

BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE

DANONE

12

Economic and Social Report

FRANCK RIBOUD
2012—DANONE
MOVES UP A GEAR

5 COUNTRIES,
5 PROFILES
BEIJING
NEW YORK
SÃO PAULO
MOSCOW
LONDON

WINNING
OVER
7 BILLION
CONSUMERS



CONTENTS

— Danone 2012



In this annual report, we invite you to learn about our performance, our priorities and the challenges facing Danone in the years ahead. To visit 5 of the countries where we do business. And to understand how passion for our products ♥ drives our teams—no matter where they live and work. You can also review key 2012 indicators for our group and for each of our business lines 📖.



WINNING OVER 7 BILLION CONSUMERS

and realizing the dream of two visionary business leaders —Antoine Riboud and Daniel Carasso—who joined forces in 1972 to “make Danone a global brand.”

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5 COUNTRIES, 5 PROFILES

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2012 DANONE MOVES UP A GEAR

— Interview with Franck Riboud,
Chairman and CEO



N

EW ISSUES, NEW REGIONS, AND THE OUTLOOK FOR EUROPE

— Interview

Danone Chairman and CEO **Franck Riboud** looks back at 2012 and reflects on its lessons. It was a year when markets outside Europe—now 60% of total sales—came into their own.

2012 was a year of contrasts in many ways. Looking back, how would you describe it?

Franck Riboud: For Danone, it was a very good year overall—true, there were contrasts from region to region, and the overall environment was complex. But 2012 also brought a major milestone as our total sales moved past the €20 billion mark for the very first time. Over the past fifteen years, we’ve made sweeping changes in our business lines. But despite sales, disposals and acquisitions, we’ve continued to grow, both organically and through our acquisitions, which we’ve successfully integrated. Our sales now total over €20 billion and we’ve doubled our free cash flow in five years. That’s quite an achievement, and it’s an indisputable sign of good health. We were aiming for €2 billion in free cash flow and managed to reach €2.09 billion. So 2012 really was a good year for Danone.

Yet as you say, there were contrasts.

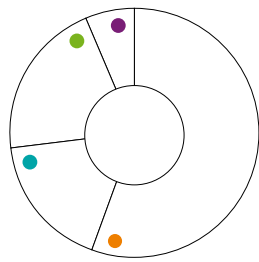
FR: Our geographical profile is now completely transformed, and that’s what will shape our future in the years ahead. Today, 40% of our sales are generated in Europe, not counting the CIS, while 60% come from emerging and/or high-growth markets. Now, that can be seen as a very good sign since it means our numbers will automatically improve—they can’t help but grow: emerging markets are now expanding by 12%, and that trend is snowballing. And given the trends in mature markets, where growth is weaker and even slightly negative in some cases, you might conclude that they’ll gradually become less important to our business, relatively speaking. We could simply accept this and view the difficulties we’re encountering in Europe as accelerating our transformation and helping to shift our center of gravity. But abandoning Europe is not an option; I’ll say more about that in a minute.

How do you explain your good results outside Europe?

FR: To be honest, it’s easier to turn in a strong performance when overall conditions are good. And what are “good overall conditions” when you sell consumer products? Rising disposable income, an emerging middle class, higher sales volumes, dynamic local players and a growing economy. Which is essentially what we’ve got today in the emerging world.

In France, in Europe, and internationally, what’s fueling Danone’s growth?

FR: We’ve moved from getting 60% of sales almost exclusively from four Western European countries to our current situation, where 60% come from markets outside Europe. That’s a minor revolution for our teams. And



SALES BY BUSINESS LINE

€20.9 bn in sales

56% ● Fresh Dairy Products
20% ● Baby Nutrition
18% ● Waters
6% ● Medical Nutrition

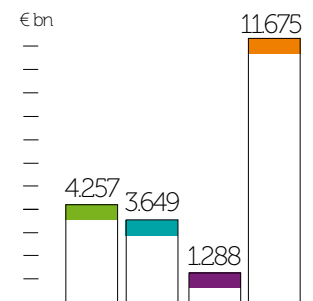


THE ADVENTURE
IS JUST BEGINNING.
DANONE KNOWS
WHERE TO PICK UP
THE PACE, AND
SO DO OUR TEAMS.
2012 IS JUST ONE
MORE EXAMPLE
OF THAT.

— Franck Riboud

WE HAVE A
RESPONSIBILITY
TO STAY ACTIVE
IN EUROPE—FOR
JOBS, FOR OUR
BUSINESS, AND
TO KEEP OUR
PRODUCTS ON
STORE SHELVES.

— Franck Riboud



SALES AND GROWTH IN 2012 BY BUSINESS LINE*

11.6% ● Baby Nutrition
10.0% ● Waters
5.9% ● Medical Nutrition
2.0% ● Fresh Dairy Products

* Like for like



we’re very happy about it: in these new countries, demand is strong and populations are growing, which means our product categories are a perfect match. The good fit between Danone products and consumers in these new markets is particularly evident in our two newest business lines—Baby Nutrition and Medical Nutrition. The second explanation for this very strong growth in emerging economies is the massive energy that our teams have contributed. It’s clear that these countries offer huge promise for food companies, and our people have done a great job. They’re eager to grow, win market share and reach ever larger critical mass. Their energy and entrepreneurial spirit played a crucial role in accelerating both our sales growth and our profitability.

What lessons do you draw from this shift?

FR: The main lesson goes back to our decision to stay with the strategy we adopted more than fifteen years ago. Because our two fundamental priorities—strong brands and clearly defined geographical choices—have never wavered. Here 2012 is a perfect illustration of Danone’s geographical transformation, driven by local brands that are now on their way to becoming the most important in our group.

We’re continuing to gain market share with brands like Evian, now sold in 120 countries, and Activia, on sale in 72. But now other strong brands are competing with them for a share of total sales. Aqua leads the market for bottled water in Indonesia. Mizone has captured an impressive share of the flavored water market in China and is off to a strong start in Indonesia, and we’ve just rolled it out in India under the name B’lue.

In the United States, Oikos has been a key player in the booming Greek yogurt market, and our relaunch of Prostokvashino in Russia gave the local market a boost. Dumex is fantastically popular with mothers in China.

Bonafont—the no. 1 bottled water in Mexico—is now market leader in Brazil. Nutricia is Europe’s benchmark brand for medical nutrition, and its strong debut in China, Brazil and Turkey shows that it is expanding its borders. It’s all of these brands that are building the Danone of tomorrow. In that sense, 2012 marks the beginning of an adventure that we’ve been working toward for years. So despite difficulties in some countries, on the whole our foundations are extremely solid and have been since 2008. And it looks to me as though our business model will prove to be a lasting one.

Fresh Dairy Products aren’t doing quite as well, though...

FR: Fresh Dairy Products (FDP) account for 56% of our sales, or nearly €11.7 billion. Those two figures give some idea of the sheer scale of the business. But it’s true that the division is growing more slowly than our other business lines, even in emerging countries. One reason for that is our history. When we expanded—when we got our start in Spain, France and Italy—our business focus was fresh dairy products. Historically, this is a European business. Per capita figures say it all: when it comes to consumption of fresh dairy products, no country anywhere in the world is in the same league as Europe, which averages about 30-35 kg per person per year. But there’s also immense potential out there—not just in huge countries like Brazil and Mexico, where our dairy products have been market leaders for years, but also in countries like Russia, with per capita yogurt consumption of just 16 kg, and the United States, with only 6 kg a year. Compare that with 30 kg in Spain. Obviously, Fresh Dairy Products has an older business model than our other business lines. It may not be quite as fast-moving. But it’s clearly changing now—and in strategic markets to boot.





And what role will Europe play?

FR: It's out of the question for us to walk away from Europe. We have a responsibility to stay active here—for jobs, for our business, and to keep our products on store shelves. But we can't keep working with organizations that were designed for a period of strong growth. To become more efficient, we have to move toward greater flexibility and a simpler organization. In the 26 European countries where we do business, we have to simplify operations, generate synergies, and create shared resources to avoid duplicating structures or relying on processes that don't work for the local market.

Will reorganization be enough to get growth in Europe back on track?

FR: Our adaptation plan has a single priority: our business and our products. And our organization must be focused entirely on that priority. Thirty years ago, eating a yogurt a day was a given. That's not so common these days, so it's up to us to start saying it again—and to make sure that the yogurt people eat every day is a Danone product. We've reviewed all our product formulations to make sure they really are the best. And we've emphasized our products' distinctive appeal in stores, since 60% of purchasing decisions are made by shoppers right there in the aisle. Danone has to stand out, so we've given our product a unique new cup, a glossy label and a top that pulls off smoothly and easily. We're looking at all of these details right now, fine-tuning them all over Europe and around the world. Our group is doing well; we've got the resources we need to get this region moving again, and to re-energize fresh dairy products in particular. That's our challenge for the next two years. Though of course it's out of the question to expect Spain and other European markets to return to the double-digit growth we saw ten years ago!

But your growth will be driven by emerging markets?

FR: Not entirely. If our European markets return to growth rates of 1 to 2%, that will have a considerable impact on our overall growth. Because at the same time we'll be reaping the full benefits of strong growth and margins in Russia and the United States. We know exactly how this works. In Waters, we've been living with a 60/40 split for a long time, but that 40% contribution from Europe is on the rise thanks to the efforts of our Waters teams at Evian, Volvic, Badoit and elsewhere, who have got operations back on track for growth. In 2012, La Salvetat boosted its sales in France by over 20%. If we can keep the 40% positive, the other 60% can act as an incredibly powerful accelerator. The real danger would be to assume that growth in emerging zones should make up for weakness in mature zones: it's essential for Europe in general—and fresh dairy products in particular—to get back on the road to growth, recover their capacity for innovation, and generate their own resources to win back a point or two of growth.

What are your goals for 2013? What's the outlook?

FR : At Danone, we're looking at the next 15 to 20 years. The work we did in 2012 opens up a whole new realm of possibilities for Danone. Our business equation is now an automatically virtuous circle, largely because the emerging countries are creating a snowball effect—and the snowball is getting bigger and bigger. Today six of our top ten countries are emerging economies, and if you add the United States—where annual per capita consumption of fresh dairy products is only around 6 kg—you have seven very high-potential national markets for our four business lines. We're off to a strong start already, and the future is definitely very bright. ✖

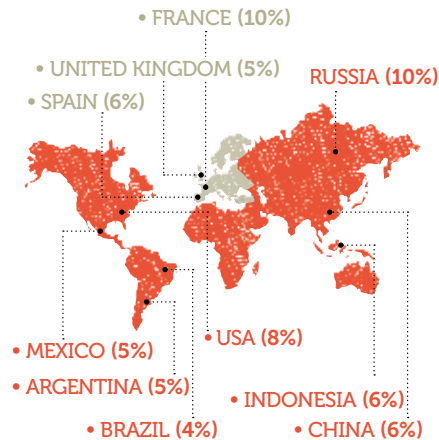
RANKINGS

- **FRESH DAIRY PRODUCTS**
no.1 worldwide
- **WATERS**
no.2 worldwide (by volume)
- **BABY NUTRITION**
no.2 worldwide
- **MEDICAL NUTRITION**
no.1 in Europe



TOP 10 MARKETS

As a percentage of group sales



I

FRANCK RIBOUD ON FIVE KEY ISSUES

• The dual commitment

Danone's dual commitment to business success and social progress is our lifeblood. A keystone—our guiding light. You have to understand it as it was originally conceived: you can't get good business performance without social progress, and vice versa. They aren't mutually exclusive. It's more like a construct that shapes what we do. We go through complex times when we have to be extremely efficient, when we have to increase our margins, when we can't afford not to be the best—or when we can't afford to have higher production costs than our competitors because our profitability is down. But if you look at the way we do things, the way we negotiate them and how we relate to them, you'll see that we always operate within this construct. And that's consistent with our commitment to strike a balance between business success and social responsibility. ✖

• Brands

Danone has never before had so many strong brands with roots outside Europe. We build our performance on brands like Activia and Evian that everyone knows, particularly in France. But we also have many brands that clearly reflect the distortion in our geographical spread: Bonafont is a Mexican water that we've launched in Brazil and Poland. Aqua is the number-one bottled water in Indonesia. Dumex is the leader in baby nutrition in China. Nutricia is rapidly becoming the benchmark brand for medical nutrition. Prostokvashino is Russia's top dairy product brand, and Cow & Gate is the leader for baby nutrition products in the United Kingdom. And in the United States our Greek yogurt brands—Oikos and Light & Fit Greek—have doubled their sales in a year. We reached our milestone of €20 billion sales thanks to every country where we do business, and to contributions from extremely strong brands in emerging markets. ✖

• Food and health

My take on nutrition is healthy food for everyone, every day. It's based on the expertise of our R&D teams, and in large measure on the nutritional benefits of our products, which are universal. Our waters, Cow & Gate's offering, the Activia range—all of them fall within this universe. These brands benefit from the credibility built up by our cutting-edge expertise in health, but they're still a source of inspiration, because they offer universal nutritional benefits that are within everyone's reach. Another part of our offer focuses on healthy enjoyment—foods that taste good, have nutritional value, and are healthier than the alternatives. These products are about flavor, know-how, quality ingredients and nutritional value. This is the universe of products like Danette and flavored waters like Volvic Juiced. ✖

• -35% CO₂

This is another major success of 2012. We set this crazy goal in 2008, when we pledged to cut our carbon footprint by 30% in five years. And we've gone well beyond the goal! Today we can assess the carbon footprint of 97% of our subsidiaries, and it's helped us cut operating costs, too. I'm convinced that the next step will be guided by consumer expectations. It should take the whole value chain into account, including the farms operated by our suppliers. This is one of our top priorities, because it can enhance both our business equation and the quality of our products. ✖

• Standing out

To me, innovation boils down to simply doing our business: standing out on store shelves with surprising new packaging or product formats is the heart of our business. Being different is essential to Danone's strategy, and that will be the key to bouncing back in Europe. Getting back to basics: the product that has the most appeal, that has the right advertising—and that tastes the best. That's our priority: product quality, product superiority, product preference. A product that's better than its competitors will sell better! It's simple, but the simplest strategies are often the most effective. ✖



STRENGTHENING OUR GOVERNANCE

At Danone, governance is an integral part of our corporate structure and operations—a long-term commitment rooted in shared responsibility.

Corporate governance is defined as all of the rules used to maintain a balance of power and interests among a company's stakeholders. At Danone, we practice good governance by complying with laws and standards, and by integrating them into our overall mission. Like the majority of large French listed companies, our Board of Directors has chosen to entrust the responsibilities of both Chairman and Chief Executive Officer to Franck Riboud. It is his task to guide the group in fulfilling our mission—by creating short-term value for the shareholder, and also by building a long-term business that benefits everyone who has a stake in Danone, from employees to shareholders.

Danone's Board supports this leadership structure: our directors

LOOKING BACK: HOW DANONE'S BOARD HAS CHANGED IN FOUR YEARS
INDEPENDENT DIRECTORS <i>(in accordance with all criteria set by the Afep-Medef Code)</i> now account for 57% of the Board, up from 43%.
THE NUMBER OF WOMEN has risen from 7% to 21%.
THE AVERAGE AGE of our directors has dropped from 60.6 to 56.3 years.
SENIORITY <i>(average tenure of our directors)</i> has dropped from 11.6 to 6.5 years.
NON-FRENCH DIRECTORS account for 28% of the Board.

believe that combining the roles of Chairman of the Board and Chief Executive Officer allows for simple, fast and flexible operation of the various parts of general management. They do not believe that combining these positions leads to excessive centralization of authority at Danone, both because we have two Deputy General Managers and because major actions by the CEO must be approved in advance by the directors, 57% of whom are independent. Finally, in early 2013 the Board voted to appoint a Lead Independent Director—a move that will make our corporate governance even stronger. At the recommendation of the Nomination and Compensation Committee, the Board of Directors chose Jean Laurent to fill this new office. As Lead Independent Director, his primary mission will be to ensure the smooth operation of the Board of Directors (see box).



Danone, like all companies, will continue to face new challenges. My interest and my expertise is bringing some of the voice of nutrition and health to a food group. And I've been pleased to see Danone make decisions to move to more healthful products. Which makes this a perfect match, since I'm very familiar with the food industry and am interested in promoting the nutrition aspects.

—Virginia A. Stallings

Another key component of governance at Danone is the profound influence of the entrepreneurial culture that has shaped our group. It was this culture that prompted us to open our Board to independent directors from the business world in the mid-nineties, and since that time, the Board's composition has become increasingly diverse, especially as reflected in the profiles, personalities and professional experience of its members. Every year the Board renews its commitment to shareholders to continue improving its corporate governance in terms of its independence, the number of women and the diversity of its expertise and composition. This is clearly reflected in the most recent appointments to the Board: each of our new directors brings fresh perspective and new expertise to Danone's mission, and the number of independent and women directors has risen.

- **Virginia A. Stallings:** Professor of Pediatrics at the University of Pennsylvania's Perelman School of Medicine and Director of the Nutrition Center at The Children's Hospital of Philadelphia, she also holds a chair in gastroenterology and nutrition.
- **Mouna Sepehri:** For 17 years she has been involved in Renault's growth, major acquisitions and strategic partnerships, and as Executive Vice-President of Renault, Office of the CEO, she oversees the corporate functions delegated to its senior management.
- **Isabelle Seillier:** Head of all investment banking activities for financial institutions of J.P. Morgan for Europe, the Middle East and Africa (EMEA). She brings recognized expertise in the food industry and financial markets to the Board.

