

# DANONE

## 09 REGISTRATION DOCUMENT



DANONE

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# DANONE

## Registration Document **2009**



The French language version of this Registration Document (Document de Référence) was filed with the French Financial Markets Authority (Autorité des marchés financiers, or AMF) on March 19, 2010, pursuant to Article 212-13 of the AMF's General Regulations.

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

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

Copies of this Registration Document are available from Danone at:  
17, boulevard Haussmann 75009 Paris – France,  
on Danone's website: [www.danone.com](http://www.danone.com)  
and on the website of the Autorité des marchés financiers: [www.amf-france.org](http://www.amf-france.org)

# 1

## PERSONS RESPONSIBLE

### 1.1 Person Responsible for the Registration Document

Franck RIBOUD

Chairman and Chief Executive Officer

Danone

### 1.2 Statement by the Person Responsible for the Registration Document

*This is a free translation into English of the Chairman and Chief Executive Officer's statement issued in French, and is provided solely for the convenience of English-speaking readers.*

"We hereby certify, after having taken all reasonable measures, that to the best of our knowledge all of the information in this Registration Document is accurate, and that no information liable to alter its scope has been omitted.

We certify that, to our knowledge, the financial statements in this document have been prepared in accordance with applicable accounting standards and provide a faithful representation of the assets, the financial situation, and the results of the Company and of all companies within its scope of consolidation, and that the management report referred to in the cross-reference table presents a faithful representation of the business trends, results, and financial position of the Company and of all companies within

its scope of consolidation, as well as a description of the principal risks and uncertainties that they face.

The Statutory Auditors have provided us with a letter (*lettre de fin de travaux*, or auditors' completion letter) stating that their work has been completed, and in which they indicate that they have verified the information included in this registration document relative to the financial situation and the financial statements, and have read this registration document in its entirety."

The Chairman and Chief Executive Officer

Franck RIBOUD

# STATUTORY AUDITORS

## PRINCIPAL STATUTORY AUDITORS

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### MAZARS

Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles  
61, rue Henri Regnault  
92400 Courbevoie – France  
Represented by Thierry COLIN and Ariane MIGNON

### PRICEWATERHOUSECOOPERS AUDIT

Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex – France  
Represented by Étienne BORIS and Olivier LOTZ

## START DATE OF FIRST TERM OF OFFICE

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May 21, 1992

May 21, 1992

## EXPIRATION DATE OF TERM OF OFFICE

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Date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ended December 31, 2009<sup>(1)</sup>

Date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ended December 31, 2009<sup>(1)</sup>

## SUBSTITUTE STATUTORY AUDITORS

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Patrick de CAMBOURG  
61, rue Henri Regnault  
92400 Courbevoie – France

Anne MONTEIL  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex – France

## START DATE OF FIRST TERM OF OFFICE

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April 15, 2004

April 15, 2004

## EXPIRATION DATE OF TERM OF OFFICE

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Date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ended December 31, 2009<sup>(1)</sup>

Date of the Shareholders' Meeting deliberating on the financial statements for the fiscal year ended December 31, 2009<sup>(1)</sup>

(1) The Shareholders' Meeting to be held on April 22, 2010 will consider a resolution concerning the renewal of appointment, or the replacement, of those Statutory Auditors whose appointments expire at the close of that meeting.

## SELECTED FINANCIAL INFORMATION

### Preamble

Pursuant to Article 28 of Regulation (EC) No. 809/2004 of the European Commission dated April 29, 2004 and to Section 36 of IAS 1, *Presentation of Financial Statements*, requiring that at least one-year comparative information be presented, this Registration Document incorporates by reference the following information:

- the consolidated financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2007 on pages 80 to 130 of the Registration Document that was filed with the AMF on March 26, 2008 under filing number D.08-149;
- the Company financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2007 on pages 137 to 149 of the Registration Document that was filed with the AMF on March 26, 2008;
- the key financial information, the Group operating and financial review, and all of the non-financial information pertaining to the fiscal year ended December 31, 2007 on pages 5, 15, 16, and 34 to 45 of the Registration Document that was filed with the AMF on March 26, 2008;
- the consolidated financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2008 on pages 88 to 141 of the Registration Document that was filed with the AMF on March 20, 2009 under filing number D.09-0143;
- the Company financial statements and the Statutory Auditors' report relative to the fiscal year ended December 31, 2008 on pages 156 to 168 of the Registration Document that was filed with the AMF on March 20, 2009;
- the key financial information, the Group operating and financial review, and all of the non-financial information pertaining to the fiscal year ended December 31, 2008 on pages 5, 17, 18, and 37 to 48 of the Registration Document that was filed with the AMF on March 20, 2009;
- the Updated Registration Document that was filed with the AMF on May 28, 2009 under filing number D.09-0143-A01.

### General Information

The Danone group (hereinafter referred to as the "Group" or "Danone") is a major player in the global food industry, with sales of € 15.0 billion and operating income of € 2.5 billion in 2009.

Over the course of the past 10 years, the Group has refocused its activities on the health food industry. On October 31, 2007, the acquisition of Royal Numico N.V. and its subsidiaries ("Numico"), a group specialized in baby nutrition and medical nutrition, marked a new phase in the Group's development by adding these lines of business to Danone's portfolio. The Group has since operated in four markets corresponding to its four business lines: (i) Fresh Dairy Products, (ii) Waters, (iii) Baby Nutrition, and (iv) Medical Nutrition.

The international development strategy the Group has followed since the 1990s has produced strong sales growth outside Western Europe. In 2009, these sales accounted for 53% of total sales, compared with less than 15% in 1995.

The Group's strategy is based upon (i) categories of products providing health benefits, (ii) powerful and unique brand names adapted to the local context in terms of nutritional requirements, taste preferences, affordability, food culture, traditions, etc., and which are (iii) boosted by sustained advertising campaigns, and

(iv) a balanced geographical distribution between developed countries and emerging countries.

The organic growth experienced by the Group in recent years results from its ability to (i) sell primarily products that have substantial health and well-being components, in particular by using the Group's marketing expertise in selling the products already distributed in other countries; (ii) introduce products that are accessible to large numbers of consumers in emerging countries in order to develop mass consumption of brand-name products and ensure demand for the Group's brands for the future; and (iii) improve the products sold by recently acquired companies.

The Group believes that, despite possible economic difficulties, demographic trends and socio-economic developments in Asia and Latin America will lead to significant expansion of its markets in the medium term. The progressive improvement in the purchasing power of local populations, combined with the development of a middle class, is expected to increase demand for branded food products and beverages.

## Key Financial Information

The financial information presented below is taken from the Group's consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements are presented in Section 20.1.

	Fiscal year ended December 31	
<i>In € millions (except for per share data, expressed in €)</i>	<b>2008</b>	<b>2009</b>
<b>Consolidated income statement data</b>		
Net sales	15,220	14,982
Trading operating income	2,270	2,294
Operating income	2,187	2,511
Profit for the year from discontinued operations	269	–
Net income – Attributable to the Group	1,313	1,361
Net income – Attributable to minority interests	178	160
Earnings per share attributable to the Group	2.66	2.48
Diluted earnings per share attributable to the Group	2.66	2.48
Diluted underlying earnings per share attributable to the Group <sup>(1)</sup>	2.66	2.57
<b>Consolidated balance sheet data</b>		
Current assets	4,883	4,407
Non-current assets	21,982	22,466
Total assets	26,865	26,873
Net debt <sup>(2)</sup>	11,055	6,562
Shareholders' equity – Attributable to the Group	8,644	13,255
Minority interests	56	54
Dividend per share	1.2	1.2 <sup>(3)</sup>
<b>Consolidated cash flow data</b>		
Cash flow from operating activities, excluding changes in net working capital	1,699	2,092
Net cash flow from operating activities	1,754	2,000
Net cash flow from (used in) investing activities	(569)	214
Net cash flow from (used in) financing activities	(1,111)	(2,169)

(1) See Section 9.1 for the reconciliation between underlying net income attributable to the Group and net income attributable to the Group.

(2) Net debt corresponds to financial debt less marketable securities and cash and cash equivalents.

(3) Subject to the approval of the Shareholders' Meeting of April 22, 2010.

# 4

## RISK FACTORS

### 4.1 Risk Identification and Control Policy

The Group maintains an active risk management policy aimed at protecting its assets as well as the assets of its shareholders, and respecting the interests of employees, consumers, customers, suppliers, the environment and other stakeholders.

Since 2002, the Group has implemented a global risk identification system (with a specific methodology called “*Vestalis*”) that maps major operational risks and allows the classification of problems in terms of their probability of occurrence and their estimated potential financial impact on the Group.

These methodologies helps in the identification of risks and weaknesses within the Company’s subsidiaries and helps to group or prioritize them by a geographic region or business line and to define preventive and corrective actions, which may be local or global, as appropriate.

*Vestalis* has thus been deployed in all companies in the Fresh Dairy Products and Waters business lines. In 2009, its use was extended to the principal companies in the Medical Nutrition and Baby Nutrition business lines. As of December 31, 2009, *Vestalis* was deployed in 81 of the Group’s operating subsidiaries, which represent more than 80% of the Group’s consolidated net sales.

The most significant risks are reviewed once a year by the management teams of the business lines and regions during specific meetings. Risk review meetings organized by function or work process can also take place. A general review of the Group’s risks is regularly performed by Danone’s General Management (to strengthen this review, the Danone Enterprise Risk Committee had been created in 2008) and with the Audit Committee, which occasionally has operating managers attend in order to report on the risks related to their areas of responsibility.

The risk management system is described in greater detail in Section 16.6.

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

### 4.2 Operational Risks Related to the Group’s Business Sectors

#### 4.2.1 RISKS ASSOCIATED WITH THE VOLATILITY OF PRICES AND THE AVAILABILITY OF RAW MATERIALS

The Group’s results may be negatively affected by the availability and price of raw materials, in particular materials needed to produce the Group’s food and beverage products (mainly milk and fruits), and materials needed to package or transport its products (PET, polystyrene, light cardboard for boxes, and petroleum-based products). Variations in supply and demand at global or regional levels, weather conditions and government controls could substantially impact the price of the raw materials concerned. Increases in their prices also may not be passed on,

either in full or in part, in the sales price of the Group’s products and could have in any event a significant adverse effect on the Group’s business activities and on its results.

The management of these risks is presented in Section 6.1.

#### 4.2.2 RISKS ASSOCIATED WITH THE CONCENTRATION OF DISTRIBUTION AND THE DEFAULT OF A CUSTOMER

While the end customers of Danone products are individual consumers, the Group sells its products mainly to major retail and grocery chains. Overall, the distribution market has become



## Operational Risks Related to the Group's Business Sectors

increasingly concentrated. In 2009, the Group's ten largest customers worldwide (of which five are French) accounted for approximately 24% of the Group's consolidated sales and the five largest customers accounted for 16%. The Group's largest customer, Carrefour, represented approximately 7% of the Group's consolidated revenues. A continuation of the movement to concentrate distribution, which would translate into a smaller number of customers, could affect the Group's operating margin or represent a counterparty risk in the event of a default by a major customer, in particular given the current economic environment.

Additional information is presented in Section 6.1.

Moreover, the Group's exposure to unpaid trade receivables not yet the object of an impairment provision is limited, as noted in Section 20.1.1, Note 15 to the consolidated financial statements concerning IFRS 7.

#### 4.2.3 RISKS ASSOCIATED WITH COMPETITION

The Group conducts its business in highly competitive markets that include large multinational companies and numerous local players of different sizes. In Western Europe and North America, the Group's markets tend to be relatively mature, and competition for market share is therefore particularly intense. With respect to the Group's activities in the Rest of the World, a few international food and beverage groups also hold strong positions in some emerging markets and seek to expand such positions or enter new markets. In addition, certain retail and grocery chains have developed their own private brands. If the Group cannot differentiate itself relative to its competitors in terms of the range of products, the value (quality/price ratio), and the market position offered, it may no longer be able to effectively compete with the main actors in these markets.

#### 4.2.4 RISKS ASSOCIATED WITH THE GEOPOLITICAL ENVIRONMENT

The Group's employees and operations could be exposed to the risks and uncertainties inherent in pursuing commercial and industrial activities in numerous countries that may experience, or may have recently experienced, economic, political or social instability, particularly in Latin America, Asia, Africa and the Middle East. Also, some countries where the Group is present offer legal environments that are not very developed and/or not very protective (in particular with respect to intellectual property rights), maintain exchange controls, control the repatriation of profits and invested capital, impose taxes and other payments and impose restrictions, sometimes retroactively, on the activities of multinational groups. Lastly, any economic or political measure whose purpose or result is to limit free trade and that could be implemented in some countries could have an unfavorable impact on the Group's growth.

However, the Group's growing internationalization enables a better geographical distribution of these risks. In addition, the Group continues to implement measures aimed at minimizing the risks arising from the Group's international operations. However,

there can be no assurance that the results of the Group will not be significantly affected by a deterioration of economic, political or regulatory conditions or by a crisis in some of the countries where the Group is present.

#### 4.2.5 RISKS ASSOCIATED WITH ECONOMIC CONDITIONS OF THE GROUP'S PRINCIPAL MARKETS

As a major player in the food and beverage industry, the Group's sales are dependent on the overall economic climate of its principal geographic markets to varying degrees according to its needs. In periods of economic slowdown, the Group may have to contend with reduced spending by consumers whose purchasing power has declined and changing consumption patterns as a result of economic conditions. These events may have adverse effects on the Group's business activities and on its results.

#### 4.2.6 RISKS ASSOCIATED WITH WEATHER CONDITIONS AND SEASONAL CYCLES

Some of the Group's product markets are affected by seasonal consumption cycles and weather conditions, which may have a negative impact on the Group's interim and annual results. In particular, demand for beverages peaks during the summer months. As a result, the Group's sales are generally higher during these months. Conversely, relatively cool summer temperatures may result in substantially reduced sales of beverage products, especially packaged water, in the impacted geographical area relative to a normal year, and thus may have adverse effects on the Group's business activities and results.

#### 4.2.7 RISKS ASSOCIATED WITH THE CONSEQUENCES OF RESTRUCTURING PLANS

The Group has undertaken restructuring plans in the past and could continue to do so. Restructuring plans consist of, in particular, plant closings and personnel reductions in order to improve the efficiency of its production processes, implement synergies, adapt to the demands of a constantly evolving market and, possibly, lower production costs. Restructuring could harm the Group's employee relations and result in labor disputes, including work stoppages, strikes and disruptions, which could have an adverse impact on the Group's image, business activities and results.

#### 4.2.8 RISKS ASSOCIATED WITH THE GROUP'S REPUTATION

The Group's international expansion and strong reputation expose it to attacks of any nature that could affect its reputation via various means of communication. The Group has established crisis management processes designed to limit the impacts resulting from such attacks as much as possible.

## 4.3 Operational Risks Specific to the Group's Activity and Organization

### 4.3.1 RISKS ASSOCIATED WITH THE CONCENTRATION OF PURCHASES OF SOME PRODUCTS AND SERVICES FROM A LIMITED NUMBER OF SUPPLIERS

In connection with its policy of optimizing its purchasing, the Group centralizes the purchase of certain goods (in particular raw materials such as the ferments used in the Fresh Dairy Products business line) and services (in particular sub-contracted services or information technology services) from a limited number of suppliers. Notwithstanding the measures taken to safeguard these supplies and services, if some of these suppliers are not able to provide the Group with the quantities and qualities of products or goods specified that the Group needs under the conditions set forth, or if the suppliers are not able to provide services in the required time period, the Group's business activities and results could be materially adversely affected.

### 4.3.2 RISKS ASSOCIATED WITH THE GROUP'S DOMINANT POSITION IN CERTAIN MARKETS

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

### 4.3.3 RISKS ASSOCIATED WITH THE GROUP'S ACQUISITION AND PARTNERSHIP STRATEGY

**Acquisitions.** The Group's strategy is to become the leader in each of the markets in which it operates. Within the context of continued concentration in the food and beverage industry, this strategy involves the pursuit of growth opportunities through acquisitions. These acquisitions could have a negative impact on the Group's business if it is unsuccessful in integrating the acquired companies, providing the necessary resources, and/or fails to achieve all of the synergies and savings it expects from these acquisitions.

**Partnerships.** The relationships with partners of the Group in certain entities are governed by agreements, contracts, or documents that could allow certain decisions to be made either with the agreement of such partners or without the agreement of the Group. Such restrictions could make it difficult for the Group to carry out its strategy. Finally, certain agreements signed with partners may provide the Group or its partners with call or put options on their stake.

### 4.3.4 RISKS ASSOCIATED WITH AN UNFAVORABLE CHANGE IN BUSINESS ACTIVITY FORECASTS AND ITS IMPACT ON IMPAIRMENT TESTING OF ASSETS

In connection with the allocation of Numico's acquisition price in 2007, a significant amount was allocated to goodwill and to acquired, non-amortized brands with an indefinite useful life from an accounting standpoint.

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

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

### 4.3.5 RISKS ASSOCIATED WITH THE GROUP'S PRODUCTS

A number of the Group's products, in particular fresh dairy products, must be maintained within certain temperatures to retain their flavor and nutritional value and to avoid contamination or deterioration. In areas such as Baby Nutrition and Medical Nutrition, the absence of chemical contaminants of raw materials, and contaminations crossed with allergens, and the maintenance of sterility in the packaging process are crucial. In addition, in the Waters activity, there exists a risk of pollution of the natural water sources that supply the necessary resources for this activity. For all of its activities, the detection of trace contaminants originating in the product environment, even if they involve infinitesimal amounts, could significantly affect the Group's results.

The risk of product contamination is classified into four categories: microbiological, chemical, physical and allergic and depends on the nature of the products. This risk of contamination exists at each stage of the production and marketing cycle: at the time of purchase and delivery of raw materials, the production process, the packaging of products, the stocking and delivery of finished products to distributors and food retailers, and the storage and shelving of finished products at the points of final sale.

In the event that certain of the Group's products (including recipes/formulas or certain active ingredients) are alleged to be contaminated or have harmful short- or long-term health effects or have no health effects, or if in fact the products are contaminated or have such negative or non-existent effects, the Group's activities could be negatively affected. In addition, reports or allegations of inadequate product quality control relating to

certain products of other food manufacturers could negatively impact its sales. The Group believes that it has put in place measures to limit the risk of contamination, in particular through the completion of multiple controls of the production lines and regular audits of its sites, partnerships with scientific organizations of international standing and the implementation of zero-tolerance quality management and food safety policies.

The Group's strategy rests on the development of products with a strong nutrition/health component. In this context, the Group is particularly vigilant regarding scientific fundamentals, the regulatory context and the origin of ingredients used. In addition, the Group is developing more and more complex products made from organic materials, especially probiotics.

The Group also remains vigilant with respect to the follow-up of risks "perceived" by the consumer, of which GMOs (Genetically Modified Organisms) and obesity constitute some striking examples. To this end, the Group has developed a network of privileged interlocutors (including, in particular, consumer associations) in order to discuss common subjects that preoccupy individuals and to offer elements of clarification in both a formal and informal manner.

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

#### 4.3.6 RISKS ASSOCIATED WITH INFORMATION SYSTEMS

The Group is increasingly dependent upon common infrastructures and information technology applications for all its business activities. The main risks are related to the availability

of computer services and the confidentiality and integrity of data. Indeed, any failure of these infrastructures, applications or communication networks and any interruption linked to the failure of securitization of data centers or networks may block or slow down production or sales, delay or taint certain decisions and result in financial losses for the Group. In addition, most of the former Numico subsidiaries rely on distinct information systems. Any accidental or intentional loss of data, if it were to be used by third parties, may have adverse effects on the Group's business activities and on its results.

#### 4.3.7 RISK OF AN INTERNAL CONTROL FAILURE

The Group has implemented an internal control system (see Section 16.6 on the Report on internal controls and risk management procedures established by the Company). This system, regardless of how proper it may be, can only provide reasonable assurance and not an absolute guarantee with respect to the achievement of the company's objectives due to the limits inherent in any control process. Therefore, the Group cannot exclude the risk of an internal control failure.

Similarly, the Group cannot exclude any risk of fraud. However, given the risk profile of its activities and the existence of an exhaustive anti-fraud program, covering all aspects of reducing the risk of fraud and the potential impact of any fraud (risk identification, prevention, detection, and corrective measures and reporting), which is widely disseminated (notably via the DANgo internal control system – see Section 16.6), the Group's exposure to this risk is then reduced.

## 4.4 Legal Risks

#### 4.4.1 RISKS ASSOCIATED WITH BRAND NAMES AND INTELLECTUAL PROPERTY

Given the importance of brand recognition to its business, the Group invests considerable effort in protecting its portfolio of trademarks such as, for example, the *Danone* brand name, the product lines known as *Activia* and *Actimel*, or the *Evia* brand name. The Group uses security measures to protect its patents, licenses and proprietary recipes for its products (as indicated in Section 11.2). However, the Group cannot be certain that third parties will not attempt to infringe on its intellectual property rights. Moreover, the Group's potential recourse to intellectual property rights protection varies by country. The degree of protection may be different, as may be the Group's implementation of a defense strategy. If the Group is unable to protect its intellectual proprietary rights against infringement or misappropriation, its results and growth could be negatively affected.

#### 4.4.2 RISKS ASSOCIATED WITH REGULATIONS

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

More particularly, the Group's activities are subject to various laws and regulations that are always changing and more and more restrictive. These regulations relate in particular to the protection of health and food safety, consumer protection, nutrition and

**Industrial Risks**

claims about the health benefits of products marketed by the Group, the reimbursement of certain products of the Medical Nutrition business and the Group's advertising and promotional activities. Any change in these laws or regulations, any decision by an authority regarding these laws or regulations or any other event that would challenge the nutritional or health claims related to certain products could have a significant impact on the Group's activities, increase its costs, reduce consumer demand and possibly result in litigation.

Major litigations are presented in Section 20.1, Note 28 of the notes to the consolidated financial statements and Section 20.4.

## 4.5 Industrial Risks

The safety of the Group's employees, subcontractors, people living close to the Group's industrial sites, and its industrial sites is a key priority for the Group's industrial policy.

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

The Group's main industrial activities do not intrinsically expose it to particular risks. The management of fire and explosion risks nevertheless remains a major concern of the Group's business lines.

In order to reinforce its risk management, the Group has put in place procedures to assess safety levels at its industrial sites. These assessments are made by independent experts and enable operational units to define and implement customized prevention and protection policies. These procedures are based on international standards that typically exceed local standards.

Furthermore, they allow an exhaustive inventory of the various potential industrial risks and also apply to partnerships with the Group's largest suppliers.

In 2009, 88 safety audits of the Group's industrial sites were conducted by independent companies, which assigned a rating from 1 to 5 (with 5 being the best) to each audited industrial site. As of December 31, 2009, 33 sites had a rating of 5, enabling them to obtain an HPR certification (Highly Protected Risk). The weighted average rating for Danone's industrial sites was 3.90 in 2009, compared with 3.95 in 2008. The slight decline resulted in part from the above-average increase in the sales contribution of certain relatively lower-rated sites.

## 4.6 Environmental Risks

The Group's environmental policy aims to respond to the concerns of many different parties in this area, especially consumers (who are increasingly focused on the environmental impact of products), while controlling risks.

Environmental expenditures and investments are presented in Section 8.2.

### 4.6.1 RISKS ASSOCIATED WITH ENVIRONMENTAL REGULATIONS

The Group's activities are subject to numerous laws and regulations (which mainly relate to water, air, the use of natural resources, noise and waste). They are becoming more and more stringent and are constantly evolving.

These activities are, in particular, subject to obtaining authorizations or making prior declarations in Europe, pursuant to applicable legislation concerning installations classified for environmental protection and, in other countries, pursuant to similar regulations.

Packaging is subject to specific regulations and in particular European Directive 94/62, as amended in 2004, relating to packaging and packaging waste (which requires reductions at the source, reductions in the toxicity of hazardous substances, recycling, and recovery). The Group's activities are also subject to, on the one hand, the European Directive of 2003 establishing a trading system and, on the other, quotas for greenhouse gas emissions and the transpositions of the National Allocation Plans in the European Union. Five of the Group's sites in the European Union are thereby subject to quotas (whose impact on the Group's financial situation is not significant), while the other sites are currently below the minimum eligibility threshold. If, in the future, the Group is unable to limit the emissions of these five sites and comply with allocated quotas, it would incur a fine and would have to purchase the shortfall on the market for greenhouse gas quotas.

When the Group is unable to reduce its environmental impact through direct action, notably in the agricultural and water preservation areas, it undertakes to help players in various areas, such as research and education, and any other actions that favor reductions in its environmental impact. The environmental action plans are presented in Section 8.2.

There is no significant provision for environment-related risks and liabilities in the consolidated balance sheet as of December 31, 2009.

### 4.6.2 RISKS ASSOCIATED WITH CONSUMERS' CHOICE OR ENVIRONMENTAL PREFERENCES OR CONSIDERATIONS

Consumers' purchasing preferences are increasingly influenced by environmental concerns (in particular greenhouse gas emissions and the preservation of water resources), and such preferences are at times supported by NGOs (Non-Governmental Organizations). Distributors also pay an increasing amount of attention to the messages sent to consumers (in particular the labeling of the carbon impact of products). If the Group is unable to anticipate changing consumer preferences, in particular through the implementation of measures associated with reductions and communication on environmental consequences, its results could be negatively affected.

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

### 4.6.3 OTHER RISKS

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

## 4.7 Financial Market Risks

As part of its normal business, the Group is more or less exposed to financial risks, especially foreign currency, financing and liquidity, interest rate, counterparty credit, and security-related risks. The risk management policy and its organization within the Group are described in the paragraph headed “Market risk management

policy” of Section 9 and additional information and data, in particular with regard to the Group’s residual exposure (after hedging) to these different risks, are described in Section 20.1 (see Note 15 of the notes to the consolidated financial statements concerning IFRS 7).

### 4.7.1 CURRENCY RISK

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

- in relation to its operating activities: the sales and operating expenses of the subsidiaries of the Fresh Dairy Products business line and most of the subsidiaries of the Group’s Waters business line are expressed primarily in their country’s domestic currency. Certain imports (especially raw materials and finished goods) and exports are, however, expressed in other currencies. Also, due to the limited number of production units in the world, the subsidiaries of the Medical Nutrition and Baby Nutrition business lines and certain Waters subsidiaries frequently use intra-group imports denominated in a currency other than their functional currency. The sales and operating margin of certain Group subsidiaries are therefore exposed to fluctuations in exchange rates against their functional currency. Pursuant to its operational foreign exchange risk hedging policy, the Group’s residual exposure (after hedging) was significantly reduced during the fiscal year (see Note 15 of the notes to the consolidated financial statements);
- in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities. Pursuant to its financial foreign exchange risk hedging policy, the Group’s residual exposure (after hedging) is not significant (see Note 15 of the notes to the consolidated financial statements concerning IFRS 7);
- when translating into euros the financial statements of subsidiaries denominated in a foreign currency: the trading operating income may be generated in currencies other than the euro. Consequently, fluctuations in exchange rates of foreign currencies against the euro may have an impact on the Group’s income statement. These fluctuations also have an impact on the carrying amount in the consolidated balance sheet of assets and liabilities denominated in currencies other than the euro. The Group has implemented a monitoring and hedging policy with regard to the net assets of some subsidiaries.

In addition, in accordance with IAS 39 relative to derivative instruments, foreign exchange rate fluctuations can have an impact on the Group’s results and consolidated shareholders’ equity (see Note 15 of the notes to the consolidated financial statements concerning IFRS 7).

### 4.7.2 FINANCING RISK AND LIQUIDITY RISK

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

The Group may, however, in the future, increase its indebtedness to finance acquisitions.

