 2009⁽¹⁾.

• **Growth in sales volumes:** +5.2%⁽¹⁾.

• **Rise in trading operating margin:** +61 bps⁽¹⁾ to 15.31%

• **Rise in underlying diluted EPS:** +10.2%⁽¹⁾ (excluding impact of capital increase) to €2.57 in 2009.

• **Rise in free cash flow:** +20.6% to €1,427 million.

• **Dividend: €1.20** per share proposed to General Meeting of shareholders.

• **2010 targets** in keeping with medium-term outlook and stabilization of trading operating margin from 2009.

(1) Like for like: at constant scope of consolidation and exchange rates.



Key market data at Dec. 31

in € millions

	2006	2007 ⁽¹⁾	2008	2009
Market capitalization at Dec. 31	30,000	31,500	22,200	27,710

in €

	2006	2007	2008	2009 ⁽²⁾
Closing price for the year	114.80	61.40	43.18	42.83
High for the year	121.10	64.17	64.00	44.10
Low for the year	85.20	51.30	38.60	31.22

thousands of shares

	2006	2007	2008	2009
Average number of shares traded daily	1,212	3,076	3,265	2,895

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

(2) Ex preferred subscription rights following capital increase on June 25, 2009

Dividend per share

thousands of shares

	2006	2007	2008	2009
Number of shares	260,865	512,851	513,802	646,991

in €

	2006	2007	2008	2009 ⁽¹⁾
Net dividend per share	2.0	1.10	1.20	1.20

(1) Subject to the approval of the Annual General Meeting on April 22, 2010

€1.20 per share

Danone will ask shareholders at their General Meeting on April 22, 2010 to approve distribution of a dividend of €1.20 per share in respect of the 2009 financial year. If this proposal is approved, the ex-dividend date is May 4 and the dividend will be payable from May 7, 2010.

Identifiable holders of bearer shares at December 31, 2009

% capital

Institutional investors

France	31%
UK	9%
Germany	5%
Benelux	5%
Rest of Europe	6%
United States	20%
Rest of the World	6%

Individual shareholders and FCPE (Danone employee fund) 13%

Treasury stock 5%

Total 100%

€1,427 m

Free cash flow (the balance of cash from operations after capital expenditure, net of disposals) accelerated significantly, rising 20.6% from €1,183 million in 2008 to €1,427 million in 2009.

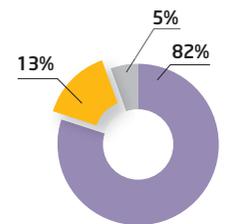
Main shareholders at Dec. 31, 2009

% of voting rights⁽¹⁾

Eurazeo Group	4.2%
Groupe Caisse des Dépôts et Consignations	3.6%
Groupe Crédit Agricole SA/Predica	1.7%
Fonds Groupe Danone (FCPE: Danone employee fund)	2.5%
Sofina Group and Henex	3.8%
Individuals	84.2%

(1) Net voting rights (total eligible for General Meetings) do not include shares without voting rights.

Bearer shares



■ Institutional investors
■ Individual shareholders and FCPE
■ Treasury stock



Danone share data

• **Number of shares at Feb. 11, 2010:**

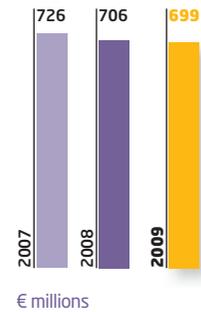
646,990,850.

• **Nominal value:** €0.25 per share.

• **Stock exchange listings:**

NYSE Euronext Paris, the SWX Swiss Exchange, and as American Depository Shares/Receipts (ADS/ADR) on the US market (1 share = 5 ADS).

Capital expenditure



€699 m

Capital expenditure totaled €699 million in 2009 compared with €706 million in 2008, representing 4.7% and 4.6% of consolidated sales, respectively. Investment outlays to back continued geographical expansion and growth in emerging markets remained high, while capital expenditures were optimized at lower cost than in 2008.

In 2009, 38% of the total investments targeted markets with high growth potential, in particular Argentina, Brazil, the United States, China, Indonesia and Russia, while 8% of the total was in markets where the group has established a presence recently, in particular South Korea and Thailand, or in Africa and the Middle East, including Saudi Arabia and Egypt.

Investments made in 2008 were mainly in countries with high growth potential, in particular Argentina, Brazil, Canada, the United States, China and Indonesia, and in markets into which the group has moved recently, in particular South Korea.