— JEAN LAURENT —

Lead Independent
Director



AT ITS MEETING ON FEBRUARY 18, THE BOARD OF DIRECTORS voted to appoint Mr. Jean Laurent as Lead Independent Director, based on his extensive business experience. Formerly Chief Executive Officer of Caisse Nationale du Crédit Agricole, he is a professional board member and serves as Chairman of the Board of Directors of Foncière des Régions. A Danone director since February 2005, he has thorough knowledge of the company, its culture, its mission and its Board. He has also served as Chairman of the Nomination and Compensation Committee since 2011 and Chairman of the Social Responsibility Committee since 2007. ✖

THE BOARD OF DIRECTORS

The Chairman of Danone's Board of Directors⁽²⁾ is **Franck Riboud**, who also serves as the group's Chief Executive Officer. The Board consists of 14 directors in all; eight are independent.



1. Mouna SEPEHRI⁽¹⁾
49, Executive Vice-President of Renault



2. Richard GOBLET D'ALVIELLA⁽¹⁾
64, Executive Chairman of Sofina SA



4. Emmanuel FABER⁽¹⁾
49, Deputy General Manager at Danone



5. Jean-Michel SEVERINO⁽¹⁾
55, Head of Investisseurs et Partenaires Conseil

3. Jacques VINCENT⁽¹⁾
66, Chairman of Compassion Art



7. Isabelle SEILLIER⁽¹⁾
53, Head of J.P. Morgan's Financial Institutions group for Europe, the Middle East and Africa



8. Benoît POTIER⁽¹⁾
55, Chairman and Chief Executive Officer of Air Liquide SA



10. Jacques-Antoine GRANJON⁽¹⁾
50, Chairman and Chief Executive Officer of vente-privee.com



12. Yoshihiro KAWABATA⁽¹⁾
64, Director and Deputy President of Yakult Honsha

9. Bruno BONNELL⁽¹⁾
54, Chairman of Awabot

11. Bernard HOURS⁽¹⁾
56, Deputy General Manager of Danone



13. Jean LAURENT⁽¹⁾
68, Chairman of the Board of Directors of Foncière des Régions



14. Virginia A. STALLINGS⁽¹⁾
62, Professor of Pediatrics at Children's Hospital of Philadelphia

⁽¹⁾ Recognized by the Board as an independent director under the Afp-Medef Code, on the recommendation of the Nomination and Compensation Committee.

⁽²⁾ Four members of the Danone Works Council attend all Board Meetings in an advisory capacity.



In my view, Danone is a very strong company, with genuine enterprise value, a powerful culture and good international positioning. It's a company France can be proud of. A company that's determined to keep its market leadership and is constantly challenging itself. Danone means products for health—the energy we need to keep us breathing and active all day, every day.

— Jacques-Antoine Granjon



Danone is a company on the move, a high-performance contender with leading positions in all four business lines and a successful track record of internationalization. It has a strong corporate culture inspired by Franck Riboud's vision, and simultaneously creates economic value and social value. I share its values—values of the future that are highly prized by young people.

— Mouna Sepehri

→ • **Jean-Michel Severino:** Managing Partner at Investisseurs et Partenaires Conseil, he has worked at the French General Inspection of Finance and served as both Development Director at the French Ministry of Cooperation and Chief Executive Officer of Agence Française de Développement (AFD). He combines solid knowledge of internal control and risk management with expertise in emerging markets.

• **Jacques-Antoine Granjon:** Founder, Chairman and Chief Executive Officer of vente-privee.com, which practices good corporate citizenship based on four key values—responsible growth, training, employability and a social conscience.

In 2007 we created the Board's Social Responsibility Committee as part of our commitment to making

BOARD COMMITTEES

AUDIT COMMITTEE
Jean-Michel Severino, Chairman
Mouna Sepehri
Richard Goblet d'Alviella

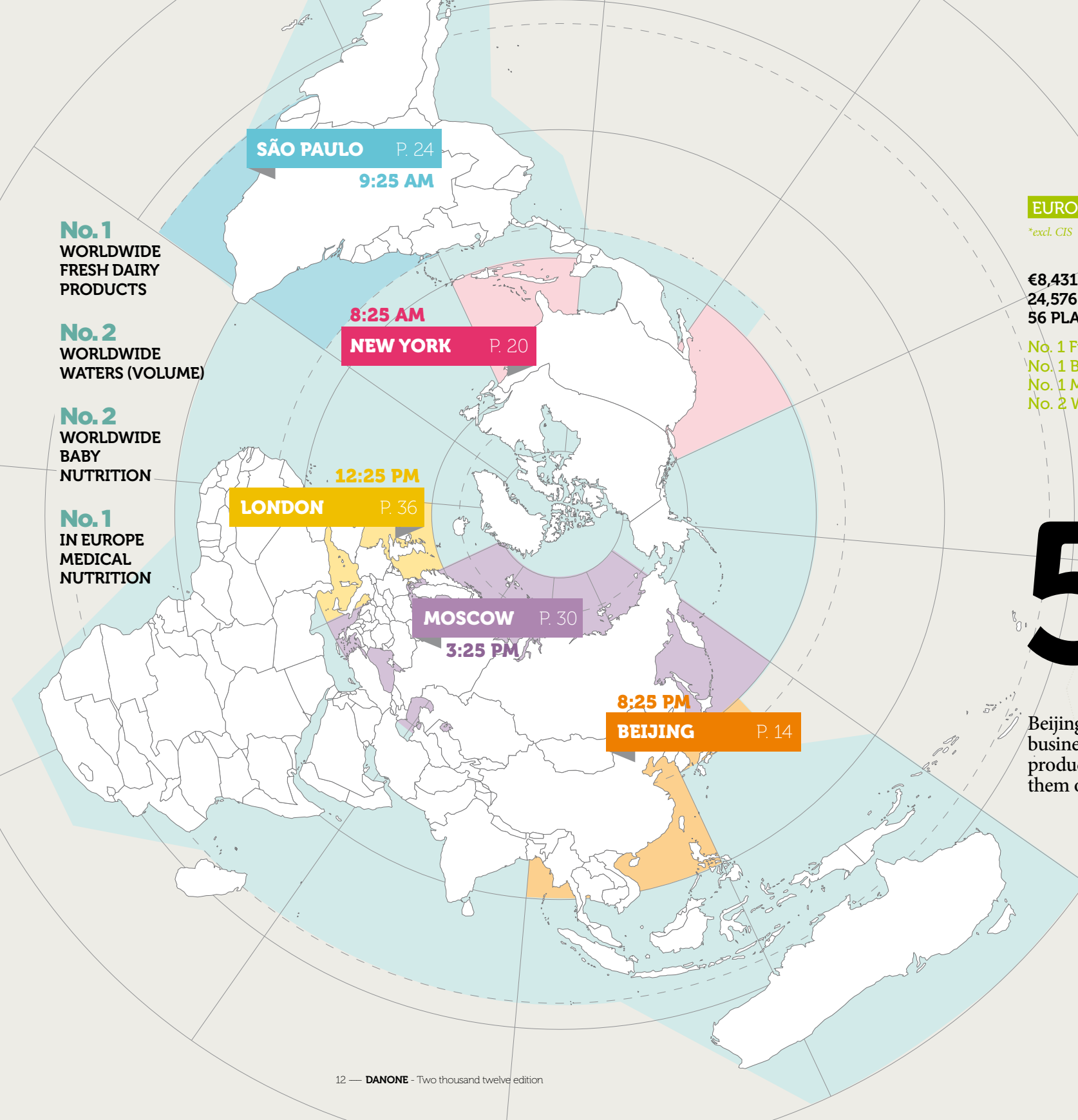
NOMINATION AND COMPENSATION COMMITTEE
Jean Laurent, Chairman
Benoît Potier
Yoshihiro Kawabata

SOCIAL RESPONSIBILITY COMMITTEE
Jean Laurent, Chairman
Bruno Bonnell
Jean-Michel Severino
Emmanuel Faber

social responsibility an integral part of a balanced governance structure: just as the Audit Committee focuses primarily on business and financial matters, so the Social Responsibility Committee focuses primarily on the group's social and societal issues.

In short, we have given our Board of Directors a thorough overhaul in the past few years but **the direct connection between Danone and our shareholders is also a fundamental component of the group's governance**. We are committed to creating an environment that promotes dialog with shareholders and encourages both sides to listen. ✖

Learn more: browse our 2012 Registration Document at <http://finance.danone.com/>



EUROPE*	CIS-NORAM*	ALMA*
*excl. CIS	* Community of Independent States/ North America	*Asia-Pacific/Latin America/ Middle East/Africa
€8,431 MILLION IN SALES 24,576 EMPLOYEES 56 PLANTS	€4,426 MILLION IN SALES 20,480 EMPLOYEES 38 PLANTS	€8,011 MILLION IN SALES 57,345 EMPLOYEES 100 PLANTS
No. 1 Fresh Dairy Products No. 1 Baby Nutrition No. 1 Medical Nutrition No. 2 Waters	No. 1 Fresh Dairy Products	No. 1 Fresh Dairy Products No. 1 Waters (volume) No. 2 Baby Nutrition

5 COUNTRIES, PROFILES

Beijing, London, New York, São Paulo, Moscow. Today Danone is a truly global business, with a multitude of faces—the faces of consumers who have made our products part of their daily lives as we’ve grown into new markets. Meet five of them on a whirlwind trip around the world.

8:25 PM

BEIJING

6%

of Danone sales
are in China



China

WORKFORCE: 9,216

PRODUCTION PLANTS: 18

BUSINESS LINES
& MAIN BRANDS:

- **Waters**
Mizone, Health, Robust
- **Baby Nutrition**
Dumex
- **Medical Nutrition**
Nutricia, Nutrison,
Neocate
- **Fresh Dairy Products**
Bio (Activia), Danone



XIAO LI dashes out of his office for a quick bowl of noodles with **Zhun***. It's a short dinner, only 30 minutes, because tomorrow he's making a presentation to his bosses—a business plan for the pilot product his IT company is developing. Dry-mouthed and a little stressed, he buys his second bottle of Mizone for the day and meets Zhun, a childhood friend who's always had a good head on her shoulders. She coached him when he took the qualifying tests for Cube, a television game show that challenges contestants to use all of their mental and physical strengths. Fortified with wisdom from Zhun and vitamins from Mizone, he's ready for the fray! Zhun? She's the kind of woman who leaves nothing to chance. A marathon runner, she's been married for two years and has an eight-month-old son. Little Zenghai was born in the Year of the Dragon—a sign of strength and prosperity. Zhun has just found a job and plans to supplement her breast milk with specially designed infant formulas that will give her son the best start in life. After hours spent researching growing-up milk formulas on mama.com and pcbaby.com, she chose Dumex. She knows that her parents will take excellent care of Zenghai until she finds another childcare provider, but she wants him to get the very best nutrition to grow up strong and healthy. In fact, she'll have to make sure that her mother follows her instructions—Zhun doesn't want her son to become one of the chubby youngsters she sees all too often on the streets of Beijing. Because she will have only one child, she's determined to choose the best for him. But there are so many things a young mother has to think about! That's why Zhun signed up for "1,000 Days," a program to help her understand Zenghai's nutritional needs during this critical time in his life—the 1,000 days from birth to 36 months. Before heading home, she'll visit her grandmother, who's been in the hospital for the past ten days with a broken hip. It wasn't easy to persuade Li Mei to allow tube feeding to aid her recovery, but she's so impatient to get out of the hospital that she finally agreed. She can't wait to get back to normal and see her friends—all in their sixties—at her Qi Gong classes. ✖

***Zhun**, age 29, has been married for two years and has a baby son—Zenghai. She goes jogging at the end of every day.

THE CHALLENGE: WINNING IN CHINA, ONE CITY AT A TIME

China is one of Danone's top growth drivers. City by city and region by region, we're adapting to meet the expectations of a fast-changing population.

In 2012, China gained a new politburo and a new president in 2013. And as expected, the Year of the Dragon brought abundance—\$1 trillion in additional GDP, some 20 million more city dwellers, and 16 million new-borns. It was a good year for Danone too, with both Mizone and Dumex—our two flagship brands—turning in an excellent performance.

Promising market, high expectations

Though China's growth has slowed over the past two years, it was still 7.5% in 2012 according to the IMF—an enviable pace that should continue into the future. As the second-largest economic power on the planet, China is not satisfied with becoming the world's factory and is now focusing on its domestic market. Eager to reduce dependence on exports, the government has launched a variety of initiatives to boost consumption, raising salaries, expanding paid vacations, and

investing in the nation's health, retirement and education systems. Domestic consumption is set to rise from 33% of GDP in 2011 to 43% in 2020. By then China's middle class, which earns the equivalent of €7,000-€60,000 annually¹, will account for 45% of the total population, or around 600 million people. Surging urbanization is another major driver of consumption: every year, 1% of the population leaves the countryside to live in the cities, and the number of city dwellers will rise from 650 million in 2010 to 850 million in 2020².

As their wealth and urban sophistication have grown, Chinese consumers have also become more demanding. Though their number-one priority—especially when choosing baby food—remains food safety, quality is important too: the Chinese are determined to use their higher incomes to enjoy a better quality of life. In particular, they want greater convenience and less hassle for both transport and consumption. The Chinese work in stressful, polluted megacities



DAN'CARES HEALTH CARE: A PRIORITY FOR EMPLOYEES

A program that will ultimately provide high-quality health coverage to Danone's entire workforce of around 100,000, Dan'Cares has now been extended to our subsidiaries in China.

— Zoom

Launched in 2009 to provide better healthcare coverage to all Danone employees worldwide, Dan'Cares had already been deployed in three of our four Chinese subsidiaries. In 2012 we expanded coverage to the largest, Danone Waters China, with 6,700 employees.

All of our Chinese employees are now covered for the costs of surgery and hospitalization, childbirth and maternity care, prescription drugs and ambulatory care. In 2012 all employees in China were given additional coverage that included 100% of fees for visits to general practitioners, and reimbursement of childbirth and maternity care costs up to 5,000 yuan (around €600). In China's super-competitive labor market, extending Dan'Cares coverage to all employees is a major advantage in recruiting and retaining talent. ✱

36,000 employees were covered by Dan'Cares at year-end 2012, including 9,000 in China. In 2013, another 13,000 will be added worldwide.

where commuting is often the single greatest challenge, and they respond by turning to the Internet, both to shop on line and to read product and brand reviews by other Internet users. In a country where information is not always reliable, the Internet is their preferred medium: in 2012, China had 529 million Internet users (23 million in 2003).

Mizone's great leap forward

This new generation of connected consumers has played a major role in the success of Mizone, Danone's range of vitamin-fortified waters, in China. Mizone reported very strong sales growth in 2012, driven by increasing brand awareness and geographic penetration. In China's fiercely competitive market for non-alcoholic beverages, estimated at €11 billion, the brand offers vitamins for an energy boost and low sugar content for healthy hydration. While taste appeal and bottle design have driven the brand's success, positioning, resonance with consumers and smart distribution have also played a role.

The Danone's R&D teams focused on Mizone's sensory profile, combining intense aroma with high energy—an extremely important balance for consumers and a priority for each new flavor. In early 2013, a new mango version joined peach, lychee, tangerine, lime, and pineapple. Consumers drink Mizone straight from a bottle with a large easy-drink opening that lets them savor the flavor. Made from rigid plastic, the bottle is hexagonal and has a textured surface for a good grip.

In addition to these intrinsic qualities, Mizone has successfully built a special relationship with consumers. In Chinese, Mizone is pronounced Maidong, which means “pulsation,” “impulse,” or “vital flow,” and the beverage seeks to

symbolize the energy and passion of active urban 18- to 35-year-olds who are totally connected to the Web. The brand has developed a slightly quirky, genuinely Chinese personality with plenty of humor and a strong connection with the daily life of young Chinese. Whether they're coping with mass transit, recovering from last night's party, taking an exam, or introducing a girlfriend to the family, Mizone helps them face tough, stressful or challenging times. In 2012 Mizone sponsored Cube, a television game show in which contestants face challenges to their intellect, memory and agility. For its audience of 80 million, the show links the brand to the skills required to face any test. And of course Mizone has a major social media presence, with viral videos averaging 6 million viewers over two weeks.

Distributed primarily in small neighborhood shops (see box, next page), Mizone has also attracted new consumers by focusing on free-sample campaigns. In 2012, 655 campaigns reached 3.3 million people in 90 cities. Modernizing production equipment has also helped the brand take off. Our plants in Beijing and Guangzhou, now dedicated exclusively to Mizone, can each produce over 500 million liters annually, and in 2014 a new plant will open at Chengdu in the heart of western China. In short, the brand has a bright future, not only in China, but in neighboring countries like Indonesia and also in India, where we launched Mizone under the name B'blue in early 2013. In 2011, Asian sales shot up 70%, with a 65% increase in Chinese sales in 2012.