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

- The Group’s liquidity risk arises mainly from the maturities of its (i) interest-bearing (bonds, bank debt, etc.) and (ii) non interest-bearing financings (liabilities on put options granted to minority shareholders), and by payments on derivative instruments (see Note 15 of the notes to the consolidated financial statements concerning IFRS 7).
- As part of its debt management strategy, the Group regularly seeks new financings to refinance its existing debt. The Group manages its exposure to refinancing risk by: (i) borrowing from diversified financing sources, (ii) arranging a significant portion of its financing as medium term financing, (iii) maintaining financing sources available at any time, and (iv) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts.

In countries in which centralized financing is not accessible or where medium-term financing is not available, the Group could be exposed to a liquidity crunch, but only in limited amounts.

Further information on the financing structure and on financial security is given in Section 10.3.

### 4.7.3 INTEREST RATE RISK

The Group's interest-bearing debt exposes it to interest rate fluctuations that impact its financial expenses.

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

In addition, in accordance with IAS 39 relative to derivative instruments, interest rate fluctuations may have an impact on the Group's results and consolidated shareholders' equity (see Note 15 of the notes to the consolidated financial statements concerning IFRS 7).

### 4.7.4 COUNTERPARTY RISK

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

The Group's banking policy focuses on counterparty credit quality, as a means to reduce risks (see Note 15 of the notes to the consolidated financial statements concerning IFRS 7).

### 4.7.5 SECURITIES-RELATED RISK

#### Risk Related to the Company's Shares

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

#### Risks Related to Other Equity Securities

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

As of December 31, 2009, the Group's equity investments included listed securities whose market value is reflected in the balance sheet (see Note 7 of the notes to the consolidated financial statements).

## 4.8 Insurance and Risk Coverage

Regarding risks other than financial market risks (described in Section 4.7), the Group has a comprehensive coverage policy based on stringent technical evaluations that use insurance products in the world market, depending on availability and local regulations.

The risk coverage policy is consistent for all companies over which the Company has operational control. The policy is as follows:

- potentially major traditional risks (property damage, business interruption, commercial general liability): such programs are negotiated at Group level for all subsidiaries, with top international insurers. The "all risks except" policies are based on the broadest guarantees available on the market, coupled with deductibles which, while of varying amounts, are relatively low compared to those extended to groups of comparable size to reflect the autonomous management of subsidiaries. The guarantee limits are set based on worst case scenarios and on insurance market availability. The coverage was renewed on January 1, 2007 for a fixed term of three years. The total cost of these programs was approximately € 22 million in 2009. These insurance programs were renewed on January 1, 2010 for a one-year period;
- common risks: these risks, which require local management, include coverage of fleets of vehicles, guarantees for the transportation of merchandise, work-related accidents (in countries in which these accidents are covered by private insurance), and insurance specific to some countries. These insurance policies are negotiated and managed in accordance with local practices and regulations, within the framework of precise directives provided and controlled by the Group. Total premiums came to approximately € 14 million in 2009;
- special risks: these potentially significant risks require centralized management. The liability of the Group's executive directors and officers (*mandataires sociaux*), fraudulent acts, and assorted risks (taking products off the market, credit risk, environmental risk, etc.) are covered according to market availability, on the basis of scenarios estimating the probable impact of these claims. The total cost of this category of coverage amounted to approximately € 3 million in 2009.

In addition, in order to optimize its insurance costs and properly control its risks, the Group has a self-insurance policy through its captive reinsurance subsidiary Danone Ré (a fully consolidated Group entity). The self-insurance policy applies to specific risks

**Insurance and Risk Coverage**

where the costs can be accurately estimated as the Group is aware of their frequency and financial impact. This concerns essentially (i) coverage of property damage, business interruption, commercial general liability, and transportation for a large majority of the Group's companies (these self-insurance programs are limited to frequent claims with a maximum of € 7.5 million per

claim) and, for the French subsidiaries, (ii) payments for death, long-term disability, and education. Moreover, stop-loss insurance protects Danone Ré against any increased frequency of claims. These self-insurance programs are managed by professional insurers under the Group's supervision and the provisions are determined by independent actuaries.



# INFORMATION REGARDING THE COMPANY

## 5.1 Corporate History

### 5.1.1 Legal Name and Trade Name

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

### 5.1.2 Registration Number in the Register of Commerce and Companies

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

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

### 5.1.3 Date of Incorporation and Term of the Company

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

### 5.1.4 Registered Office, Legal Form and Applicable Law

#### REGISTERED OFFICE

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

#### LEGAL FORM AND APPLICABLE LAW

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

### 5.1.5 Significant Developments in the Company's Business

#### HISTORY

The Group's origins date back to 1966 when the French glass manufacturers, Glaces de Boussois and Verrerie Souchon Neuvesel, merged to form Boussois Souchon Neuvesel, or BSN. In 1967, BSN generated sales of around € 150 million in flat glass and glass containers. In 1970, the BSN group began a program of diversification in the food and beverage industry

and successively purchased Brasseries Kronenbourg, Société Européenne de Brasseries and Société Anonyme des Eaux Minérales d'Evian which were, at the time, major customers of the BSN group for glass containers. These acquisitions made the BSN group France's market leader in beer, bottled water, and baby food. In 1973, BSN merged with Gervais Danone, a French food and beverage group specialized in dairy and pasta products,

## Corporate History

becoming the largest food and beverage group in France, with consolidated sales of around € 1.4 billion, 52% of which in food and beverage.

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

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

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

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

The year 2007 marked the end of a 10-year period during which the Group refocused its operations on the health sector. In 2007, the Group sold nearly all of its Biscuits and Cereal Products business (to the Kraft Foods group), and added Baby Nutrition

and Medical Nutrition to its portfolio (by acquiring Numico). The acquisition of Numico thus brought a new dimension to the Group's development model in terms of its positioning in health, its innovation and its geographical expansion. The Group's strategy now presents clear priorities, aligned with its mission of "bringing health through food to the largest number of people."

Following these substantial changes, the Group is positioned around four business lines:

- Fresh Dairy Products, which accounted for 57% of total consolidated sales in 2009;
- Waters, which accounted for 17% of total consolidated sales in 2009;
- Baby Nutrition, which accounted for 20% of total consolidated sales in 2009; and
- Medical Nutrition, which accounted for 6% of total consolidated sales in 2009.

## HIGHLIGHTS OF 2009

The Group's total sales declined 1.6% year on year to € 14,982 million in 2009. On a like-for-like basis, however, 2009 sales were actually up 3.2%, allowing the Group to reach the growth targets it had set.

The trading operating margin came in at 15.31% in 2009, versus 14.91% in 2008. On a like-for-like basis, the trading operating margin improved by 61 basis points, within the range the Group had targeted for 2009.

The Group's free cash flow (equal to cash flows from operating activities less capital expenditure net of proceeds of disposals) accelerated significantly, increasing by 20.6% from € 1,183 million in 2008 to € 1,427 million in 2009.

## Acquisitions and Disposals

In 2009, the Group made the following disposals:

- in February 2009, the Group finalized the sales of its Frucor subsidiary (a leader in non-alcoholic beverages in New Zealand and Australia) and its international brands, *V* and *Mizone* (with the exception of its presence in China and Indonesia);
- in April 2009, the Group ended its joint venture in India with Wadia Group by selling its 50% holding;
- in September 2009, the Group announced that it had reached an out-of-court settlement with its Chinese partner for the sale of its 51% stake in Wahaha (Waters – China), a collection of legal entities (the "Subsidiaries" or "JVs"). This amicable agreement was submitted to the Chinese authorities for their approval. Each step of the out-of-court settlement was executed in accordance with the provisions of the agreement and the planned timetable, and the final phase took place in late December 2009. The execution of this agreement put an end to the Group's partnership with Wahaha;

- in December 2009 the Group announced the acquisition of an additional stake in Danone Clover (Fresh Dairy Products – South Africa), raising the Group's total holding from 55% to 100%;
- lastly, in 2009, the Group made other disposals and acquisitions of equity investments (see preamble to Section 9 and Section 20.1, Note 2.1 of the notes to the consolidated financial statements), and continued to pursue its organic growth strategy (see Section 6.2).

### Legal and arbitration Proceedings

As indicated in the preceding paragraph relating to acquisitions and disposals, in December 2009 the last stage of the out-of-court settlement signed by the Group with its Chinese partner for the sale of its 51% stake in Wahaha was completed. This agreement enabled the Group to put an end to all of the legal proceedings involving its partner.

Since January 2008, several class actions have been filed in the United States. The plaintiffs alleged the existence of misleading advertising with regard to the health claims made for the products *Activia* and *DanActive* (“*Actime!*”). In September 2009, the U.S. subsidiary The Dannon Company Inc. announced that it had reached an out-of-court settlement of these class actions initiated in January 2008 and concerning the advertising of its *Activia* and *DanActive* products. Under the terms of this agreement, the U.S. subsidiary has agreed to make certain changes and improvements to labeling and advertising, mainly to highlight the scientific claims regarding the probiotic strains specific to these products, and agreed to set up a fund for an amount of USD 35 million – notably to reimburse the cost of products purchased by those purchasers who request reimbursement.

A request certification of a class action seeking monetary redress and punitive damages under the Civil Code of Quebec and the Quebec Consumer Protection Act, alleging misrepresentation by Danone Inc. to Canadian and Quebec purchasers of Danone products (including *Activia* and *DanActive*) has been submitted in October 2009. Petitioner alleges that claims that probiotic bacterial supplements provide health benefits are false and misleading. The Motion for authorization of a class action was filed before the Quebec Superior Court but has not yet been heard.

These suits are described in Section 20.1, Notes 2 and 28 of the notes to the consolidated financial statements, and in Section 20.4.

### Group Equity and Financing

In 2009, the Group strengthened its financial structure through the following:

- an increase in the Company's share capital and additional paid-in capital of € 0.4 billion following the option offered to each shareholder to receive the dividend in cash or in new shares, granted by the Shareholders' Meeting of April 23, 2009;
- the capital increase with retention of preferential subscription rights completed on June 25, 2009, which increased the Company's share capital and additional paid-in capital by € 3.1 billion;
- the partial repurchase of certain of the Company's bonds, following the issuer bid made November 27, 2009, for a total nominal amount of € 1.2 billion. This transaction was preceded by the transfer to the Company by its Danone Finance subsidiary of all its bond loans, under the terms of a substitution agreement, for a total nominal value of € 1.8 billion.

These transactions enabled the Group to reduce its gross and net debt levels, and return to debt levels consistent with its cash generation capacity, with its organic and external growth strategy, and with the current financial climate.

### Creation of the “Danone Ecosystem Fund”

In 2009, the Group confirmed the relevance of its social responsibility policy by creating the “Danone Ecosystem Fund” endowment fund.

As approved by the Shareholders' Meeting of April 23, 2009, the Company made a free and irrevocable capital contribution of € 100 million to the fund during the fiscal year.

The purpose of the fund is to strengthen and grow the businesses of the partners that comprise the Group's ecosystem: agricultural producers, suppliers and subcontractors, transportation and logistics operators, and distributors (see Section 20.2.1).

## 5.2 Investments

### 5.2.1 Principal Investments in 2008 and 2009

#### INDUSTRIAL INVESTMENTS

Capital expenditure totaled € 699 million in 2009, compared with € 706 million in 2008 (representing respectively 4.7% and 4.6% of consolidated sales). To continue its geographic expansion and support its growth in emerging countries, the Group maintained a significant level of capital spending in 2009, while at the same time optimizing its capital expenditure projects at a lower level than in 2008.

The amounts invested during fiscal year 2009 include, for 38% of the total, investments in countries with high growth potential (notably Argentina, Brazil, the United States, China, Indonesia, and Russia) and, for 8% of the total, investments in countries in which the Group's presence is recent (notably in South Korea and Thailand), and in the Africa/Middle East region (Saudi Arabia and Egypt).

The amounts invested during fiscal year 2008 included primarily investments in countries with high growth potential (including Argentina, Brazil, Canada, the United States, China, and Indonesia) and in countries in which the Group's presence is recent (notably South Korea).

#### FINANCIAL INVESTMENTS

Financial investments for the year 2009 amounted to € 147 million (net of the cash received with acquired companies), compared with € 259 million in 2008, and related mainly to:

- the acquisition of an additional stake in Danone Clover (Fresh Dairy Products - South Africa), raising the Group's total holding from 55% to 100%. Following this additional acquisition, the

Group's interest in Mayo Dairy (Proprietary) Ltd, a subsidiary of Danone Clover, increased from 38.5% to 70%;

- the acquisition of a 26.85% stake in Micropharma (Fresh Dairy Products – Canada). The company has been consolidated as an associated company since the second half of 2009;

In 2008, financial investments concerned primarily: the acquisition of the remaining 1.15% of the shares of Royal Numico N.V., a company in which the Group had held 98.85% of the shares since December 31, 2007; the acquisition of all of the shares of Icoara (Waters – Brazil); the takeovers of Mayo (Fresh Dairy Products – South Africa) and of Mashhad Milk Powder (Baby Nutrition – Iran) following the acquisition of 70% and 60% stakes, respectively; the acquisition of a 49% stake in the Toeca International Company joint venture (Fresh Dairy Products – Netherlands); the acquisition of a 49% stake in a joint venture with Weight Watchers (China); and the acquisition of additional stakes in Danone Hayat Antalya (Waters – Turkey) and Salus (Waters – Uruguay), increasing the Group's respective holdings from 80% to 100% and from 58.61% to 94.11%.

The Group did not buy back any of its own shares in 2009 or 2008.

### 5.2.2 Principal Investments Currently Underway

The principal investments currently underway concern expansions of capacity in emerging countries and countries with high growth potential.

## 5.2.3 Principal Future Investments

### INDUSTRIAL INVESTMENTS

As in 2009, the Group plans in 2010 to focus its capital expenditure on emerging countries and countries with high growth potential.

The Group expects capital expenditure to represent around 4.5% of consolidated sales in 2010.

### FINANCIAL INVESTMENTS

As part of its continuing international expansion strategy, the Group will continue, whenever opportunities arise, to make appropriate acquisitions to strengthen its various business lines.

In addition, the Company and its subsidiaries have entered into various agreements providing for the acquisition by the Group of third-party shareholders' interests in certain companies in

the event these third parties decide to sell their interests (see Note 15 of the notes to the consolidated financial statements). No significant cash outflow is currently considered probable in the short term under the terms of these agreements.

Lastly, the Board of Directors has submitted a draft resolution to the Shareholders' Meeting of April 22, 2010 for approval to buy back its own shares, representing a maximum of 10% of the Company's share capital (64,699,085 shares as of December 31, 2009) at a maximum price of € 60 per share. This authorization would be granted for a period of 18 months from the date of the Shareholders' Meeting. For information purposes, the theoretical maximum purchase value would amount to € 3,882 million.

## OVERVIEW OF BUSINESS ACTIVITIES

### Unless otherwise noted:

- all references herein to “markets” for products in particular, or to market shares, refer to markets for packaged products and exclude products that may be otherwise marketed or sold;
- data pertaining to market shares or the Group’s market positions are based on the value of sales;
- all references herein to market shares or to the Group’s market positions are derived from internal evaluations, which may be based on third-party market studies;
- all references herein to “Fresh Dairy Products” and the Fresh Dairy Products business or markets refer to processed dairy products and exclude milk, cream and butter;
- all references to “Packaged Water” refer to bottled water, water sold in large containers (jugs), and water sold in small containers (cups);
- all references to “Baby Nutrition” refer to baby formula (infant milk formula, follow-on milk, growing-up milks), milk-and fruit-based desserts, cereals, small pots of baby food and ready-made baby food;
- all references to “Medical Nutrition” refer to adult or pediatric clinical nutrition products to be taken orally, or through a catheter in the event of malnutrition related to illness or other causes.

The policy of identifying and managing risks, as well as the main operational risks associated with the Group’s business sectors or those involving its activity and organization, are presented in Section 4 – Risk Factors.

## 6.1 Principal Business Activities of the Group

### Overview

The Group is a major player in the global food and beverages industry, with worldwide sales and operating income of approximately € 14,982 million and € 2,511 million, respectively, in 2009. The Group operates in four markets: (i) Fresh Dairy Products, (ii) Waters, (iii) Baby Nutrition and (iv) Medical Nutrition.

By volume, the Group is the world’s leading producer of Fresh Dairy Products, the second largest producer of Packaged Water, the second largest producer of Baby Nutrition, and the European leader in Medical Nutrition.

Some of the Group’s brands include national and international market leaders such as *Danone* (*Dannon* in the United States), the world’s leading brand of fresh dairy products; *Evian*, the world’s leading brand of bottled still mineral water; *Volvic*, the Group’s other major international brand of bottled still mineral water; and *Aqua*, the leading brand of packaged water in Indonesia.

In addition, with the acquisition of Numico in 2007, the Group, which already held a leading position in France with *Blédina*, is now the leader in the Baby Nutrition market in Europe through

its local brands (such as *Cow&Gate* in the United Kingdom) or international brands, such as *Nutricia* and *Milupa*.

The *Danone* brand, used primarily for Fresh Dairy Products, currently represents approximately 60% of the Group’s net sales and recorded nearly 2% growth in 2009 at constant scope and exchange rates.

In addition, the Group has developed two probiotic product lines known under the names *Actimel* and *Activia* (*Bio* in certain countries), and a line of low-fat products, under the names *Taillefine*, *Vitalinea*, and *Ser*, as well as a “fromage frais” line designed for children known under the brands *Danonino*, *Danimals* or *Petit Gervais*. These brands are gradually being extended to all countries in which the Group is present.

The Group’s main product for export is bottled water, mainly under the brand names *Evian* and *Volvic*. *Evian* was exported to approximately 150 countries in 2009. It is the leader in the United Kingdom on the global branded water market, and holds the number 2 position in Japan (*Volvic* is number 1). *Volvic* is

the leading still mineral water brand in Germany and the leading imported mineral water in Japan.

Lastly, the Group has a strategy of internal and external growth aimed at establishing a geographic balance between developed and emerging countries. In this context, the Group develops its activities in countries that constitute areas of growth, namely

in China, Indonesia, Brazil, Argentina, Poland, Russia and the United States. These countries represented approximately 31% of the Group's sales in 2009.

## Raw Materials Purchasing

The Group's principal raw material needs consist of (i) materials needed to produce Danone's food and beverage products, primarily milk and fruits ("food raw materials") and (ii) materials needed for packaging its products, primarily plastics and cardboard ("packaging"). Energy supplies represent a smaller portion of the Group's purchases.

Changes in raw materials prices may significantly affect the volatility of the Group's results, either directly (milk) or indirectly (fruits, PET and plastics). With respect to milk, purchases are made in the local markets with varying prices and quality. Depending on the markets and products, the Group is able to adjust its prices and pass on part or all of the raw materials price volatility to the sale price of its products.

To manage this volatility as well as the risk related to the availability of certain raw materials, the Group has established a raw materials purchasing policy ("Market Risk Management"), which consists of identifying rules for securing the physical supply and setting of prices with suppliers and/or on financial markets where applicable. The monitoring of the risk exposure and implementation of this policy are carried out by the Group's central purchasing agents for each category of raw materials. The purchasers primarily negotiate forward purchasing agreements with suppliers, since no financial markets exist that would make it possible to hedge against the price volatility of the Group's main raw materials.

The forward purchasing agreements are monitored at the Group level at the end of each year. The information regarding these future purchase commitments is presented in Section 20.1.1, Note 26 of the notes to the consolidated financial statements. In addition, with respect to the Group's primary raw material category, a sensitivity analysis of changes in milk prices on the

Group's annual purchasing costs (applied simultaneously in all countries where the Group has production activities) is presented in Section 20.1.1, Note 15 relative to IFRS 7.

**Raw Materials – Food.** Milk represents the largest portion of the Group's purchases of food raw material in terms of cost. In the countries where the Group uses milk, operating subsidiaries generally sign contracts with individual local milk producers or dairy cooperatives. The price of milk is subject to changes in the worldwide market for milk protein (milk powder) and milk butterfat; the price of milk is also subject to European Union policy. In this regard, milk quotas regulate the level of milk production, and customs charges are applied to imports into the European Union. In addition, a large portion of the Group's purchases, liquid milk essentially and milk powder, is subject to worldwide market fluctuations. The purchase of other food raw materials, mainly fruit mixtures, is managed through global or regional purchasing programs, allowing for synergies.

**Raw Materials – Packaging.** The Group also manages its purchases of packaging raw materials through global or regional programs in order to optimize shared knowledge and volume effects. Factors that influence the pricing of packaging materials include international and regional supply and demand, economic cycles, production capacities and oil prices. The main packaging materials purchased by the Group are PET, plastics and cardboard.

In 2009, the main packaging raw materials as well as cardboard did not experience any significant change in prices at the Group level.

## Nutrition – Health

The Group considers that nutrition plays an important role in health and well-being. This conviction has been reaffirmed through the Group's mission of "providing health through food for the largest number of people" and inspired Danone's Food, Health and Nutrition Charter, which was updated in 2009. This charter presents the Group's convictions and commitments with respect

to nutrition or health in order to help provide answers to current food-related public health issues (obesity, diabetes, cardiovascular illnesses, nutritional deficiencies). These commitments include: adapting products to the needs of consumers in terms of quality, taste and affordability; the development of products that provide relevant and scientifically proven health benefits; consumer

## Principal Business Activities of the Group

information presented in a clear, reliable and responsible manner, especially with respect to nutritional labeling of products, product claims and advertising; support for healthy lifestyles and nutrition and health research programs; dialogue with public health authorities, consumer groups and scientists, as well as sharing of knowledge with the scientific community and health professionals.

The Group's strategy depends on the development of products with a strong nutrition or health component, notably through powerful and unique brands distributed in varied geographical

locations and adapted to the local environment (nutritional needs, affordability, taste preferences, food culture, tradition, etc.)

This strategy of powerful and unique branding is already deployed in the Fresh Dairy Products business line (through certain leading brands) and in the Waters and Baby Nutrition business lines (through product platforms).

## Environment

The Group's mission of "providing health to the largest number of people" requires preserving nature. In 2009, Danone established a Nature Department, which reports to the Group's General Management. This unit places the minimization of the Group's environmental footprint at the heart of the Group's decision-making process, notably with respect to investment decisions, new Research and Development projects and management control. Environmental considerations have also been integrated

into the purchasing process. In that respect, the Group signed the Danone Carbon Pact with suppliers, thereby demonstrating its bilateral commitment in favor of greater transparency and efforts to reduce its environmental impact.

Lastly, a portion of the variable compensation for most of the Group's executive managers is contingent upon achieving environmental targets.

## Customers, Distribution, Marketing

**Customers.** While the end users of the Group's products may be individual customers, the bulk of the Group's sales are to major retail and grocery chains. The retail industry has become increasingly concentrated over the past several years. In many markets, the Group's three largest customers represent a significant portion of sales. This concentration, particularly advanced in Europe, is expected to increase, in particular in North America and in emerging countries. In 2009, the Group's 10 largest customers worldwide (five of which are French) accounted in aggregate for approximately 24% of total consolidated sales. The five largest customers accounted for approximately 16% of consolidated revenues, and Danone's largest customer, Carrefour, accounts for approximately 7% of consolidated revenues.

The Group has global partnership agreements with major retailers. These partnership agreements contain, in particular, provisions concerning logistical collaboration or management of food safety. However, they typically exclude pricing terms, which remain within the responsibility of the Group's subsidiaries.

The Group has undertaken several initiatives to work closely with its mass retailers to accelerate the development of its product categories, to optimize the flow of products and the inventory levels of its customers. These include efficient consumer response, or ECR, which, in addition to achieving inventory management, automatic inventory replenishments and just-in-time delivery, is used to work with distributors to better manage consumer demand and expectations at the point of sale. In order

to accomplish this, the Group, in collaboration with its principal customers, put in place a shared inventory management system that is used to coordinate inventory levels between the stores, the customers' warehouses and Danone's warehouses. The Group also works with its customers to develop marketing events to enhance its customers' sales, such as joint promotions for specific commercial transactions.

In recent years, certain European retail chains have rapidly expanded internationally. The Group has benefited from this expansion by using existing commercial relationships to introduce its products in certain international markets and therefore accelerate its own geographic expansion as well as the international development of its brands. In these new areas, most large retail chains seek to develop the marketing of brand name quality products as their means of growth and profitability.

In the Medical Nutrition market, the Group works closely with local and regional regulatory authorities, doctors, scientists, hospitals, clinics and pharmacies. In the Baby Nutrition market, customers also include major retail or grocery chains, pharmacies, hospitals, and clinics.

**Distribution.** Although distribution policies vary among different countries due to local characteristics, the Group has two major distribution policies: on the one hand, the flow of products towards major retailers, and on the other hand, the flow designated for traditional market outlets.



In emerging countries, particularly in Asia, Latin America and Eastern Europe, a large portion of Danone's sales is made through traditional market outlets or through small traditional business networks that are most often controlled by the Group. A strong distribution structure is a competitive factor in those countries, where traditional businesses and independent supermarkets still represent a significant share of food sales. In Latin America, a significant portion of fresh dairy product and water sales are generated through local distribution channels.

In recent years, the Group has built leadership positions in the market for water in large containers in Latin America and in Asia. This business requires a direct relationship with the consumers (Home and Office Delivery ("HOD")) or through franchised retail shops.

The Group follows an active policy of streamlining its logistics flows in order to increase the quality of service while reducing costs. This policy is based on an ongoing assessment of the Group's organizational models, most notably aimed at outsourcing its distribution in collaboration with specialized distributors.

In the Baby Nutrition and Medical Nutrition markets, products are mainly commercialized in hospitals, clinics and pharmacies, as well as through mass distribution with respect to the Baby Nutrition business line. Medical visitors meet with general practitioners and specialists (e.g., pediatricians, nutritionists, etc.), as well as with pharmacists.

**Marketing.** The Group's advertising and promotional policies constitute a key element in the success of its overall strategy based on innovation, brand recognition and market leadership.

For several years, the Group has been following a policy of resource optimization by focusing on a few brands in order to maximize efficiency. Accordingly, more and more products have been introduced under leading brand names such as *Danone* or *Taliefine/Vitalinea*, currently used for Fresh Dairy Products and Waters. In addition, the Fresh Dairy Products business line has developed four product lines with powerful and unique brands – *Actimel*, *Activia*, *Danonino* and *Vitalinea* – which are progressively being marketed in all of the countries where the

Group is present. As with the Fresh Dairy Products business line, the Baby Nutrition business line has also developed powerful and unique brand concepts focused around two marketing platforms: Immunity and Superior Nutrition.

In the Medical Nutrition market, products are oriented primarily towards patients, babies and the elderly, who consume these products out of necessity in an effort to manage their daily diet. Most products are administered by prescription and are reimbursed. The Medical Nutrition business line works closely with local and regional regulatory authorities, doctors, scientists, medical personnel in hospitals and clinics and pharmacists. In Medical Nutrition, the Group's brands enjoy a strong reputation, in particular *Nutricia* (which covers a broader portfolio of sub-brands marketed in several countries) and *SHS*.

Danone's operating companies in each business line and geographic market are responsible for developing their own advertising, promotional and sales strategies adapted to local consumer patterns. The operating companies use shared and solid foundations for their strategies that are optimized across product lines and geographic areas by dedicated central organizations. In order to ensure the (i) coherence of retailing strategies within the Group, (ii) sharing of marketing know-how and (iii) optimization of promotional costs, the Group has a department in charge of commercial retail strategies and Group-wide Marketing Departments.

Lastly, direct marketing, which aims at creating direct contact with consumers, is based on a centralized database located in France which contains details of approximately 4 million French households and which allows the Group to communicate with its consumers regularly through personalized mailing campaigns adapted to consumer profiles. The "*Danone et vous*" (Danone and you) marketing initiative, which has been outsourced by the Group since end-2008, includes an annual guide devoted to nutrition and health, a "*Danone et vous*" magazine focused on families with children, and a dedicated Internet site.

## Competition

The Group's competitors in its respective businesses include (i) large international food and beverage groups, such as Nestlé, PepsiCo and Coca-Cola, (ii) large groups in medical nutrition and baby nutrition such as Abbott, Mead Johnson and Fresenius, (iii) smaller companies that are specialized in certain product lines or certain markets, and (iv) food retailing chains offering generic products or their own private label products.