SOCIAL AND ENVIRONMENTAL INDICATORS

Social indicators	2008 ⁽¹⁾	2009	2009 cover ⁽²⁾
Total employees at Dec. 31	79,436	80,976	100%
Net rise in employment		+1,540	100%
Europe		(825)	100%
Asia		+1,372	100%
Rest of the World		+993	100%

Employees by region

Region	2008	2009	2009 cover
Europe	39%	37%	100%
Asia	27%	28%	100%
Rest of the World	34%	35%	100%

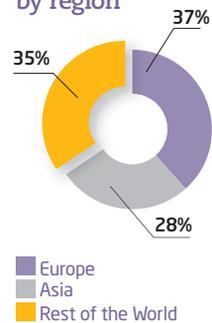
Average employees for the year

Employee Type	2008	2009	2009 cover
Permanent	83%	84%	100%
Non-permanent	17%	16%	100%

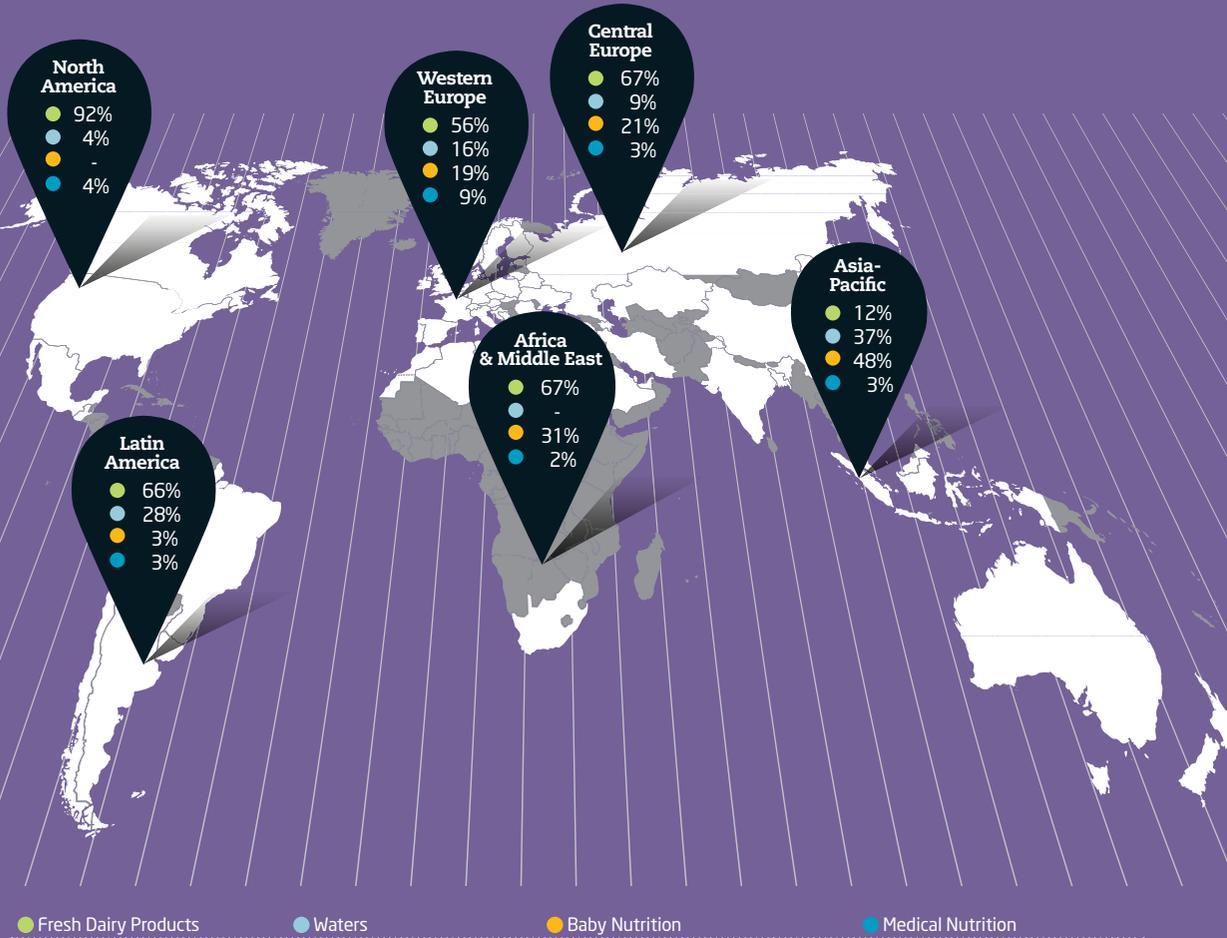
(1) 2008 data is like for like.

(2) To reflect disparities in the scope of consolidation and their impact on reporting, an adjustment rate is calculated for each social indicator. This is based on the total number of Danone employees at year-end 2009 (80,976).

Employees by region



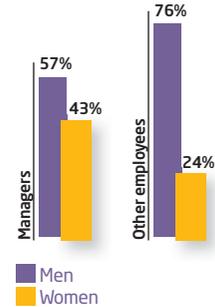
Contribution of business lines to regional sales in 2009



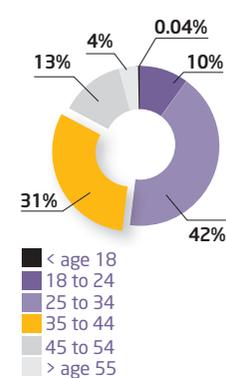
Sales by region and business line in 2009 in € millions

Region	Fresh Dairy Products	Waters	Baby Nutrition	Medical Nutrition	Total
Western Europe	3,945	1,102	1,330	671	7,048
Central Europe	1,277	169	399	67	1,912
Asia-Pacific	225	685	908	59	1,877
North America	1,303	60	-	51	1,414
Latin America	1,298	562	54	64	1,978
Africa/Middle East	507	-	233	13	753
Total	8,555	2,578	2,924	925	14,982

Men/women in workforce



Employees by age



(1) 2008 data is like for like.