Precision nutrients with Dumex

Dumex also reported very significant sales growth, and the success of our new formula played a driving role. China's baby food market—the largest in —>



DISTRIBUTION CHANNELS MIZONE: STAYING CLOSE TO CONSUMERS

Mizone is typically an on-the-go purchase, with traditional shops accounting for 75% of distribution. But managing 370,000 points of sale in 250 cities across 14 provinces is no simple task. In a highly competitive market, good brand visibility demands a strong presence, so our sales team of over 4,500 visits the largest points of sale at least twice a week. In 2012, Mizone also expanded its network of wholesale representatives from 26,000 to 35,000, the better to monitor our smallest points of sale. ✖

1 Bn liters
Current Mizone
production in China

40%
Mizone is present
in 40% of China's
urban areas.



—> the world—is worth over €6 billion (Nielsen 2011), but many Chinese remain extremely cautious following the baby formula scandal of 2008, when melamine contamination killed six infants and left hundreds of thousands of young children who are still being treated for kidney failure. As a result, their number-one priority is safety, which they still associate largely with foreign brands. With China's one-child policy in effect since the 1970s, parents and grandparents are even more demanding, since all their hopes are pinned on a single youngster. Though Chinese women are still strong supporters of breastfeeding, many have joined the workforce (67% according to a 2011 McKinsey study) and are seeking to build careers outside the home. When it's time to transition away from breastfeeding, they want the very best nutrition to help their baby reach his or her full potential—physically, socially and intellectually.

While Dumex is currently the market leader, its competitors are following close behind. Infant formula makes up the bulk of its products, with 95% of sales in the premium segments. In 2012 the brand completely overhauled its products and positioning, adapting to the profile and needs of Chinese mothers while ensuring continued compliance with the World Health Organization (WHO) Code and local legislation—because at Danone, we

believe that breastfeeding is a baby's best source of nutrition. Developed in close partnership with pediatricians and new mothers, our new range of Dumex formulas is tailored to the needs of Chinese children: digestion for newborns aged 0-6 months if breastfeeding proves insufficient or difficult; immunity to infection and allergies for infants aged 6-12 months; and brain development for children one to two years old. The new products were an overnight success. By year-end 2012, sales were up 20%, rewarding Dumex for cultivating meaningful dialog with medical communities and building relationships with mothers. Preferred by 43% of hospital doctors, Dumex is now the brand most frequently recommended by health professionals. In 2013, our R&D center in Shanghai will welcome a new Dumex unit dedicated to baby nutrition and tasked with innovation for this promising market.

Another integral part of the brand's image is the quality and reliability of the services it provides to new mothers. The "1,000 Days" program, which offers nutrition and parenting advice during the first 36 months of a child's life, has attracted over 2.5 million young women since its creation in 2010. Every month, more than 150,000 people contact the Dumex Consumer Careline, and the brand's Weibo account—a Chinese-language microblog modeled on Facebook and Twitter—is followed by



DANONE.COMMUNITIES FIGHTING MALNUTRITION

Working with Dumex and local NGOs, danone.communities is fighting anemia and malnutrition in China's poorest rural areas with NutriGo, a pilot project launched in late 2011. It provides YingYangBao, a fortified dietary supplement, to children aged 6-36 months as part of a nutritional education program supported by the Chinese authorities. By year-end 2012, some 5,000 children in 120 villages had benefited from the project. The goal is to reach one million children in 2,000 villages by 2017. ✖

Learn more at www.danonecommunities.com

more than 110,000 fans. The resulting buzz reinforces brand awareness, which is increasingly Internet-based. On the distribution side, 2012 saw Dumex raise its market share in major cities. With a presence in 400 cities, Dumex held 15% market share in 2012, up from 14% in 2011. The brand continued to diversify its distribution channels, as shops specializing in baby products boomed, capturing over 40% of sales, and e-commerce expanded. As the exclusive baby food partner of China's e-commerce leader Taobao Mall, Dumex enjoyed strong growth in Internet sales in 2012.

Medical nutrition takes off

Although its product portfolio is still limited, Nutricia reported very strong growth in 2012, and the potential market is enormous: in 2012 some 123 million Chinese were over 65, and that number will increase to 170 million by 2020. Today's flagship product is Nutrison, designed for tube feeding and used in 1,800 hospitals. Because most doctors are familiar only with intravenous feeding, Nutricia provided training on tube feeding to over 10,000 of them in 2012.

Meanwhile, Neocate reported record sales growth in 2012. Recommended for children with severe cow's milk allergies,

60%
OF DANONE'S
2012 SALES
CAME FROM
MARKET'S
OUTSIDE
EUROPE,
INCLUDING
CHINA, RUSSIA
AND THE
UNITED STATES.



95%
of Dumex sales come
from the premium
end of the baby
formula segment.

the brand is market leader in China. In partnership with the government and pediatric associations, Nutricia developed an allergy treatment guide and set up telephone and on-line information services for parents with allergic infants.

Alongside these successes, Danone gave its fresh dairy products portfolio a thorough overhaul in 2012. The division shifted its focus to premium products and in particular to Bio (the Chinese version of Activia), setting the range apart from the many mass-produced local contenders in the traditional yogurt segment. Thanks to improved recipes and a brand-new pot dubbed Kiss (Keep It Simple and Safe), by the end of the year Danone ranges had improved scores in consumer preference tests.

In the thirty years since we first entered China, Danone has become a full-fledged player in its food market, and is now one of the biggest foreign food companies in the country. ✖

¹ Annual income in this range classifies a family (averaging three people) as "middle class"—the first time this definition has been clearly quantified in China. (Source: People's Daily online edition)

² Source: "Meet the 2020 Chinese Consumer," McKinsey

8:25 AM

NEW YORK

8%
of Danone sales
are in the US



United States

WORKFORCE: 2,086

PRODUCTION PLANTS: 9

BUSINESS LINES
& MAIN BRANDS:

- **Fresh Dairy Products**
Activia, Oikos, Light & Fit, Danimals
- **Medical Nutrition**
Neocate, Lophlex, Pro-Stat, Periflex, KetoCal, Nutrison, FortiFit
- **Waters**
Evian, Volvic, Badoit, Bonafont



KATHY opens her refrigerator and pulls out four cartons of yogurt with a smile. Blueberry Oikos, her morning staple. A café latte Oikos that her husband, **Todd***, will gulp down before he leaves for the office. A strawberry Light & Fit Greek that daughter Elena will dip into as she watches television. And finally, a cup of Danimals for Mike, her youngest, to slip into his lunchbox. Kathy's smiling because it's taken her a good while to establish this morning routine for her family. Todd? He used to think yogurt wasn't hearty enough. Elena turned up her nose at the very mention of it, and Mike thought it was "girl food." A native New Englander and firm believer in high-protein diets, Kathy was the first Oikos eater in the family. Later, once all of the health magazines and TV shows were talking about it, Todd decided to give it a try. The creamy texture and tangy flavor won him over, and he admits that with his crazy schedule, Greek yogurt is a healthy alternative to glazed doughnuts for breakfast. Elena, who's getting sensitive about her weight, tried the light version, and has now joined Light & Fit's fan club on Facebook. Even Mike, an enthusiastic football fan, was impressed when the Oikos commercial nearly stole the show from his favorite team during Super Bowl 2012. As she closes the refrigerator door, Kathy smiles again, remembering that she has a lunch date with her best friend Amy. They've agreed to treat themselves to a little window-shopping afterwards, and today Kathy might just give into temptation. She deserves a reward for losing nearly seven pounds (3 kilos)! ✖

***Todd**,
age 42, eats a balanced
lunch packed by his wife
Kathy every other day.



GREEK YOGURT: THE NEW AMERICAN REVOLUTION

As Greek yogurt continues to take North America by storm, our successful Oikos brand has solidified its leading position in the yogurt category. And for Dannon—the yogurt pioneer in the United States—Greek yogurt could generate the long-awaited momentum needed to boost Americans' consumption of fresh dairy products.

A tidal wave has swept the United States. In 2010, less than 9% of American households bought Greek yogurt, but by 2012 that number had risen to 47%, according to Dannon's consumer and market research. What began as the well-kept secret of a few health-food stores is now successfully tackling supermarkets, including mass discounter Walmart, and by year-end 2012, Greek yogurt accounted for more than 35% of a market estimated at \$6 billion. Its success is no mystery: its creamy texture appeals to American tastes; its high protein content makes it satisfying; and with very little fat and sugar, it's a healthy choice. Today Greek yogurt is showing up at more and more breakfast tables, next to the traditional bacon and eggs.

Making yogurt a part of the American diet

Americans still eat relatively little yogurt—only 6 kg per person per year on average, compared with 30 kg or more for Europeans—but the success of Greek yogurt shows that American

consumers are willing to change their habits when offered a product that appeals to their tastes. And that applies even if it requires two or three times as much milk as traditional yogurt, and costs a little more as a result.

Dannon sized up the situation and moved into the breach. After all, "Greek yogurt" is just a creamy version of the traditional French dairy product *fromage blanc*, where the group has a long history of expertise. In the US, advertisers don't pull their punches in product comparisons, so our 2012 ads described Oikos as "possibly the best yogurt in the world." Consumers clearly agreed: to meet surging demand, Dannon has doubled production capacity, investing over \$100 million at its plants in Ohio and Utah. And the Oikos commercial that aired in February 2012 as part of the Super Bowl—American football's annual championship game—gave the brand's popularity an extra boost. With some 11 million people watching, giant screens at the Indianapolis stadium promoted a yogurt for the very first time amid the usual ads for beer and snacks. The Yogurt Culture Company, a yogurt

bar that opened in New York in September 2012, also raised awareness of Greek yogurt. With better positioning and a broader presence, Oikos increased its market share in 2012, outpacing the third-ranked brand and gradually closing in on the leading contender. And the debut of Light & Fit Greek yogurt marked Dannon's most successful launch in five years: only six months later, the new range had 746,000 Facebook fans and had joined the exclusive circle of America's favorite brands. It was followed by Activia Greek, which made its first appearance on store shelves in early 2013.

But the success of Greek-style yogurts has not eclipsed our other dairy products, which remain essential—if only because the flavor and price of Oikos don't meet everyone's expectations.

Thus 2012 appears to have been a year of transition, with sales volumes increasing steadily from January through December and opening up a promising future for the entire fresh dairy category. Yogurt drinks also performed well in 2012, with sales of Danimals Smoothies up sharply thanks to seasonal flavors



A HEALTHY DIET: "ONE YOGURT EVERY DAY"

In January 2013, the results of Massachusetts-based Tufts University's first study of yogurt were published in *Nutrition Research*, a highly respected scientific journal. Begun in 2011 and based on an analysis of the Framingham cohort—2,000 volunteers whose eating habits have been studied for 15 years—the study showed that yogurt consumption is associated with a more balanced diet and a better metabolic profile. Tufts, one of the most highly regarded universities in the nutrition sector, will publish the results of three other studies in 2013. ✖

Read more at [www.nrjournal.com/article/S0271-5317\(12\)00248-5/abstract](http://www.nrjournal.com/article/S0271-5317(12)00248-5/abstract)

that changed every six to eight weeks. Finally, YoCream, the frozen yogurt specialist acquired by Danone in late 2010, came into its own in 2012: the brand has become a growth driver for Dannon and the frozen yogurt sector has been highly successful, thanks in part to some 20,000 points of sale.

Making dairy products more visible

Between 2011 and 2012, Dannon more than doubled its sales of Oikos and Light & Fit Greek. For the first time in over a decade, we became the market leader and this strong showing gave us more clout in distribution channels. Even though yogurt ranks among the top five foods for sales growth, it still occupies relatively little shelf space, averaging only five meters in US supermarkets compared with around 15 in Europe. And selling individual cartons doesn't encourage consumers to enjoy it on a daily basis.

But in 2012 Dannon experimented with multipacks at Walmart, the US retail giant, and more tests are in the works. In another development, our plant in Fort Worth, Texas began buying milk from three dairy farms in Kansas to reduce Dannon's carbon footprint and

manage fluctuating prices—a pilot project that could set the stage for more local sourcing.

New eating habits

Could 2012 have been a turning point for yogurt in the United States, 70 years after Dannon was founded? Named "food trend of the decade" by NPD, a leading market research firm that tracks consumer habits in the US, yogurt is now positioned to take advantage of unprecedented market opportunities. The fight against obesity, which affects one in three Americans, has become a nationwide cause and alerted consumers to the need for a healthier diet.

But Americans get only 52% of the dairy intake recommended by the US Department of Agriculture and the Department of Health and Human Services, and according to the US National Health and Nutrition Examination Survey, more than 80% of American women fail to get enough calcium. Most US consumers prefer milk and cheese, but Dannon is determined to convince them of yogurt's nutritional value in their daily diet. The campaign has already begun (*see box above*) and is set to culminate in 2013 with the first Yogurt Summit at the annual conference of the American Society for Nutrition. ✖



MEDICAL NUTRITION THE FIGHT AGAINST ALLERGIES

In the past Nutricia has focused exclusively on pediatric products in North America, but in 2012 the division expanded its Neocate range for the treatment of allergies, particularly those related to cow's milk. According to the American Academy of Allergy, Asthma & Immunology, over 6% of American children under three suffer from food allergies. The year also brought to a conclusion our acquisition of Applied Nutrition, Nutricia's first foray into dietary products for American seniors. ✖

9:25 AM

SÃO PAULO

4%

of Danone sales
are in Brazil



Brazil

WORKFORCE: 4,021

PRODUCTION PLANTS: 3

BUSINESS LINES
& MAIN BRANDS:

- **Fresh Dairy Products:**
Activia, Danoninho,
Danone, Paulista, Danette
- **Waters:** Bonafont
- **Medical Nutrition:**
Neocate, Nutrison,
Nutridrink, Nutrini
- **Baby Nutrition:**
Aptamil, Pregomin



ISAURA lives on the outskirts of São Paulo. Carnival is early this year—in February, not March. But her plans haven't changed: she'll be dancing all week long. And she's in top shape for it, after jogging twice a week and drinking a liter and a half of Bonafont water every day. When you love to dance, you want to feel light on your feet—and that's the Bonafont promise. Bonafont is her brand: for a year now, Isaura has had a daily reminder from the 20-liter water coolers installed on every floor of the building where she works. And it was another Danone brand that inspired her to start gardening with her children, who love Danoninho *fromage frais* with fruit. They joined the brand's "Plant your tree" movement, and after they chose a virtual tree on the Danoninho website, Isaura and the kids planted three real trees—one for each child—that are now growing on the family's balcony. Since summer, she's managed to get her husband involved, too, winning him over to a more balanced diet. Lucky man—he never gains a gram. But at just over 40, he's now one of the veteran players on the soccer team at his club. And he's starting to show his age when he tries to keep up with their two eldest—ten-year-old **Luiz*** and eight-year-old Tiago—and their friends, all pint-size powerhouses on the field. So he's been following Isaura's advice: more water, fewer soft drinks. Water is still the most powerful partner for staying in shape, and when it comes to health, he trusts his wife's judgment. Soon her mother will come to live with them. She's become a little forgetful lately, but there are so few residential care facilities for seniors that they know she won't get into any of them. Isaura is planning to give her Souvenaid, a new medical nutrition product her doctor mentioned. It's just become available, and results are very encouraging for people like her mother with early signs of memory loss. ✨



***Luiz**, age 10, and his brother Tiago are crazy about soccer and spend every spare moment practicing.

BRAZIL: THE RIGHT INGREDIENTS FOR LONG-TERM GROWTH

Of all the countries where Danone is expanding operations, Brazil is unique. All four of the group's business lines report growth here, and all have carved out major market positions. Competition keeps us at our best in this land of huge potential.

One of six high-growth countries that we have identified as an investment priority, Brazil will soon account for 5% of total Danone sales. In 1974, when we began doing business here, we correctly identified the market as one of the world's most promising, thanks to a rare combination of economic, demographic and political factors. With major mining, agricultural and industrial resources, Brazil is energy-independent, has its own supply of raw materials and minerals, and has paid down its foreign debt. And when huge Brazilian oil reserves were discovered in 2008, the country entered a new economic era. Today, two-thirds of its population is working age, and over the past ten years a true middle class has emerged, while nearly 19 million people have moved out of poverty¹. For a company like Danone, the appearance of a middle class with disposable income is a solid basis for growth. Brazilian consumers are in tune with our corporate values: they take a natural approach to health and the body; they enjoy living well; and they are open to the concept of "health through food to as many people as possible."

Dairy products take off
So it's only natural that Brazil is the fifth-largest contributor to growth for our Fresh Dairy Products division. With market share of 38% and growth running at over 10% in 2012, Danone has confirmed its number-one position in Brazil and is well ahead of its closest rival.

The stars of this success story? Activia and Danoninho. Launched in 2004, the Activia brand is relatively new to Brazil, but already accounts for one-third of Danone's fresh dairy product sales in the country. In fact, it has been so successful that we now divide our history in Brazil into "before Activia" and "after Activia." By contrast, Danoninho—a range of yogurt and *fromage frais* with fruit—has a 40-year history and is so well known to Brazilians that for many the name Danoninho is synonymous with yogurt. Despite the brand's long history, Danoninho's sales have doubled over the past four years, thanks to a long-term survey and analysis performed as part of Nutri-planet², a comprehensive study of child nutrition. Conducted in partnership with Brazilian medical authorities, the study revealed significant dietary defi-

ciencies, particularly in vitamins A, D and E. We responded by improving the recipe for Danoninho and alerting the public in a campaign that harnessed digital media, including Danoninho's Facebook page and danoninho.com.br, a website that gets some 350,000 hits per month. But the market is still far from saturated. Yogurt consumption in Brazil is still only 6.7 kg per capita per year—around a third of what neighboring Argentines enjoy, and only about a fifth of the amount for Germans. That's why we've invested in new production capacity at our Poços de Caldas plant near São Paulo, and in a brand-new production unit in Nordeste.