The packaged food and beverage sector is highly competitive due to the large number of national and international competitors. Management believes that the Group's strategy to maintain and

improve its profitability is based on the quality, health benefits, convenience, affordability and innovative aspects of the Group's products and the strong image associated with its brands in the important areas of health, nutrition and food safety. Management believes that success in this industry is achieved through strong local market positions, and therefore the Group seeks to be the market leader in each country where it operates. This strategy allows for a long-lasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability for both parties.

## Principal Business Activities of the Group

- In Western Europe, given that markets tend to be relatively mature, competition for market share is particularly intense. The Group's strategy is to differentiate itself from its competitors by marketing innovative, value-added products that respond to a growing consumer demand for health-oriented/well-being food products. This effort is reinforced by significant advertising based on a portfolio of concentrated brands.
- In North America, the food and beverage markets are relatively mature and competition is intense. In competition with other large food and beverage groups, Danone has based its strategy on its experience of the management of value-added, health-oriented products and its ability to market locally its diverse global product lines.
- In the Rest of the World, essentially in emerging countries, competition in the Group's business lines is high. This is due to the presence of local competitors who usually market products at very low prices, and also due to the efforts of international competitors to penetrate or increase their activities in these high potential markets. The Group's strategy consists of targeting these areas by marketing quality and affordable products that bring health through food to the largest number of people.

## Local Economic Impact on Emerging Economies

The Group has set up operations in many emerging countries, with local production primarily to meet domestic demand.

The subsidiaries in developing countries benefit from training programs, technology transfer and modern industrial equipment. The transfer of know-how is facilitated by Danone Research, the organization that integrates all of the Group's worldwide Research and Development resources and works jointly with various satellite organizations spread over several continents. Emphasis is put on innovation with regard to products, quality control and production processes.

The Group's activities in a given country bring work to numerous local producers and suppliers of goods and services, with which the Group seeks to initiate long-term relationships to ensure supplies that meet its quantity and quality standards. In addition, the Group's industrial activities lead suppliers of specialized equipment (packaging machines, etc.) to establish a permanent presence in the countries where the Group operates. That facilitates the creation of teams, for example, that work with milk producers on the feeding of their dairy herds and rearing methods, thereby contributing toward strengthening of and adding value to the entire agricultural supply chain.

In 2009, the Group also created the "*Fonds Danone pour l'Écosystème*" (Danone Ecosystem Fund), which strives to expand the dual economic and social project of strengthening and developing the Group's partners within its ecosystem: agricultural producers, suppliers and subcontractors, transportation and logistics operators, as well as distributors.

The first two projects related to this initiative have now been completed. The first, which is known as Proximity, consists of establishing a new distribution service aimed at independent local retailers. The second involves an investment project in the Ukrainian milk supply chain aimed at bolstering the activity of small milk producers by combining them into agricultural cooperatives. These cooperatives, located close to the plants of Danone's Ukrainian subsidiary, will make it possible to provide farmers with milking and milk storage equipment in order to improve both productivity and milk quality. They will also provide agricultural training to further enhance the farmers' competencies as well as common agricultural services in order to optimize costs.

## Information Technology

Several years ago, the Group established an information systems organization, which allows the optimization and rationalization of investments in information technology while taking advantage of global synergies.

**Themis.** The Group continues the process of implementing an integrated information system (*Themis*) through an SAP architecture.

In 2009, *Themis* was rolled out in the Netherlands for the Medical Nutrition business line and in South Korea and the United States for the Fresh Dairy Products business line.

In 2009, the activities supported by *Themis* accounted for 57% of consolidated revenues (down from nearly 60% in 2008), a decline partially due to the disposals made during the year, in particular that of Frucor (Waters – New Zealand and Australia).

**Research and Development.** In Research and Development, the *Artemis* system offers, in a single application, all of the nutritional and food safety information related to the ingredients used by Danone, as well as a tool to support product formulation. This system enables Research and Development teams to accelerate the product design and market introduction phases and to secure the product launches.

*Artemis* is widely used in the Fresh Dairy Products business line, as well as for the Waters business line in France. In 2009, it was rolled out in several European subsidiaries in the Baby Nutrition and Medical Nutrition business lines.

**Supply chain.** For several years, the Group has been optimizing its procurement and supply chain, with the goal of improving upstream efficiency as well as collaboration with its suppliers.

With respect to the supply chain, the Group offers to its suppliers and industrials a range of technological solutions and a transactional EDI platform for the online transfer of documents, ranging from ordering to invoicing (*eSupply Chain*).

With respect to the purchasing process, the Group has decided to implement a Supplier Relationship Management solution. The goal of this project, which covers the processes for analyzing expenses, selecting suppliers, managing contracts, and analyzing suppliers' performance, is to structure and reinforce the internal

procurement processes and the relationship with suppliers. Since 2009, this solution is being deployed gradually over the various purchasing categories.

**Sales and Marketing.** Various initiatives have allowed the Group to develop its customer service, in particular:

- the implementation of a new sales force system for local retailers, in particular in Europe and Latin America;
- analyses by category based on market data;
- the implementation of product note synchronization systems related to the Group's principal customers.

## 6.2 Principal Markets

The tables below show the Group's activities by business line and geographic area.

### Business Lines

The table below shows consolidated net sales and trading operating income by business line for the 2008 and 2009 fiscal years.

<i>(In € millions, except percentages)</i>	Year ended December 31			
	2008		2009	
<b>Net sales</b>				
Fresh Dairy Products	8,697	57.1%	8,555	57.1%
Waters	2,874	18.9%	2,578	17.2%
Baby Nutrition	2,795	18.4%	2,924	19.5%
Medical Nutrition	854	5.6%	925	6.2%
<b>TOTAL</b>	<b>15,220</b>	<b>100.0%</b>	<b>14,982</b>	<b>100.0%</b>
<b>Trading operating income</b>				
Fresh Dairy Products	1,224	54.0%	1,244	54.2%
Waters	368	16.2%	324	14.1%
Baby Nutrition	489	21.5%	536	23.4%
Medical Nutrition	189	8.3%	190	8.3%
<b>TOTAL</b>	<b>2,270</b>	<b>100%</b>	<b>2,294</b>	<b>100.0%</b>

## Geographic Regions

The table below shows consolidated net sales and trading operating income by geographic region (Europe, Asia, and the Rest of the World) for the 2008 and 2009 fiscal years.

(In € millions, except percentages)	Year ending December 31			
	2008		2009	
<b>Net sales <sup>(1)</sup></b>				
Europe <sup>(2)</sup>	9,524	62.6%	8,960	59.8%
Asia	1,854	12.2%	1,877	12.5%
Rest of the World	3,842	25.2%	4,145	27.7%
<b>TOTAL</b>	<b>15,220</b>	<b>100.0%</b>	<b>14,982</b>	<b>100.0%</b>
<b>Trading operating income <sup>(1)</sup></b>				
Europe	1,496	65.9%	1,437	62.6%
Asia	313	13.8%	333	14.5%
Rest of the World	461	20.3%	524	22.8%
<b>TOTAL</b>	<b>2,270</b>	<b>100.0%</b>	<b>2,294</b>	<b>100.0%</b>

(1) Net sales or trading operating income of the Group's subsidiaries after elimination of sales between companies belonging to the same region and elimination of inter-regional sales.

(2) France represented 22.5% of net sales in Europe in 2009 (23% in 2008).

### FRESH DAIRY PRODUCTS

The principal products in this Business Line are yogurts and similar products. With 2009 sales of fresh dairy products of around € 8.6 billion, representing approximately 5.1 million tons sold, the Group is the leading producer of Fresh Dairy Products worldwide, with an approximately 27% global market share, compared with 28% in 2008.

**Principal Markets.** Due to a strong presence in Western Europe, this business line's strategy is to develop business activities in new regions in order to benefit from the more rapid growth of emerging countries. This strategy is accompanied by a constant effort to make the main product lines affordable and with strong added value in terms of functional health benefits.

In 2009, the Fresh Dairy Products business line recorded contrasting growth over the course of the year, starting off very slowly in the first half and accelerating throughout the rest of the year. Sales volume growth outpaced that of nominal sales in 2009 because of product line repositioning and adjustments in the pricing strategy. Successful repositioning in the main country markets enabled the Business Line to remain competitive and adjust rapidly and effectively to changed market conditions. The sales volume growth is consistent with the Group's mission of "providing health through food to the largest number of people."

The business line's growth was generated primarily in certain mature markets (United States) and emerging market countries and countries where the Group's presence is more recent (Brazil, China and Japan). Europe accounted for 61% of its total sales (with Western Europe accounting for 46%), while the Rest of the World made up 36% and Asia accounted for less than 5%.

**In Europe,** the Group's main markets are France, Spain, Germany, Italy, the Benelux countries, the United Kingdom, Poland and Russia. Together, they accounted for slightly more than half of the Group's sales in this Business Line in 2009.

- In France, the Group is the market leader for fresh dairy products, with nearly one-third of the total market in 2009 (unchanged from 2008). The Group markets yogurts and other dairy products principally under the Danone brand name. In 2009, France recorded a contraction in sales despite a slight improvement in the fourth quarter following the increase in sales volume prompted by the launch of several sales promotion initiatives and *Actimel's* outstanding performance.
- In Spain, Danone has a 57.29% interest in Danone SA, the country's leading producer of fresh dairy products, with a 56% market share (compared with nearly 57% in 2008). In 2009, this business line's operating performance declined in Spain given the particularly difficult economic and sales environment and despite the positive growth recorded by the *Actimel* and *Activia* brands and sales volume increases (notably in the fourth quarter).
- In Germany, the Business Line continued to record sales and market share gains in 2009.
- In the other Western European countries, the business line's performance was significantly enhanced by the United Kingdom's dynamic growth. The double-digit growth (led by the *Actimel* and *Activia* brands) resulted in a 1.5 percentage point increase in market share to 16.3%. This U.K. performance also demonstrated the business line's ability to innovate and adapt to the local purchasing power through the launch of *Activia* in a single-serving container. Italy's more modest growth enabled the Business Line to increase its market share in that country to more than 35% in 2009, up 1.6 percentage point relative to 2008.

The Group also markets its products in (i) Belgium and Portugal, where it holds leading positions through locally established production subsidiaries and in (ii) Ireland, Austria, Switzerland, Denmark, Norway, and Sweden through marketing subsidiaries and franchises that sell Danone's product lines. In the Scandinavian countries, growth was particularly strong, notably as a result of the strategy focusing on powerful and unique brands.

- In Eastern Europe, the Group is the leading producer of fresh dairy products in Russia, Poland, Hungary, the Czech Republic, Bulgaria, Romania and Turkey. In 2009, some of these countries made negative contributions, with the exception of Bulgaria, Romania, Poland and the Czech Republic. In this latter country, the Business Line increased its market share by 1.8 percentage points in 2009. In addition, the Group has a commercial presence in the Baltic States, Azerbaijan and Belarus thanks to an export strategy originating from the production subsidiaries in neighboring countries.

**In the Rest of the World**, the Group's principal markets are the United States, Canada, Mexico, Argentina and Brazil, which together accounted for one-third of this business line's sales in 2009.

- In Latin America, the Group is the leading producer of fresh dairy products in terms of sales and volume. As such, Danone holds the leading market position in Mexico, Argentina and Brazil. In 2009, this region's growth was led by Argentina, Brazil and, to a lesser extent, Chile, where the Group is present through an acquisition made in 2007.
- In North America, the Group holds the leading position in the United States through Dannon Company and Stonyfield Farm (the latter is the U.S. market leader for organic products). The Business Line recorded modest sales growth in the U.S. market in 2009, although it accelerated throughout the year. In Canada, where the Group is also the market leader, sales growth was strong for the second consecutive year.
- In the Africa and Middle East region, the Group is the leading producer of fresh dairy products in Saudi Arabia, and is also the market leader in Egypt, where the Group's presence was established more recently. The Group also has non-controlling interests in major producers of fresh dairy products in Morocco, Tunisia and Israel, all of which have leading positions in their respective countries. In addition, the Group reinforced its presence in South Africa in 2009 following the acquisition of 45% of the shares in Danone Clover, taking its holding to 100%. This acquisition enabled the Group to strengthen its position in Mayo Dairy (Proprietary) Ltd. in South Africa, which is held by Danone Clover and which markets a leading brand in the townships.
- In the Asia-Pacific region, the Group strengthened its presence in Japan by increasing its market share by 1.8 percentage points to more than 6% in 2009. In Japan, the Group also has a non-controlling interest in Yakult, a listed Japanese company with which the Group entered into a partnership in early 2004 with the objective of further accelerating the growth of both companies in the functional food market and strengthening their market leadership in probiotics. This partnership led to the

launch of probiotic products in India in 2007 through a joint venture with Yakult. In 2009, the Group pursued its growth in the region by strengthening its presence in China in the Shanghai region and in South Korea.

- The Group is also present in India, Indonesia and Thailand.

**Principal Brands.** The Group has developed two lines of probiotic dairy products (under the names *Actimel* and *Activia*), a line of low-fat products (under the names *Taillefine*, *Vitalinea*, and *Ser*), and a line of "fromage frais" designed for children (under the names *Danonino*, *Danimals* or *Petit Gervais*), as well as a product positioned as the market leader in ultra-fresh anti-cholesterol products (known under the name of *Danacol*).

Driven by health consciousness and numerous scientific discoveries, the probiotic market is one of the most dynamic in the Fresh Dairy Products business line.

In the probiotics product line, *Activia* is a fermented dairy product that, when consumed on a daily basis, helps to regulate slow digestive transit after 15 days of consumption. In recent years, the product has recorded very strong growth. In 2009, net sales at constant scope and exchange rates rose by around 12% to € 2.6 billion. *Activia*'s growth made a substantial contribution to the Group's increased sales in most regions last year, driven by sales promotion efforts, notably in Russia, Germany and Spain. The success of *Activia* demonstrates the business line's continuous innovation strategy and confirms the strength of the Group's strong brand strategy.

*Actimel*, the probiotic dairy product that, if consumed daily, helps to strengthen the organism's natural defenses, has been marketed for more than 10 years and continues to record sales volume growth. The product's sales at constant scope and exchange rates totaled € 1.2 billion in 2009, with an increase in the fourth quarter. *Actimel*'s growth was notably strong in Western Europe in 2009, especially in France, Spain and the United Kingdom.

*Petit Gervais*, the "fromage frais" designed for children, is now consumed in over 50 countries, with the product line marketed under different names in the various countries: *Danonino*, *Danimals*, or *Petit Gervais*. The product line is based on a permanent innovative strategy delivering essential nutrients such as calcium and vitamin D for strong bones. Its net sales at constant scope and exchange rates reached around € 800 million in 2009.

*Danacol*, positioned as the leader on the market for ultra-fresh anti-cholesterol products, has posted a dynamic performance in recent years by fully embracing the powerful and unique brand strategy. Its net sales at constant scope and exchange rates increased by more than 17% in 2009, reaching approximately € 200 million.

**New Products.** The dynamism of the Fresh Dairy Products business line is closely linked to its ability to continuously introduce new products and product lines while trying to ensure the most broad-based and rapid dissemination of high-potential concepts. At the same time, this Business Line has grown around two core concepts: affordability and value-added. This approach, known as *affordvaluity*, consists in (i) developing specific brands to reach out to consumer segments with more limited purchasing

## Principal Markets

power and (ii) with respect to powerful and unique brands, offering benchmark products at more affordable prices or in different forms, while still offering the same nutritional qualities and better taste.

In 2009, several new product and format launches confirmed this business line's ability to innovate and adapt global concepts to local markets. As such:

- in Mexico, the Group re-launched a product line built around the "affordability" concept;
- the Group launched, respectively, *Activia Fiber* in the United States and *Activia Breakfast* in Bulgaria, Argentina, Brazil and Portugal, both of them extensions of the *Activia* product line;
- in Spain, Argentina and Portugal, the Group launched *Densia*, which contains calcium and vitamin D, which are necessary for good bone health.

In Bangladesh, the Group partnered with Grameen in 2006 to create a humanitarian company known as Grameen Danone Foods Limited. The purpose of this initiative is to offer healthy foods to Bangladeshis in need and suffering from specific nutritional deficiencies and to contribute to reducing poverty through the implementation of a unique local business model. This model thereby promotes employment and initiative in the local community, and a distribution service provided by the *Grameen Ladies*.

**Market Trends.** Overall, the market for fresh dairy products on a worldwide basis has grown steadily over the past several years.

In Western European countries, this market has continued to grow through volume increases. In 2009, the Business Line demonstrated its capacity to adapt rapidly and effectively to changing market conditions and shifting consumer spending thanks, in large part, to the repositioning of its product lines and to adjustments in its sales pricing strategy.

In Eastern Europe, Africa and the Middle East, the Business Line has continued to follow its geographical expansion strategy through acquisitions, the development of industrial installations and exports from neighboring countries. This expansion strategy has also been extended to the Asia-Pacific region, with the opening of new markets in China and South Korea.

In Latin American countries, the strategy consists of implementing a production and distribution system located closer to consumers. In North America, the Business Line continued to innovate and strengthen its brand image.

The Group believes that it can further strengthen its position in this category thanks to its continuous innovation capacity, its ability to renew and reposition existing product lines (thereby making it possible to cover different price points), its new method of communicating with consumers who are looking for products that combine pleasure and nutritional qualities, and its sales force and distribution network.

## WATERS

The Waters business line includes activities focused on natural or flavored mineral water and on fruit-flavored or tea drinks, with a positioning concerned with health benefits.

In 2009, the Waters business line recorded sales of € 2.6 billion, of which 49% in Europe, 27% in Asia and 24% in the Rest of the World. At constant scope and exchange rates, the relative sales volume contribution from emerging countries increased last year to reach 51%, while the industrialized countries (in particular in Western Europe and Canada, the United States and Japan) contributed 49%.

The Waters business line had a difficult year in 2009, highlighted by sharply contrasting performances by region. In the industrialized countries, notably Spain and Japan, sales in this Business Line posted a strong decline despite a stabilization in consumption trends in the fourth quarter. The negative performance in most industrialized countries was due to the impact of the economic crisis on markets that had already been reeling for several years because of environmental concerns and competition from tap water. In the emerging countries, growth continued to be strong, with double-digit growth in Indonesia, Mexico, Argentina and China. The strong growth in these markets can be attributed to the business line's ability to promote its brands, its expertise in local retail distribution and consumer concerns focused more on the safety provided by bottled water in the absence of drinkable water.

The Group is the second leading producer of packaged water in the world, with two of the five leading bottled water brands in the world (*Evian* and *Volvic*) as well as the leading brand of packaged water in the world (*Aqua* in Indonesia). With approximately 18 billion liters of packaged water sold in 2009, the Group has a market share of around 8.5%. The Group is also the second largest producer of packaged water in Europe and a leading provider of packaged water in the Asia-Pacific region and Latin America.

**Principal Markets and Brands.** The Group maintains strong market shares in Western Europe, where there is a long tradition of consumption of still and sparkling bottled water.

- The Group's principal market for bottled water is France, where it holds more than 28% of the market (unchanged from 2008), mainly through its *Evian*, *Volvic*, *Badoit*, and *La Salvetat* brands.
- The Group is also the leading producer of bottled water in Spain through its *Lanjarón*, *Font Vella* and *Fonter* brands, although its market share slipped from nearly 31% in 2008 to less than 30% last year as a result of the challenging local market environment.
- In the United Kingdom and in Ireland, the Group has a leadership position through its *Evian* and *Volvic* brands, with 36% market share, down from more than 38% in 2008.
- In Germany, the Group has a market share of almost 8% (unchanged from 2008). In Denmark, through its 49% interest in Aqua d'Or, the Group is the leader in bottled still water.

- In Poland, the Group is the market leader through its subsidiary Zywiec Zdroj with a market share of more than 31%, up more than 2.4 percentage points relative to 2008. The Group is also the market leader in Turkey through its subsidiary Danone Hayat.

The Group has continued its growth strategy in other geographic regions, in particular increasing its presence.

- In the North Africa and Middle East region, where the Group is present in Morocco. In 2001, it teamed up with ONA to acquire a 30% interest in Sotherma, one of the country's leading bottled water companies.
- In Latin America, where the Group is the market leader in Packaged Water. The Group is the leader in Mexico, where it is present in the bottled water market through its *Bonafont* brand, while being a major player in the HOD water market. In Argentina, the Group is the leader in the bottled water market with the *Villa del Sur* and *Villavicencio* brands and is the market leader in Uruguay with the *Salus* brand. In addition, through the 2008 acquisition of Icoara in Brazil, subsequently renamed Danone Water Brazil, the Group positioned itself to replicate the success of the *Bonafont* brand's growth model, this time in Brazil.
- In North America, the Group is present in the United States in the premium bottled water market through its *Evian* brand. In Canada, the Group's presence is now based entirely on the *Evian* brand following the disposal of the Group's equity interest in the Danone Naya subsidiary (the Quebec market leader for bottled water), a transaction finalized in May 2009.
- In the Asia-Pacific region, the Group is a major player in packaged water. In Indonesia, the Group holds a 74% interest in Aqua, which is by far the market leader with a more than 50% share. A significant part of the company's revenue is generated through selling water in large containers. In 2009, the *Aqua* brand was the global market leader in the packaged water segment, with more than 7 billion liters of water sold.
- In China, the Group has a significant position with the *Robust* brand and the *Health* brand, a spring water from southern China. In this country, the *Mizone* brand (also distributed in Indonesia) was successfully reintroduced on the dynamic sports water market. In December 2009, the Group executed the final stage in an amicable settlement that included the disposal of its 51% equity investment in its Wahaha joint ventures. The implementation of this transaction brought the partnership between the Group and Wahaha to an end.
- In Japan, in September 2002, the Group entered a partnership agreement with the Mitsubishi and Kirin Beverage Corp., one of the leaders in the Japanese beverage market. The agreement is intended to accelerate *Volvic*'s growth in Japan and enable the Group to participate in the growth of the domestic water market. The Group is the leader in the bottled water market in Japan and has a dominant position in the "premium" segment through its imported brands *Volvic* and *Evian* (for which a distribution agreement was signed in 2008 with Itoen). In

Australia and New Zealand, the Group withdrew from the non-alcoholic beverages market through the sale of its subsidiary Frucor to Suntory Limited, finalized in February 2009.

**New Products.** The Group's strategy focuses on the large brands of natural mineral water by developing drinkable, natural and hydrating high added-value products. Innovations have been developed around this focus by highlighting the specific qualities of its brands: elimination, purity, naturalness, and mineral richness. This strategy, named "DNH" (Drinkable, Natural and Hydrating), has contributed to the growth of the business line, confirming the Group's capacity to respond to changing consumer trends and to improve its brands through two marketing platforms focused on core benefits: elimination and replenishment of vital resources for the organism.

- Thus, the *Bonafont* brand in Mexico and, more recently, Brazil as well as the *Fontvella* brand in Spain and *Villa del Sur* brand in Argentina have positioned themselves around the benefits of elimination thanks to their mineral composition and lightness.
- The *Evian* and *Volvic* brands in France, *Lanjarón* in Spain, *Villavicencio* in Argentina, *Aqua* in Indonesia and *Zywiec Zdroj* in Poland have positioned themselves around the benefits of replenishment, given their source of the water.
- Finally, the market for diet beverages includes the *Taillefine* brand in France and *Ser* brand in Argentina.

In 2009, innovations were focused on waters sold in large containers and on reductions in packaging and carbon footprint. In several countries, bottles are now made of 25% recycled PET, and the first 100% recycled content PET container was launched in Mexico in 2009.

**Market Trends.** Given the sharply contrasting trends in its markets, the Waters business line will continue to pursue its current strategy.

- In mature countries, packaged water faces several constraints including, in particular, (i) competition from distributors' brands and tap water, in terms of price and practicality, and (ii) environmental opposition concerned with environmental preservation.

In these mature countries, the Group will continue to reinforce the positioning of its brands and their value added as perceived by consumers. In addition, the Group introduced an application in 2009 to measure its carbon footprint and continued to implement its three-year multidimensional action plan (reduction of packaging, actions undertaken on plantations in humid zones and offset programs), which, among others, should lead to *Evian* having a neutral carbon footprint by the end of 2011.

- In emerging countries, the business line's strategy consists of accelerating its growth model, in particular by drawing heavily on its experience in local retailing and by implementing the elimination marketing platform in regions or geographic locations where this platform is not yet utilized.

## Principal Markets

**BABY NUTRITION**

This business line's activities consist mainly of producing food for newborns and babies (infant milk formula, follow-on milk, and growing up milk). It also offers a more diverse range of products for children aged 6 to 36 months. Specially developed and clinically tested formulas have also been developed for babies suffering from milk protein intolerance. With net sales of € 2.9 billion in 2009, the Group is the second-largest producer worldwide in the Baby Nutrition market.

In 2009, the Baby Nutrition business line recorded modest growth compared to the exceptional results of 2008, standing up well to the difficult economic environment. This growth resulted from a combination of higher sales in infant milk formula and growing-up milks and the weighting of countries experiencing the highest growth rates. Slight declines in sales of weaning food continued.

**Principal Markets.** Sales in the Baby Nutrition business line were generated in Europe (59% of the total), Asia (31%) and the Rest of the World (10%). In 2009, Indonesia, the United Kingdom and Poland made the largest contributions to the increase in sales. The Business Line recorded market share gains in all the above-mentioned markets as well as in Argentina and most of the major Western European countries.

**In Europe,** the Group's main markets for Baby Nutrition are France, the United Kingdom, Italy, Germany, Poland, the Benelux countries and Russia, which accounted for more than 45% of the business line's 2009 sales.

- In France, the Group is the market leader for Baby Nutrition products with the *Blédina* brand. The Business Line recorded sales growth in 2009, and its market share increased to nearly 49% (compared with around 47% in 2008) despite difficult market conditions.
- In the United Kingdom and Ireland, the Group has a leadership position with market shares of 45% and more than 60%, respectively, in 2009 (compared with approximately 40% and 60% in 2008). The United Kingdom continued to record double-digit growth thanks to contributions from its *Aptamil* and *Cow&Gate* brands.
- In Italy, the Group is present with its *Mellin* brand, which had a more than one-third market share in 2009.
- In Germany, the Business Line recorded growth in line with its overall average growth rate thanks to the contributions from the *Aptamil* and *Milupa* brands.
- In the other Western European countries, notably the Netherlands, Belgium, Switzerland Portugal and Greece, the Group has either market leadership or number two positions.
- In Eastern Europe, the Group is by far the largest player, with leadership positions in Poland, Hungary, the Czech Republic and Slovakia. Poland's growth is above the average for the business line, with a market share that exceeded 50% in 2009.

The Business Line also recorded a market share gain in Russia in 2009.

**In the Rest of the World,** the Group's main markets include China, Indonesia, Malaysia and Thailand, which generated nearly one-third of the business line's sales in 2009.

- In the Asia-Pacific region, the Group ranks second in the Baby Nutrition market with its *Dumex*, *SGM* and *Nutricia* brand. The Group has a solid portfolio in this region, thanks in large part to its leadership positions in China, Indonesia, Malaysia and Thailand. In 2009, the business line's performance was significantly enhanced by the contribution from Asia and the Business Line confirmed its leadership positions in the main countries of the region. Specifically, the Group recorded exceptional growth in Indonesia thanks to the re-launch of its *SGM* brand and other premium brands, as well as in China.
- In Latin America, the Group is present in Brazil and Argentina, where it recorded double-digit growth in 2009.
- In North Africa and the Middle East, the Group is present mainly in Morocco, Tunisia and Algeria, where it enjoys either leadership or number two positions. The Group is the market leader in Turkey, where it has a two-thirds market share.

**New Products.** The Business Line has positioned itself in the premium segment, as proven successful in the Fresh Dairy Products business line. Through this strategy, the Business Line is reinforcing its presence through two marketing platforms and through communication related to health benefits and the packaging of its products.