(2) To reflect disparities in the scope of consolidation and their impact on reporting, a rate is calculated for each social indicator. This is based on the total number of Danone employees at year-end 2009 (80,976).

(3) Includes all business units with at least 100 employees at December 31, 2009.

(4) Within the scope of the group's safety maintenance system.

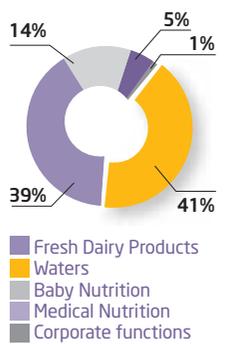
(5) Elected or designated by a trade union.

Social indicators (continued)	2008 ⁽¹⁾	2009	2009 cover ⁽²⁾
Total registered employees at Dec. 31			
Managers	16%	16%	100%
Other employees	84%	84%	100%
Male managers	57%	57%	100%
Female managers	43%	43%	100%
Other employees, male	76%	76%	100%
Other employees, female	24%	24%	100%
Registered employees at Dec. 31 (by age)			
< age 18	0.04%	0.04%	100%
18 to 24	11%	10%	100%
25 to 34	43%	42%	100%
35 to 44	30%	31%	100%
45 to 54	13%	13%	100%
> age 55	3%	4%	100%
Turnover of permanent employees as % of total workforce	22%	20%	100%
Social policy and safety			
% of business units whose employees are covered by a company or multi-sector collective agreement	70%	73%	95.1% ⁽³⁾
% of business units with employee representatives ⁽⁵⁾	83%	84%	95.1% ⁽³⁾
Number of labor disputes with work stoppages	49	33	95.1% ⁽³⁾
Number of workforce accidents with stoppages	909	719	98.1% ⁽⁴⁾
Number of fatal accidents	5	5	98.1% ⁽⁴⁾
Frequency of workplace accidents	5,3	3,9	98.1% ⁽⁴⁾
% of employees insured for major risks (death/incapacity)	92%	92%	100%
% business units with profit-sharing agreements	34%	41%	100%

Social indicators (continued)	2008 ⁽¹⁾	2009	2009 cover ⁽²⁾
Number of employees receiving training during the year	69,743	75,000	100%
Managers	10,365	11,884	100%
Other employees	59,378	63,116	100%
Average number of training hours in the year	24	28	100%
Managers	36	41	100%
Other employees	22	25	100%

(1) 2008 data is like for like.

Employees by business line



A selection of indicators in Danone's 2009 sustainability report* was the subject of a limited-scope review by KPMG Audit.

* All indicators, the limited-scope review by KPMG Audit, and 2009 and 2008 figures at comparable structure are available in the Sustainability Report downloadable from www.danone.com ("Sustainable development"/ "Experts' Corner")

Environmental indicators	Total group 2009
Production ('000 metric tons)	22,587
Production sites⁽¹⁾	
Total number	159 ⁽²⁾
Cover rate	85% ⁽³⁾
Total number of sites certified compliant with ISO 14001	85
Thermal energy consumption ('000 MWh)	2,116
Electricity consumption ('000 MWh)	1,573
Total energy consumption ('000 MWh)	3,690
Total amount of waste generate ('000 metric tons)	238
Total amount of waste eliminated through specific waste management path ('000 metric tons)	214
Proportion of waste eliminated through specific waste management path ('000 metric tons)	86%
Total water consumption ('000 cubic meters) ⁽⁴⁾	33,334
Waste-water COD (chemical oxygen demand) in '000 metric tons ⁽⁵⁾	5,139
Significant emission incidents (chemical and hydrocarbons)	2
Emissions of greenhouse gases (CO ₂ , CH ₄ , N ₂ O, CFC, etc.) (in metric kilotons CO ₂ equivalent)	499
SO _x (sulfur oxide emissions) in metric tons SO ₂ equivalent	3,359
NO _x (nitrogen oxide emissions) in metric tons NO ₂ equivalent	1,331
Gases depleting the ozone layer (in kilograms CFC equivalent)	801

(1) For some business units, these figures may also include logistics, notably when distribution is adjacent to a production plant.

(2) At Dec. 31, 2009 business units operated 167 production sites.

(3) 85% cover represents 98% of sales.

(4) Water consumed by plants, excluding water put into bottles and containers.

(5) 58% cover represents 97% of COD.

FOR MORE INFORMATION:



Registration Document
Downloadable at <http://finance.danone.com>



Sustainability Report
Downloadable at www.danone.com,
under Sustainable Development, then
Experts' Corner.



This annual report is also on the web at:
www.danone.com
or: danone09.danone.com

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