In this enormous region—a country within a country—sales of Danone fresh dairy products have tripled in five years. The new plant has an initial capacity of 50,000 tons per year, but is designed to double or even triple output in response to demand.

Bonafont: living light

The year was a milestone for Waters, too. Long the leader in Mexico, in 2012 Bonafont became number one in the



Brazilians drink an average 52 liters of bottled water per capita per year—just one-third the figure for Mexicans (145 l.) and Spaniards (143 l.).

powerful southeastern metropolis of São Paulo. Lying at the heart of developed Brazil, the region is home to 40% of the country's population on just 10% of its land, and Bonafont now commands more than 50% of the market.

The local Waters team has worked hard to make Brazilians aware of the benefits of water—the best and most natural source of hydration for the body—relaying this message to schools, health professionals and government officials.

Working in partnership with prominent scientists, Danone teams have been laying the groundwork for hydration science over the past six years, demonstrating the health benefits of optimum hydration for each and every person. Research is just getting underway, but addresses the links between hydration, well-being and health. Bonafont has raised consumer awareness through outreach programs stressing the importance of water for children, including "Mom, Dad—I prefer water"—following the example of a campaign by our Żywiec Zdrój brand to limit consumption of sugary beverages by Polish youngsters, especially at meals.

Bonafont has also successfully penetrated the home and office delivery market, fueling a steady rise in overall water consumption over the past four years, and boosting its sales by more than 30%. In just four years, the brand has vaulted into the top spot in the São Paulo region and will soon expand into other parts of Brazil. Bonafont is associated with the idea of a lighter life with fewer constraints. To strengthen this —>



JAGUAR TALENT FOR TOMORROW

Project Jaguar, created three years ago by our Latin American dairy division to mentor outstanding young Danoners, is gradually spreading to the other divisions in the region.

— Zoom

In 2012, young Brazilian managers took part in Jaguar, a program set up to promote career development opportunities for new talent. Under this new program, promising young "Jaguars" with a degree and at least two years of experience are transferred to another Latin American country for a four- to six-month assignment. During this time abroad, they are supervised by a mentor in their home unit, where they are guaranteed a position on their return, and by a mentor in the new unit who helps them adjust to their new surroundings. Participants gain international work experience, expand their networks, and accelerate their career development. Active employee development is a key selling point in our recruiting policy, so it's a major responsibility for Danone managers and executives. To cultivate the hands-on leadership style we value, we also offer courses at the Danone Leadership College. Since its launch in 2009, it has trained some 15,000 managers and team leaders. ✖



DANONE ECOSYSTEM FUND CARING FOR THE CAREGIVERS

Of the roughly 40 projects supported by Danone Ecosystem Fund, six are related to Medical Nutrition. These include the Caregiver program in Brazil, where Danone Medical Nutrition has partnered with the NGO Olhe (Observatório da Longevidade Humana e Envelhecimento) to launch “Caring for the Caregivers”, an experimental program that trains home health aides and other caregivers to help the sick and elderly follow prescription and medical nutrition instructions when they leave the hospital. In all, 1,150 people will be trained during the five-year project, which began in 2011. ✖

—> connection, the brand launched Bonafont’s Cloakroom, a two-month campaign that set up temporary coat check rooms, enabling Brazilian women to enjoy a night of dancing without the burden of carrying a purse. Meanwhile, the brand has stepped up its presence on social networking sites in this highly connected country, and its Facebook page now has nearly half a million Likes. Finally, in São Paulo Bonafont launched the idea of a Digital Bazaar within its consumer community. Using an on-line platform to exchange objects, users can get rid of surplus goods—whatever is weighing them down—an idea inspired by Bonafont’s “Live light” lifestyle. The Digital Bazaar has been so successful that the community now meets up in the flesh, in a physical space.

Souvenaid now on the market

The year was also memorable for our Medical Nutrition division, which launched both FortiFit and Souvenaid in 2012. FortiFit was developed for patients with age-related loss of muscle mass, known as sarcopenia. Many seniors don’t get enough protein, leaving them weaker, frailer and more likely to fall. Left untreated, sarcopenia can diminish quality of life for the elderly and also increase healthcare costs for the



x 10
growth in Activia
sales between
2004 and 2012



38%
Danone’s share of
the Brazilian
fresh dairy
products market

community. FortiFit, launched mid-way through the year, is designed to correct muscle deficiencies in older people but may also appeal to younger adults eager to maintain muscle mass. Souvenaid is another newcomer. Designed to improve nutrition in patients with early-stage Alzheimer’s disease, the product was launched in Brazil in October 2012, shortly after its debut in several European countries (see page 60).

In a country where the elderly are expected to account for 30% of the population by 2050, Souvenaid and FortiFit have a promising future—like our Nutrison tube feed range and our Neocate line of hypoallergenic formulas for children with allergies.

Access to specialized nutrition

The other big news for the division was its entry into the consumer market. For historical reasons, more than two-thirds of Brazil’s medical nutrition sales are made through the hospital system. Danone offers a complete range of products for this important sector, but as the economy and disposable income have grown, healthcare products are no longer sold exclusively through the hospital system; today they can be purchased directly by consumers. We have



35.2%

Danone’s share of
the medical nutrition
market in Brazil, one
of the first countries
where Souvenaid was
marketed.



78%

of healthcare
professionals in Brazil
recommend Aptamil
after breastfeeding.

responded by deploying a larger portion of our sales force to pharmacies, which have welcomed the move. For them, creating a new on-site space for non-prescription health and nutrition products is a source of added value.

Working with communities is another way to build brand awareness, and our most productive experiment has been helping to create a community of Brazilian caregivers by providing a training program in partnership with Olhe, a local NGO (see box). Brazil still has no networks of residential care facilities for the elderly, who must rely on family members or on an inadequate number of untrained home health aides. Other more specialized communities exchange information and advice on specific pathologies on the web (neocate.com.br).

The latest addition: Baby Nutrition

Taken together, Brazil and Argentina are Danone’s largest potential baby food market in Latin America. We began with these two countries before moving into Colombia, Chile and, in 2012, Mexico, so this business line is still in start-up mode. Our local team modestly attributes its success to a changing market: just as Brazilian parents are becoming aware of the importance of child nutrition, their

disposable income is rising to unprecedented levels. But since Danone sales have grown three times as fast as the category as a whole, other influences are clearly at work. Some of the growth has come from new products like Aptamil and Pregomin—infant formulas designed for babies aged six months and up—and from making our offer available throughout Brazil, and not just in the São Paulo region. But the main growth driver is our customer outreach effort, designed to educate health professionals, health research centers and government agencies nationwide.

In 2012, 78% of these professionals recommended Aptamil after breastfeeding, putting the product well ahead of competitors. We also launched danonebaby.com.br, a child nutrition website that provides mothers with information on how to keep their children healthy, the importance of breastfeeding, and the special nutritional needs of children aged 6-36 months. Brazilians have responded with enthusiasm. Within a month of its creation in October 2012, our Facebook page ranked as the most frequently visited in Brazil. ✖

¹ IPEA institute

² Nutriplanet is a Danone program set up to collect comprehensive data on attitudes toward food and nutrition, including cultural and sociological issues, within different communities in its markets.



THE ENVIRONMENT MORE BIOMASS, LESS CO₂

Brazil and Ireland are among the countries participating in a Danone pilot program that uses biomass to reduce CO₂ emissions. Thanks to plentiful, renewable biomass, 97% of the thermal energy used by our Poços de Caldas plant in Brazil’s Minas Gerais region (shown above) comes from renewable sources—a savings of 18,300 metric tons of CO₂ annually. In 2012 our plant in Wexford, Ireland set up an identical biomass boiler system. In operation since January 2013, the new system will reduce Wexford’s total CO₂ emissions by 9,500 metric tons a year. ✖

3:25 PM

MOSCOW

10%
of Danone sales
are in Russia



Russia

WORKFORCE: **15,459**

PRODUCTION PLANTS: **21**

BUSINESS LINES
& MAIN BRANDS :

- **Fresh Dairy Products**
Prostokvashino, Activia,
Tëma, Bio Balance,
Danissimo
- **Baby Nutrition**
Malyutka, Nutrilon
- **Medical Nutrition**
Fortimel, Neocate,
Nutrison



*Irina,
age 63, does
her weekly shopping.

VLADIMIR will be 65 on February 7, 2014. His wife **Irina*** is a year younger. Both were born under Stalin in a country then called the USSR—a name long since vanished—and in a city he loves. Moscow has stood up to Mongol hordes, the Ottomans and Napoleon; it's lived through czars and Soviets, never losing its unique identity. Today they're shopping at Atak, the supermarket with the bold red sign on Myachkovskiy Boulevard. Irina automatically checks production dates on milk bottles and packs of Prostokvashino yogurt before making her selection.

Sixty-five is a milestone. They really should celebrate, and Irina has agreed to travel to the Black Sea town of Sochi with him next year. Vladimir loves to make plans. At his age, he's seen it all: he grew up during the Cold War, watched as Mikhail Gorbachev dissolved the Soviet Union and Boris Yeltsin danced on TV. But he'd rather focus on the future. And speaking of the future, they mustn't forget to buy Malyutka formula for his granddaughter, his 20-month-old darling. She is his personal icon, and he has big dreams for her. Malyutka? It's a national brand that has always been made in Russia, but Danone researchers have fortified it with iron and other nutrients to help little icons grow up healthy and strong. In their day, Irina and Vladimir never thought about it, but now every doctor they know is adamant: no iron, no dreams. The couple leaves the supermarket. Next year Vladimir, Irina, his daughter and his little darling will all travel to Sochi. And they won't be alone. Because on February 7, 2014, Sochi will host the opening of the 2014 Winter Olympics. ✖



RUSSIA— DANONE'S HUGE GROWTH DRIVER

In 2012 Danone celebrated 20 years in Russia—a country that has now become our largest market following our 2010 merger with local dairy giant Unimilk.

For Danone, Russia is a special case. It's the world's largest country—twice as big as the United States—and a powerful contender in agriculture, industry, and oil and gas. Now a market economy, it is in its third straight year of 3-4% growth. The primary driver is household consumption, with real incomes rising steadily and consumer credit growing at over 40% annually. In short, Russia is the biggest country where we do business, home to Danone-Unimilk, our largest subsidiary, as well as 21 of our plants and some 16,000 of our employees. It's also a place where we're still learning new skills, even though we're the market leader for fresh dairy products and have been present for twenty years. Above all, Russia has huge potential. In 2012, Medical Nutrition joined our Fresh Dairy Products and Baby Nutrition divisions, making its first foray into the Russian market with Fortimel and hospital products.

Danone-Unimilk: a merger on the move

In 2010 Danone took control of the Russian dairy giant Unimilk, making our biggest investment in the past three years. In

2012, our priority was to unite the two companies, reconciling working methods and historic corporate cultures that were at one highly complementary and markedly different.

Real integration began in late 2011, focusing on three key areas. The first task—creating a shared management structure—is already complete, with a 350-strong management team handling marketing, finance and other cross-functional corporate functions. The second task was to harmonize the production and logistics chain, from orders through to delivery. We've made considerable progress over the past 18 months, but the process will take another year or two because of Unimilk's unique structure, which spans some 100 major dairies. It's one thing to merge support functions successfully in Moscow; it's quite another to do the same thing 2,000 km away in Yekaterinburg. Many of Russia's cities have over two million residents, each requiring ground-up, hands-on integration of the Danone and Unimilk teams to create a new community. The third area of integration is IT systems—creating the shared electronic infrastructure and software we need to



SOURCING RUSSIA'S FIRST TEACHING FARM

Getting a reliable supply of fresh milk is a key priority for Danone-Unimilk in Russia.
— Zoom

Danone-Unimilk buys 13% of all milk sold in Russia, so our relationship with milk producers is essential to our strategy. To build closer ties, we've now opened a teaching farm—the Milk Business Academy—where we contribute technical and material resources as well as expertise. As part of their training, farmers receive technical instruction in silage, animal husbandry, protein content, veterinary method-

ology, reduction of livestock methane emissions, and more. The Academy is located 500 km southeast of Moscow, near Lipetsk. Around forty farmers attended classes in 2012, and our aim is to train 1,600 over three years. Benefits include improved quality along the entire production chain—up to and including end consumers. But they don't stop there, since participants also gain an economic edge. Governors in other regions are now urging Danone-Unimilk to open teaching farms in their areas. Our first Russian campus was set up in partnership with the French Institute of Animal Husbandry and is backed by the Danone Ecosystem Fund. ✱

Learn more
ecosysteme.danone.com

manage effectively—and the scale of that effort rivals the size of Russia itself.

Complementary brands between Danone and Unimilk

Prostokvashino, Unimilk's leading brand of traditional dairy products, is a good illustration of the excellent fit between the French international leader and the Russian local leader when they first linked up. Danone contributed quality standards for production and management—plus marketing and merchandising skills, especially for superstores—while Unimilk brought nationwide production resources and familiarity with traditional distribution. And like other Unimilk brands, Prostokvashino benefited from Danone's innovative flair and business savvy: in 2012, for example, a new product design with a bold blue stripe raised its profile on store shelves. Thanks to the combined strengths of the two companies, 2012 sales were up 13%.

Freshness first

Streamlining operating procedures has always been a way to boost productivity, and in the Unimilk merger we have successfully leveraged our respective strengths. Danone's quality guidelines and proven management techniques have given Unimilk employees a new approach to management, while we have benefited from our Russian partner's flawless just-in-time management—an essential skill in a market where consumers demand freshness. For decades, just-in-time management was nonexistent in Russia's planned economy, and “fresh” dairy products were never fresh for long. True, that was the last century, but Russians still have an ironclad commitment to freshness. When consumers read labels, they don't start with the brand, fat content, or “Use by” date: they check the production date. And if the product is more than three days old, they simply don't buy it. Unimilk

has geared its product flow management around this standard, and its track record in Russia's fresh milk market is peerless.

With these factors in mind, Danone has pushed beyond its traditional product ranges in Russia to become a fresh (non-UHT) milk specialist, and used this as a base to expand into other dairy products. But Russian consumers want more than freshness. They also have a strong preference for natural products. To meet their expectations, our Danonino brand for children (sold in Russia as Rastishka), has a natural new recipe, offering Russian children *fromage frais* with no color additives or preservatives.

Russia's food culture traditionally includes large quantities of dairy products, primarily kefirs, smetanas, and other centuries-old fermented-milk products with natural health benefits. Per capita consumption is rising steadily and now stands at 15 kg annually—still only around half of dairy consumption in Germany. Bottom line: though Russia has already become Danone's top fresh dairy products market over the past three years, there is substantial growth potential in focusing increasingly on natural products.

Dairy goes digital

With an extremely broad portfolio of brands, Danone-Unimilk now holds around 25% of Russia's dairy market, and Danone is now putting several of its classic brands on store shelves. Activia is still growing, followed by Danissimo, Actimel and Rastishka. But Prostokvashino is the top star. Relaunched with its new blue stripe, the line is Russia's top food (non-beverage) brand and is reporting double-digit growth. On current trends, it could well be the first local brand to become the Danone dairy product with the highest worldwide sales by volume. And —>



SAFETY EVERYONE'S PRIORITY

Danone has 21 plants in Russia—more than in any other country. That makes safety a critical concern, especially since our integration of Unimilk. Enter Wise, a comprehensive employee safety program adopted by Danone in 2004 and deployed in Russia in 2005. Wise provides formal training for all Danone staff members, starting with safety on the road, where risks are highest. Another message that employees take on board: workplace safety goes hand in hand with productivity. Group-wide, from 2004 to 2012, Wise achieved a six-fold reduction in workplace accidents resulting in time off. ✱

15.4 kg

per capita per year—the average quantity of fresh dairy products consumed in Russia. This compares with 34 kg in Spain, around 6 kg in the US and 1.5 kg in China.



TOP 3 FOR GROWTH DAIRY PRODUCTS

- Prostokvashino, a line of yogurts and traditional fermented milk products, saw sales increase by 13% in 2012.
- Tēma, baby's first dairy products, reported sales up 22%.
- Bio Balance, a premium organic range, boosted sales by 6%. ✱

—> every Russian knows Prostokvashino. Roughly translated as buttermilk or “fermented milk,” the name also refers to a cartoon series that has been enormously popular since the 1970s and is still breaking records on YouTube, with some episodes scoring millions of views.

Though not early adopters of Web technology, Russians are increasingly connected, with internet penetration rising from around 20% in 2005 to 45% in 2012 according to the Russian Academy of Sciences' Institute of Sociology. As a result, every brand in the Danone-Unimilk portfolio now has its own website, offering consumers information, games and special deals with instant impact, and Rastishka's website (rastishka.ru) is the third most frequently visited by Russian children. When a brand has an on-line community of 50,000, a query regarding a product can generate nearly 3,000 responses in a single day—paradoxically using a virtual presence to build relationships with consumers. Taken together, the followers of Danone-Unimilk's various brands form a community of over one million people.