In 2009, the Immunity platform continued to demonstrate its growth potential in all regions, with double-digit growth. The Superior Nutrition platform's performance was close to the average for the Business Line in 2009.

Several product launches in 2009 confirmed the business line's capacity to innovate and develop global concepts. These included:

- in China, the Group launched *Bebelac* in powdered milk form;
- in Turkey and in Switzerland, the Group launched new formats based in particular on affordability (the *affordvaluity* concept), with container sizes of 200 grams and 115 grams, respectively;
- in France and Italy, the Group launched a line of soups in bowls, marketed under the *Les idées de Maman* brand name.

**Market Trends.** The Group's goal is to further strengthen its presence in emerging countries in order to benefit from growth opportunities and from these countries' resistance to the global economic slowdown. In the longer term, the Group intends to develop through a focus on affordability (concept of *affordvaluity*) and to offer more specific products intended to meet a growing demand resulting from, in particular, the development of allergies and risks associated with obesity.



## MEDICAL NUTRITION

The Medical Nutrition business line develops nutritional products adapted to specific needs, namely those of hospitalized patients, in order to prevent malnutrition and to improve its consumers' daily life. The functional benefits therefore play an important role in this market. With net sales of approximately € 0.9 billion in 2009, the Group is a major player in the medical nutrition market and occupies a leading position in Europe, due in particular to the strength of its *Nutricia*, *SHS* and *Milupa* brands.

In 2009, the Medical Nutrition business line continued to grow at a dynamic pace and recorded market share gains in most of the countries where it is present. Given its activities, the Business Line is less exposed to macroeconomic changes.

**Principal Markets and Brands.** Sales in the Medical Nutrition business line are generated mainly in Europe, with 80% of the total, complemented by 14% in the Rest of the World and 6% in Asia.

In the Medical Nutrition market, the Group is the leader in most European countries, as well as in some countries in Latin America and Asia, due to the strength of its *Nutricia* and *SHS* brands.

- In Western Europe, the main countries are the United Kingdom, Germany and France. In the United Kingdom, the Group is a leader due to the strength of its *SHS* and *Fortisip* brands. In 2009, the business line's performance was driven by France, the Benelux countries and Italy.
- In Asia, the business line's growth was driven by China and the export activities of several Southeast Asian countries in 2009.
- In the Rest of the World, some Middle Eastern countries also contributed to the growth of the Business Line in 2009. In Latin America, the Group is present primarily in Brazil and Argentina and positioned as the number two company locally. Brazil recorded an outstanding performance in 2009 and made a significant contribution to the business line's overall sales.

**New Products.** In the Medical Nutrition market, innovation is key. The Group's innovation strategy focuses on the nutritional quality of the products, and their contribution to the diversification of diets. Specific products, protein enriched for example, prevent malnutrition in the elderly and reinforce the natural defenses of hospitalized patients.

The Business Line began to develop a single brand strategy aimed at a limited number of brands such as *Neocate*, *Fortimel* and *Respifor*.

In 2009, several products have been launched by the Business Line, in particular *Fortimel Compact*, an oral food supplement for the elderly (hospitalized or receiving clinical care) who are lacking essential nutrients.

**Market Trends.** The Group's goal is to increase its worldwide coverage by establishing its presence in new countries and the development of distribution channels. In addition, the Group believes that the medical nutrition market has significant growth potential, in particular due to (i) the aging population of some countries, (ii) increased awareness regarding the role of nutrition in health, (iii) the onset of new illnesses or allergies, and (iv) the increase in the number of diseases detected allowing for earlier treatment of patients. Lastly, if current research aimed at providing support in the treatment of certain diseases or allergies was to lead to commercial successes, such successes could contribute to the growth potential.

# ORGANIZATIONAL CHART

## 7.1 Description of the Group

A presentation of the Group is provided in Section 6.1.

The Company is a holding company and, as such, receives income from its equity interests. It also performs management, control,

assistance, and advisory services for the Group companies, and as such receives fees. Additional details are provided in Section 20.2 – Corporate documents.

## 7.2 Simplified Group Organizational Chart as of December 31, 2009

The percentages shown below are the direct and indirect percentages held by the Company in each of the following fully-consolidated companies as of December 31, 2009. The list of all the consolidated companies is also presented in Section 20.1, Note 29 of the notes to the consolidated financial statements.

### FRESH DAIRY PRODUCTS BUSINESS LINE

#### EUROPE

- GERMANY  
- Danone GmbH 100%
- AUSTRIA  
- Danone GesmbH 100%
- BELGIUM  
- N.V. Danone SA 100%
- BULGARIA  
- Danone Serdika 100%
- CROATIA  
- Danone 100%
- SPAIN  
- Danone SA 57.29%  
- Danone Canarias (Iltesa) 44.98%
- FINLAND  
- Danone Finland 100%
- FRANCE  
- Stonyfield France 100%  
- Danone Produits Frais 100%  
- DanSource 100%
- GREECE  
- Danone Grèce 100%
- HUNGARY  
- Danone Kft 100%
- IRELAND  
- Danone Ltd. 100%
- ITALY  
- Danone S.p.A. 100%

- KAZAKHSTAN  
- Danone 100%  
- Danone Berkut Llp 90%
- NETHERLANDS  
- Danone Nederland B.V. 100%
- POLAND  
- Danone Sp. z.o.o. 100%
- PORTUGAL  
- Danne Portugal S.A. 55.31%
- CZECH REPUBLIC  
- Danone a.s. 100%
- ROMANIA  
- Danone SRL 100%
- UNITED KINGDOM  
- Danone Ltd. 100%
- RUSSIA  
- Danone Industria 85%  
- Danone Volga 77.16%
- SERBIA  
- Danone Adriatic 100%
- SLOVAKIA  
- Danone Spol s.r.o 100%
- SLOVENIA  
- Danone 100%
- SWEDEN  
- Danone AB 100%
- SWITZERLAND  
- Danone 100%
- TURKEY  
- Danone Tikvesli 100%

- UKRAINE  
- Danone 100%  
- Danone Dnipro 100%

#### NORTH AND SOUTH AMERICA

- ARGENTINA  
- Danone Argentina S.A. 99.45%
- BRAZIL  
- Danone Ltda. 100%
- CANADA  
- Danone Canada Delisle 100%
- CHILE  
- Danone Chile 90%
- COLOMBIA  
- Danone Alqueria 90%
- UNITED STATES  
- The Dannon Co. 100%  
- Stonyfield Farm 84.96%
- GUATEMALA  
- Danone Guatemala 100%
- MEXICO  
- Danone de Mexico 100%  
- Derivados Lacteos 60%
- URUGUAY  
- Danone 100%

#### AFRICA AND MIDDLE EAST

- SOUTH AFRICA  
- Danone Clover 100%  
- Mayo 70%
- ALGERIA  
- Danone Djurdjura Algérie 100%
- SAUDI ARABIA  
- Alsafi Danone Company 50.10%
- EGYPT  
- Danone Dairy Egypt 100%  
- Danone Dairy Farm 100%
- IRAN  
- Danone Sahar 70%

#### ASIA-PACIFIC

- CHINA  
- Danone China 100%
- SOUTH KOREA  
- Danone Korea 100%
- INDIA  
- Danone India 100%
- INDONESIA  
- Danone 100%  
- PT Danone Dairy Indonesia 100%
- JAPAN  
- Danone Japan 100%
- THAILAND  
- Danone Dairy Thailand 100%

Simplified Group Organizational Chart as of December 31, 2009

**WATERS BUSINESS LINE****EUROPE**

- GERMANY
  - Danone Waters Deutschland 100%
- BELGIUM
  - Danone Waters Beverages Belux 100%
- DENMARK
  - Aqua d'Or 49%
- SPAIN
  - Aguas Font Vella y Lanjarón 78.52%
- FRANCE
  - Evian (SAEME) 100%

- Société d'Exploitation des Activités Touristiques (SEAT) 100%

- Volvic (SEV) 100%

- Drinkco 100%

● POLAND
 

- Zywiec Zdroj 100%

● UNITED KINGDOM
 

- Danone Waters UK & Ireland 100%

● SWITZERLAND
 

- Evian Volvic Suisse 100%

● TURKEY
 

- Danone Hayat 100%

**NORTH AND SOUTH AMERICA**

- ARGENTINA
  - Aguas Danone de Argentina 100%
  - Danone Argentina 99.45%
- BRAZIL
  - Danone Water Brazil 100%
- UNITED STATES
  - Danone Waters of America 100%
- MEXICO
  - Bonafont 100%
  - Aga Pureza 50%
  - CGA 100%
- URUGUAY
  - Salus 94.11%

**AFRICA AND MIDDLE EAST**

- ALGERIA
  - Danone Tessala Boissons 100%

**ASIA-PACIFIC**

- CHINA
  - Aquarius 50%
  - Danone Premium Brands China 100%
  - Robust 92%
  - Robust Drinking Water 92%
  - Shenzhen Health Drinks 100%
- INDONESIA
  - Aqua 74%

**BABY NUTRITION BUSINESS LINE****EUROPE**

- GERMANY
  - Milupa GmbH 100% <sup>(1)</sup>
  - Nutricia Grundstücksverwaltungs GmbH 100%
  - Central Laboratories Friedrichsdorf GmbH 100%
- AUSTRIA
  - Milupa GmbH 100%
- BELGIUM
  - N.V. Nutricia België 100% <sup>(1)</sup>
- SPAIN
  - Numil Nutrición S.R.L. 100%
- FINLAND
  - Nutricia Baby OY Ltd 100%
- FRANCE
  - Blédina 100%
- GREECE
  - Numil Hellas S.A. 100% <sup>(1)</sup>
- HUNGARY
  - Numil Hungary Tápszervekedelmi Kft 100% <sup>(1)</sup>
- IRELAND
  - Nutricia Ireland Ltd. 100% <sup>(1)</sup>
- ITALY
  - Mellin S.p.A. 100%

● KAZAKHSTAN
 

- Nutricia Kazakhstan LLP 100%

● LATVIA
 

- Nutritia Sia Amajia Latvia 100% <sup>(1)</sup>

● LITHUANIA
 

- UAB Nutricia Baltics 100% <sup>(1)</sup>

● NETHERLANDS
 

- Nutricia Export B.V. 100%
- Nutricia Nederland B.V. 100% <sup>(1)</sup>
- Nutricia Cuijk B.V. 100%
- Danone Beheer B.V. 100% <sup>(1)</sup>
- Danone Research B.V. 100% <sup>(1)</sup>
- Danone Trading B.V. 100% <sup>(1)</sup>

● POLAND
 

- Nutricia Polska Sp. z.o.o. 50% <sup>(1)</sup>
- Nutricia Zakłady Produkcyjne Sp. z.o.o. 49.98%

● PORTUGAL
 

- Milupa Produção S.A. 100%
- Milupa Comercial S.A. 100% <sup>(1)</sup>

● CZECH REPUBLIC
 

- Nutricia Deva a.s. 100%
- Nutricia a.s. 100% <sup>(1)</sup>

● ROMANIA
 

- Milupa S.R.L. 100%

● UNITED KINGDOM
 

- Nutricia Ltd. 100% <sup>(1)</sup>

● RUSSIA
 

- OJSC Istra Nutricia Baby Food 99.69%
- LLC Nutricia Russia 99.91% <sup>(1)</sup>

● SLOVAKIA
 

- Nutricia Slovakia s.r.o 100% <sup>(1)</sup>

● SWITZERLAND
 

- Milupa S.A. 100%

● TURKEY
 

- Numil Turkey TRY 100% <sup>(1)</sup>

● UKRAINE
 

- Nutricia Ukraine LLC 100%

**MIDDLE EAST**

● IRAN
 

- Mashhad Milk Powder Industries Company 60%

**NORTH AND SOUTH AMERICA**

● ARGENTINA
 

- Kasdorf S.A. 100%
- Nutricia Bago SA 51% <sup>(1)</sup>

● BRAZIL
 

- Support Produtos Nutricionais Ltda 100% <sup>(1)</sup>

**ASIA-PACIFIC**

● AUSTRALIA
 

- Nutricia Australia Pty Ltd. 100% <sup>(1)</sup>

● CHINA
 

- Dumex Baby Food Co. Ltd. 100%

● INDONESIA
 

- PT Sari Husada 99.97%
- PT Nutricia Indonesia Sejahtera 100%
- PT Sugizindo 99.85%

● MALAYSIA
 

- Dumex (Malaysia) Sdn. Bhd. 100%

● NEW ZEALAND
 

- Nutricia Ltd. 100% <sup>(1)</sup>

● THAILAND
 

- Dumex Ltd. Thailand 98.91%

● VIETNAM
 

- Danone Vietnam Company Ltd. 100%

(1) Part of both the Baby Nutrition and the Medical Nutrition business lines.

Simplified Group Organizational Chart as of December 31, 2009

**MEDICAL NUTRITION BUSINESS LINE****EUROPE**

- GERMANY
  - Pfrimmer Nutricia GmbH 100%
  - SHS Ges. Für Klinische Ernährung GmbH 100%
- AUSTRIA
  - Nutricia Nahrungsmittel GmbH 100%
- DENMARK
  - Nutricia A/S 100%
- SPAIN
  - Nutricia S.R.L. 100%
- FINLAND
  - Nutricia Clinical OY Ltd. 100%

- FRANCE
  - Nutricia Nutrition Clinique S.A.S. 100%
- ITALY
  - Nutricia Italia S.p.A. 100%
- NORWAY
  - Nutricia Norge AS 100%
- NETHERLANDS
  - N.V. Nutricia 100%
- UNITED KINGDOM
  - Scientific Hospital Supplies International Ltd. 100%
- SWEDEN
  - Nutricia Nordica AB 100%

- SWITZERLAND
  - Nutricia S.A. 100%

**NORTH AND SOUTH AMERICA**

- COLOMBIA
  - Nutricia Colombia Ltda 100%
- UNITED STATES
  - Nutricia North America Inc. 100%
  - HealthSpan Solutions Llc 48.30%

**ASIA-PACIFIC**

- CHINA
  - Nutricia Pharmaceutical Company Wuxi 100%

## PLANTS AND EQUIPMENT

### 8.1 Main Production Sites

The Group has production facilities around the world in its principal markets. As of December 31, 2009, Danone had 159 production sites, of which (i) 55 in Europe, including 12 in France and 10 in Spain; (ii) 50 in the Asia-Pacific region, including 19 in Indonesia; and (iii) 54 in the Rest of World, including 6 in the United States and Canada, 33 in Argentina, Brazil, Mexico and other countries in Latin America, and 15 in Africa and the Middle East.

Analysis of the total number of Group production facilities as of December 31, 2009 and total production by business line in 2009, for the fully consolidated companies.

<b>Business line</b>	<b>Number of plants</b>	<b>Production</b> <i>(in millions of tons or liters)</i>
Fresh Dairy Products	55	4,731
Waters	81	17,555
Baby Nutrition	20	523
Medical Nutrition	3	135

The Group's general policy is to own its production facilities. The Group has many, widely-dispersed production facilities.

In 2009, the Group's five largest Fresh Dairy Products facilities were located in Russia, the United States, Mexico, Argentina and Brazil, and accounted for approximately 33% of the Group's total production of Fresh Dairy Products.

The Group's two largest bottled water facilities, both located in France, accounted for approximately 15% of the Group's total packaged water production capacity in 2009, and the two largest production facilities for water in large containers, both located in Indonesia, accounted for close to 8%.

The Group's largest facility in the Baby Nutrition business line is located in France and accounted for close to 13% of the business line's production in 2009.

The Group's largest facility in the Medical Nutrition business line is located in the Netherlands and accounted for close to 93% of the business line's production in 2009.

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

### 8.2 Environment and Safety

Industrial and environmental regulations and risks are described in Section 4 – Risk Factors.

#### Environment

The Group's approach to environmental issues is linked to its businesses and to its corporate mission. The environment and natural raw materials enter into the Group's nutritional business activities, as it transforms these materials to make saleable products with a strong nutrition/health component.

For many years, the Group has sought to improve food safety and the quality of its raw materials. The Group is currently putting in place environmentally-friendly sustainable industrial and farming models, allowing it to reduce the footprint of its operations throughout the production chain.

## Environment and Safety

In addition, beginning in 2000, in anticipation of potentially stricter measures on climate change, the Group implemented a 10-year plan to reduce its environmental impact. Since 2008, this plan has been strengthened and includes:

- development of an application to measure its carbon and water footprint; this application has been implemented in all Group subsidiaries.

Specifically, the estimated carbon footprint of the Group's products worldwide (UNFCCC scope 3) represents a total impact of 17 million metric tons of CO<sub>2</sub> equivalent (or 0.003% of global carbon emissions).

Given the nature of its activities, the direct environmental impact related to the Group's industrial activity (energy and industrial emissions) is very limited, around 11% of the Group's total carbon emissions. The agricultural products used by the Group account for 58% of these emissions. The balance consists of packaging and transportation for the Group's products.

- implementation of emissions reduction measures: for example, packaging (15% of products' total carbon footprint), with resource-saving initiatives (reductions at the source and packaging mix design), support for recycling and the reuse of recycled materials; transportation (10% of products' total carbon footprint), with more efficient use of transportation types, in particular increased use of rail freight. For the Group, these two areas are likely to strengthen the involvement of all suppliers with respect to this risk. In 2008, the Group initiated measures to increase all its suppliers' involvement in this process, committing them to measuring and reducing their impact through a three-year plan;
- committing to the voluntary offset of greenhouse gas emissions. In particular, through these actions the Group's Nature Department is involved in projects with NGOs and the local population to restore mangrove forests in Senegal.

## Environmental Expenses and Investments

In 2009, the Group invested approximately € 38.1 million in environmental protection measures, or around 4.7% of its total industrial investments.

The three major categories of investment are:

- waste, water and air, accounting for 37% (in particular the improvement of collection, storage, and sorting, water treatment and treatment plants, savings in amounts consumed, and the treatment of emissions);
- eco-design, accounting for 11% (reduction in and recycling of packaging);
- energy, accounting for 52% (savings in amounts consumed, transitioning toward renewable sources of energy).

Operating expenses related to the environment amounted to approximately € 92.6 million in 2009. They include € 37.7 million for the management of water, energy and waste and for environmental taxes other than those on packaging. The latter amounted to € 54.9 million in 2009.

In addition, fines, penalties and damages paid to third parties in respect of the environment totaled less than € 0.03 million in 2009. No significant provisions for environment-related risks and liabilities were recorded in the consolidated balance sheet for the fiscal year ended December 31, 2009.

# OPERATING AND FINANCIAL REVIEW

## Preamble

**Strategic Refocusing.** In line with its strategic refocusing on health-food related activities, the Group sold all of its Grocery, Packaging, Cheese and Cured Meat, Brewing and Sauces activities between 1997 and 2007, as well as all of its Biscuits activities in 2007 with the exception of its holdings in Latin America and South Asia. In 2009, the Group disposed of its interests in Southeast Asia when the Group's Indian partner acquired its holding in Britannia Industries Limited (see Section 20.1.1, Note 3 to the consolidated financial statements).

With the acquisition of Numico in October 2007, the Group reached a key milestone in its project to become the world leader in health through food, by reinforcing its positions in the Baby Nutrition and Medical Nutrition markets. As such, 2007 marked the end of a 10-year period aimed at refocusing the Group on health-related activities.

In 2009, the Group continued its development focused on economic affordability and value added (*affordability*), notably through the launch of new, attractively-priced formats. In addition, the Group further refocused its activities on natural mineral waters following the disposal of its subsidiary Frucor, a major player in the non-alcoholic beverages market segment in New Zealand and Australia. The transaction closed in February 2009.

**Acquisitions.** As part of the Group's development strategy it is continuously considering potential acquisitions. The Group may acquire an initial equity interest of less than 100% of the capital in a target company, including, as the case may be, a non-controlling interest, and concurrently enter into agreements with other shareholders allowing the Group to increase its interest over time, obtain effective control, or to become the sole owner of the company's capital.

**Changes in Scope of Consolidation.** Changes in the scope of consolidation are described in Section 20.1.1 of Note 2 of the notes to the consolidated financial statements.

The main financial investments for the 2009 fiscal year include:

- a step acquisition in Danone Clover (Fresh Dairy Products – South Africa), bringing the Group's ownership interest from 55% to 100%. Following this step acquisition, the Group's equity interest in Mayo Dairy (Proprietary) Ltd, which is indirectly held by Danone Clover, rose from 38.5% to 70%;
- the acquisition of a 26.85% interest in Micropharma (Fresh Dairy Products – Canada). The company has been consolidated as an associate since the second half of 2009.

The main financial investments in 2008 were as follows: the purchase of the remaining 1.15% shareholding in Royal Numico N.V. (the Group had owned 98.85% of this company's shares since December 31, 2007); the acquisition of all shares in Icoara (Waters – Brazil); the acquisition of 70% and 60% controlling interests in Mayo (Fresh Dairy Products – South Africa) and Mashhad Milk Powder (Baby Nutrition – Iran), respectively; the acquisition of a 49% stake in the Toeca International Company joint venture (Fresh Dairy Products – the Netherlands); the acquisition of a 49% interest in a joint venture with Weight Watchers (China); the step acquisitions in Danone Hayat Antalya (Waters – Turkey), which increased the Group's ownership interest from 80% to 100%, and in Salus (Waters – Uruguay), bringing the Group's ownership interest from 58.61% to 94.11%.

The principal divestments in 2009 involved:

- the 100% interest in Frucor (Waters – New Zealand and Australia). The divestment, completed in February 2009, generated a net capital gain of € 315 million;
- the 100% interest in Danone Naya (Waters – Canada). The divestment, completed in May 2009, generated a net capital gain of € 3 million;
- the 51% equity interest in the Wahaha joint ventures (Waters – China). The divestment, completed in December 2009, generated a net capital loss of € 98 million.

The principal divestments for the 2008 fiscal year included the 100% interest in Sources du Mont-Dore en Auvergne, named SMDA (Waters – France) and the 100% interest in Milupa Nutricia SAS and SD France SAS (Baby Nutrition – France).

**Exchange Rate Fluctuations.** A significant part of the Group's activities is located outside of France and is denominated in currencies other than the euro. In 2009, 43% of the Group's sales were generated in euros and 57% in other currencies, mainly the U.S. dollar, British pound, Mexican peso, Argentine peso and Indonesian rupiah. Approximately 57% of the Group's trading operating income was denominated in currencies other than the euro. Consequently, foreign exchange rate fluctuations against the euro could have an impact on the Group's income statement. These fluctuations also have an effect on the value of the consolidated balance sheet assets and liabilities denominated in currencies other than the euro.

**Seasonality of Sales.** Seasonal consumption cycles affect certain of the Group's product markets, which can have an impact on the Group's quarterly and annual results, in particular

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an increase in the consumption of water during the second and third quarters. As a result, the Group typically records its lowest quarterly net revenues during the first quarter of each year. In addition, rainy summers, such as those in Europe in 2007 and in 2008, may negatively impact sales of packaged water and, as a result, total net revenues. Conversely, warmer temperatures can stimulate demand and thus favorably impact sales (see Section 4 – Risk factors).

**Other Factors.** Other factors affecting the Group's business activities and the results of its operations include raw material prices, foreign exchange rate fluctuations, competition, economic conditions and consumer purchasing power in countries where the Group operates, interest rate fluctuations and certain governmental actions (see Section 4 - Risk Factors).

**Valuation of Assets.** The Group performs a review of non-current assets for impairment at least once a year. As described in Notes 1.4 and 1.5 of the notes to the consolidated financial statements, this review consists of comparing the recoverable value of the assets to their net carrying value. The recoverable value corresponds to the higher of value in use and fair value less costs to sell. In 2009, a € 55 million impairment charge was recognized on the 22.98% stake held for sale in China Huiyuan Juice Group Limited, reflecting the difference between the fair value of the shares (based on their stock market price on the closing date) and their net carrying value. The impairment charge was recognized under "Share of profits of associates".

In 2008, the Group recorded a € 131 million impairment charge, recognized under non-current financial expenses, related to the non-consolidated equity holdings in Wimm-Bill-Dann.

These impairment charges are described in Notes 3, 6 and 7 of the notes to the consolidated financial statements.

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

Through its Treasury Department, which is part of the Finance function, the Group possesses the expertise and tools (trading room, front and back office software) necessary to act on different financial markets following standards generally implemented by first-class companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly treasury report is sent to the Group's General Management, enabling it to monitor the decisions taken to implement the previously approved management strategies (see Section 4 – Risk Factors).

**Accounting Principles.** The accounting principles followed by the Group for the preparation of its consolidated financial statements are described in Note 1 of the notes to the consolidated financial statements. The accounting principles whose application requires the use of certain assumptions, estimates and judgments and that could have a significant impact on the consolidated financial statements relate to the valuation of intangible assets, investments in associates, deferred tax assets, financial liabilities relating to put options granted to minority interests as well as provisions for risks and liabilities, provisions for commercial agreements and provisions for retirement commitments.



## 9.1 Financial Position

The tables below present the principal components of the consolidated income statement, as well as the Group's revenue, trading operating income and trading operating margin by business line and geographical area for each of the years ended December 31, 2008 and 2009.

### Consolidated Income Statement

(In € millions, except for percentages expressed based on revenue)	Fiscal year ended on December 31			
	2008		2009	
<b>Revenue <sup>(1)</sup></b>	<b>15,220</b>	<b>100.0%</b>	<b>14,982</b>	<b>100.0%</b>
Cost of goods sold	(7,172)	47.1%	(6,749)	45.0%
Selling expenses	(4,197)	27.6%	(4,212)	28.1%
General and administrative expenses	(1,297)	8.5%	(1,356)	9.1%
Research and Development expenses	(198)	1.3%	(206)	1.4%
Other revenue (expense)	(86)	0.6%	(165)	1.1%
<b>Trading operating income</b>	<b>2,270</b>	<b>14.9%</b>	<b>2,294</b>	<b>15.3%</b>
Other operating income (expense)	(83)	0.5%	217	1.4%
<b>Operating income</b>	<b>2,187</b>	<b>14.4%</b>	<b>2,511</b>	<b>16.8%</b>
Cost of net debt	(439)	2.9%	(264)	1.8%
Other financial revenue (expense)	(145)	1.0%	(225)	1.5%
<b>Income before tax</b>	<b>1,603</b>	<b>10.5%</b>	<b>2,022</b>	<b>13.5%</b>
Income tax	(443)	2.9%	(424)	2.8%
<b>Income from fully consolidated companies</b>	<b>1,160</b>	<b>7.6%</b>	<b>1,598</b>	<b>10.7%</b>
Share of profits of associates	62	0.4%	(77)	0.5%
<b>Net income from continuing operations</b>	<b>1,222</b>	<b>8.0%</b>	<b>1,521</b>	<b>10.2%</b>
Net income from discontinued operations <sup>(2)</sup>	269	1.8%	–	–
<b>Net income</b>	<b>1,491</b>	<b>9.8%</b>	<b>1,521</b>	<b>10.2%</b>
- Attributable to the Group	1,313	8.6%	1,361	9.1%
- Attributable to minority interests	178	1.2%	160	1.1%

(1) Revenue is stated net of rebates and discounts, as well as trade support actions that are generally invoiced by customers.

(2) The information related to sold companies in the Biscuits and Cereal Products business line is included in the net income from discontinued operations for all periods presented.