Rosy future for Baby Nutrition

Together our Nutricia and Unimilk products give Danone slightly more than

21% of the baby nutrition market—a strong position that should only improve over the next few years, since there is still plenty of room for education. While breastfeeding is always the best food for babies, it's important for consumers to know that very young children have their own special nutritional requirements—different from those of adults. For example, cow's milk is too high in protein and too low in vitamins, iron, and other minerals for children under three, which can make it less than ideal for them to go directly from breast milk to cow's milk. But Russian mothers still take a traditional approach to child nutrition, and very few pediatricians have given the subject much consideration.

To take another example, in the past fresh fruits were not available year-round in Russia. As a result, fruit juices have traditionally been given to children from the age of three months as a source of vitamins, and they are still widely regarded as healthy, despite being high in sugar and low in vitamins.

Fighting iron deficiencies

For Baby Nutrition, the flagship event of 2012 in Russia was publication of the first results from Nutriline, a nationwide study on diet in early childhood



18 kg

infant formula consumed in Russia per baby per year, compared with 36 kg in Germany and 40 kg in Poland

50,000^t

production capacity at Nutricia's new Istra facility by 2014. The plant will add a third production line, doubling current output.

(see sidebar). These results showed that two out of three Russian children are iron-deficient, and a majority are lacking in essential nutrients. With this information in hand, Danone met with public health authorities and began working with two major Russian institutions: the Nutrition Institute of the Russian Academy of Medical Sciences and the Union of Pediatricians.

Russians have great respect for scientific research, and the published results of this work produced a consensus that many Russians would do well to change their eating habits. Danone has since developed an information and training program that has now reached 30,000 doctors, 2,000 pharmacists and many maternity hospital employees—the leading source of prescriptions for mothers. We have made pediatricians aware of children's nutritional needs in the crucial period between birth and 36 months, as they move gradually from breastfeeding to a varied diet—including milk in the right amounts.

At the same time, we've expanded our sales force to cover 36,000 points of sale, up 6,000 from two years ago. Our top two Baby Nutrition brands (by sales) are Nutrilon and Malyutka, each designed for a particular type of mother. Nutrilon is the range for women who

want a modern brand and trust Danone's long history in Western Europe.

Our Malyutka brand, by contrast, is rooted in Russian tradition. Updated with a new formula and new packaging, Malyutka got an extra boost in mid-2012 from an information campaign on the risks of childhood anemia due to iron deficiency. Made in Russia for Russians, Malyutka remains one of the market's flagship brands: national pride is strong, and women find the “100% made in Russia” label appealing. In response, Danone has re-opened a baby nutrition plant in Istra, near Moscow. Now fitted with equipment that meets European standards, the plant combines group-wide expertise with local production. ✱



STUDY NUTRILIFE REVEALS DEFICIENCIES

Nutricia conducts the first major survey of child nutrition in Russia. Forty researchers performed a nationwide study of over 2,000 children ranging in age from 6 months to 3 years, as part of the Nutriplanet program. In October 2012 they published their findings as the Nutrilife study. Results showed that Russian youngsters suffer from serious iron deficiencies, and that many Russian mothers lack a fundamental understanding of infant and child nutrition. ✱

12:25 PM

LONDON

5%
of Danone sales
are in the UK



United Kingdom

WORKFORCE: **1,225**

PRODUCTION PLANTS: **3**

BUSINESS LINES
& MAIN BRANDS

- **Fresh Dairy Products**
Activia, Actimel,
Vitalinea, Oykos
- **Waters**
Evian, Volvic, Badoit
- **Baby Nutrition**
Cow & Gate, Aptamil
- **Medical Nutrition**
Fortisip, Nutrini,
Neocate, Infatrini



ABBY won't be sleeping in this Saturday. At 55, she's part of the sandwich generation of adults who are caring simultaneously for their children, grandchildren—and now their parents. So this morning, she's looking after her granddaughter Lucy while her eldest daughter, Joey, runs errands. Since Lucy was six months old, she's drunk Aptamil Follow-on, just like Joey before her. Now 18 months old, little Lucy is thriving. When she wakes up from her nap, Abby will give her a glass of growing-up milk. Abby is aware of advice from her Health Visitor that children under 5 are at risk from vitamin D deficiency. But growing-up milk is fortified with vitamin D, and that's why she's chosen it for Lucy—just as she did for **Harry***, Lucy's six-year-old brother. Afterward, Abby will have just enough time to grab a snack herself—maybe one of those creamy, nutritious new Danio yogurts—before she heads out to pick up her own younger son from rugby practice. Now 18, Adam is addicted to junk food despite his mother's best efforts. To keep him from slaking his thirst with sodas, she'll bring him a big bottle of lemon-flavor Volvic Juiced. She'll then have her usual Saturday afternoon visit with her own mother, who's still weak from a bout of flu. Because she has no appetite, her doctor has prescribed Fortisip Compact Protein: she needs to get her strength back if she doesn't want to end up in the hospital again. Abby's day will end around 7 pm. To clear away the cobwebs, she's planned a date night in town with her husband Sullivan; they'll meet at the square and head for the giant Evian swings at Canary Wharf. ✕

***Harry**
age 6, already loves dairy
products thanks to the
influence of his grandmother.

WINNING IN BRITAIN: BEHIND THE SCENES

Despite the lackluster European economy, Danone's UK sales were up 5.4% for the year, with all four business lines laying the foundations for continued growth.

In 2012 the United Kingdom was still feeling the effects of the economic crisis: though the jobless rate fell, it remained high, and British consumers continued to cut back on spending amid flagging growth, flat salaries and persistent inflation. Yet Danone's results in the UK were among our best in Europe. Why? In part because our Baby and Medical Nutrition divisions account for a full 51% of sales—and they are in the strongest position to hold their ground as incomes come under pressure. In fact, the UK is one of the few countries where our four business lines are in relative balance, with comparable presence, products and sales. But another key factor is our employees, who work hard to promote their product categories and build consumer loyalty.

Solid growth for Baby Nutrition

With the birth rate increasing slightly and products moving upscale, the British baby food market continues to flourish, with

€690 million in sales, up 6.7%, in 2012. Using distinct and very different positioning, Danone's two flagship brands have put competitors on the defensive, with Aptamil standing out as the innovative infant formula pioneer, and Cow & Gate making a more emotional appeal. Together, they held 74% of the infant formula market in 2012, and both brands were driven by the same dedication to innovation. Example: in 2012 the division launched a range of new anti-reflux formulas, which were an overnight success. But in addition to making quality products, both Aptamil and Cow & Gate excel at building trusting relationships with British mothers. They have surrounded their products with a unique environment of services and information, with a particular focus on the special nutritional needs of babies as they transition from breast to bottle. Call centers for the two brands, with a combined total of 50,000 new contacts annually, are now accessible 24/7, and the number of telephone and internet contacts has increased by 25% in a year. Their web-



LIVERPOOL FROM SMALL TO LARGE

Each year Nutricia's Liverpool plant produces some 6 million cans and 8 million pouches of nutritional products designed for people of all ages with special dietary needs—from infants with special conditions to adults requiring customized, highly specialized nutrition products.

— Zoom

Nutricia's flagship plant in Liverpool exports products worldwide, from the US to Australia, and from neighboring Europe to distant China. Nutricia has three specialized facilities that serve markets all over the

world: Liverpool makes powdered products, including Neocate for cow's milk allergies, Anamix and Lophlex for children with PKU, a serious metabolic disorder; Zoetermeer (Netherlands), specializes in liquid products; and Wuxi (near Shanghai, China) manufactures feeding tubes, pumps and other medical devices. Medical Nutrition products require a complex manufacturing model designed to meet rigorous requirements. In the European Union, the sector is governed by the Food for Special Medical Purposes (FSMP) regulation, which is applied differently by each member country. To comply, Nutricia must be extremely flexible and highly skilled at managing complex processes. A production run at Liverpool can range from several metric tons to as little as 20 kg for products that serve a very small community of patients. ✱



74%

of the UK infant formula market is held by the Danone Baby Nutrition division's Cow & Gate and Aptamil.

sites, visited by 365,000 registered members, offer advice, expert opinion, on-line forums and blogs. On Aptamil's website, Aptaclub (aptaclub.co.uk), smartphones accounted for 48% of all contacts at year-end 2012, up from 20% in 2011. Altogether Danone Baby Nutrition saw internet sales grow 20% in 2012.

But consumer awareness of both brands derives in large part from their relationship with the scientific and medical communities. Over the past few decades, Danone has cultivated ties with partners that share our commitment to promoting health through food from the earliest years of life. These include baby nutrition experts who have partnered with Danone to conduct clinical studies on the special needs of British children, so when Cow & Gate's Feeding for Life Foundation brought researchers together to discuss how to reduce the risk of vitamin D deficiencies in young British children and infants, the profession took notice. They called on healthcare professionals to recommend more growing-up milks, adapted to the nutritional needs of these age groups.

New challenges for medical nutrition

Nutricia UK is equally committed to working with opinion leaders to address key nutrition issues. In 2012, the division partnered with the local association Carers UK to launch a campaign against malnutrition among seniors. More than 3 million Britons, a third of them over 65, are malnourished—

a problem that costs the British health system billions of pounds, usually because the condition is not diagnosed or treated with the right medical nutrition. In March 2012 Carers UK, with support from Nutricia, presented a report entitled Malnutrition & Caring to the British Parliament. Product highlights for the year included 12% growth in tube feeding solutions. Nutricia, with 52% market share, has geared its offer around close relationships with physicians, a fairly complex home-delivery distribution system, and a center that takes nearly 40,000 calls per month. Products for metabolic conditions also reported 12% growth in sales, a strong showing based in part on a high-profile innovation for phenylketonuria (PKU), a disorder that can cause mental disabilities. In May 2012, Nutricia introduced PKU Lophlex LQ Juicy, the first flavored product in the range. For both children and adults, the flavor of a treatment is critical in winning patient acceptance, and feedback on the new product was very positive. Nutricia also launched a website, www.pkuconnect.co.uk, designed to unite and support the roughly 2,000 Britons affected by the condition.

In 2012 the division also rolled out Fortisip Compact Protein, designed to reverse age-related muscle loss, and continued its efforts to promote compact medical nutrition products by offering all the nutritional value of a 200-ml serving in just 125 ml. Weak and frail patients often have difficulty ingesting an entire dose of nutritional products, making them less effective. In another key move, we overhauled —>



DANONE UK LTD HEALTHY EATING: IT'S CHILD'S PLAY

The “Eat Like a Champ campaign” launched by Danone UK Ltd in 2010, supports the British government's efforts to fight childhood obesity. This educational outreach effort was inspired primarily by an alarming statistic: today one in three children in the UK is overweight, and one in six is obese. Developed in close partnership with the British Nutrition Foundation and the Ministry of Health, the program appeals to youngsters by featuring their favorite soccer stars and encourages them to adopt a healthy, balanced lifestyle. Eat Like a Champ has been deployed in more than 500 schools in the UK and aims to reach 5,000 primary schools by 2015. [Learn more: www.eatlikeachamp.co.uk](http://www.eatlikeachamp.co.uk) ✕

→ the products offered by Complan, a company specializing in dairy-based energy drinks that joined the group in 2011. Some of its products, designed to counter loss of appetite, are now sold in pharmacies without a prescription, a new development that complements our Nutricia products extremely well. The division has strengthened its ties to major pharmacy chains, which account for 80% of medical nutrition products distributed in the UK—and our relationship with them is all the more important since they also distribute Souvenaid, a new product designed to fight early-onset memory loss that went on sale in January 2013.

Reinventing yogurt

In contrast to medical nutrition and baby nutrition, the UK market for fresh dairy products is relatively young, and closer to the US model than the European one. The British continue to drink plenty of milk—nearly 80 liters per person per year—but they eat very little yogurt, consuming only about 13 kg per person annually, largely between meals. Even so, Danone yogurt sales rose slightly in 2012. We overhauled our two flagship products, Actimel and Activia, for a better fit with consumer expectations. The Activia brand focused on enjoyment, expanding its range of indulgence yogurts under the evocative Intensely Creamy label. At the same time, the division launched an all-new product

to diversify the range and appeal to younger consumers. In June 2012 Oykos, a Greek-style dessert yogurt that is richer and creamier than its US counterpart (see page 20), reached a repeat purchase rate of 50%. In addition to reinventing its product range, the division began publicizing the benefits of yogurt as part of a healthy, balanced diet, taking the first steps towards a public awareness campaign that will be fully deployed in 2013. In addition, in 2012 Danone helped create the Yogurt Council, which unites all yogurt producers around the goal of promoting the category as a valuable part of a healthy, balanced diet for Britons.

Success for aquadrinks

Danone Waters is leading a successful fight to highlight the benefits of bottled waters. The new Natural Hydration Council, created with major support from Danone, has highlighted the advantages of natural mineral water and made the public aware of the challenges of staying hydrated at school, during exercise, and at work. And in 2012, the market rebounded, powered by strong showings for aquadrinks.

Evian, the top-selling mineral water with 24% market share, is still the iconic Danone brand in the UK, and 2012 saw a steady stream of memorable events inspired by Evian's “Live Young” campaign. Recently

sites in the heart of London's business districts were transformed into Live Young winter playgrounds with oversized swings and see-saws connected to snow machines, and the brand launched a practical new one-liter bottle to accompany its campaign to promote staying hydrated at work and on the go.

But the biggest success of 2012 was Volvic's flavored mineral waters, with sales up 23% for the year. Our multimedia campaign for Volvic Touch of Fruit, made with natural fruit extracts for water lovers seeking a hint of fruit flavor, won the 2012 Grocer Gold Award in its category, and in May we launched Volvic Juiced for a more intense jolt of fruit flavor. Made with water, pure fruit juice and no sweeteners or preservatives, Volvic Juiced boosted the brand's share of the aquadrinks market from 27% to 34%, targeting young people who want a natural beverage that delivers plenty of flavor and pleasure. Its popularity had absolutely no effect on sales of Volvic Touch of Fruit. After the London Olympics and the Diamond Jubilee celebration for Queen Elizabeth II, can 2013 possibly equal 2012? At Danone, we're ready for the challenge: our fundamentals are sound, and in September 2013, London's legendary Wembley stadium will host the Danone Nations Cup final, a major soccer tournament featuring 32 teams of 10- to 12-year-olds from around the world. ✕

WINNING OVER 7 BN CONSUMERS

The more Danone internationalizes, the more obsessed we become—with re-inventing ourselves day by day in each of the countries where we do business. Which means harnessing our know-how and teams to offer innovations tailored to the tastes, food cultures and income of our consumers.

Doing that successfully means crossing boundaries between regions, industries and product categories. Thinking in new ways. Attracting new consumers—but also surprising the ones who know Danone well. And, of course, bringing health through food to as many people as possible, wherever we go. From this perspective, our nutrition studies, partnerships with local stakeholders, scientists and NGOs through the Danone Ecosystem Fund, danone.communities and Livelihoods let us track new developments and identify opportunities to challenge the status quo—fueling our imagination and creative energy along the way. ✕



DANONE: GLOBAL BRAND, GLOBAL (P)REFERENCE

— Background

In December 1972, BSN CEO Antoine Riboud and Gervais-Danone CEO Daniel Carasso announced that their companies would merge. Both dreamed of making Danone a worldwide brand, and today, 40 years on, much of their dream has been realized. But we're still obsessed with making Danone the global (p)reference of consumers everywhere—and consolidating that position. As part of this steadfast commitment to progress, in 2012 we continued to question and enhance the core of our success: our products. We constantly improve their flavor, texture, formulations, presentation, ingredients and nutritional benefits to achieve a single goal—winning over consumers by showing them that Danone products are better.

And we're pursuing that quest for the best product all over the world. In Europe, where pressure on disposable income has made consumers focus increasingly on getting value for money, that means using innovative recipes, packaging and other means to continue improving quality without ever forgetting enjoyment. Being the leader in health through food demands a constant effort to strike a balance, making products that are tasty, healthy and affordable—products that people will want to enjoy again and again. That's why Danone has refocused on the consumer experience as the key to offering the best balance of product, packaging and perceived benefit.

This is true even for Medical Nutrition, where Nutricia is developing compact products, packing 200 ml of nutrition into a 125-ml format that is much easier for frail, weak patients to ingest. The brand is also overhauling its pediatric ranges, so that children with special needs aren't marked as different at school recess or in the lunchroom. With Nutricia's smoothies, chocolate and vanilla flavors, and colorful pouches resembling those used for fruit purees, youngsters can focus less on their medical conditions and be more comfortable with their diet when eating with others.

Every Danone product must meet this same standard for consumer appeal—even our yogurt cups, which hadn't changed since 1978. Today our redesigned Kiss (Keep It Simple & Safe) cup is injecting new life into displays of ultra-fresh products with its contemporary design, bright colors, and curved shape, which allows consumers to enjoy every last spoonful. Results speak for themselves, with successful roll-outs in Spain, France and Portugal. And while economic tensions have prompted mature European



By year-end 2013, 20 of the 46 production lines in France will use Kiss cups—a major industrial feat.

markets to focus on quality rather than quantity, new opportunities are opening up in other parts of the world as more and more people seek a more balanced and varied diet—either because of economic and social development in their country, or because they are more aware of the importance of nutrition in day-to-day health.

In each of these countries, we use our know-how and the expertise of our R&D teams to offer innovations tailored to the tastes, habits and nutritional needs of these consumers. Examples? With Americans becoming more conscious of the importance of eating well, Oikos—a creamy, satisfying Greek yogurt with high protein and a low calorie count—has been a success in the United States. And in Cameroon, Blédina sells Blédine in 45-gram packets, delivering the equivalent of a full meal for infants in a form that the local middle class can afford. Similarly, Activia has won over Mexican consumers with a cactus-flavored yogurt that is now one of the top three products in the range, while Bonafont has scored a hit by flavoring one of its waters with hibiscus—largely unknown in Europe, but a traditional favorite in Mexico.

In Indonesia, where most children leave for school without breakfast, compact bottles of Milkkuat have rapidly become —>



Launched in Cameroon by Blédina, Blédine cereals deliver the equivalent of a full meal at an affordable price.



DIGITAL FORGING A CLOSER CONNECTION WITH CONSUMERS

The internet revolution is changing the relationship between brand and consumer, offering the potential for closer ties and creating a need for immediacy and responsiveness as consumers use digital technology to find information. This is especially true for Baby Nutrition, where women's questions go beyond diet and feeding to encompass motherhood in the broadest sense. The success of Cow & Gate's consumer service in the UK shows that Danone is able to give mothers practical support and advice that take the stress out of child nutrition. Cultivating personal relationships is also critical for medical nutrition. With digital technology, we can now provide daily support to patients, understand their needs and answer questions about little-known pathologies like severe allergies and undernourishment. ✖



Europe prefers quality over quantity.

In Baby Nutrition, the quest for quality means that mothers are returning to the most natural products—as close to homemade as possible. In 2012 Danone responded with Blédina du Jour. The result of three years of research, the new range uses 100% natural ingredients to help babies transition to a varied diet.



POINT OF VIEW
WINNING CUSTOMERS' HEARTS

—Bernard Hours, Danone Deputy General Manager

The economy. Disposable income that's rising for some, and under pressure for others. Taste preferences. The symbolic power of food. Together these factors explain why one consumer's preferred product isn't necessarily right for another. And, since consumers don't all have the same mindset, why we can't respond to all of them with the same vision or innovations. Of course this is nothing new for Danone, and we're fortunate to be a decentralized group that's both pragmatic and open. But as we expand into new geographical markets, it's increasingly clear that customized responses are needed. At Danone, our response is to stay close to our consumers to ensure we can offer food products to an increasingly diverse group of people with their own specific goals and needs. Because wherever they may be, our customers live in a world where they manage their budget, compare, gather information and make decisions. These days we know, too, that they're paying much more attention to their diet. Which makes the product our top priority. We have to give it everything we've got—focus on it across all four business lines, constantly improve its quality, and make it the superior option we want it to be. Because the Danone experience should be—must be—different from all the others. That's our commitment; that's our job. ✖

—> a routine part of morning recess. Kids are won over by the taste and packaging—bottles feature the head of a tiger—and their parents appreciate the nutrients it brings and its affordable price (see box opposite). From recipe and flavor to size and packaging, every country has its own codes. Even color plays a role: in Africa and Thailand, brightly colored products are appealing, but in Russia, consumers prefer products with their natural color.

And just as tastes and colors vary from one region to another, so do mothers' expectations for their children. While all mothers want the best for their babies, some pursue this goal by choosing infant formulas associated with protection and balanced growth after breastfeeding. For these women, Danone offers brands like Aptamil and Nutrilon, which have a strong presence in Europe and elsewhere. Other mothers make the physical and intellectual development of their babies a priority. Dumex understands, and offers products and services that focus on their babies' nutritional needs, step by step and month by month. In China, for example, the brand has grown by providing support for mothers during their child's first 1,000 days. From breastfeeding through weaning foods, every stage is explained in detail to reassure mothers who are eager to help their children reach their full physical and intellectual potential.

Making the best products also means using the best ingredients, and to do that Danone has formed quality-oriented partnerships with all of its suppliers. For dairy products, we've built relationships with milk producers and organized milk collection networks in Russia, Ukraine, North Africa and Egypt; for baby foods, we've adopted a quality charter for fruit and vegetable production; and for water, we're protecting springs—like Evian in France, Aqua in Indonesia, and Villavicencio in Argentina.

In 2012 Danone also continued to invest in raw materials sourcing, both directly and through the Danone Ecosystem Fund, to ensure access to quality supplies and to protect against inflation in agricultural raw materials as much as possible. In China, protecting water resources by working with local populations through the Ecosystem Fund is also a way to ensure the long-term availability of resources for Yili, a local brand in Longmen (Henan province). ✖

— Highlights



TIGERHEAD MILKUAT—THE STRENGTH OF A TIGER

Since late 2011, Tigerhead Milkkuat has created a sensation among Indonesian children. Sold in 95-ml and 180-ml bottles shaped like the head of a tiger—a symbol of strength in Indonesia—Milkkuat is fortified with iron and zinc to offset deficiencies affecting 80% of youngsters in the country. Sales are now running at 1,500 metric tons a month.



HYDRATION AT HAND

Danone waters are adapting to the needs of their consumers with the right bottle for everyone. In Mexico, Carrera Bonafont marked the brand's annual women's race by issuing a 750-ml limited-edition bottle that's perfect for runners. The 2012 event drew some 40,000 participants. Also in 2012, our Spanish subsidiary Font Vella launched Mi Primera Font Vella. A hydration solution designed especially for toddlers, the small bottle is just right for tiny hands and features a nipple to help children develop a taste for water early in life.

SMALL SIZE, BIG SELECTION

Small but powerful—packing 200 ml of calories and nutrition into a 125-ml format—Nutricia's "compact" line has now been expanded to a wide range of the brand's products, making them easier to ingest for children suffering from special pathologies or patients who are elderly, undernourished, weak or frail from illness.



DANONE ITALY: WEAVING A WEB

Danone Italy is using its vividanone.it website to stay close to customers, rewarding their loyalty with games and special offers, answering their questions on food, and capturing their interest with nutrition information and advice. The result: sales are up, and product penetration is some 19 points higher for families who have visited the website.*

* Based on a consumer panel study between September and November 2012

SUCCESS FOR FRENCH KISS

Packaged in our new Kiss cup and made even creamier with a new recipe, Veloute yogurt has been a hit with French consumers since its launch last autumn. Sales rose 25% in the last quarter of 2012.





S

EEK FIRST TO UNDERSTAND

— *Analyzing fundamentals*

What do ice cream and nutrition for pregnant women have in common? In theory, nothing. But Danone's Yolado and Bunda products are two sides of the same strategy: meet consumers' expectations by adapting to their tastes and income levels, even if it means departing from standard practice. With Yolado, the challenge was to satisfy the craving for frozen yogurt with a product that combined the benefits of yogurt with the silkiness of ice cream. With Bunda, the goal was to design an affordable product that was consistent with Indonesian tradition and improved milk quality in breastfeeding women.

From new regions to new products, from supply to distribution, the first step towards innovation is to analyze the market and develop a consumer health and nutrition profile. To fulfill our mission of bringing health through food to as many people as possible, Danone has conducted 47 "Nutriplanet" nutrition studies over the years and updates them regularly. The most recent studies focus on Brazil, Russia and sub-Saharan Africa. Each identifies nutritional problems and their economic and social impact: the link between vitamin D deficiency and rickets; the impact of malnutrition on the length of seniors' hospital stays; the role of iron deficiency in infant mortality in some African countries, and more. And because our Nutriplanet studies are usually conducted with local partners and local data, they quickly become platforms for dialog with scientific and medical authorities, enabling us to hear their points of view, reach a consensus on plans of action, and build the trust-based relationships that are essential to a thorough understanding of nutrition markets.

Working from this foundation, Danone seeks to offer the products that are best suited to consumers' tastes, needs and incomes. We succeeded with SGM Bunda, a beverage developed to prevent malnutrition among pregnant women in Indonesia. Sold in powdered form and mixed with water—a traditional format in Indonesia—the product contains the nutrients required for quality breast milk and is priced within reach of disadvantaged women. In another example of innovation, the gaps in Africa's cold chain prompted Danone to create Ultramel, a yogurt for the South African market that has a seven-month shelf life. Exported to Angola and some seven other countries, Ultramel has been a major hit, with sales doubling in 2012. Mayo, another South African product, is a yogurt drink with a shelf life of up to 90 days. And developing new products isn't the only way to win new

"Every day, our 1,400 researchers design and develop new products, with the dual goal of bringing health through food and creating a unique sensory experience."

— *Jean-Philippe Paré,
Executive Vice President, R&D*



consumers: adapting to local distribution channels also opens doors. Accustomed to working with highly structured, modern networks in most of our markets, Danone is finding new ways to reach customers by distributing products through small neighborhood shops in India and China, and through the Grameen Ladies in Bangladesh; by selling Mizone through Indonesian street vendors, and dairy products at intersections in large Mexican cities; and, naturally, by offering products on line—the only way to cover huge territories spanning hundreds of thousands of square miles.

Danone is also working hard to offer a wider choice to the most disadvantaged by making our products more affordable. These efforts include danone.communities projects in Bangladesh; the Ecosystem Fund's efforts to raise mothers' awareness of nutrition issues in Indonesia with the WAS project; and the work of local Danone teams in India and Indonesia developing highly affordable products fortified with vitamins, calcium and iron to counter dietary deficiencies identified in local children. All of these initiatives help us understand local populations and meet the needs of as many people as possible—including the most disadvantaged. ✖



SGM BUNDA: NUTRITION FOR PREGNANT WOMEN IN INDONESIA

Six out of ten Indonesian women are malnourished, and some 30% of infant mortality is linked to poor prenatal diets. Sari Husada, Danone's Baby Nutrition subsidiary in Indonesia, has launched an information campaign to increase awareness of the importance of good nutrition for pregnant women*. Working with Indonesia's

gynecological association, Sari Husada developed SGM Bunda, a nutrient-fortified beverage priced under 3,000 rupees (€0.30) that won 11% market share between September and December 2012. ✖

* A study of 600 pregnant Indonesian women identified zinc and iron deficiencies.

CODE NAME: ICUBE INNOVATING TOGETHER

Innovate. Challenge the status quo. Meet manufacturing and logistics requirements. Cross-functional teams bring new efficiency to the design process.

Every country has its own dietary challenges. And at Danone, we recognize that we have to identify and understand these challenges before we can do anything else. That's why we've developed research tools like ICube, that help us identify each country's nutritional needs, study its key health issues, and describe its eating habits and representations of food. The resulting data are then analyzed by working groups that combine expertise from R&D, marketing, production and local experts to create the most effective products. Since April 2012, four such groups have been established in Côte d'Ivoire, Indonesia and Europe. In Indonesia, the working group realized that children under five were not getting enough calories—and that rice porridge-based breakfast foods were highly successful in local markets. By pooling their information, its members paved the way for a new breakfast product. ✖



Sold in South Africa, our Mayo yogurt drink has a shelf life of up to 90 days, making it well adapted to the country's distribution channels and the frequent gaps in its cold chain. In 2012, sales teams worked hard to raise Mayo's profile and make it more available. The result: sales are up 15% in volume and 18% in value.



EVERY BUSINESS SUCCESS SHOULD GENERATE SOCIAL PROGRESS

Danone's dual commitment to business success and social progress is the inspiration behind our management philosophy and our conduct. Engaging our employees and our ecosystem in a virtuous circle remains our priority—because we believe that the value we generate should benefit everyone.

— Highlights

LIVELIHOODS FUND CREDIBLE AND USEFUL



Founded a year ago under Danone's leadership, the Livelihoods Fund now lists seven major European corporations as partners in high-impact development projects that will repay them in carbon credits.

An agroforestry project, organized in partnership with the NGO Naandi in eastern India's Araku Valley, has been recognized by the Indian government—a powerful sign of its credibility. Residents of 300 Araku villages have helped plant 6,000 hectares of fruit and timber trees, combining forestry with farming, and fertilizing the soil naturally to improve food security and raise income for local communities. The newly planted trees will store a million metric tons of CO₂ over a 20-year period. ✖



— *Point of view*

"DANONE'S RESPONSIBILITY EXTENDS OUTWARD FROM OUR BUSINESS LINES."

— *Emmanuel Faber, Deputy General Manager, Danone*

If we believe in the mission we've set for ourselves, we need to take responsibility for the entire food chain surrounding our products. Our primary motivation is protecting our access to agriculture resources, for both quality and quantity. We have business reasons for that, because it helps protect us from rising raw material prices. But it's also a social issue, because our responsibility extends outward from our business lines and our company, both upstream and down. The Danone Ecosystem and Livelihoods funds are a practical expression of this idea. They also have a cultural impact in the places where we do business, and that gives us an opportunity to think about our host communities. Taking upstream and downstream factors into consideration also encourages us to rethink the nature of our products and our recipes: raw materials, ingredients, procurement, distribution, and methods of preparation. Today we need to integrate every link in the chain more thoroughly than ever before, preferring some types of farming over others, addressing distribution and manufacturing solutions—even focusing on new consumer experiences. We're looking closely at every aspect of the products we make. That's the heart of our business. ✖

DIGITAL CAMPUS LEARNING SOMETHING EVERY DAY

Bringing training to as many employees as possible

At Danone, we're rethinking our training methods from the ground up. Our Campus 2.0 program uses new tools that are available to as many employees as possible, expanding learning opportunities while making training programs more efficient. By putting digital technology and networking at the core of this new approach, we're promoting a vision of learning that goes beyond the

classroom. The goal: creating the right conditions for employees to learn something every day. Directly or indirectly, some 100,000 Danoners use Campus 2.0 to work with their managers and our human resources teams, designing and deploying their own career development plans—one day at a time. Already some 30,000 employees are connected to the Danone Social Network, creating 745 active communities and 314 blogs. ✖

-35%

FALL IN CO₂ EMISSIONS 2008-2012

In 2008 Danone pledged to reduce its carbon footprint by 30% between 2008 and 2012, wherever the group has direct responsibility: production sites, packaging and end of life, transport and storage—excluding agricultural operations upstream. In five years, we cut CO₂ emissions by 35.2%. It was an extremely aggressive target, but we outperformed it by a wide margin thanks to the unwavering dedication of our teams and our partners.



"IT'S HUMAN RESOURCES THAT SET DANONE'S LEADERSHIP STYLE APART."

— *Muriel Pénicaud, Vice President, Human Resources*

The power of our corporate culture, the commitment and skill of our employees, the flexibility of our structure, our appeal for talented people in high-growth countries, and the strength of our ecosystem—suppliers, distributors and all the others—are critical to maintaining competitive edge and lasting growth. Innovations like Dan 2.0, Dan'Cares, the Livelihoods fund, danone.communities are laboratories for progress, and they're integral to our dual commitment to business success and social progress. ✖

800

INDIVIDUALS and 15 companies have joined Danone's EVE program. Designed to promote women in leadership, the program was launched by the group in 2010.

www.eveprogramme.com

86,879

DANONE EMPLOYEES participated in at least one training course in 2012.

OMDA-SAHTEN IN EGYPT FIGHTING UNEMPLOYMENT AND MALNUTRITION



In rural Egypt, residents struggle against malnutrition as well as poverty. With support from the Ecosystem Fund, Danone Egypt has partnered with a local NGO to fight this double scourge.

Some 78% of Egypt's poor live in rural areas, where unemployment is high. And while the country's economy is now growing, 50% of its population lives on less than €1.60 a day. The primary result is malnutrition and obesity, beginning in childhood. In partnership with the NGO Ashoka Arab World, Danone Egypt launched

the OMDA-Sahteen project with support from the Danone Ecosystem Fund. Since April 2011, the project has worked towards three goals: raising awareness of health and nutrition issues; creating jobs in rural areas; and generating sources of sustainable income. Deployed in partnership with local authorities and communities, the project consists of two interdependent components. The first is a micro-distribution network made up of local entrepreneurs with small retail businesses—*omdas*—chosen for the energy and initiative they bring to their businesses and their communities. The project teaches them about management and helps them develop the skills they need to run a sustainable business, hire local representatives, and invest in equipment. Some of the profits generated by the micro-distribution network are reinvested in training *sahteens*, women who act as ambassadors for health and nutrition. To date 72 women have been trained by university professors and nutrition experts. They organize informational meeting on food safety, the special nutritional needs of children, and the key components of a balanced diet. Danone is also working with the NGO Care to improve farming practices in Egypt. ✖

AFRICA: THE NEW FRONTIER?

Is Africa the next big baby nutrition market? Danone is laying the foundation for growth on the continent, with the aim of bringing health through food to as many of its people as possible.

—Zoom

With rising rates of economic growth, more than a billion inhabitants and 35 million births each year, Africa holds enormous promise. Yet significant local challenges remain, including infant mortality, which strikes one in eight children under the age of five. Nutrition can play a powerful role in fighting this scourge.

At Danone, we support the recommendations of the World Health Organization, which advocates breastfeeding exclusively for the first six months of life and introducing safe, appropriate complementary foods afterwards. Within these limits, or when mothers are unable to breastfeed for any reason, infant formula is the substitute with the best nutrition to help babies grow up strong and healthy. At Danone, we're doing everything we can to encourage African mothers to breastfeed and use milk substitutes safely.