## Revenue, Trading Operating Income, and Trading Operating Margin

	Revenue		Trading Operating Income		Trading Operating Margin <sup>(1)</sup>	
	2008	2009	2008	2009	2008	2009
<b>By business line</b>						
Fresh Dairy Products	8,697	8,555	1,224	1,244	14.1%	14.5%
Waters	2,874	2,578	368	324	12.8%	12.6%
Baby Nutrition	2,795	2,924	489	536	17.5%	18.3%
Medical Nutrition	854	925	189	190	22.1%	20.5%
<b>Group</b>	<b>15,220</b>	<b>14,982</b>	<b>2,270</b>	<b>2,294</b>	<b>14.91%</b>	<b>15.31%</b>
<b>By geographical area</b>						
Europe <sup>(2)</sup>	9,524	8,960	1,496	1,437	15.7%	16.0%
Asia	1,854	1,877	313	333	16.9%	17.7%
Rest of the World	3,842	4,145	461	524	12.0%	12.6%
<b>Group</b>	<b>15,220</b>	<b>14,982</b>	<b>2,270</b>	<b>2,294</b>	<b>14.91%</b>	<b>15.31%</b>

(1) Trading operating income as a percentage of revenue.

(2) France represented 22.5% of revenue in Europe in 2009 (23% in 2008).

**Revenue.** The Group's revenue fell by 1.6%, from € 15,220 million in 2008 to € 14,982 million in 2009. Revenue increased by 3.2% at constant consolidation scope and exchange rates, that is, excluding the negative effect of changes in the consolidation scope (-1.4%) and fluctuations in exchange rates (-3.4%). Of the 3.2% organic growth achieved in 2009, approximately 5.2% was the result of an increase in volumes and -2% the effect of a negative price.

The effect of changes in the consolidation scope primarily resulted from the disposal of the equity interests held by the Group in its former subsidiaries Frucor (Waters – New Zealand and Australia) and, to a lesser extent, Danone Naya (Waters – Canada), which were finalized in February 2009 and May 2009 respectively. The exchange rate effect was due mainly to the weakening of the Russian ruble, the Polish zloty, the Mexican peso and the U.K. pound.

Geographically, the growth at constant scope and exchange rates achieved in 2009 was driven by Asia and the Rest of the World regions, which posted growth of 11.0% and 8.0% respectively. Revenue in Europe declined by 0.3% at constant scope and exchange rates.

**Cost of Goods Sold.** Cost of goods sold corresponds to production costs (which essentially include the cost of food raw materials and packaging), industrial labor as well as the amortization of production equipment. The cost of goods sold fell by 5.9%, from € 7,172 million in 2008 to € 6,749 million in 2009. As a percentage of revenue, the cost of goods sold decreased

by 210 basis points, from 47.1% in 2008 to 45.0% in 2009. This decrease resulted from productivity gains achieved largely as a result of the growth in volumes and the reduction in raw material prices, as well as cost savings obtained by the Group following renegotiation of some of its purchase contracts and synergies implemented in the area of logistics.

**Selling Expenses.** Selling expenses are comprised of advertising and promotional expenses, distribution costs and sales force overhead costs. Selling expenses increased from € 4,197 million in 2008 to € 4,212 million in 2009, representing 27.6% and 28.1% of revenue in 2008 and 2009, respectively. This increase resulted mainly from the growth in volumes sold. In 2009, marketing expenses increased as a percentage of revenue due mainly to the launch or re-launch of products, notably in China and Indonesia, but also as a result of the significant number of sales promotion initiatives set-up in 2009 in most of the main countries in which the Group operates.

**General and Administrative Expenses.** General and administrative expenses increased in 2009 to € 1,356 million compared with € 1,297 million in 2008. They represented 9.1% of revenue in 2009 compared to 8.5% of revenue in 2008.

**Research and Development Expenses.** Research and Development expenses, representing 1.4% of revenue in 2009, totaled € 206 million in 2009 compared with € 198 million in 2008. This increase reflects the Group's continuing efforts in the field of Research and Development to devise new products and improve the nutritional qualities of existing products.

**Other Revenue (Expense).** Other revenue (expense) amounted to net expense of € 165 million in 2009 compared with € 86 million in 2008. The breakdown is as follows:

(In € millions)	2008	2009
Employee profit-sharing	(99)	(98)
Share-based compensation	(19)	(28)
Capital gains on disposal of tangible or intangible assets	99	52
Restructuring costs	(39)	(51)
Other	(28)	(40)
<b>TOTAL</b>	<b>(86)</b>	<b>(165)</b>

In 2009, the capital gains from the sale of tangible and intangible assets resulted mainly from the sale of the international brands “V” and “Mizone” (with the exception of China and Indonesia) for a net amount of € 45 million. In 2008, the capital gains from the sale of tangible and intangible assets resulted mainly from the sale of real estate and non-strategic brands.

**Trading Operating Income.** Trading operating income increased by 1.1%, from € 2,270 million in 2008 to € 2,294 million in 2009.

The trading operating margin increased by 40 basis points, from 14.91% in 2008 to 15.31% in 2009. At constant scope and exchange rates, the trading operating margin grew by 61 basis points. This increase, boosted by productivity gains and favorable movements in raw material prices, enabled the Group to reinvest in sale price reduction and product range repositioning initiatives.

**Other Operating Revenue (Expense).** In 2009, the Group generated other net operating revenue of € 217 million, which consisted mainly of capital gains arising on the disposal of equity

investments, in particular Frucor (Waters – New Zealand and Australia) for € 325 million, offset for € 100 million by the payment of a free and irrevocable capital contribution in connection with the creation of the Danone Ecosystem Fund.

In 2008, other operating revenue (expense) totaled a net expense of € 83 million and comprised mainly the restructuring and integration costs incurred in connection with the acquisition of Numico, the reversal of the provision for the VEB litigation recognized at the time of the acquisition of Numico (following the signing in February 2009 of the agreement with the Dutch Association of Shareholders “VEB”), as well as incurred or estimated costs related to various legal disputes.

**Operating Income.** Operating income increased by € 324 million, from € 2,187 million in 2008 to € 2,511 million in 2009. The operating margin grew by 240 basis points, from 14.4% to 16.8%, due mainly to the capital gains recognized on the sale of assets during the fiscal year.

**Cost of Net Debt.** The cost of net debt decreased from € 439 million in 2008 to € 264 million in 2009, and is broken down as follows:

(In € millions)	2008	2009
Interest expense	(497)	(340)
Interest revenue	58	76
<b>TOTAL</b>	<b>(439)</b>	<b>(264)</b>

In 2009, the decrease in interest expense resulted mainly from the reduction in the level of the Group’s debt (see Section 10.1 – Net debt).

**Other Financial Revenue (Expense).** Net other financial expense amounted to € 225 million in 2009 compared with € 145 million in 2008 (see Note 22 of the notes to the consolidated financial statements).

In 2009, other financial expenses resulted mainly from:

- derivative instruments hedging foreign exchange risk related to operations and the ineffective part of such hedges in accordance with IAS 39, as well as other recurring items. In 2009, the cost of such derivative instruments was higher than in 2008 due to (i) the rise in interest rates in certain countries

because of the financial crisis and the generalization of the use of hedging in all the subsidiaries in the Baby Nutrition and Medical Nutrition business lines and (ii) the negative effect of the ineffective part of said hedges as compared with 2008;

- financial transactions carried out following the June 25, 2009 capital increase and related mainly to the partial repurchase of certain of the Company’s bonds, which generated an expense of € 121 million.

In 2008, other financial expenses resulted mainly from the cost of operating derivative instruments hedging foreign exchange risk related to operations, the ineffective part of such hedges in accordance with IAS 39, other recurring items and an impairment loss of € 131 million recognized in respect of the equity investment in Wimm-Bill-Dann.

## Financial Position

**Income tax.** The income tax charge fell from € 443 million in 2008 to € 424 million in 2009. The decrease in the effective tax rate, which was 21.0% in 2009 compared to 27.6% in 2008, was the result mainly of a decrease in tax rates in markets where the Group is present, and of a positive country mix (see Note 23 of the

notes to the consolidated financial statements). Excluding non-current items, the effective tax rate was 23.4% in 2009 compared with 23.5% in 2008. A comparison between the statutory tax rate in France and the effective tax rate of the Group is detailed in Note 23 of the notes to the consolidated financial statements.

**Share of Profits of Associates.** The share of profits of associates can be broken down as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Group's share in net income	91	110
Impairment loss	–	(63)
Loss on disposal and others	(29)	(124)
<b>TOTAL</b>	<b>62</b>	<b>(77)</b>

The impairment loss recognized in 2009 corresponded mainly to a € 55 million fall in the carrying value of the shares in China Huiyuan Juice Group Limited, which is accounted for as an associate (see Notes 3 and 6 of the notes to the consolidated financial statements).

The loss on disposal consisted mainly of the net capital loss on disposal of the Wahaha (Waters – China) shares for € 98 million (including the recycling of translation adjustments, disposal expenses and tax effects).

**Net Income Attributable to the Group.** The net income attributable to the Group amounted to € 1,361 million in 2009 compared with € 1,313 million in 2008.

The reconciliation of the net income attributable to the Group to the underlying net income attributable to the Group is presented in the table below:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
<b>Net income attributable to the Group</b>	<b>1,313</b>	<b>1,361</b>
- Non-current net income (loss) attributable to the Group	–	(51)
<b>Underlying net income attributable to the Group</b>	<b>1,313</b>	<b>1,412</b>

In 2009, the main constituents of the non-current net loss attributable to the Group were (i) revenue shown under “other operating revenue (expense)” of € 217 million (see above), (ii) a charge of € 121 million recognized in connection with the partial repurchase of certain of the Group's bonds carried out following the June 25 capital increase, (iii) the net capital loss of € 98 million on the disposal of the Wahaha joint ventures (including the recycling of translation adjustments, disposal expenses and tax effects), and (iv) the impairment loss of € 55 million recognized in respect of the shares in China Huiyuan Juice Group, classified as assets held for sale.

**Net Income from Discontinued Operations.** There were no movements during the year in respect of activities discontinued, sold or held for sale.

In 2008, this item mainly included the additional revenue received as a result of the disposal of the Group's equity holdings in the Generale Biscuit Glico France joint venture as part of the disposal of the Biscuits and Cereal Products businesses to Kraft Foods.

**Earnings per Share.** The diluted earnings per share attributable to the Group, which has been restated to take into account the June 25, 2009 capital increase, fell from € 2.66 in 2008 to € 2.48 in 2009. Excluding non-recurring items recognized in 2008 and 2009, the underlying diluted earnings per share attributable to the Group fell from € 2.66 in 2008 to € 2.57 in 2009. Excluding changes in consolidation scope and exchange rates, and the impact of the capital increase of June 25, 2009, the underlying earnings per share was 10.2% higher in 2009 than in 2008.

## 9.2 Operating Income

### Revenue, Trading Operating Income, and Trading Operating Margin by Business Line

**Fresh Dairy Products.** Revenue for the Fresh Dairy Products business line fell by 1.6%, from € 8,697 million in 2008 to € 8,555 million in 2009. At constant scope and exchange rates, this business line's revenue increased by 1.6% in 2009. This organic growth consisted of positive (4.6%) growth in revenue, which was partially offset by a negative 3.0% price effect. The growth in volume, which was greater than the growth in revenue, resulted mainly from the sales price adjustments and the repositioning of product ranges carried out in the main countries in which the Group operates. In addition, the business line's performance in 2009 was driven mainly by the *Activia* and, to a lesser extent, the *Danacol* ranges as well as by the increased sales in the *Actimel* range during the fourth quarter.

The performance achieved in 2009 once again demonstrated this business line's ability to innovate and expand the scope of its brands and product ranges, whether geographically (in countries with strong growth) or by the introduction of new products. As such, the probiotic *Activia* product range continued to display sales growth rates of around 12% at constant scope and exchange rates and generated revenue of € 2.6 billion in 2009. Similarly, sales of *Danacol* recorded growth of approximately 17% at constant scope and exchange rates and totaled more than € 200 million in 2009. Lastly, sales of *Actimel* totaled € 1.2 billion in 2009 at constant scope and exchange rates.

Trading operating income increased from € 1,224 million in 2008 to € 1,244 million in 2009 and the trading operating margin increased from 14.1% in 2008 to 14.5% in 2009. This Business Line improved its trading operating margin due to the favorable movement in raw material costs and productivity gains achieved.

**Waters.** Revenue for the Waters business line fell by 10.3%, from € 2,874 million in 2008 to € 2,578 million in 2009, due mainly to the disposals of Frucor (Waters – New Zealand and Australia) and Danone Naya (Waters – Canada) which were finalized in February and May 2009 respectively. At constant scope and exchange rates, revenue for this Business Line increased by 1.0% in 2009. This organic growth resulted from an increase in volumes (6.2%), offset in part by a negative price effect (-5.2%). It was, in particular, driven in 2009 by the dynamism of emerging countries, including Indonesia, Mexico, Argentina and China, which recorded double-digit growth. In industrialized countries, in particular Spain and Japan, unfavorable market conditions led to a slowdown in growth with a negative price effect.

The trading operating income declined by approximately 12.0%, from € 368 million in 2008 to € 324 million in 2009, and the trading operating margin decreased from 12.8% in 2008 to 12.6% in 2009. This decrease in the trading operating margin resulted mainly from negative value effects in certain industrialized countries (Spain and Japan).

**Baby Nutrition.** Revenue for the Baby Nutrition business line increased from € 2,795 million in 2008 to € 2,924 million in 2009. At constant scope and exchange rates, the business line's revenue increased by 7.9% in 2009, of which 4.2% resulted from a growth in volumes and 3.7% from a positive price effect. This organic growth was driven, in particular, by market share gains in most geographical areas and by the exceptional performances achieved in Indonesia, the United Kingdom and Poland.

This business line's trading operating income increased from € 489 million in 2008 to € 536 million in 2009. The trading operating margin increased from 17.5% to 18.3%, due mainly to the favorable movement in raw material costs, the implementation of productivity programs and the favorable effect of the product mix.

**Medical Nutrition.** Revenue for the Medical Nutrition business line increased from € 854 million in 2008 to € 925 million in 2009. At constant scope and exchange rates, the business line's revenue increased by 11.4% in 2009. Most of this organic growth resulted from volume increases (for 10.7%). This growth was driven, in particular, by the dynamism of most regions and, in particular, by Southern Europe and regions in which the Group has only recently begun to operate. In addition, all categories of products contributed to the performance of the Business Line with results that were especially high in the "Allergy" and "Pediatrics" categories.

The business line's trading operating income remained relatively stable at € 190 million in 2009 and the trading operating margin fell from 22.1% in 2008 to 20.5% in 2009, due to non-recurring items including, in particular, restructuring costs.

## Revenue, Trading Operating Income and Trading Operating Margin by Geographical Area

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**Europe.** Revenue in Europe decreased by 5.9%, from € 9,524 million in 2008 to € 8,960 million in 2009. At constant scope and exchange rates, revenue fell slightly (-0.3%), and France, the contribution of which decreased in 2009, contributed € 2,020 million, or approximately 22.5% of the total for the region. In 2009, the performance of Eastern European countries was counterbalanced by a slowing of the growth rate in the main Western European countries.

Trading operating income fell from € 1,496 million in 2008 to € 1,437 million in 2009 and the trading operating margin increased from 15.7% to 16.0%. This increase can, in particular, be explained by the favorable movement in 2009 in raw material costs (with the exception of plastics) and the synergies achieved within the Baby Nutrition and Medical Nutrition business lines.

**Asia.** Revenue for this region grew by 1.2%, from € 1,854 million in 2008 to € 1,877 million in 2009. At constant scope and exchange rates, revenue – derived mainly from China, Indonesia and Japan – increased by 11.0% in 2009.

Trading operating income rose from € 313 million in 2008 to € 333 million in 2009 and the trading operating margin increased from 16.9% to 17.7%. This increase resulted mainly from the improvement in operating performances, in particular within the Waters (in Indonesia) and Baby Nutrition (in China) business lines.

**Rest of the World.** Revenue, which mainly comprises the activities of the Group in North and South America, the Middle East and Africa, increased by 7.9%, from € 3,842 million in 2008 to € 4,145 million in 2009. At constant scope and exchange rates, revenue increased by 8% in 2009, with high growth in all the region's countries, and in Latin America in particular.

Trading operating income increased from € 461 million in 2008 to € 524 million in 2009 and the trading operating margin from 12.0% in 2008 to 12.6% in 2009.

Components of the trading operating income, as well as the non-current items that have impacted its evolution are described in section 9.1.

## LIQUIDITY AND CAPITAL RESOURCES

In 2009, the Group strengthened its financial and strategic flexibility and then revised its financial structure by means of the following transactions:

- the option to pay the 2008 dividend in shares: on May 27, 2009, Danone's capital was increased by € 359 million as a result of the 11,216,756 newly-issued shares which were allocated on May 27, 2009 to those shareholders who had opted for their dividend to be paid in shares. The portion of the dividend paid in cash totaled € 221 million. This transaction increased the share capital by € 3 million and the additional paid-in capital by € 356 million;
- a capital increase, with retention of the shareholders' preferential subscription right, totaling € 3,048 million carried out on June 25, 2009. This increase consisted of the issue of 123,236,352 new shares offered at a subscription price of € 24.73 per share. This transaction increased the share capital by € 31 million and the additional paid-in capital by € 3,017 million;
- following the capital increase of June 25, 2009, the drawings under the syndicated credit were fully repaid in June 2009, taking the total drawings repaid in 2009 to € 2,490 million;
- the transfer to the Company by Danone Finance of all its bonds issued through its Euro Medium Term Note, for a total principal amount of € 1,837 million;
- the repurchase of certain of the Company's bonds, following the issuer public tender offer finalized on November 27, 2009 for a total nominal amount of € 1,175 million.

### 10.1 Net Debt

The table below shows the changes in the Group's net debt:

<i>(In € millions)</i>	<b>As of December 31, 2008</b>	<b>Changes for the year</b>	<b>Transfer to current portion</b>	<b>Translation adjustments</b>	<b>Other</b>	<b>As of December 31, 2009</b>
Cash and cash equivalents	591	46	–	8	(1)	644
Marketable securities	441	60	–	(4)	(43)	454
<b>Total cash, cash equivalents and marketable securities</b>	<b>1,032</b>	<b>106</b>	<b>–</b>	<b>4</b>	<b>(44)</b>	<b>1,098</b>
Current financial liabilities	652	(472)	56	(15)	1,436	1,702
Non-current financial liabilities	11,435	(4,154)	(56)	29	(1,296)	5,958
<b>Total financial liabilities</b>	<b>12,087</b>	<b>(4,581)</b>	<b>–</b>	<b>14</b>	<b>140</b>	<b>7,660</b>
<b>NET DEBT</b>	<b>11,055</b>	<b>(4,687)</b>	<b>–</b>	<b>10</b>	<b>184</b>	<b>6,562</b>

The Group's consolidated net debt decreased by € 4,706 million (excluding the liabilities of € 2,855 million in 2008 and € 3,068 million in 2009 related to put options granted to minority shareholders – see Notes 15 and 26 of the notes to the consolidated financial statements), from € 8,200 million as of December 31, 2008 to € 3,494 million as of December 31, 2009.

The net debt to total shareholders' equity ratio (including the liabilities related to put options granted to minority shareholders) was thus reduced to 49.3% in 2009 compared to 127.1% in 2008, due mainly to the June 25, 2009 capital increase, which resulted in an increase in the Company's capital of € 3,048 million. Excluding the liabilities related to put options granted to minority interests, this ratio amounted to 26.3% in 2009 compared to 94.3% in 2008.

## Net Debt

The “Other” column relates mainly to changes in the financial liabilities related to put options granted to minority shareholders. In addition, commercial paper outstandings, which totaled € 1,140 million as of December 31, 2009, are now recognized within current financial liabilities. As of December 31, 2008, they

were included within non-current financial liabilities in the amount of € 1,563 million (see Section 20.1.1, Note 25 of the notes to the consolidated financial statements).

## Financial Liabilities

The financial liabilities comprise:

<i>(In € millions)</i>	As of December 31	
	2008	2009
Bank loans, bonds, and other debt, debt related to finance lease	9,232	4,592
Financial liabilities related to put options granted to minority shareholders	2,855	3,068
<b>TOTAL</b>	<b>12,087</b>	<b>7,660</b>

As of December 31, 2009, the line item “Bank loans, bonds, and other debt, debt related to finance lease” mainly included (i) EMTN (Euro Medium Term Notes), or bonds issued as part of the program established by the Company to issue EMTN, for a nominal amount of € 2,834 million, (ii) commercial paper, issued within the framework of the French commercial paper program of Danone Finance (*Billet de Trésorerie*), amounting to € 1,140 million (see Section 10.3) and (iii) bank financings in subsidiaries amounting to a total of € 455 million. As of December 31, 2009, the Group had not made any drawings in respect of its syndicated credit.

The line item “Financial liabilities related to put options granted to minority shareholders” corresponds to the exercise price of the put options granted to minority stockholders in certain consolidated companies. The main commitment relates to the minority shareholders of Danone Spain for an amount of € 2,401 million. These options can be exercised at any time. No significant outflows of funds are currently considered probable in the short term with respect to these options (see Section 20.1.1, Note 2 of the notes to the consolidated financial statements).

## Cash, Cash Equivalents and Marketable Securities

Marketable securities amounted to € 454 million in 2009 (against € 441 million as of December 31, 2008) and were composed of (i) commercial paper and other short-term investments (€ 372 million as of December 31, 2009 compared with € 421 million as of December 31, 2008) and (ii) money market funds (€ 82 million as of December 31, 2009 compared with € 20 million as of December 31, 2008).

As of December 31, 2009, cash and cash equivalents and marketable securities were stable compared to December 31, 2008.

Marketable securities purchased by the Group are issued by major financial institutions.



## 10.2 Cash Flows

The Group estimates that the cash flows generated by its operating activities, its excess cash, as well as cash available through its bank facilities will be sufficient to finance its operating

expenses, capital investment and debt service needs, as well as dividend payments.

The table below presents a summary of the Group's consolidated cash flows for the fiscal years ended on December 31, 2008 and 2009.

(In € millions)	Fiscal year ended on December 31	
	2008	2009
Cash flows provided by operating activities	1,754	2,000
Capital expenditures (net of disposals)	(571)	(573)
"Free Cash Flow" <sup>(1)</sup>	1,183	1,427
Financial investments (net of disposals)	(64)	751
Increase (decrease) in long-term loans and other non-current assets	67	36
Dividends distributed	(705)	(451)
Purchases of treasury stock (net of disposals)	46	100
Increase in capital and additional paid-in capital	48	2,977
Settlement of debt hedge financial instruments	-	(154)
<b>NET FINANCING SURPLUS (REQUIREMENTS)</b>	<b>575</b>	<b>4,686</b>

(1) "Free Cash Flow", or available cash, represents cash flows from operating activities less capital expenditure net of proceeds from disposals.

**Cash Flows Provided by Operating Activities.** Cash flows provided by operating activities comprise the cash generated by operating activities less changes in working capital requirements. Generally, cash flows are lower in the first half of any given year compared to the second half of that year because of higher working capital needs at the beginning of the year. This is due to (i) an increase in inventoried production (in preparation for reduced plant activity and temporary plant closures during the summer vacation months), (ii) the build-up of beverage inventories (in light of stronger consumption in the summer) and (iii) outstanding accounts receivable from sales realized in May and June (as a result of seasonal variations).

The increase in 2009 in cash flows provided by operating activities resulted from a 23% increase in the cash generated by operating activities excluding changes in net working capital (from € 1,699 million in 2008 to € 2,092 million in 2009), despite a negative working capital requirement of € 92 million.

The main factors that explain this sharp increase are: (i) the increase in trading operating income, (ii) the fall in financial expenses, and (iii) the recognition of tax credits. The deterioration in the working capital requirement, to a negative amount of € 92 million in 2009 compared with a positive amount of € 55 million in 2008, was due mainly to the negative impact of the French Law on the Modernization of the Economy (*Loi de Modernisation de l'Économie* – LME), which capped payment periods in France at 60 days.

**Capital Expenditures (Net of Disposals).** Capital expenditures amounted to € 699 million in 2009 compared with € 706 million in 2008 (representing 4.7% and 4.6% of revenue respectively). These investments are described in Section 5.2.1. Disposals of industrial assets amounted to € 126 million in 2009 compared with € 135 million in 2008.

**Financial Investments (Net of Disposals).** Acquisitions and investments in equity interests amounted to € 147 million in 2009 compared with € 259 million in 2008. These investments are described in Section 5.2.1. In 2009, they mainly related to the acquisition of an additional stake in Danone Clover (Fresh Dairy Products – South Africa), which increased the Group's ownership percentage from 55% to 100%. In 2008, financial investments were, for the most part, associated with the purchase of the 1.15% remaining shares in Numico (a company in which the Group had held a 98.85% stake since December 31, 2007) and to investments in various equity interests, mainly in the Fresh Dairy Products and Waters business lines.

Proceeds from the sale of financial investments amounted to € 898 million in 2009 compared with € 195 million in 2008. In 2009, proceeds from disposals were, for the most part, associated with the sale of equity interests in the Frucor (Waters – New Zealand and Australia) and Danone Naya (Waters – Canada) subsidiaries, the Wahaha joint ventures (Waters – China) and the joint venture with the Wadia Group in India. In 2008, proceeds from disposals were mainly related to the sale of the equity interests in the General Biscuit Glico France joint venture and the Baby Nutrition business activity of Numico in France.

**Share Repurchases.** In 2009 and 2008, the Group did not repurchase any of its own shares. In addition, cash received upon the exercise of stock options by employees of the Group amounted to € 27 million in 2009 compared with € 46 million in 2008. This line item also comprises the proceeds from the disposal of the preferential subscription rights as part of the June 25, 2009 capital increase.

**Return on Invested Capital.** The return on invested capital corresponds to the sum of the trading operating income after taxes and the current net income of associates attributable to the Group divided by the average invested capital. The Group's return on invested capital increased from 9.1% in 2008 to 9.4% in 2009. This increase resulted mainly from the combined effect of the increase in trading operating income and the decrease in invested capital, due mainly to the disposal of the Wahaha shares.

## 10.3 Financing Structure and Financial Security

The Group's financing policy consists of (i) borrowing from diversified financing sources, (ii) arranging a significant portion of its financing as medium term financing, (iii) maintaining financing sources available at any time, and (iv) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts.

The Group's financing structure and financial security are mainly comprised of:

- bank financing: the Group had committed credit facilities totaling € 7.7 billion as of December 31, 2009, which were unused as of that date:
  - a committed syndicated revolving credit facility entered into in December 2007 in order to finance the acquisition of Numico, for a principal amount of € 4 billion consisting of two tranches: a first tranche, with a principal amount of € 2.3 billion expiring in December 2010 and a second tranche for a principal amount of € 1.7 billion and expiring in December 2012. As of December 31, 2008, the Group had drawn down amounts in respect of Tranches A and B, totaling € 1.3 billion and € 1.2 billion respectively as of December 31, 2008. As of December 31, 2009, the Group had not drawn down any amounts in respect of these tranches,
  - available committed credit facilities: a portfolio of back-up facilities entered into with major credit institutions, with maturity dates mainly between one and three years, amounting to € 3.7 billion in principal. As of December 31, 2009 and December 31, 2008, the Group had not drawn any amount under these credit lines.

- financing on the debt and capital markets:

- EMTN (*Euro Medium Term Note*) bond financing: a program with a principal amount of € 7 billion (of which a nominal amount of € 2.8 billion had been drawn as of December 31, 2009),
- commercial paper: a program with a principal amount of € 3.0 billion (of which € 1.1 billion had been drawn as of December 31, 2009);
- cash and marketable securities, amounting to € 1.1 billion as of December 31, 2009 (compared with € 1.0 billion as of December 31, 2008).

The aforementioned syndicated credit facility, certain bond issues (implemented after 2007) under the EMTN program and certain available committed credit facilities include a change of control provision described in Section 20.2.1.

None of the aforementioned financing sources is subject to any covenants relating to maintaining financial ratios.

In addition, as of December 31, 2009, debt issues with a maturity of more than one year by the Company are rated as A3/Stable by Moody's (compared with A3/Negative as of December 31, 2008, as Moody's had waived the review with negative outlook on May 29, 2009) and A-/Stable by Standard & Poor's (unchanged compared to December 31, 2008). Issuances of French commercial paper are rated A2 by Standard & Poor's.