In addition to seeking out dialog, we're analyzing the health needs of each country, studying cultures, consumer habits and buying power to enable us to open channels to the right authorities. In the 11 leading countries where we do business, Danone has deployed Nutriplanet, a tool that allows us to assess overall nutrition for babies and their mothers. A cross-sectional study conducted in five of these countries was presented in Dakar at the third RANI conference (*Rencontres africaines de nutrition infantile*), a forum that Danone worked with influential African pediatricians to create. The study, which will be published in September 2013 in the Food and Nutrition Bulletin of the United Nations, shows that nearly 70% of children under five suffer from anemia and deficiencies in vitamin A, zinc and iodine, and that malnutrition generally



Nutrition can play a powerful role in fighting infant mortality, which strikes one in eight children under five in Africa.

begins as children are weaned. In 2012 these results, which were shared with local and regional stakeholders, inspired the creation of two councils of scientists, in Morocco and in French-speaking sub-Saharan Africa. Experts on the two councils plan to help improve infant nutrition through scientific research and awareness campaigns aimed at health professionals. Finally, in Nairobi Danone supported the Kenyan Paediatric Association in organizing a post-graduate course for ESPGHAN (European Society of Paediatric Gastroenterology, Hepatology and Nutrition). The challenge awaiting us now is to forge even closer ties with African babies and their mothers. To meet it, we've launched products in affordable sizes that can be sold individually, helping children get balanced meals with plenty of nutrients and vitamins. ✖



INTERVIEW "DANONE SHOULD MOVE INTO THE AFRICAN MARKET RESOLUTELY, METHODICALLY AND PRUDENTLY."

—Jean-Michel Severino, Head of Investisseurs et Partenaires Conseil, former Chief Executive Officer of Agence Française de Développement (AFD), and Danone Board member

Resolutely, because over the past 15 years or so Africa has been back on the path to very significant growth, driven by debt reduction, economic policy, booming demographics, and other structural factors. Methodically, because it's a gigantic continent where you have to target your markets. Danone's mission—bringing health through food to as many people as possible—has particular resonance in Africa. When Danone has approached new markets in the past, it has always adapted extremely well to the situation on the ground, from needs to resources and capabilities. But with a continent that is still very poor, we will also face the challenge of paying much more attention to the bottom of the pyramid. Even though Africa will see robust growth in per capita GDP, it will be a long time before it catches up with other regions: it will continue to be the continent with the world's poorest populations. Finally, Danone should approach this new market prudently, working as closely as possible with local stakeholders so that we never lose our legitimacy, and staying mindful of the continent's political volatility. There's no question that investing in Africa presents opportunities, even though the road will be long. ✖

FRESH DAIRY PRODUCTS MOROCCO'S CENTRALE LAITIÈRE

In late 2012, Danone increased its stake in Morocco's Centrale Laitière from 30% to 67%.

The move marked a new phase in a partnership dating back to 1956. Centrale Laitière is the country's largest dairy processor, with four plants, 60% of the market and 600,000 metric tons of finished product—half milk and half fresh dairy products.

dairy products company with 60% market share, Danone plans to continue increasing its Moroccan sales, leveraging its flagship brands Activia, Danette and Danonino as well as Jamila Raibi, a local brand of grenadine flavored fermented milk that is a favorite with teens. ✖

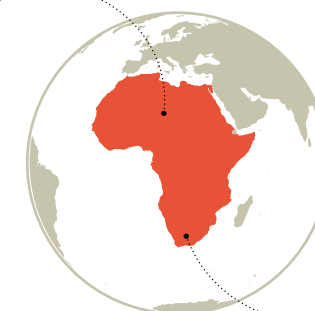
Centrale Laitière sources milk from over 120,000 Moroccan producers, makes all of Danone's fresh dairy products and those of a local brand, and delivers to 70,000 points of sale daily. The deal will have no impact on Danone's larger strategy, but will give the group more control over two key variables: protecting access to milk and raising quality in the production chain. Already the country's top fresh



DANONE IN AFRICA: KEY FIGURES



22%
growth for
Baby Nutrition
in Africa overall



+12%
increase in sales
(by volume) of Fresh
Dairy Products in South
Africa from 2011



**DANONE IS PRESENT
IN 35 AFRICAN
COUNTRIES**
primarily in
Northern Africa,
French-speaking
Africa, Egypt,
Kenya and
South Africa.

**NUTRIPLANET
STUDIES IN
11 COUNTRIES:**
Algeria, Morocco,
Burkina-Faso, Côte
d'Ivoire, Senegal,
Cameroon, DR Congo,
Kenya, Nigeria, Egypt
and South Africa.

42 M BABIES
will be born in Africa
in 2020, up 20%
from 2013.
67.6% of African
preschool-age children
suffer from anemia
(Source: WHO).



OUR TOP FIVE FIGURES FOR 2012

For Danone, 2012 was a banner year: sales reached the €20 billion mark, demonstrating our ability to bring health through food to an ever-growing number of consumers.

> €20 BN

IN SALES,
AN INCREASE OF 5.4%.
DANONE CROSSED
THIS THRESHOLD FOR
THE FIRST TIME IN 2012,
THANKS TO OUR
EXPANSION INTO
NEW REGIONS.

-35%

REDUCTION IN
OUR CARBON
FOOTPRINT
SINCE 2008. THE ORIGINAL
TARGET—AN AMBITIOUS
ONE—WAS -30% IN 5 YEARS.

-50 BPS

TRADING
OPERATING
MARGIN
IN MAY 2012, WE
ANNOUNCED THAT
WE WOULD ADJUST OUR
TARGET FOR OPERATING
MARGIN TO -50 BPS.

60%

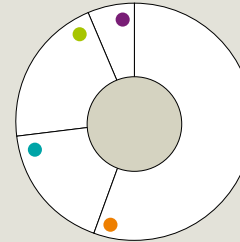
OF SALES
CAME FROM HIGH-GROWTH
MARKETS, PRIMARILY
EMERGING COUNTRIES.

All indicators provided on
a like-for-like basis.

> €2 BN

FREE CASH FLOW
HAS DOUBLED IN 5 YEARS.

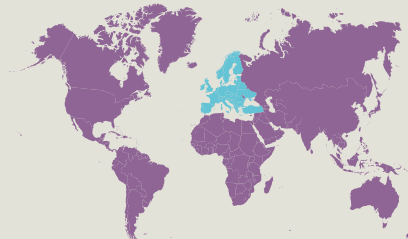
SALES BY BUSINESS LINE



€20.9 BN IN SALES

€11.7 BN ● FRESH DAIRY PRODUCTS
€4.3 BN ● BABY NUTRITION
€3.6 BN ● WATERS
€1.3 BN ● MEDICAL NUTRITION

60% OF SALES FROM OUTSIDE EUROPE**



12.4%*

GROWTH
OUTSIDE EUROPE

+80 bp*

OPERATING
MARGIN

-3%*

GROWTH
IN EUROPE
(EXCLUDING CIS)

-190 bp*

OPERATING
MARGIN

* Like for like ** Excluding CIS region

DUAL STRATEGY FOR REGAINING COMPETITIVENESS IN EUROPE

ADAPT AND SIMPLIFY
OUR STRUCTURES AND PROCESSES
OVER TWO YEARS

DEVELOP A PLAN
TO CUT COSTS
BY €200 MILLION OVER TWO YEARS



—Analysis from Pierre-André Têrisse,
Executive Vice President Finance

A step change

“In 2012 Danone reached some important milestones: sales topped €20 billion; free cash flow exceeded €2 billion—double the figure for five years ago—and markets outside Europe accounted for over 60% of total sales. Sales growth for the year was 5.4% like for like, in line with our targets, and we struck a good balance between volume and value. These gains came in part from our robust emerging markets—with China, Indonesia and Brazil leading the pack—but also from Russia and the US, which reported nearly 10% growth in the last quarter. We’ve invested heavily in these two countries over the past two years, and in 2012 our investments began to pay off. Trading operating margin was down 50 basis points, like for like. Declining sales in Europe, and especially in Southern Europe, cut significantly into group profitability, even as margin continued to grow in the rest of the world.”

2012 ACHIEVEMENTS

10 bn
liters of Aqua
bottled water
sold in Indonesia

+23 bp
in operating
margin for
Baby Nutrition

2.5 x
sales of Oikos
and Light & Fit
Greek in the
United States

22%
growth in
sales of Téma
in Russia

TOP 10 MARKETS*

10% Russia	6% Indonesia
10% France	5% Mexico
8% United States	5% Argentina
6% China	5% United Kingdom
6% Spain	4% Brazil

* % of 2012 sales

FINANCIAL DATA

- **CURRENT EARNINGS** per share (diluted):
€3.01, up 4.1% from the reported figure for
2011 and up +1.1% like for like
- **DIVIDEND** of €1.45 per share,
up 4.3%, proposed to the 2013
Shareholders' Meeting
- **UNDERLYING NET INCOME:**
€1,818 million, up 0.9%*
- **TRADING OPERATING INCOME:**
€2,958 million, up 1.8%*
- **KEY MARKET DATA AT DEC. 31, 2012**
Market capitalization: €32,094 million
Closing price for the year: €49.90
High for the year: €54.96
Low for the year: €45.60
Average number of shares traded daily:
2,004,000

* Like for like

GROWTH BY BUSINESS LINE



FDP:
€11.7 bn
+ 2.0%
growth



Baby Nutrition:
€4.3 bn
+ 11.6%
growth



Waters:
€3.6 bn
+ 10.0%
growth



Medical Nutrition:
€1.3 bn
+ 5.9%
growth

FRESH DAIRY PRODUCTS

MISSION: ONE YOGURT A DAY— AND MAKE IT A DANONE!

— 2012 Highlights

Growth was uneven for Fresh Dairy Products, Danone's top division with 56% of total sales. Danone is the leading Fresh Dairy Products maker in the top 38 countries where we do business. Europe—long the division's flagship region with 58% of sales in 2007—now accounts for 38% of sales, with emerging markets delivering the strongest performances.

EMERGING MARKETS TAKE THE LEAD

The largest source of growth for our Fresh Dairy Products (FDP) division is Latin America, where Activia and Danoninho are making strong gains in Brazil, and Ser, our local brand in Argentina, is growing steadily. Also in the Americas, Oikos Greek yogurt has done a booming business in the United States since 2011, and in 2012 the Greek yogurt segment grew even faster. According to IRI Total Food US, this was the leading fresh dairy product segment in the US, with 35.1% of the market. To meet this sharp rise in demand, we have expanded our local production capacity.

In Russia, Danone and Unimilk are now fully integrated. Backed by the success of the Tēma, Prostokvashino, Activia and Bio Balance brands, our Russian subsidiary has boosted growth by improving product quality and redeploying its sales force. The division is making gains in all of its new markets, with brands like Milkkuat in Indonesia and Densia in Japan driving robust growth in Asia.

Africa is another very promising market for Danone. South Africa, where Danone sells a specially formulated line of long-life dairy products, continues to be a major

source of growth, and the division has also taken a leading position in North Africa. As announced in June 2012, we acquired a majority stake in Morocco's Centrale Laitière, and business is already very brisk in Egypt, Saudi Arabia, Iraq and Turkey. In these countries, the Fresh Dairy Products division relies on its ability to extend its product ranges, constantly launching new flavors, textures, ingredients, nutritional content and packaging—all with the goal of reaching new consumers and spanning the entire price range.

EUROPE: PUTTING THE PRODUCT FIRST

In the southern European countries of Spain, Portugal and Italy, consumers have lost some 20% of their buying power over the past two years, and our teams are working hard to attract them by taking our products to a whole new level of quality and competitive edge. Innovations include expanding our distinctive Kiss yogurt cup: adopted by the Activia and Velouté ranges in France in 2012, this new container has also made its debut in Spain, Portugal and China.

MAKING "ONE YOGURT A DAY" A REALITY

In 2012 Danone research teams focused on the health benefits of yogurt when enjoyed every day. Using existing data from the National Health and Nutrition Examination Survey in the US, our researchers found that yogurt consumption is associated with better meeting daily calcium requirements. In addition, a study conducted in partnership with Tufts University in Massachusetts linked yogurt consumption to reduced risk of high blood pressure.



1

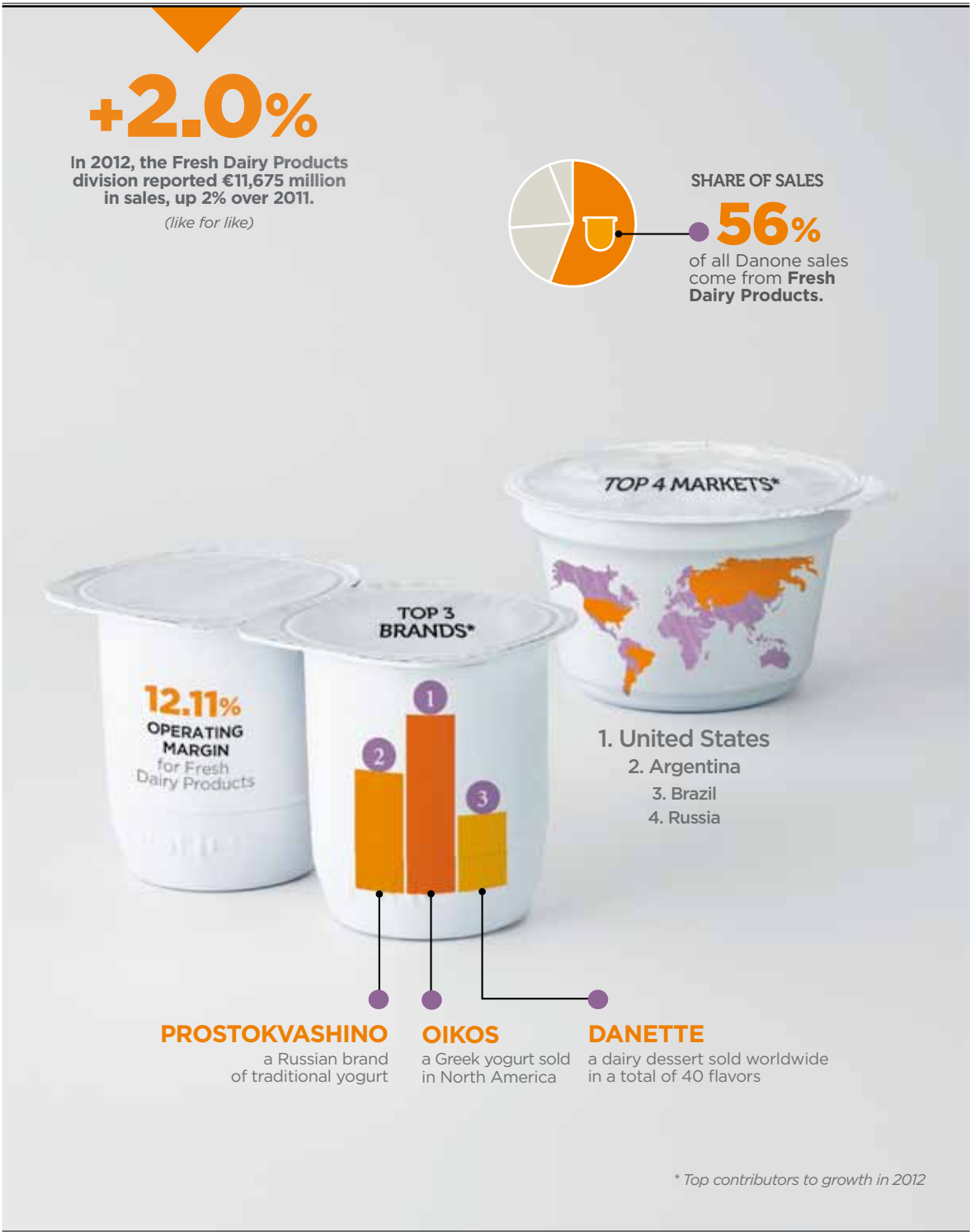
ONE YOGURT A DAY

Backed by scientific studies published in partnership with the scientific community, Danone is building a solid, fact-based consensus around the strong conviction that yogurt is essential to a balanced diet. Eating a yogurt every day is the simplest way for people to take care of their health—natural, easy to digest, and packed with calcium and protein, yogurt is also affordable and convenient, and can be enjoyed by everyone.

2

72 COUNTRIES

Number of countries in which our Activia brand is sold.



WATERS AT THE HEART OF CONSUMER LIFE

— 2012 Highlights

For the second year in a row, Waters posted double-digit growth, with sales up 10%. While business was down slightly in Western Europe, robust growth in emerging countries continued to drive the division's performance. Aquadrinks were another key contributor, with sales up 20%.

WATER AS LIFESTYLE

Mizone made China the top source of growth for the division. It was followed by Indonesia, where Aqua consolidated its number-one spot; Mexico, where Bonafont is number one; and France, where sales of Badoit and La Salvetat sparkling waters were on the rise. These strong showings were backed by awareness campaigns promoting the health benefits of hydration and presenting flavored waters as a light, natural alternative to sweetened beverages. Hydration and renewal—these are the benefits Danone waters promise to consumers, and they're at the heart of the lifestyle our brands represent: "living light" with Bonafont in Brazil, "living young" with Evian, "living healthy" with Aqua in Indonesia. Promoting the benefits of hydration also means fighting slight dehydration, which is often overlooked. In 2012 the division continued its research programs and presented its results at the fourth annual Hydration for Health (H4H) symposium and other venues.

AQUADRINKS TAKE OFF

Aquadrinks have been a major success for Waters, contributing around two-thirds of the division's growth. Over the past five years, many of the group's brands have added lines of waters flavored with natural fruit extracts or juices, and our R&D teams

are working constantly to develop new formats and flavors designed to attract consumers who want a natural, fruit-based alternative. In 2012, Waters introduced a number of successful new aquadrinks: Villavicencio Liv in Argentina, Bonafont Kids con Jugo in Mexico, and Volvic Juiced in the United Kingdom.

PROMISING INNOVATIONS

Bottles have a direct impact on the consumer, which makes them a major focus of attention for the division. For example, Mizone's success among active young people in China is due in part to the design of its bottle, with its wide, easy-drink opening and comfortable grip. And we've introduced other innovations to make bottled water easy to enjoy any time of day, whether consumers are alone, with family, sitting down to a meal or on the go. These include the 2.5-liter family size Fontvella for meals in Spain, as well as limited-edition bottles—for Badoit in France, Bonafont in Mexico, Fontvella in Spain, and Evian internationally—designed to add a festive touch to the table on special occasions. And by offering more small bottles, sold individually in neighborhood stores, shops and fast-food chains, we've given bottled water a higher profile in public spaces. Large bottles have benefits too, simplifying life for families, businesses and organizations. Convenient, economical home and office delivery (HOD) service is booming, as the success of Bonafont in Latin America and Aqua in Indonesia clearly shows. Finally, Waters is testing new forms of distribution, including sales of Mizone on the street in Indonesia and home delivery of Evian in France (evianchezvous.com).



1

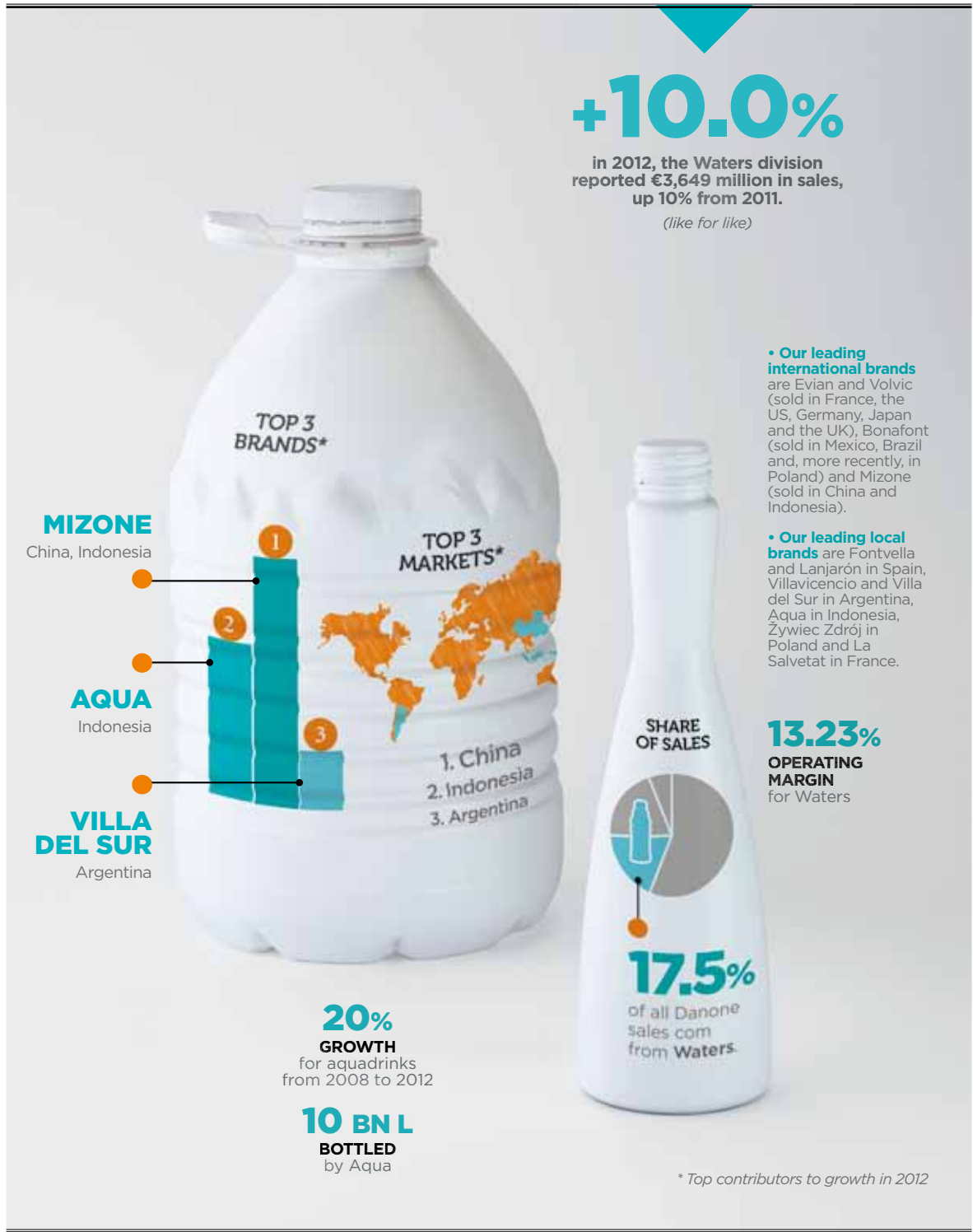
THE VITAL BEVERAGE

Drink more water—the only beverage your body really needs. It's a simple message, but it goes straight to the heart of Danone's strategy. Because people don't get enough liquid—and because water is the best way to stay hydrated—we've stepped up our campaign to make consumers more aware of the health benefits of water, and our researchers have begun to study the links between hydration, well-being and health.

2

20% OF BOTTLED WATER SOLD BY DANONE

comes from the group's two biggest production sites: Evian and Volvic in France.



BABY NUTRITION STRONG PERFORMANCE IN ALL MARKETS

— 2012 Highlights

Two thousand twelve was an excellent year for Baby Nutrition, which reported overall growth of 11.6%, up from 10.7% in 2011. With its products less vulnerable to the economic downturn in western countries—and increasingly attractive to middle-class consumers with growing buying power in emerging markets—the division is now reaping the benefits of its geographical expansion, particularly in Asia, its fastest-growing region. As in the past, changes in the product mix helped Baby Nutrition perform well, and the growing-up milks segment continued to generate double-digit growth. Solid baby food, which accounts for nearly 20% of division business, is concentrated primarily in Europe, including France, Italy and Poland.

BOOMING INFANT FORMULAS

Emerging countries delivered the best performances, with sales gaining nearly 20% overall. In South Asia, the division consolidated its positions, generating sales growth of more than 15%. In Indonesia, premium formulas from PT NIS and Sari Husada generated combined growth in double digits, and sales made similar gains in Turkey and also in Northern and Western Africa. Only Western Europe presented a more complex picture. Growth remained solid in the Netherlands, the UK and Germany, but the average for Southern Europe was lower due to factors including a fall in the birth rate. In parallel with its expansion into new regions, the division is building the credibility of baby nutrition products as a response to the special needs of infants and young children, working with the sector's opinion leaders and health

professionals to develop a better understanding of the category as a whole. In this, R&D programs play a critical role in identifying nutritional needs in the first years of life. Thanks to scientific advances of the Early Life Nutritional concept, the division is developing products tailored to each stage of early life. Examples include a new growing-up milk, launched in 2012, that is designed to reduce the risk of infection and enhance intestinal flora in children ages one to three.

UNDERSTANDING LOCAL NUTRITIONAL PROFILES

With this research as a starting point, the division's recent growth into new countries—Malaysia, Vietnam, Cambodia, Colombia, Chile, Bolivia, Senegal, Kenya and Cameroon—has often been based on a prior study of local needs, conducted in partnership with local associations and health authorities. This program, dubbed Nutriplanet, enables Baby Nutrition to study the nutritional needs and even deficiencies of each region's population (see page 50), and results may be published in scientific journals or shared at international nutrition conferences, including one held in Bangkok in January 2013.

The primary aim is to develop products that meet established nutritional needs and to support parents and health professionals in ensuring young children receive appropriate nutrition when they no longer breastfeed or begin transitioning to a more varied diet. In France, Blédina offers personalized support, giving mothers information on the critical stages in a child's development, from breastfeeding to a diversified diet. In the UK, Cow & Gate offers a similar service.



1

BABIES ARE NOT LITTLE ADULTS

At Danone, we're convinced of this, and we're continuing our awareness campaign to remind mothers and health professionals that taking children directly from breast milk to cow's milk before the age of three is not appropriate for their nutritional needs. At the same time, we're continuing our R&D work to develop products tailored to the specific nutritional needs of young children in each country, as either a supplement or follow-on to breastfeeding.

2

150 COUNTRIES

Number of countries in which Danone Baby Nutrition products are sold.

+11.6%

In 2012, the Baby Nutrition division reported €4,257 million in sales, up 11.6% from 2011.

(like for like)



13%

OF PRODUCTION for Baby Nutrition comes from its plant in Indonesia, the division's largest.



APTAMIL, NUTRILON
worldwide infant and young children formula

SGM
infant and young children formula in Indonesia

DUMEX
infant and young children formula in Asia

* Top contributors to growth in 2012
** Including Hong Kong

MEDICAL NUTRITION GROWTH THROUGH INNOVATION

— 2012 Highlights

Sales of Nutricia, Danone's Medical Nutrition division grew nearly 6% to total €1,288 million in 2012, accounting for 16% of the sector's market world-wide. Western Europe and the United States began to slow as healthcare systems discontinued or reduced reimbursement of selected products. Instead China, Turkey and Brazil were the division's top growth drivers, with double-digit sales growth powered by key brands such as Nutrison, Nutrini and Neocate.

MAINTAINING QUALITY OF LIFE
Medical Nutrition's products are designed for patients receiving medical treatment, infants and children with specific pathologies or allergies, and frail elderly patients. The elderly represent considerable growth potential for Danone, due to the many challenges raised by an aging world population. These include independence and quality of life for the elderly, as well as the impact of their care—at home or in hospitals—on state-financed healthcare systems. Other trends that Nutricia researchers are exploring include the growing awareness of nutrition's role in health, the emergence of new diseases and allergies, and the expansion of screening programs. R&D teams have supported the division's growth in areas as diverse as neurology, immunology and mycology: in 2012 alone, they developed or improved 19 products and conducted more than 12 clinical studies.

SOUVENAID LAUNCH

A nutrient-fortified beverage designed for early-stage Alzheimer's patients, Souvenaid is the product of ten years

of studies and clinical trials conducted jointly by Danone and the Massachusetts Institute of Technology. Sold in Germany, Belgium, the Netherlands and Brazil, Souvenaid is uniquely positioned to use targeted nutrition to make life better for millions of people.

IMPROVING PATIENT COMPLIANCE

Nutricia continues to grow in specific specialised market segments. For example, Neocate powder provides a substitute for children with cow's milk allergies, while Fortimel, the division's flagship product, meets the entire daily requirement for patients who need nutritional support. By making more of its products available in compact formats—packing the nutritional benefits of a 200-ml drink into just 125 ml—Nutricia is helping patients comply with medical instructions and making its nutritional supplements easier to use for patients who cannot eat normally or are suffering from disease-related malnutrition. In 2012, this included launching a compact version of Calogen, a high-energy fat emulsion.

The division's products are recommended by health professionals, and most are reimbursed by healthcare systems. As a result, they are distributed largely through pharmacies, but Danone is currently expanding its worldwide presence, moving into new countries and a broader range of distribution channels. Austria and Brazil, for example, are seeing the growth of OTX, a new platform that offers non-reimbursed products through networks of pharmacies and parapharmacies.



1

NUTRITION'S ROLE IN HEALTH

One of Medical Nutrition's top priorities

is raising awareness of nutrition's role in managing disease, either as a preventive measure or as an adjunct to treatment, as well as its powerful impact on improving quality of life for vulnerable patients. Danone is working with specialists in several different pathologies to advance this goal. Our aim is not only to help the elderly live longer and stay independent longer, but also to reduce overall healthcare costs.

2

72%
OF MEDICAL NUTRITION
PRODUCTS are made in
the Netherlands.

**FORTIMEL
COMPACT**
a range of
concentrated,
oral nutritional
supplements

TOP 3
BRANDS*

INFATRINI
a pediatric
nutrition product
administered
orally or via
feeding tube

NEOCATE
a hypo-allergenic
product
for children

17.95%
OPERATING MARGIN
for Medical Nutrition

12
CLINICAL STUDIES

19
PRODUCTS DEVELOPED
or improved
by R&D teams

+5.9%

In 2012, the Medical Nutrition
division reported sales of €1,288
million, up 5.9% from 2011.
(like for like)

6%
of total Danone
sales come from
Medical Nutrition.

TOP 3 MARKETS*

1. China
2. Turkey
3. Brazil

* Top contributors to growth in 2012

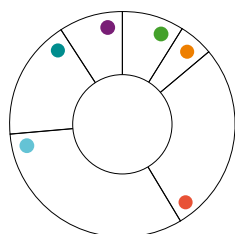
1

102,401
EMPLOYEES IN 80 COUNTRIES,
with two-thirds working in
emerging countries—the
group's high-growth regions
(at December 31, 2012)

+0.5%
DANONE'S WORKFORCE
grew from 101,885 to 102,401
employees (at comparable
scope of consolidation;
includes Unimilk personnel).

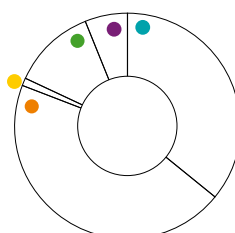
WORKFORCE BY REGION

9% ● France
32% ● Rest of Europe
9% ● China
27% ● Americas
17% ● Rest of
Asia-Pacific
6% ● Africa
& Middle East



BY BUSINESS LINE

45% ● Fresh Dairy Products
36% ● Waters
12% ● Baby Nutrition
6% ● Medical Nutrition
1% ● Corporate functions



86,879

DANONE EMPLOYEES
participated in at least one
training course in 2012.

2,682,705

HOURS of training
were provided.

2

-35.2%

**reduction in carbon
footprint** for sites under
Danone's direct
responsibility (plants,
transport, packaging
and end of life) between
2008 and 2012

87.9%

of waste is recycled.

-46.5%

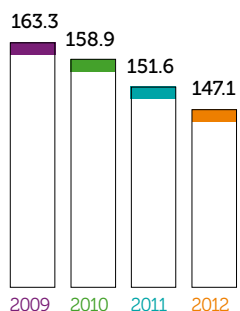
**reduction in energy
consumed** per metric ton
of product (2000-2012)

-43.1%

reduction in water consumed
per metric ton of product
(2000-2012)

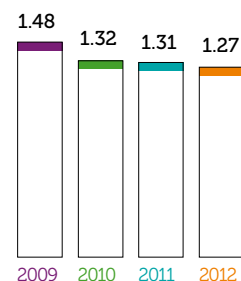
REDUCTION IN ENERGY USE INTENSITY FOR ALL PLANTS COMBINED

(kWh/metric ton of product)



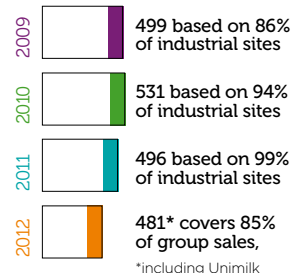
REDUCTION IN WATER USE INTENSITY FOR INDUSTRIAL PROCESSES

(m³/metric ton of product)



GREENHOUSE GAS EMISSIONS

(in metric kilotons
CO₂ equivalent)



3

€976 M

CAPITAL EXPENDITURES

in 2012 (up from €885 M in 2011),
or 4.7% of consolidated sales

194

PLANTS IN ALL

91 were ISO 14001-certified
in 2012.

LEARN MORE:



Economic and Social Report
www.danone.com



Sustainability Report
www.danone.com



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



Danone: 15, rue du Helder - 75439 Paris Cedex 09, France - Visitors: 17, bd Haussmann, 75009 Paris - tel.: +33 1 44 35 20 20 - Corporate Communications - tel.: +33 1 44 35 26 33 - www.danone.com - **Shareholder hotline:** 0800 320 323 (toll free from landlines in metropolitan France)

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Blédina, Danone Eaux France and Danone Produits Frais France have signed the Responsible Advertisers' Charter drawn up by the Sustainable Development Committee of France's Union des Annonceurs (UDA).

The characters depicted in our five country profiles are composites.

LOGO
FSC



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SOMETHING SPECIAL INSIDE.

1972-2012

40 YEARS

OF UNPARALLELED ADVENTURE



**VISIT DANONE.COM AND WATCH OUR DOCUMENTARY
ON 40 YEARS OF PASSION AT DANONE**

In late 1972, Antoine Riboud announced the merger of BSN and Gervais-Danone, and in early 1973 the new company embarked on an adventure that continues 40 years later. The shared adventure of people who believe deeply that food should be a source of health and enjoyment for everyone, everywhere. The adventure of men and women united by a common history and drive to find new ways of making Danone's unique culture live on—to excel at putting "something special inside".



DANONE