## 10.4 Contractual Obligations and Off-Balance Sheet Commitments

### Contractual Obligations

The following table sets forth the contractual obligations of the Group as of December 31, 2009:

(In € millions)	Total	2010	2011	2012	2013	Payments due by period	
						2014	2015 and after
<b>Balance Sheet Commitments</b>							
Financing <sup>(1)</sup>	4,567	1,742	886	191	209	727	812
Liabilities linked to put options granted to minority shareholders <sup>(2)</sup>	3,068	–	–	–	–	–	3,068
Finance lease commitments	25	4	4	3	3	–	11
<b>TOTAL</b>	<b>7,660</b>	<b>1,746</b>	<b>890</b>	<b>194</b>	<b>212</b>	<b>–</b>	<b>4,618</b>
<b>Off Balance Sheet Commitments</b>							
Operating lease commitments	440	153	92	78	44	31	42
Commitments to purchase goods, services, and industrial investments	869	655	125	58	22	6	3

(1) A breakdown of financing is provided in the section on liquidity risk in Note 15 of the notes to the consolidated financial statements.

(2) Corresponds primarily to the financial liabilities related to put options granted to minority shareholders, the expiration date of which is indeterminate. These put options can be exercised at any time (see Section 20.1, Note 15 of the notes to the consolidated financial statements). No significant cash outflow is currently considered as probable in the short term with respect to these options. The options granted to the minority shareholders of Danone Spain (for € 2,401 million) can also be exercised at any time and were granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be automatically renewed for successive 5-year periods.

## Other Commitments

The following table sets forth the other commitments of the Group as of December 31, 2009:

<i>(In € millions)</i>	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	Commitments by maturity date	
						<b>2014</b>	<b>2015 and after</b>
<b>Commitments granted</b>							
Guarantees and pledges given	(118)	(94)	(3)	–	–	(2)	(19)
Other commitments given	(93)	(52)	(16)	(10)	(5)	(3)	(7)

<i>(In € millions)</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	Commitment for the period	
						<b>2014</b>	<b>2015 and after</b>
<b>Commitments received</b>							
Bank financing facilities <sup>(1)</sup>	7,736	3,386	1,850	–	–	–	–
Other bank financing facilities <sup>(2)</sup>	582	–	–	–	–	–	–
Guarantees and pledges received	61	47	8	1	–	–	5
Other commitments received	–	–	–	–	–	–	–

(1) Principal amount of the undrawn portion of the syndicated credit and back-up bank credit lines as of December 31, 2009.

(2) Principal amount of the undrawn portion as of December 31, 2009.

The Company and its subsidiaries are parties to a variety of legal proceedings arising from the normal course of business. Liabilities are accrued for when a loss is probable and can be reasonably estimated.

# RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

## 11.1 Research and Development Policy

The Group's Research and Development activities are consolidated within Danone Research, whose mission is to:

- develop products whose nutritional profiles and benefits are tailored to the needs of consumers and local public health issues;
- contribute to improving dietary practices and promote better nutrition – available to everyone – in collaboration with scientific and health authorities;
- build scientific documentation to support the health claims made for products.

This process is conducted in compliance with a policy of uncompromising food safety and while developing innovative production processes to serve the general policy of reducing costs.

The Group's Research & Development talent is found in two major scientific centers: one in Palaiseau, near Paris, with the Daniel Carasso Research Center, and the other in Wageningen, in the Netherlands. Most countries in which the Group is present also have local R&D teams, whose mission is to adapt products (particularly in terms of texture, flavor, size, and packaging) to local consumption habits and to develop specific products for their market. Group Research & Development has about 1,200 people, 500 of whom are in France.

The Group has developed considerable scientific expertise in the following areas:

- research into enzymes and probiotics, made from a collection of 4,000 strains of dairy and plant-based lactic acid bacteria, which gives the Group considerable potential in terms of product innovation. For all their work, teams use the latest techniques in genomics and robotics and develop collaborations with high level partners such as the Pasteur Institute, INRA, Washington University (United States), Wageningen University (Netherlands), and the Lawson Institute (Canada);
- research on prebiotics, the non-digestible nutrients that promote growth of bacteria in our intestinal microbiota, such as bifidobacteria;
- nutrition and human physiology: The general rules defined for nutritional food, which are constantly evolving, are translated into practice in the Group's products. Group R&D also covers the study of the role of diet on health and its impact

on body functions: digestion, bone growth, immune system, cardiovascular system, mental acuity, etc.;

- consumer science, which aims to analyze the behavior of consumers and to absorb their habits to develop innovative products. A dedicated space has been set aside within the Daniel Carasso center to establish a close relationship between consumers and researchers.

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

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

Lastly, the Danone International Institute has established a biennial international award to recognize innovative concepts and research into nutritional research and major contributions to public health.

From the Research & Development perspective, 2009 was characterized by the continued integration and the rise in importance of the two business lines acquired by the Group in 2007: Baby Nutrition and Medical Nutrition. In addition, the Group announced the creation of a new research center dedicated to these two business lines, which, by 2012, will replace the current center in Wageningen. Located in Utrecht, the Netherlands, this new center will strive to develop major innovation projects to help drive the Group's growth.

## Protection of Industrial and Intellectual Property Rights

In the Fresh Dairy Products business line, 2009 was marked by the launch, piloted in Spain, of the *Densia* brand, which contains calcium and vitamin D necessary for healthy bones. The year was also characterized by regulatory news flow and the favorable opinion by the European authorities on the claims concerning *Danacol* and *Danino*.

Lastly, two new clinical studies on the effects of *Actimel* have been published. The first, in the *British Journal of Nutrition*, demonstrates that daily consumption of *Actimel* is associated with a reduction of the duration of the common infectious diseases among senior citizens. The second study, published in *Vaccine* in September 2009, demonstrates that daily consumption of *Actimel* increases the response of specific antibodies to the 'flu vaccine in persons aged more than 70.

For the Waters business line, 2009 was characterized by the continued drive to understand just how hydration works and the methods by which water is eliminated, and their impact on health. Two clinical trials were launched in China and Brazil, with the aim of calculating the correct levels of hydration to then make recommendations for daily consumption by the population at large.

In the Baby Nutrition business line, the Research and Development teams focused their work in 2009 on documentation of the impact of nutrition during the first three years of life on the development of an individual's health capital.

In the Medical Nutrition business line, 2009 was marked by the launch of *Fortimel Compact*, an oral dietary supplement for senior citizens (hospitalized or monitored in health institutions) suffering from deficiencies of essential nutrients. The Business Line also released the results of the first clinical study conducted on *Souvenaid*, a nutritional complex for Alzheimer's sufferers, and announced that clinical studies will be continued to confirm the product's effect on the stimulation of memory through its impact on the formation of synapses. The study was led by the Massachusetts Institute of Technology (Boston, United States) and the Free University of Amsterdam (Netherlands).

The Group invested € 206 million in research & development in 2009, or 1.4% of total sales (€ 198 million in 2008, 1.3% of total sales).

## 11.2 Protection of Industrial and Intellectual Property Rights

The Group owns rights to trademarks, brand names, models, copyrights, and Internet site domain names throughout the world. The territorial extent of protection depends on the significance of the products and business activities concerned: global protection for products intended for the international arena, and local or regional protection for other products. The Group has established an Intellectual Property Rights Charter and regularly updates and revises its portfolio of products and corresponding rights for each of its subsidiaries in order to ensure the protection of its brand names, decors, forms, advertisements, websites, etc. that are used by the Group in line with its activities.

The Group is also the owner of patents, licenses, proprietary recipes, and substantial expertise related to its products and packaging, as well as to the manufacturing thereof.

The Group's intellectual property, which is held by the Company and several entities throughout the Group, represents a significant portion of the Group's assets. Through a more offensively driven intellectual and industrial property strategy, the Group is committed to taking all appropriate legal steps to protect and defend its rights at the international level.

Lastly, the Group has implemented licensing agreements with its subsidiaries and with its partners who use these industrial property rights.

## TREND INFORMATION

NIL.

## PROFIT FORECASTS OR ESTIMATES

### Forecasts for the Fiscal Year 2010

Danone expects the financial, economic and social environment to remain difficult in 2010, characterized by consumer trends in western countries which will remain challenging, weak currencies in emerging countries and raw material price inflation.

Against this backdrop, Danone will continue to focus on developing its brands and strengthening its competitive positions. Increasing free cash flow<sup>(1)</sup> will continue to be one of the Group's key priorities, the Group will beside use productivity gains and a selective and competitive pricing policy to manage cost inflation.

In line with its medium-term growth targets, Danone's forecasts for 2010 are:

- like-for-like<sup>(2)</sup> revenue growth of at least 5% (the medium-term growth target being at least 5%);
- an increase in the free cash flow of at least 10% on a reported basis (the medium-term target being annual free cash flow of € 2 billion in 2012).

In addition, Danone aims to achieve a trading operating margin that is in line with the 2009 level on a like-for-like basis<sup>(2)</sup>.

These forecasts, targets, statements and other forward-looking information included in the Registration Document are based mainly on the data, assumptions and estimates detailed below and are deemed reasonable by the Group. They are not historical data and must not be interpreted as guarantees that actual results will be in line with said forecasts. By their very nature, such data, assumptions and estimates, as well as all other factors taken into account in the preparation of said forward-looking forecasts and other information, may not be in line with actual results and are likely to change or be amended due to the uncertainties affecting the Group's economic, financial and competitive environment. Moreover, were certain of the risks described in Section 4 to crystallize, this could have an impact on the Group's activities, financial position, results and outlook and on whether the Group's actual results are in line with the forecasts, targets, statements and other forward-looking information disclosed above.

### Main Assumptions Underlying the Forecasts

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

- the data was prepared using forecast exchange rates and interest rates determined at Group level;
- current consumer trends in those countries that are the most important to the Group (including both emerging and mature markets) will continue throughout the year and will not improve or deteriorate significantly;
- the Group's revenue growth will continue to be driven mainly by volumes, in particular those of its leading brands, and its clear priority across all its key markets will be to increase the

consumer price-benefit ratio in order to respond to consumer trends. This should enable the Group to gain market share in its key countries;

- the Group will continue to pursue its policy of optimizing operating and general and administrative costs in 2010, offsetting in part moderate cost inflation;
- the Group plans to reduce its financial expense, mainly as a result of the restructuring of the Group's debt in 2009.

(1) Free cash flow corresponds to the balance of the cash flows from operating activities after taking into account capital expenditure net of proceeds disposals.

(2) Excluding effects of changes in consolidation scope and exchange rates.



## Statutory Auditors' Report on the Profit Forecasts

To the Chairman of the Board of Directors

In our capacity as Statutory Auditors of your Company and in accordance with EC Regulation no. 809/2004, we have prepared this report on Danone's profit forecasts for the 2010 fiscal year, included in Section 13 of this Registration Document.

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

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

We have carried out the procedures we deemed necessary with regard to the professional standards of the French society of auditors (*Compagnie Nationale des Commissaires aux Comptes*) relative to this assignment. This work comprised an assessment of the procedures implemented by Management for the preparation of the forecasts and the implementation of procedures to verify the consistency of the accounting methods used with those adopted for the preparation of Danone's consolidated financial statements for the fiscal year ended December 31, 2009. Our procedures also included gathering such information and explanations that we considered necessary in order to obtain reasonable assurance that the forecasts were properly prepared on the basis of the assumptions as set out.

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

In our opinion:

- the forecasts have been properly prepared in accordance with the basis indicated;
- the accounting principles used in the preparation of these forecasts are consistent with the accounting policies applied by Danone for the preparation of its consolidated financial statements for the fiscal year ended December 31, 2009.

This report is issued solely for the purposes of filing the 2009 Registration Document with the French securities regulator (*Autorité des marchés financiers – AMF*) and, where relevant, for a public offering in France and in the other countries of the European Union in which a prospectus containing this Registration Document, authorized by the AMF, would be published, and may not be used in any other context.

Courbevoie and Neuilly-sur-Seine, March 18, 2010

### The Statutory Auditors

<b>Mazars</b>	<b>PricewaterhouseCoopers Audit</b>
<b>French original signed by:</b>	<b>French original signed by:</b>
Thierry COLIN      Ariane MIGNON	Étienne BORIS      Olivier LOTZ

## Financial Communication Calendar

The financial communication calendar for 2010 is as follows:

April 15, 2010	Revenue for the first quarter of 2010
April 22, 2010	Shareholders' Meeting (Carrousel du Louvre, Paris)
July 27, 2010	Revenue for the second quarter of 2010 and results for the first half-year of 2010
October 21, 2010	Revenue for the third quarter of 2010

# ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES, AND GENERAL MANAGEMENT

## 14.1 Composition of the Board of Directors and of the Executive Committee

(in accordance with Article L. 225-37 paragraph 6 of the French Commercial Code)

### Board of Directors

#### COMPOSITION OF THE BOARD OF DIRECTORS

The administration of the Company is entrusted to a Board of Directors.

Each Director must hold at least 4,000 shares, and such shares must be held in registered form.

The term of office of the Directors is set in the Company's by-laws at three years and may be renewed, it being specified that the current term of office of any natural person acting as a Director expires, automatically, following the Shareholders' Meeting that has deliberated on the financial statements of the previous fiscal

year and held in the year during which this Director has reached or will reach the age of 70 years. However, at the Shareholders' Meeting's discretion, this age limit shall not apply to one or more Directors who may remain in office or who may be re-appointed, provided the number of Directors concerned by this provision does not exceed one-quarter of the Directors in office.

The composition of the Board of Directors was amended following the Combined Shareholders' Meeting of April 23, 2009, which appointed Mrs. Guylaine Saucier as a new Director. Her term of office will expire at the end of the Shareholders' Meeting called to approve the financial statements for the fiscal year 2011.

The 14 members of the Board of Directors are, as of February 28, 2010, the following:

Name	Age	Principal occupation <sup>(1)</sup>	Director since	Term expires (date of the Shareholders' Meeting)
Franck RIBOUD	54	Chairman and Chief Executive Officer of Danone	1992	2013 <sup>(3)</sup>
Emmanuel FABER	46	Deputy General Manager of Danone	2002	2013 <sup>(3)</sup>
Bernard HOURS	53	Deputy General Manager of Danone	2005	2011
Bruno BONNELL <sup>(2)</sup>	51	Chairman of Sorobot SAS	2002	2011
Michel DAVID-WEILL	77	Chairman of the Supervisory Board of Eurazeo	1970	2011
Richard GOBLET D'ALVIELLA <sup>(2)</sup>	61	Vice-Chairman and Deputy Director of Sofina S.A.	2003	2012
Christian LAUBIE <sup>(2)</sup>	71	Member of the <i>Collège du Haut Conseil du Commissariat aux Comptes</i>	1985	2012
Jean LAURENT <sup>(2)</sup>	65	Chairman of the <i>pôle de Compétitivité Finance Innovation</i>	2005	2012
Hakan MOGREN <sup>(2)</sup>	65	Company director	2003	2012
Jacques NAHMIA <sup>(2)</sup>	62	Chairman and Chief Executive Officer of Pétrofrance SA	1981	2011
Benoît POTIER <sup>(2)</sup>	52	Chairman and Chief Executive Officer of Air Liquide SA	2003	2012
Naomasa TSURITANI	66	Chairman of Yakult Materials Co., Ltd.	2007	2011
Guylaine SAUCIER <sup>(2)</sup>	63	Company director	2009	2012
Jacques VINCENT <sup>(4)</sup>	63	Vice-Chairman of the Board of Directors of Danone	1997	2011

(1) The terms of office and duties performed by each of the Directors are fully described in the appendix to the Registration Document (see appendix A3).

(2) Director designated as independent by the Board of Directors.

(3) Subject to his term of office being renewed by the Shareholders' Meeting on April 22, 2010.

(4) Jacques Vincent has decided to retire as of April 1, 2010. On that date, his role as Deputy General Manager and his employment contract will both be ended.

The Board of Directors also includes two honorary members who have advisory roles: Yves BOËL and Jean-Claude HAAS.

As recommended by its Nomination and Compensation Committee, the Board of Directors reviews, on an annual and individual basis, the situation of the Directors with regard to the independence rules of the AFEP-MEDEF Code.

Said code classifies a Director as independent if he *“has no relationship of any kind with the company, its group or its management that could compromise his free judgment”*.

However, the Board of Directors decided not to apply the independence criterion limiting the term of office of directors to twelve years. In accordance with the recommendation of the Nomination and Compensation Committee, the Board considers that, on the one hand, such seniority is a positive element for knowing the Group, its history and its activities, and that, on the other hand, the freedom of judgment is the essential criteria defining one's independence.

On this basis, the Board therefore considered that, as of February 28, 2010, it included 8 independent members out of 14.

The Board of Directors, in its proposals to the Shareholders meetings, will ensure that the evolution of the number of independent Directors will help improving the corporate governance.

Lastly, with respect to the staggering of all the Directors' terms of office, their regular renewal by the shareholders is facilitated, on the one hand, by a relatively short term set in the by-laws of three years, and, on the other hand, by a staggering of the expiry dates of the various terms of office, which enables the Shareholders' Meeting to decide each year on several terms of office (as regards the current composition of the Board, two terms of office are to be renewed at the Shareholders' Meeting called to approve the financial statements for the fiscal year 2009, six are to be renewed at the Shareholders' Meeting called to approve the financial statements for the fiscal year 2010 and six at the Shareholders' Meeting called to approve the financial statements for the fiscal year 2011).

### POWERS OF THE CHIEF EXECUTIVE OFFICER

The Board of Directors meeting dated April 25, 2002 decided not to split the duties of the Chairman of the Board of Directors from those of the Chief Executive Officer, in order to promote cohesion between the powers of the Board of Directors and those of the General Management and, in doing so, avoid the dilution of power and responsibility of the Chairman of the Company.

This decision was confirmed by the Board of Directors' meeting of February 10, 2010, which considered that:

- this absence of a separation of the duties does not lead to an excessive concentration of power since General Management includes two Deputy General Managers;

- most of the significant transactions that the Chief Executive Officer is responsible for are subject to the prior approval of the Board of Directors; these transactions are described in the Board of Directors' Internal Regulations (see Section 21.2.2 – Internal Regulations of the Board of Directors);
- finally, eight Directors out of fourteen have been recognized as independent by the Board of Directors on the basis of its application of the terms of the AFEP-MEDEF Code (including all the members of the Audit Committee and two-thirds of the members of the Nomination and Compensation Committee).

### DIRECTORS' ATTENDANCE FEES (JETONS DE PRÉSENCE)

The Shareholders' Meeting of April 23, 2009 adopted a resolution increasing the annual aggregate amount of Directors' attendance fees to be allocated by the Board of Directors amongst its members from € 500,000 to € 600,000. Directors who are also either members of the Executive Committee or executive directors and officers (*mandataires sociaux*) do not receive Directors' fees.

The gross amount of Directors' attendance fees owed in 2009 amounted to € 498,000 (compared with € 388,000 in 2008). This increase was due exclusively to the increase in the number of Board of Directors' meetings (ten meetings in 2009 compared with eight in 2008) and the appointment, in 2009, of a new Director: the attendance fees paid to the Directors per board or committee meeting did not change in 2009.

A Director who only attends the meetings of the Board of Directors receives a compensation composed of a fixed portion of € 10,000 per year and a variable portion of € 2,000 per Board meeting attended. In addition, Directors who are also members of one of the three committees created by the Board of Directors receive a compensation of € 4,000 per committee meeting they attend. The compensation of the Chairmen of these committees is € 8,000 per meeting.

### OTHER INFORMATION

To the best of the Company's knowledge, there exists no family relationship between the Company's executive directors and officers and, during the last five years at least, no executive director and officer has been subject to a condemnation for fraud, bankruptcy, sequestration or liquidation, incrimination and/or to an official public sanction pronounced by legal or regulatory authorities, nor has been precluded by the courts from acting in his or her capacity as member of an administrative, management, or supervisory body, or from participating in the management or the handling of a company's business.

The restrictions related to the sale by the executive directors and officers of their Danone shares resulting from the exercise of options are indicated in Section 20.2.1.

## Conflicts of Interest

## Executive Committee

Under the authority of Mr. Franck RIBOUD, the Executive Committee is responsible for the Group's operational management. This committee implements the strategy defined by the Board of Directors, approves the budgets, coordinates the planning

and execution of the missions of each of the subsidiaries and business lines and depending on the results achieved, determines action plans to be implemented. The members of the Executive Committee meet at least once per month.

As of February 28, 2010, the members of the Executive Committee are the following:

<b>Name</b>	<b>Age</b>	<b>Main occupation within the Group</b>	<b>In office since <sup>(1)</sup></b>
Franck RIBOUD	54	Chairman and Chief Executive Officer	1996
Emmanuel FABER	46	Deputy General Manager	2000
Bernard HOURS	53	Deputy General Manager	2001
Thomas KUNZ	52	General Manager, Danone Waters	2004
Sven THORMAHLEN	53	General Manager, Danone Research	2005
Christian NEU	53	General Manager, Baby Nutrition	2007
Felix MARTIN GARCIA	49	Joint General Manager, Fresh Dairy Products	2007
Jordi CONSTANS	45	Joint General Manager, Fresh Dairy Products	2008
Muriel PÉNICAUD	54	General Manager, Human Resources	2008
Pierre-André TERISSE	43	Chief Financial Officer	2008
Flemming MORGAN	54	General Manager, Medical Nutrition	2009

(1) Date of appointment to the Executive Committee.

## 14.2 Conflicts of Interest

To the best of the Company's knowledge, there are no existing potential conflicts of interest between any of the Directors' duties with respect to the Company and their private interests and/or other duties.

# COMPENSATION AND BENEFITS

## 15.1 Compensation paid out during the Fiscal Year

### Compensation Policy for executive directors and officers

The Nomination and Compensation Committee met several times in 2009 and at the beginning of 2010 to review the compensation policy of executive directors and officers (*mandataires sociaux*) and members of the Executive Committee.

This compensation policy was presented to the members of the Nomination and Compensation Committee in a reference file based on a study produced by a specialized firm and observing the practices on two main markets (France and Europe). The policy was developed through an approach organized in levels of responsibility corresponding to the job content and relative to market practices. In addition, this policy is based on collective principles that are applicable to all General Managers and to approximately 1,400 managers worldwide.

The retained principles can be broken down into two distinct elements:

#### 1 - ANNUAL COMPENSATION CONSISTING OF:

- fixed compensation;
- short-term variable compensation granted subject to performance conditions, determined based on economic, societal and managerial objectives and calculated with reference to objective, quantified criteria:
  - for the Chairman and Chief Executive Officer, Franck RIBOUD, and the Vice-Chairman of the Board of Directors and Deputy General Manager, Jacques VINCENT, as well as for Emmanuel FABER, Deputy General Manager, and Bernard HOURS, Deputy General Manager: the variable economic portion is computed with reference to Group objectives (in terms of revenue, trading operating margin, free cash flow and underlying earnings per share), as communicated to the financial markets, in addition to the Group's societal objectives (which are derived from labor parameters such as safety at work, employee training and the development of talents, and from environmental parameters such as water or energy consumption and carbon footprint) and an evaluation of the strategy developed during the fiscal year,
  - for members of the Executive Committee who manage a business line: the variable portion is based on objectives set in the budget of the relevant business line (in terms of revenue, trading operating income, operating free cash flow and underlying earnings per share), the societal part of the

variable portion is established based on societal objectives set for the business line concerned (which are derived from labor parameters such as safety at work, employee training and the development of talents, and from environmental parameters such as water or energy consumption and carbon footprint),

- for the other members of the Executive Committee: the variable portion is calculated based on the Group's objectives, as communicated to the financial markets (set in terms of revenue, trading operating margin, free cash flow and underlying earnings per share), the societal variable portion is calculated based on the Group's societal objectives.

#### 2 - PLURIANNUAL COMPENSATION CONSISTING OF:

- medium-term variable compensation in the form of GPUs (Group Performance Units) granted subject to pluriannual performance conditions over a three-year period.

The GPUs were instituted in 2005 with the objective of aligning more closely the compensation of executive directors and officers, members of the Executive Committee and managers with the Group's overall economic performance in the medium term.

GPUs are allocated upon the decision of the Board of Directors every year. They have replaced in part the stock options granted up until now. At the end of a three-year period, the beneficiaries receive compensation in the amount of € 30 per unit allocated if the Group has achieved, for each of the three years in question, all of the established objectives. This compensation is decreased to € 20 per GPU if the objectives were achieved only two years out of the three and to € 0 per GPU if the objectives were achieved only one year out of the three or were never achieved. The GPU plans stipulate that the performance conditions, as well as the condition to be employed by the Group at the end of the plan, will be partially fulfilled in the event of death, voluntary or non-voluntary retirement or the sale of the activity employing the beneficiary.

The GPUs allocated in 2006 for the 2006, 2007 and 2008 fiscal years resulted in a payment in 2009 of € 30 per GPU, as the Group achieved its annual objectives in 2006, 2007 and 2008. The GPUs allocated in 2007 for the 2007, 2008 and 2009 fiscal

## Compensation paid out during the Fiscal Year

years will result in a payment in 2010 of € 30 per GPU, as the Group achieved its annual objectives in 2007, 2008 and 2009;

- long-term variable compensation in the form of stock options, the number of which is set every year by the Board of Directors and which are granted without a discount and with a period of validity of eight years.

This compensation program is due to change as a result of the decision taken at the Board of Directors' meeting on February 10, 2010 to present for approval to the next Shareholders' Meeting in April 2010 a resolution authorizing the issue of shares subject to performance conditions, which if voted, would cancel and replace the current stock option program.

The stock options are valued in accordance with IFRS 2 (see Section 20.1,1 Note 1.22 of the notes to the consolidated financial statements).

The proportion of total compensation that consists of medium- and long-term variable compensation increases depending on the level of responsibility of the managers concerned.

The compensation of Franck RIBOUD, Chairman and Chief Executive Officer, Jacques VINCENT, Vice-Chairman of the Board of Directors and Deputy General Manager, Emmanuel FABER, Deputy General Manager, and Bernard HOURS, Deputy General Manager, is determined by the Board of Directors on the basis of recommendations made by the Nomination and Compensation Committee. Conversely, the compensation of the other members of the Executive Committee of the Group is only presented to the Nomination and Compensation Committee.

The following table summarizes the various agreements, plans and indemnities applicable to the executive directors and officers of the Company:

Name	Employee agreement suspended <sup>(1)</sup>		Additional retirement plan <sup>(2)</sup>		Indemnities or benefits owed or that may be owed pursuant to the termination of or change in duties <sup>(3)</sup>		Indemnities relative to a non-compete clause <sup>(4)</sup>	
	Yes	No	Yes	No	Yes	No	Yes	No
Franck RIBOUD Chairman and Chief Executive Officer Term of office began in: 1992 Term of office will end in: 2010	X		X		X			X
Jacques VINCENT <sup>(5)</sup> Vice-Chairman of the Board of Directors and Deputy General Manager Term of office began in: 1997 Term of office will end in: 2011	X		X		X			X
Emmanuel FABER Deputy General Manager Term of office began in: 2002 Term of office will end in: 2010	X		X		X		X	
Bernard HOURS Deputy General Manager Term of office began in: 2005 Term of office will end in: 2011	X		X		X		X	

(1) See Sections 15.3.1 and 15.3.15 with respect to the employment agreements of Franck RIBOUD and of Jacques VINCENT, and Sections 15.3.6 and 15.3.15 with respect to the employment agreements of Emmanuel FABER and Bernard HOURS.

(2) A description of the additional retirement plans is provided in Sections 15.2 and 15.3.8.

(3) Indemnities paid in certain cases of termination of their terms of office are detailed in Section 15.3.15. In case of termination, no contractual indemnity would be paid. However, indemnities provided for by the Group collective bargaining agreement would still be paid. Refer to Section 15.3.15.

(4) This clause enables the Group, in the sole case of a resignation of the relevant Deputy General Manager, either to activate the clause for an 18-month period with a financial consideration equivalent to 50% of his fixed and variable compensation, or to release the person concerned from the clause without financial consideration. Refer to Section 15.3.15.

(5) Jacques VINCENT has decided to retire as of April 1, 2010. On that date, his role as Deputy General Manager and his employment contract will both be ended without any compensation.

The information related to the indemnities paid to the four executive directors and officers of the Company in case of termination of their terms of office is provided in Section 15.3.15.

The Board of Directors of February 10, 2009 noted that all the conditions of indemnification applicable to each of the four executive directors and officers in cases of termination of their terms of office had been subject to a detailed examination in 2008. At such time, and in accordance with the law, the payment of these indemnities had been subject to performance conditions. The commitments given by the Company towards the four executive directors and officers were approved by the Shareholders' Meeting of April 29, 2008 under four separate resolutions.

The Board of Directors of February 10, 2010 noted that the terms of office of Mr. Franck RIBOUD and Mr. Emmanuel FABER were to expire during the Shareholders' Meeting convened to approve the financial statements for the 2009 fiscal year, and therefore their conditions of indemnification will have to be, in accordance with the law, re-submitted for approval by the shareholders' during that Shareholders' Meeting.

In order to align the conditions of indemnification of the three executive directors and officers of the Company, the Board

of Directors has decided to submit these new conditions of indemnification for each of the executive directors and officers (including those of Bernard HOURS, for whom the term of office will not end in 2010 but in 2011) for the approval of the Shareholders' Meeting that will be held in 2010.

Lastly, in connection with the renewal of Franck RIBOUD's office as Chairman and Chief Executive Officer and as a result of the publication of the AFEP-MEDEF Code, the February 10, 2010 Board of Directors' meeting, upon a motion submitted by the Nomination and Compensation Committee, decided to maintain Franck RIBOUD's employment agreement given his age, his personal situation and his seniority as employee with the Group. In fact, the Board considered that this position is relevant for officers with at least ten years of service with the Group, in order to promote the principles of internal promotion from within the Group and of sustainable management that the Company strives to implement (because the elimination of the employment agreement could potentially discourage applicants from within the Company from accepting posts as corporate officers).

## Description of the Compensation for the 2009 Fiscal Year

For the 2009 fiscal year, the gross aggregate amount of direct and indirect compensation paid out to all of the members of the Board of Directors and members of the Executive Committee amounted to € 21.7 million.

This amount includes (i) the compensation paid only to the members of the Executive Committee, for an amount of € 21.3 million (including € 14.3 million with respect to the variable portion) and (ii) € 0.4 million of Directors' attendance fees (to which the four executive directors and officers are not entitled).

In 2009, the executive directors and officers' short-term variable compensation represented on average 58% of the annual monetary compensation due, and may not represent an amount which is higher than 65% of this annual monetary compensation. In addition, during that same period, stock options granted annually represented for all of the four executive directors and officers less than 0.1% of the Group's share capital.

Details are provided in the following table of the aggregate amount of compensation paid out and stock options allocated to each executive director and officer over the course of the 2009 and 2008 fiscal years:

(In €)	Compensation due		Valuation of stock options on the grant date, in accordance with IFRS 2 <sup>(1) (2)</sup>		Total	
	2008	2009	2008	2009	2008	2009
<b>Name</b>						
Franck RIBOUD	4,283,970	4,397,370	3,142,000	1,573,250	7,425,970	5,970,620
Jacques VINCENT	2,279,800	2,300,860	1,571,000	786,625	3,850,800	3,087,485
Emmanuel FABER	2,104,620	2,273,620	1,571,000	786,625	3,675,620	3,060,245
Bernard HOURS	3,594,620	2,273,620	1,571,000	786,625	5,165,620	3,060,245

(1) See paragraph 20.1, Note 1.22 for the stock option valuation in accordance with IFRS 2.

(2) Adjustments were made (following the June 25, 2009 capital increase) to the numbers of purchase options granted and to the exercise prices in respect of the plans in existence as of that date. The adjustment coefficient was determined (in accordance with Article L. 225-149-1 of the French Commercial Code) by comparing the stock market price of the Danone share before withdrawal of the preferential subscription right associated with the shares issued under the capital increase, i.e. € 46.33, and the stock market price after withdrawal of the right, i.e. € 43.71.

Consequently, the data relating to the purchase options exercisable as of December 31, 2009 (including the allocations in respect of the fiscal year 2009) have been restated to take these adjustments into account (see the section below relating to the policy for granting stock options to managers and Section 17.2). However, the historical data relating to options exercised before the June 25, 2009 capital increase have not been adjusted.

## Compensation paid out during the Fiscal Year

The aggregate amount of annual compensation due and paid out, as well as benefits of any nature awarded over the course of the 2009 fiscal year to the members of the Board of Directors is broken down as follows:

(In €)	Fixed compensation <sup>(1)</sup>		Variable compensation		Benefits of any kind <sup>(2)</sup>	Attendance fees <sup>(3)</sup>	Total		
	Amounts due	Amounts paid	Amounts due	Amounts paid			Amounts due	Amounts paid	
<b>Name</b>									
Franck RIBOUD	1,050,000	1,050,000	1,842,750	1,729,350	4,620	4,620	–	2,897,370	2,783,970
Jacques VINCENT	760,000	760,000	786,240	765,180	4,620	4,620	–	1,550,860	1,529,800
Emmanuel FABER	644,000	644,000	875,000	725,000	4,620	4,620	–	1,523,620	1,373,620
Bernard HOURS	644,000	644,000	875,000	2,215,000 <sup>(4)</sup>	4,620	4,620	–	1,523,620	2,863,620
Bruno BONNELL	–	–	–	–	–	–	38,000	38,000	–
Michel DAVID-WEILL	–	–	–	–	–	–	66,000	66,000	–
Richard GOBLET D'ALVIELLA	–	–	–	–	–	–	52,000	52,000	–
Christian LAUBIE	–	–	–	–	–	–	54,000	54,000	–
Jean LAURENT	–	–	–	–	–	–	78,000	78,000	–
Hakan MOGREN	–	–	–	–	–	–	34,000	34,000	–
Jacques NAHMIAS	–	–	–	–	–	–	30,000	30,000	–
Benoît POTIER	–	–	–	–	–	–	76,000	76,000	–
Naomasa TSURITANI	–	–	–	–	–	–	24,000	24,000	–
Guylaine SAUCIER	–	–	–	–	–	–	46,000	46,000	–

(1) Gross amount. The amounts due correspond to sums attributable to the current fiscal year. The amounts paid correspond to sums effectively paid out during the fiscal year and include amounts that were due with respect to the previous fiscal year.

(2) Benefits of any kind correspond to the pool of cars and drivers made available to all members of the Executive Committee.

(3) Gross amount due over the course of the fiscal year, withholding at source not yet applied. The four executive directors and officers do not benefit from Directors' attendance fees.

(4) Bernard HOURS, while he was General Manager of the Fresh Dairy Products business line, received a medium-term exceptional variable portion linked to performance targets for the years 2006, 2007 and 2008. Since he met all these targets for the entire period, he received € 1,500,000 in 2009. This non-renewable program came to an end in 2008 in accordance with the maturity dates laid down at the outset.

The aggregate amount of pluriannual compensation due and paid out over the course of the 2009 fiscal year to the executive directors and officers is broken down as follows:

(In €)	Pluriannual variable compensation <sup>(1)</sup>	Valuation of stock options on the grant date, in accordance with IFRS 2	Total pluriannual compensation
<b>Name</b>			
Franck RIBOUD	1,500,000	1,573,250	3,073,250
Jacques VINCENT	750,000	786,625	1,536,625
Emmanuel FABER	750,000	786,625	1,536,625
Bernard HOURS	750,000	786,625	1,536,625

(1) Pluriannual variable compensation due corresponds to the GPUs allocated in 2009. Amounts paid in 2009 were paid for the GPUs allocated in 2006 for the achievement of the performance conditions for the 2006, 2007 and 2008 fiscal years.



## Compensation paid out during the Fiscal Year

The aggregate amount of annual compensation due and paid out, as well as benefits of any nature awarded over the course of the 2008 fiscal year to the members of the Board of Directors break down as follows:

(In €)	Fixed compensation <sup>(1)</sup>		Variable annual compensation		Benefits of any kind <sup>(2)</sup>		Attendance fees <sup>(3)</sup>	Total	
Name	Amounts due	Amounts paid	Amounts due	Amounts paid	Amounts due	Amounts paid	Amounts due	Amounts due	Amounts paid
Franck RIBOUD	1,050,000	1,050,000	1,729,350	1,508,408	4,620	4,620	–	2,783,970	2,563,028
Jacques VINCENT	760,000	760,000	765,180	789,048	4,620	4,620	–	1,529,800	1,553,668
Emmanuel FABER	625,000	625,000	725,000	611,600	4,620	4,620	–	1,354,620	1,241,220
Bernard HOURS	625,000	625,000	2,215,000	777,000	4,620	4,620	–	1,344,620	1,406,620
Bruno BONNELL	–	–	–	–	–	–	36,000	36,000	–
Michel DAVID-WEILL	–	–	–	–	–	–	54,000	54,000	–
Richard GOBLET	–	–	–	–	–	–	46,000	46,000	–
D'ALVIELLA									
Christian LAUBIE	–	–	–	–	–	–	50,000	50,000	–
Jean LAURENT	–	–	–	–	–	–	62,000	62,000	–
Hakan MOGREN	–	–	–	–	–	–	26,000	26,000	–
Jacques NAHMIAS	–	–	–	–	–	–	24,000	24,000	–
Benoît POTIER	–	–	–	–	–	–	72,000	72,000	–
Naomasa TSURITANI	–	–	–	–	–	–	18,000	18,000	–

(1) Gross amount. The amounts due correspond to sums attributable to the current fiscal year. The amounts paid correspond to sums effectively paid out during the fiscal year and include amounts that were due with respect to the previous fiscal year.

(2) Benefits of any kind correspond to the pool of cars and drivers made available to all members of the Executive Committee.

(3) Gross amount due over the course of the fiscal year, withholding at source not yet applied. The four executive directors and officers do not benefit from Directors' attendance fees

The aggregate amount of pluriannual compensation due and paid out over the course of the 2008 fiscal year to the executive directors and officers is broken down as follows

(In €)	Pluriannual variable compensation <sup>(1)</sup>		Valuation of stock options on the grant date, in accordance with IFRS 2	Total pluriannual compensation
Name	Amounts due	Amounts paid		
Franck RIBOUD	1,500,000	1,500,000	3,142,000	4,642,000
Jacques VINCENT	750,000	800,010	1,571,000	2,321,000
Emmanuel FABER	750,000	399,990	1,571,000	2,321,000
Bernard HOURS	750,000	399,990	1,571,000	2,321,000

(1) Pluriannual variable compensation due corresponds to the GPUs allocated in 2008. Amounts paid in 2008 were paid for the GPUs allocated in 2005 for the achievement of the performance conditions for the 2005, 2006 and 2007 fiscal years.

Lastly, the conditions under which the four executive directors and officers of the Company are paid indemnities in certain cases of termination of their terms of office are described in Section 15.3.15 below. The other members of the Executive

Committee benefit from similar commitments from the Company in certain cases of termination of their duties (see Section 20.1.1, Note 24 of the notes to the consolidated financial statements).

## Policy for granting Stock Options and Group Performance Units to Corporate Officers

Annually, the Board of Directors grants stock options, on the basis of an amount determined on a global basis, as recommended by the Group's Nomination and Compensation Committee.

As of December 31, 2009 the members of the Executive Committee benefited from exercisable stock options for an aggregate number of 3,742,010 shares.

Since 2007, all of the members of the Executive Committee have been subject to an obligation to hold a portion of their shares resulting from the exercise of options, as described in Section 20.2.1.

Group Performance Units as well as stock options, from which the members of the Executive Committee benefit, are described in Section 17.2.

Lastly, the amounts recognized with respect to the compensation and other benefits intended for all Directors and members of the Executive Committee are detailed in Section 20.1 (in Note 24 of the notes to the consolidated financial statements) and in Section 20.2 (in Notes 10 and 14 of the notes to the Company financial statements).

In accordance with Article L. 225-184 of the French Commercial Code, the grant and exercise of options on Company shares of the four executive directors and officers of the Company during 2009 are detailed in the following table.

<i>(In €)</i>							Options granted		Options exercised	
Name	Date of the Board meeting granting the options	Valuation <sup>(1) (3)</sup> <i>(in €)</i>	Number of options <sup>(2) (4)</sup>	Vesting date	Maturity	Exercise price <sup>(4)</sup> <i>(in €)</i>	Date of the Board meeting granting the options exercised	Number of options <sup>(3)</sup>	Exercise price <sup>(3)</sup> <i>(in €)</i>	
										Franck RIBOUD
Jacques VINCENT	04/23/2009	786,625	82,150	04/22/2013	04/22/2017	34.85	-	-	-	
Emmanuel FABER	04/23/2009	786,625	82,150	04/22/2013	04/22/2017	34.85	04/25/2002 04/11/2003	28,620 6,500	32.74 29.54	
Bernard HOURS	04/23/2009	786,625	82,150	04/22/2013	04/22/2017	34.85	-	-	-	

(1) Valuation as of the date of granting of the options in accordance with IFRS 2 (see Section 20.1, Note 1.22 of the notes to the consolidated financial statements), i.e. on April 23, 2009.

(2) As a percentage of the share capital on December 31, 2009, these grants represent 0.025% for Franck RIBOUD, and 0.013% for each of the following three executive directors and officers: Jacques VINCENT, Emmanuel FABER and Bernard HOURS.

(3) The valuation in accordance with IFRS 2 was not modified to account for the capital increase, and corresponded, before taking into account the adjustment coefficient:

- for Franck RIBOUD to 155,000 options granted at the exercise price of € 36.94, i.e. a fair value, under IFRS, of € 10.15 per share.

- for Jacques VINCENT, Emmanuel FABER and Bernard HOURS, to 77,500 options each, granted at the exercise price of € 36.94, i.e. a fair value, under IFRS, of € 10.15 per share.

(4) As indicated in the introduction to this Section, as regards the stock option plans adjustments have been made (as a result of the June 25, 2009, capital increase) to the numbers of stock purchase options and the exercise prices applicable to the option plans in existence on that date.

## 15.2 Retirement Obligations

More than 210 executives who hold the status of Senior Manager in the Group and who were covered by French pension schemes as of December 31, 2003 are, under certain conditions (particularly seniority and continuing employment conditions), eligible for a defined benefit pension plan.

This plan provides for a pension based on years of service and the amount of final salary, under the condition that the beneficiary is still in the Group's employment at the time of retirement. The pension is paid after deducting certain pensions (corresponding, with respect to a first category of Senior Managers in the Group, to the full amount of retirement benefits they acquired over the course of their professional career and, with respect to a second category of Senior Managers in the Group, to the full amount of retirement benefits that they acquired due to the implementation of an additional retirement plan paid for entirely by the Company), and may reach a maximum of 65% of final salary. In the event of leaving the Group before the age of 55 or in the event of death before retirement, the employee loses all benefits under this plan, it being specified that if the employee is laid off after the age of 55, the plan benefits are preserved, subject to the employee not taking any salaried position in the future. This pension plan was closed to new participants on December 31, 2003.

The amount accrued for under this plan represents the obligation of the Group as of December 31, 2009 for the payment of annuities calculated on the basis of life expectancies derived from mortality tables.

As of December 31, 2009, the portion of the total amount of the Group's obligation which relates to the Company's executive directors and officers under this pension plan amounted to € 49.9 million, which takes into account the impact of new charges applicable as of 2010, as provided in the *Loi de Financement de la Sécurité Sociale 2010* (LFSS) (2010 Social Security Funding Act). Refer to paragraph 20.1.1 in Note 16 of the consolidated financial statements.

The total amount paid out by the Company with respect to this pension plan for the benefit of the members of the Board of Directors (based on the duties they have completed within the Group, currently Mr. Christian Laubie) amounted to € 0.6 million in 2009.

With respect to the eligibility of each of the four executive directors and officers of the Company to this pension plan, see Section 15.3.8 (Related party transactions) and 20.2.4 (Special report of the Statutory Auditors).

## 15.3 Information On Transactions carried out with Members of the Administrative, Management, and Supervisory Bodies

### Related Party Transactions pursuant to Article L. 225-38 of the French Commercial Code (*Conventions Réglementées*)

**The following related party transactions, which the Company entered into during the previous fiscal years, continued to apply during 2009:**

1. at its July 21, 2004 meeting, the Board of Directors, pursuant to the Compensation Committee's proposal, updated the conditions under which the employment agreements of Franck RIBOUD and Jacques VINCENT would be resumed (it being specified that such employment agreements were suspended on August 26, 1994 when they were appointed as executive directors and officers of the Company), assuming that their term of office had ended, for whatever reason, and established that:

- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of the Company will be entirely taken into account with respect to seniority and their resulting rights within the framework of their employment agreement,
- the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee,
- the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve

## Information On Transactions carried out with Members of the Administrative, Management, and Supervisory Bodies

months preceding the resumption of their employment agreement,

- they will benefit from the Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement;
2. at its February 14, 2007 meeting, the Board of Directors renewed the €500 million authorization allowing the Company to act as guarantor for various financial transactions conducted by Danone Finance, one of the Group's specialized finance companies. Said authorization has not been used to date and it was renewed and amended by the February 10, 2010 Board of Directors meeting (see point 12 below).
  3. at its April 26, 2007 meeting, the Board of Directors of the Company, within the framework of the danone.communities project, approved the signing of a cooperation agreement established between the Company, the danone.communities open-ended investment fund (*Société d'Investissement à Capital Variable* – SICAV), the danone.communities venture capital fund (*Fonds Commun de Placements à Risques* – FCPR), and the companies of the Crédit Agricole Group (namely Ideam and Crédit Agricole Private Equity, respectively management companies for the SICAV and the FCPR, it being specified that as of the date of this meeting, Mr. Jean Laurent, Director of the Company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group). This agreement governs the relations among the Company and other entities that have taken part in the danone.communities project, and in particular provides for the subscription of shares of the SICAV by the Company for a maximum amount of € 20 million, as well as the annual financial contribution by the Company of a maximum amount of € 1.5 million for the first fiscal year, it being specified that this amount must be revised annually by the Board of Directors of the Company.

The Board of Directors meeting of February 13, 2008 decided to increase the annual level of financial contributions that the Company makes to the FCPR to a maximum of € 2.5 million for the second fiscal year of danone.communities, and the Board of Directors' meeting of February 10, 2009 decided to maintain the annual level of financial contributions that the Company makes to the FCPR at a maximum of € 2.5 million for the third fiscal year of danone.communities. Mr. Franck RIBOUD and Mr. Emmanuel FABER, Directors of Danone, did not vote, as both were Directors of the danone.communities SICAV (the total financial contributions the Company made to danone.communities projects in 2009 amounted to € 2.35 million);

4. at its October 19, 2007 meeting, the Board of Directors renewed its authorization allowing the Company to guarantee the full amount of the sums due by Danone Finance with respect to its Euro Medium Term Note bond issuance program, up to a principal amount limit of € 3 billion, as well as any additional amount (interest, fees) that may possibly be owed by this subsidiary under this program (in 2009, this guarantee was implemented in the amount of an average outstanding amount used of € 1,578,038,484, resulting in interest revenue of € 1,578,038. 48 for the benefit of the Company). This guarantee

was terminated on November 16, 2009 by the substitution agreement described in point 11 below;

5. at its October 19, 2007 meeting, the Board of Directors authorized the Company to grant a collateral security to the benefit of its subsidiaries Danone Finance, Danone International, and all other direct or indirect subsidiaries that would become additional borrowers to the credit agreement entered into by the Company on December 7, 2007 with respect to all of their financial commitments in principal, interest, and accessory payments and, more generally, with respect to any payments due in their capacity as additional borrowers, and up to a limit of a maximum principal amount of € 4 billion (in 2009, this guarantee was implemented in the amount of an average outstanding credit amount used of € 295,452,055, resulting in interest revenue of € 295,452.06 for the benefit of the Company);
6. the Board of Directors meeting of February 13, 2008 authorized an amendment to the employment agreements concluded with Mr. Emmanuel FABER and Mr. Bernard HOURS, for the purpose of determining the conditions under which their respective employment agreements would be resumed (it being specified that such employment agreements were suspended when they were appointed as executive directors and officers of the Company), assuming that their term of office had ended, for whatever reason. This amendment provides both executives, in an identical way, with the assurance that:
  - the amount of time during which they have exercised their duties as executive directors and officers for the benefit of the Company will be entirely taken into account with respect to seniority and to their resulting rights within the framework of their employment agreement,
  - the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee,
  - the annual compensation that will be paid out to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement,
  - they will benefit from the Company's defined benefit pension plan based on their seniority as a corporate officer and their seniority under the employment agreement,
  - the contractual indemnity due in the event of a breach in the employment agreement will be cancelled;
7. the Board of Directors meeting of February 13, 2008 decided on the principle and the terms and conditions of a right to the payment of an indemnity to each of the four executive directors and officers of the Company in the event that (i) their respective duties as executive directors and officers, for whatever reason other than serious misconduct or gross negligence, are not renewed, or (ii) they resign from their duties within twelve months following a change in control of the Company.

In these cases, the executive officer and director concerned shall receive, as an indemnity, an amount equal to two times

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his gross annual compensation (including his fixed and variable compensation and benefits in kind) received with respect to the performance of his duties during the twelve months preceding the expiration date of his duties.

The payment of this indemnity will be dependent on satisfying performance conditions that are identical for each of the four executive directors and officers, and based on the comparison of the growth in the Group's revenue with that of a panel of international reference groups in the food and beverages sector over a five-year period.

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median CICA of the Panel, the executive director and officer will be allocated 100% of the amount of the indemnity,
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the CICAs of the Panel, the executive director and officer will be allocated 50% of the amount of the indemnity,
- if the Group's CICA is lower than the first quartile of the CICAs of the Panel, no indemnity will be paid out to the executive director and officer.

It being specified that:

- the Reference Period corresponds to the five fiscal years ended preceding the end of the duties of the executive director and officer,
- the CICA of the Group corresponds to the organic growth of the revenue of the Group during the Reference Period,
- the CICA of the Panel corresponds to the organic growth of the revenue achieved by the members of the Panel during the Reference Period,
- the CICA of the Group and the CICA of the Panel are to be calculated at constant scope and exchange rates,
- the median of the CICA of the Panel corresponds to the central value of the Panel's CICA separating the CICAs of the Panel in two equal portions,
- the value corresponding to the first quartile of the Panel's CICA references the value below which 25% of the CICAs of the Panel are located,
- the Panel corresponds to seven international reference groups in the food and beverages sector: Kellogg's, Unilever, Nestlé, Kraft, Pepsi Co, Coca-Cola and Cadbury-Schweppes,
- in the event of the absence or delayed publication of audited accounting or financial data for one of the members of the Panel, the Board of Directors will, on an exceptional basis, have the option of excluding this member from the Panel,
- in the event of the absence or delayed publication of audited accounting or financial data for several of the members of the Panel, the Board of Directors will deliberate on the basis of the last audited financial statements published by the members of the Panel and by Danone over the last five fiscal years ended for which financial statements will have been published, for all of the members of the Panel and for Danone,

- the Board of Directors will have the option of excluding a member of the Panel in the event of the purchase, absorption, dissolution, merger, or change of business activity of any of the companies on the Panel, subject to preserving the overall consistency of the sample.

The contractual indemnities authorized by the Board of Directors meeting dated July 21, 2004 were also terminated with respect to the terms of corporate office of Mr. Franck RIBOUD and Mr. Jacques VINCENT and of the employment agreements for Mr. Emmanuel FABER and Mr. Bernard HOURS.

The indemnification rights of Mr. Franck RIBOUD, Mr. Emmanuel FABER and Mr. Bernard HOURS were renewed at the Board of Directors' meeting on February 10, 2010 (see point 15 below);

8. the Board of Directors meeting of February 13, 2008 confirmed the commitment that the Company undertook with respect to each of the four executive directors and officers relative to the payment of a pension under the defined benefit pension plan in the form of an annuity (with a reversion option), calculated based on the following elements:
  - the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the past three years of activity within the Group. The seniority taken into account would include the period corresponding to the term of corporate office,
  - in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the officer retired and the age at which he would have received his full rate social security pension will be applied to this annuity,
  - the amount of the annuity that would be paid to Mr. Franck RIBOUD and Mr. Jacques VINCENT would correspond to 2% of this calculation basis per year of seniority (this amount will however be subject to a ceiling of 65% of this calculation basis), minus the full amount of pension rights that Mr. Franck RIBOUD and Mr. Jacques VINCENT are entitled to and have acquired over the course of their professional careers, including the pension plan fully funded by the Company,
  - the amount of the annuity that would be paid out to Mr. Emmanuel FABER and Mr. Bernard HOURS would correspond to (i) 1.5% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche located between 3 and 8 French Social Security ceiling levels (3 et 8 *plafonds de la Sécurité Sociale*), and (ii) 3% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche that is higher than these 8 ceiling levels (this amount will however be limited on the basis of a maximum seniority of 20 years) minus the full amount of pension rights that Mr. Emmanuel FABER and Mr. Bernard HOURS have acquired due to the implementation of the pension plan fully funded by the Company.

The officer is eligible to this pension plan only if he was performing his duties within the Group at the time of retirement (it being specified that in the event the officer leaves the Group

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before reaching the age of 55, all the rights acquired will be lost, and that in the event such officer is laid off after the age of 55, the benefit derived from this plan is preserved, on the condition that the officer does not take up a salaried position);

9. The April 29, 2008 Board of Directors' meeting raised the Chief Executive Officer's authorization to guarantee the issue of commercial paper by Danone Finance from €2.5 billion to €3 billion in principal, including interest, costs, disbursements and incidental payments related to said amount (in 2009, said authorization was used for up to an average amount of €1,355,033,674 which earned interest income for the company of €1,355,003.67). Said authorization was renewed and amended by the February 10, 2010 Board of Directors' meeting (see point 13 below).
10. the Board of Directors meeting dated December 18, 2008 authorized Danone to become the guarantor of its subsidiaries Danone Finance and Alfabanque, with respect to covering all of their financial commitments in principal, interest, fees, commissions and accessory payments and, more generally, with respect to any payments due in their capacity as additional borrowers under a bank credit line, and up to a limit of a maximum principal amount of € 500 million. This guarantee has never been implemented and has expired on December 15, 2009;

**Finally, the Company entered into or amended five new related party transactions during the 2009 fiscal year or at the Board of Directors' meeting on February 10, 2010:**

11. at its July 23, 2009 meeting, the Company's Board of Directors, in order to meet the need to rationalize and simplify the Group's financial structure, authorized the signing of an agreement for the substitution of Danone in the issues of debt instruments (bonds relating to a principal amount of € 1,787,851,790.50 as recognized in the financial statements of Danone Finance as of June 30, 2009) by Danone Finance as part of its EMTN (Euro Medium Term Note) program and derivative contracts associated with said issues, in return for the payment by Danone Finance to Danone of a total amount of € 1,836,678,952.66 corresponding to the amount resulting from the reduction of its debt. Said issues were covered by the Company's first demand guarantees in respect of the EMTN program. This substitution agreement was signed on November 16, 2009 and resulted in the termination of the guarantee referred to in point 4 above;
12. at its February 10, 2010 meeting, the Company's Board of Directors amended the authorization allowing the Company to guarantee or stand as guarantor for various financial transactions carried out by Danone Finance, one of the Group's specialized financial companies, for a total maximum amount of € 500 million, to also include financial transactions to be carried out by its subsidiary Alfabanque;
13. at its February 10, 2010 meeting, the Company's Board of Directors amended the authorization allowing the Company to guarantee its subsidiary Danone Finance, in connection with the issue of commercial paper, for a total maximum amount of € 3 billion, to cover the principal amount and any interest, costs, disbursements and incidental expenses

related to said amounts and to also include the subsidiary Danone Finance International;

14. at its February 10, 2010 meeting, the Company's Board of Directors, in connection with an internal restructuring, authorized the contribution in kind of the Company's interest in Blédina, representing 54.98% of its share capital, to Danone Baby and Medical Holding, on the basis of a net carrying amount of the Blédina shares as stated in the financial statements of the Company for the year ended December 31, 2009, *i.e.* € 14,962,462. By way of consideration for this contribution, Danone Baby and Medical Holding will issue and allocate to the Company 14,962,462 of its shares with a nominal value of € 1 each;
15. Lastly, at its meeting on February 10, 2010, the Board of Directors decided to, on the one hand, amend the terms of the indemnification rights of Mr. Franck Riboud, Chairman and Chief Executive Officer, Mr. Emmanuel Faber, Deputy General Manager, and Mr. Bernard Hours, Deputy General Manager, in the event of the termination of their terms of office (rights which had previously been granted to them by a decision of the Board of Directors taken on February 13, 2008 and approved by the Shareholders' Meeting of April 29, 2008), and, on the other hand, to amend the employment agreements of the three executive directors and officers.

These amendments are subject to approval being given at the next Shareholders' Meeting called to approve the financial statements for the 2009 fiscal year. A separate resolution will be drawn up for each executive director and officer. The amendments are subject to the condition precedent of their approval by the Shareholders' Meeting and, in the case of Mr. Riboud and Mr. Faber, of the renewal of their terms of office as Chairman and Chief Executive Officer and Deputy General Manager respectively.

**Commitments made by the Company with respect to Messrs Franck Riboud (Chairman and Chief Executive Officer), Emmanuel Faber (Deputy General Manager) and Bernard Hours (Deputy General Manager) relating to the terms of their indemnification in certain cases where their respective terms of office are terminated**

At its meeting on February 10, 2010, the Board of Directors decided to replace the provisions authorized by the Board of Directors' meeting on February 13, 2008 by the following provisions, which will apply to each of the individuals designated above:

**(i) Amount of the indemnity**

The officer concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also

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subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the officer concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

### (ii) In the event of payment of the Indemnity

The indemnity will be due to the officer concerned only in the event that his term of office is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct (*faute grave*), i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence (*faute lourde*), i.e. extremely serious negligence committed by the officer with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly holds more than 50% of the Company's share capital or voting rights).

In addition, no payment will be due under the Indemnity if the officer, as of the date on which his term of office ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the officer concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the officer concerned ceases to carry out his duties under said employment agreement or resigns from his salaried position within the three months following the date on which his term of office as an executive director and officer came to an end due to a change of control.

### (iii) Performance conditions governing payment of the indemnity

The amount paid under the indemnity will be based on:

- a) the average organic growth in the Danone group's revenue (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b) the average organic growth in the revenue generated by the Panel members (the "Panel CICA"), over the Reference period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the officer concerned will be allocated 100% of the amount of the indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the officer concerned will be allocated 50% of the indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no indemnity will be paid to the officer concerned.

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Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

**(iv) Payment of the indemnity**

The amount of the indemnity will be paid within 30 days following the date of the Board of Directors' meeting which will decide whether the performance conditions governing payment of the indemnity have been met.

**Amendments made to the suspended employment agreements of Mr. Emmanuel Faber, Mr. Bernard Hours and Mr. Franck Riboud**

At its meeting on February 10, 2010, the Board of Directors made the following amendments to the suspended employment agreements of the three individuals designated above:

- the Indemnity for Breach of the Employment Agreement is (i) subject to a limit of two years' fixed and variable gross compensation and (ii) in the event of the payment of both the Indemnity for Breach of the Employment Agreement and the indemnity due in certain instances of the termination of the term of office of an executive director and officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment agreement;
- the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office of the officer concerned is subject to the same performance conditions as the indemnity due in certain

instances of the termination of the term of office of the executive director and officer, and

- in the event only of the termination of his term of office caused by a change of control, the officer concerned may, provided he is not guilty of serious misconduct or gross negligence, request the cancellation of his employment agreement in the form of lay-off within three months from the date of the termination of his term of office as a executive director and officer (i.e. the date on which his employment agreement is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of an executive director and officer, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically amended.

The portion of the Indemnity for Breach of the Employment Agreement which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment agreements of Mr. Emmanuel Faber and Mr. Bernard Hours was amended such that it can only be exercised by the Company and result in the payment of consideration in the event of the resignation of either of the directors concerned.

These transactions are described in the Statutory Auditors' special report (see Section 20.2.4).

## Other Transactions

The Company has entered into intra-group agreements with its subsidiaries and affiliates relative to transactions in the ordinary course of business. Generally speaking, these agreements relate to the sale and purchase of products, the supply of remunerated administrative services pursuant to agreements on management fees, such as treasury and financing management services, as well as on the licensing of intangible rights. These agreements

are still in force and were concluded under normal conditions, in accordance with the Company's commercial practices.

No loans or guarantees have been granted or constituted by the Company or its subsidiaries for the benefit of the members of the Executive Committee.



# ORGANIZATION OF THE ADMINISTRATIVE AND GOVERNING BODIES

## 16.1 Directors' Terms of Office

The dates of the beginning and end of the terms of office of the Directors are indicated in Section 14.1 – Composition of the Board of Directors and of the Executive Committee.

## 16.2 Service Contracts

As of the date of this Registration Document, no director or officer (*mandataire social*) has a service contract with the Company or any of its affiliates that provides for the provision of any sort of benefits.

## 16.3 Audit Committee, Nomination and Compensation Committee and Social Responsibility Committee (in accordance with Article L. 225-37 paragraph 6 of the French Commercial Code)

### Audit Committee

#### ● Composition of the Audit Committee

On the recommendation of the Nomination and Compensation Committee, the composition of the Audit Committee was amended at the Board of Directors' meeting held on April 23, 2009 to appoint Mrs. Guylaine SAUCIER as a member of this committee.

At its meeting on February 10, 2010, the Board of Directors, on the recommendation of the Nomination and Compensation Committee, decided to appoint Mrs. Guylaine SAUCIER as the Chairman of this committee. This appointment will be effective as from the close of the Shareholders' Meeting of April 22, 2010, Mr. Benoit POTIER leaving the Audit Committee on that date.

As of February 28, 2010, the Audit Committee is comprised of the following four Directors, who have all been declared as independent by the Board of Directors:

- Benoît POTIER, Chairman and member of the committee until the close of the Shareholders' Meeting of April 22, 2010: Mr. Benoît POTIER is Chairman and Chief Executive Officer of L'Air Liquide SA;
- Guylaine SAUCIER, Chairman of the committee as from the close of the Shareholders' Meeting of April 22, 2010. The Nomination and Compensation Committee considered that Mrs. Guylaine SAUCIER met the criteria for inclusion as one of the committee's "financial experts" due to both her training and her accounting and financial experience (as she is Chairman of the Audit Committee of the Areva Group);

## Audit Committee, Nomination and Compensation Committee and Social Responsibility Committee

- Richard GOBLET D'ALVIELLA, Mr. Richard GOBLET D'ALVIELLA is Vice Chairman and Deputy Director of Sofina SA;
- Christian LAUBIE, Mr. Christian LAUBIE is also one of the Audit Committee's "financial experts". He is a member of the French Supreme Council of Statutory Auditors (*Haut Conseil de Commissariat aux Comptes*) and was the Chief Financial Officer of Danone from 1980 to 2000.

### • Internal Regulations of the Audit Committee

In its meeting on December 15, 2006, the Board of Directors adopted new internal regulations for the Audit Committee, which specify its responsibilities. These internal regulations are regularly updated by the Board of Directors:

- in 2007, the Board of Directors decided to amend the internal regulations in order to clarify the division of responsibilities between it and the Social Responsibility Committee;
- at its meeting on December 17, 2009, the Board of Directors approved a new version of this committee's internal regulations. The internal regulations were revised to reflect changes to the relevant legislation and regulations regarding Audit Committees.

Following these amendments, the internal regulations specify that the Audit Committee is primarily responsible for:

- reviewing the individual and consolidated financial statements of the Company prior to their presentation to the Board of Directors. The Audit Committee (i) is responsible for ensuring the relevance and consistency of the Company's accounting policies, (ii) reviews the accounting treatment of complex and/or unusual transactions, (iii) reviews the scope of consolidation, (iv) reviews the policy for monitoring off-balance sheet commitments, (v) reports to the Board of Directors on the options for closing the financial statements, (vi) reviews the press releases relating to the Group's results with General Management, and (vii) obtains, twice a year, information about any disputes in which the Group is involved and any accounting provisions made in respect of them;
- managing the selection process for the Company's Statutory Auditors by supervising the invitations to tender launched by General Management and, in particular, making all proposals for their appointment, the renewal of their term of office and their compensation, examining the results of their works and of their reviews, and ensuring that they remain independent;
- ensuring that the Group has a structure and systems designed to identify and evaluate the risks to which it is exposed as well as monitoring the effectiveness of said systems, and verifying that correct account is taken of major risks and action plans are drawn up in respect of them;
- ensuring the existence of internal control systems, monitoring their effectiveness and reviewing the report of the Chairman of the Board of Directors on the composition of the Board of Directors, the conditions for the preparation and organization of the Board's activities, and the internal control and risk management procedures implemented by the Company;

- approving the Audit plan and monitoring its execution.

As part of its responsibilities, the Audit Committee may, on a regular basis, speak to the executive directors and officers (*mandataires sociaux*), the Group's General Management and, in particular, the VP Risks, Control and Audit, the Statutory Auditors, and the executive managers of the Group (in charge, in particular, of the preparation of the financial statements, risk management, and internal control and internal audit, legal, tax, treasury and financing affairs, and compliance with professional ethics). These hearings may take place, whenever the committee so decides, without the presence of the Company's General Management. In addition, the Audit Committee may consult with independent external advisors, in particular regarding legal and accounting matters, and may request that an internal or external audit be performed.

### • Activity of the Audit Committee

The Audit Committee met six times in 2009, as in 2008. All members had a 100% attendance rate at meetings, as in 2008.

In 2009, the committee's work involved mainly:

- the functioning of the committee and the setting of its program for 2009 and its priorities for 2009/2010;
- approving the new version of the committee's internal regulations (to take account of amendments to legislation and regulations regarding audit committees);
- reviewing the Group's annual and half-year financial statements (in each case after hearing the executive manager of the Group in charge). These reviews involved, on each occasion, (i) a presentation by the Statutory Auditors of the key elements of the results and the main accounting options that were adopted and (ii) a presentation by the Chief Financial Officer on the Group's financial position;
- reviewing the Group's financial position;
- reviewing the draft press release on the Group's annual results;
- reviewing the main disputes in which the Group is involved;
- reviewing changes in the scope of the Group;
- reviewing the resolutions relating to the financial authorizations submitted for approval to the Shareholders' Meeting on April 23, 2009;
- reviewing proposed financial transactions, in particular, the capital increase carried out on June 25, 2009;
- receiving a presentation on the proposed dividend distribution and, more particularly, the proposal to pay the dividend in respect of 2008 in shares;
- receiving presentations on the risk management systems and on the main risks to which the Group is exposed, in particular through presentations from and discussions with the operational managers;
- receiving a presentation on the internal control systems, and reviewing the part of the Chairman's report relating to internal control;

- approving audit plans and reviewing the revised version of the Internal Audit Charter and reviewing the principal conclusions of the audits conducted during the year;
- reviewing the pre-approval policy for services of the Statutory Auditors (excluding Statutory Audit-related engagements) to ensure their independence;
- managing the procedure for selecting the Company's Statutory Auditors and monitoring the invitation to tender process conducted by General Management, and, in particular, making any proposals concerning their appointment, renewal of appointment and compensation, examining the results of their assignments and checks, and ensuring their independence.

With respect to the review of the annual financial statements, the Audit Committee reviews (i) the main options for closing the financial statements in December, prior to the actual closing and (ii) the Company's financial statements during a meeting held prior to the meeting of the Board which approves those financial statements.

A report on each Audit Committee meeting is provided to the next Board of Directors' meeting. These reports on its activity must be such as to enable the Board to be fully informed, thereby facilitating its deliberations.

## Nomination and Compensation Committee

### ● Composition of the Nomination and Compensation Committee

As of February 28, 2010, the Nomination and Compensation Committee is comprised of the following three Directors, two of whom were recognized as independent by the Board of Directors:

- Mr. Michel DAVID-WEILL, Chairman of the committee;
- Mr. Jean LAURENT, Independent Director;
- Mr. Hakan MOGREN, Independent Director.

### ● Internal Regulations of the Nomination and Compensation Committee

In its meeting of December 15, 2006, the Board of Directors adopted new internal regulations for the Nomination and Compensation Committee, which specify its responsibilities.

The Nomination and Compensation Committee is notably responsible for:

- making proposals to the Board of Directors for the appointment of Directors;
- preparing the review by the Board of Directors of questions relating to the corporate governance;
- conducting an evaluation of the Board of Directors and the Audit Committee, upon request;
- proposing criteria for the compensation of the executive directors and officers;

- making proposals related to the grant of stock purchase options or free shares to the executive directors and officers;
- proposing the allocation of directors' attendance fees among Directors;
- more generally, making recommendations related to the Group's compensation policy upon the request of the Board of Directors.

For all subjects related to the appointment of executive officers (and excluding any issue relating to their compensation), the Chairman and Chief Executive Officer participates in the committee's activities.

Further to the recommendations of the Nomination and Compensation Committee, the Board of Directors meeting of February 10, 2009 amended the internal regulations of the committee, providing for the following:

- the above mentioned preparation by the committee of the review by the Board of Directors of questions relating to corporate governance shall now be performed annually;
- the annual presentation to the committee of the compensation policy applicable to members of the Group's Executive Committee (other than the executive directors and officers) shall now be made in the presence of one or more executive directors and officers (which was already the case in practice);
- the Nomination and Compensation Committee's performance will now be subject to regular assessment.

### ● Activity of the Nomination and Compensation Committee

In 2009, the Nomination and Compensation Committee met six times (compared with four times in 2008). The attendance rate at meetings was 89% (compared with 83% in 2008).

In 2009, the committee's work involved mainly:

- changes to the internal regulations of the Nomination and Compensation Committee (see the paragraph above);
  - a detailed review of the AFEP-MEDEF Code, and the compliance level of the Group in that respect, particularly in connection with the status and compensation of the executive directors and officers;
  - renewal of the terms of office of Directors due to expire at the Shareholders' Meeting of April 23, 2009 and the appointment of Mrs. Guylaine SAUCIER as a new Director and as a member of the Audit Committee;
  - an annual examination of the independence of each of the members of the Board, as well as the independence criteria used by the Board with respect to these recommendations;
  - a review of the process and practices in place in terms of the Group General Management succession plan and noting that this process had been expanded to all of the key positions in the Group's subsidiaries;
  - a recommendation on the definitive prohibition on using any hedging instrument in relation to the Company's shares for each executive director and officer (including a recommendation to expand this rule to the other members of the Executive Committee);
  - an examination of the opportunity to implement a pre-authorization internal procedure for transactions in the securities by the Group's executive officers (the recommendation was negative, as the Group policy is to ensure that each executive officer is responsible for his or her own transactions);
  - a review of the Directors' attendance fees, which are only paid to the non-executive directors, with the recommendation made to the Board of Directors to propose during the Shareholders' Meeting of April 23, 2009 that the maximum annual amount be increased by € 100,000.
- Two Nomination and Compensation Committee meetings were held, in late January and early February 2010, which dealt in particular with the following points (on which the committee reported to the Board of Directors meeting of February 10, 2010):
- an examination of all factors related to the compensation of each of the four executive directors and officers (and of the other members of the Executive Committee), in particular an examination of the variable compensation programs, including the (i) short-term (annual variable), (ii) medium-term (Group Performance Units, including an examination of the performance achieved in 2009 and the setting of performance objectives for 2010), and (iii) long-term (stock options, including a review of the requirement to hold shares resulting from the exercise of options by the executive directors and officers and the other members of the Executive Committee);
  - a review of the Group's variable compensation policy (including an examination of the balance of the grants between the various categories of option holders) and of the weighting between the long-term (stock option) and the medium term (Group Performance Unit) programs, and, in particular, the introduction of a free share allocation plan subject to performance criteria as from 2010, to replace the existing stock option plans, which will be submitted to the Shareholders' Meeting of April 22, 2010 for approval;
  - proposals to the Board concerning the renewal of terms of office of the member of the Boards, the appointments to the Audit Committee and the absence of separation of the duties of Chairman of the Board of Directors from those of the Chief Executive Officer;
  - a review of the status of the executive officers and the Company's undertakings related to the conditions of indemnification applicable to Mr. Franck RIBOUD, Mr. Emmanuel FABER and Mr. Bernard HOURS in certain cases of the termination of their terms of office and of the amendments to be made to the previous provisions approved by the 2008 Shareholders' Meeting as well as to the suspended employment contract of each of these executive directors and officers;
  - a review of the specific situation of Mr. Jacques VINCENT, who had expressed the wish to exercise his retirement rights with effect from April 1, 2010, with a view to retiring.
- A report on each Nomination and Compensation Committee meeting is provided to the next Board of Directors' meeting. These reports on its activity must be such as to enable the Board to be fully informed, thereby facilitating its deliberations.

## Social Responsibility Committee

In its meeting of December 15, 2006, the Board of Directors decided to create a third governance body, the Social Responsibility Committee.

### ● Composition of the Social Responsibility Committee

As of February 28, 2010, the Social Responsibility Committee was comprised of the following three Directors, two of whom were recognized as independent by the Board of Directors:

- Mr. Jean LAURENT, Chairman of the committee and Independent Director;
- Mr. Bruno BONNELL, Independent Director;
- Mr. Emmanuel FABER, Director and Deputy General Manager.

### ● Internal Regulations of the Social Responsibility Committee

During its meeting of February 14, 2007, the Board of Directors adopted internal regulations for the Social Responsibility Committee, which specify its responsibilities and procedures.

During its meeting of December 17, 2009, the Board of Directors adopted a new version of the committee's internal regulations, which stipulate, in particular, that the Social Responsibility Committee will in future be the subject of a regular performance evaluation.

The Social Responsibility Committee is responsible for:

- reviewing the principal environmental risks and opportunities for the Group in relation to its objectives and activities;
- reviewing the social policies of the Group, its objectives and the results obtained;
- reviewing reporting, evaluation and control systems in order to enable the Group to produce reliable information regarding non-financial matters;
- reviewing all non-financial information published by the Group, in particular relating to societal and environmental matters;
- reviewing annually the summary of the ratings received by the Company and its subsidiaries by non-financial rating agencies;
- ensuring the application of the ethical codes established by the Group.

In addition, in the area of socially responsible investments, the committee is responsible for:

- evaluating the impact of these investments on the Group;
- reviewing the application of the rules established by the Group concerning investments and social programs in areas related to the Group's activities;

- ensuring that the Company's interests are preserved, with particular focus on preventing any conflict of interest between these investments and the rest of the activities of the Group.

### ● Activity of the Social Responsibility Committee

In 2009, the committee met three times, as in 2008. All members had a 100% attendance rate at meetings, as in 2008.

In 2009, the committee's work focused mainly on:

- the various axes of the Group's societal approach;
- the Group's ongoing societal projects;
- the Group's ethical rules and principles (review of the revised version of the "Business Conduct Policies");
- the results produced by the tools for measuring the environmental and societal performance of the subsidiaries (Danone Way evaluation);
- the conditions for implementing and developing the funds created by Danone, in particular the danone.communities fund and the Danone Ecosystem Fund;
- the amount borne by the Company in respect of its financial contribution to danone.communities. See Sections 15.3.2 – "Related party transactions" and 20.2.1 – "Information on the danone.communities fund" and the Statutory Auditors' special report in Section 20.2.4;
- analysis of the results of the survey of all Danone's employees to ascertain changes in their perception of the Group;
- a review of Danone's new Health and Nutrition Charter;
- a review of the main risks within the committee's brief.

In addition, during its meeting of June 29, 2009, the committee carried out an initial evaluation of its activity, which resulted in consideration being given to the position of the committee, particularly in relation to the Audit Committee. At its meeting in October 2009, the committee decided to carry out a further evaluation of its activity, on which it will report to the Board in 2010.

A report on each Social Responsibility Committee meeting is provided to the next Board of Directors' meeting. These reports on its activity must be such as to enable the Board to be fully informed, thereby facilitating its deliberations.

## 16.4 Corporate Governance

The Company is in compliance with the corporate governance regime applicable in France pursuant to the conditions set out in Sections 14, 15 and 16.

Pursuant to the Law of July 3, 2008, the Board of Directors, at its meeting of December 18, 2008, studied the provisions of the

AFEP-MEDEF Code and decided that the Group shall refer to this code of governance (such decision has been published in a press release issued on December 19, 2008). This code is available on the MEDEF website ([www.medef.fr](http://www.medef.fr)).

## 16.5 Conditions for the Preparation and Organization of the Board of Director's Activities

(in accordance with Article L. 225-37 paragraph 6 of the French Commercial Code)

### ● Board of Directors' Activities in 2009

Ongoing efforts to improve the efficiency of the Board of Directors' activities continued in 2009.

The Board of Directors met ten times in 2009 (eight times in 2008) and each meeting lasted, on average, one and a half hours. The Directors' attendance rate was 86% (compared to 79% in 2008).

#### 1. The Board of Directors' work covered the following ongoing issues in 2009:

- (i) **monitoring day-to-day management and major policies:** the detailed review of the Group's activity, presentation of the annual budgets, approval of the Company and consolidated annual financial statements, review of the half-year financial statements, financial information releases, in particular when the annual and half-year financial statements are published, acquisitions and disposal of assets or equity interests, the financial situation and cash reserves, financial commitments (sureties and guarantees), the annual capital increase reserved for employees, allocations of stock purchase options and Group Performance Units (including the annual setting of performance objectives for the following year and the verification of their achievement for the preceding year), review of the Company's share price and of its shareholder base, approval of the Group's annual contribution to danone.communities, and the presentation of the Group's strategic plans;
- (ii) **functioning of corporate bodies:** monitoring corporate governance issues, reviewing the regular reports from the three Board committees (Audit Committee, Nomination and Compensation Committee and Social Responsibility Committee) regarding their work, determining all elements

of the compensation of each of the Company's four executive directors and officers, approving the various reports of the Board as well as the draft resolutions submitted for shareholder approval, and preparation for the Shareholders' Meeting.

#### 2. The Board of Directors' work involved the following specific issues in 2009:

##### (i) the Group's financial position:

- regularly reviewing the Group's financial position (indebtedness, off-balance sheet commitments, level of equity, liquidity, hedging of financial risks, ratings),
- evaluating the option to pay the dividend in shares proposed to the Shareholders' Meeting of April 23, 2009,
- the work relating to the Company's capital increase in June 2009,
- the substitution of the Company for Danone Finance as regards the bonds issued by Danone Finance,
- the public offer, launched by the Company in 2009, for the purchase, in cash, of certain of its bonds;

##### (ii) the Group's structure in the light of the economic climate in 2009:

- reviewing the Group's action plans to deal with the changing economic climate and monitoring their implementation;

##### (iii) governance and General Management:

- monitoring corporate governance issues,
- reviewing the self-assessments of the Board and the functioning of the Board,
- amending the internal regulations of the Board and its three committees,

- reviewing the reports of each meeting of the three committees,
- revising the Company's by-laws (proposed and voted on at the Shareholders' Meeting of April 23, 2009),
- authorizing the related party transactions relating to the Group's executive officers (these agreements were approved by the Board meeting held in February 2010 and will be submitted for shareholder approval at the Shareholders' Meeting on April 22, 2010);

**(iv) disposals and acquisitions:**

- the disposal by the Group of its entire interest in the Wahaha Group,
- the acquisition of the Clover Group's interest in the Danone Clover joint venture in South Africa;

**(v) strategy:**

- reviewing the Group's strategic plans. To carry out this review, the Directors arranged for a presentation to be given to them over a half-day in December of the strategic plans of each of the Group's business lines by the members of the Executive Committee responsible for the business lines concerned (the presentations were then discussed with the Directors),
- the Directors participate each year in the Evian events, which take place every year in September and bring together all the Group's managers worldwide;

**(vi) renewal of the terms of office of the Statutory Auditors:**

- monitoring the invitation to tender process implemented in view of the expiry of the terms of office of the Statutory Auditors. The Shareholders' Meeting on April 22, 2010 will be asked to renew the term of office of one existing Statutory Auditor and to appoint one new Statutory Auditor;

**(vii) Danone Ecosystem Fund**

- approving the creation of the Danone Ecosystem Fund and the capital contribution of € 100 million made by the Group to this Fund.

## ● Organization of meetings of the Board of Directors

Meetings of the Board of Directors are always held in the presence of the executive directors and officers. Directors who are external to the Company never holding meetings at which the internal directors are not present, to ensure that all Board members are provided with the same level of information and to reinforce the collegial character of this body.

At the Board of Directors' meeting during which the compensation of executive directors and officers is set by the Board, the latter are present, but, in conformity with law, do not vote. However, an executive director and officer shall not be present at the Nomination and Compensation Committee meeting during which his or her compensation is discussed.

## ● Board of Directors' self-evaluation

The Board of Directors regularly carries out a self-evaluation (in 2004, 2007 and 2008).

The Board's self-evaluation conducted in 2007 resulted in the Board adopting new internal regulations. Following this evaluation, it was decided, inter alia, to improve the information provided to the Directors on the Group's strategy as well as on acquisitions and disposals (see Section 21.2.2 – Internal regulations of the Board of Directors).

During the second half of 2008, a new Board self-evaluation was conducted, the results of which were reviewed by the Directors during 2009. The findings related mainly to improved information about strategy, the budget and the monitoring of acquisitions.

In connection with this self-evaluation, the Board of Directors decided to amend its internal regulations in order, in particular, to (i) specify the rules according to which it must be informed of the Company's financial situation (*i.e.* at least once every six months, which was already in practice) and (ii) definitively prohibit the use by the Directors of any hedging instrument with regard to Danone shares. In addition, following this self-evaluation, a half-day meeting was organized for the first time in December 2009 at which the strategic plans and budget were presented and discussed.

## ● Other information

The principles and regulations approved by the Board of Directors to determine the compensation and benefits-in-kind granted to executive directors and officers are detailed in Sections 15.1 and 16.3.

All of the information regarding the composition of the Board of Directors and the conditions of preparation and organization of its activities are provided in:

- Section 14.1 – Composition of the Board of Directors and of the Executive Committee;
- Section 16.3 – Audit Committee, Nomination and Compensation Committee, and Social Responsibility Committee.

The decision of the Board of Directors to refer to the AFEP-MEDEF corporate governance Code is disclosed in Section 16.4.

The terms and conditions relating to the participation of shareholders in Shareholders' Meetings are included in the Company by-laws and are summarized in Section 21.2.3.

The restrictions that the Board of Directors imposes on the powers of the Chief Executive Officer are shown in Sections 14.1 and 21.2.2.

The information provided for in Article L. 225-100-3 of the French Commercial Code is disclosed in the management report and is included in Section 20.2.1.

Finally, the report prepared in application of Article L. 225-37 of the French Commercial Code was approved by the Board of Directors at their meeting of February 10, 2010.

## 16.6 Report on Internal Controls and Risk Management Procedures Established by the Company

(in accordance with Article L. 225-37 paragraph 6 of the French Commercial Code)

### General Organization of Internal Controls

#### OBJECTIVES OF INTERNAL CONTROL AND REFERENCIAL USED

Internal control is a process put in place by the management, and all employees of Danone that is designed to provide reasonable assurance, albeit not absolute certainty, that the following main objectives are being met:

- accuracy of financial information;
- compliance with applicable laws, regulations, and internal policies;
- effectiveness and efficiency of internal processes, including those related to the protection of the Group's assets.

The Group applies an internal control referential that is compliant with the reference framework and application guide suggested by the French Financial Markets Authority. The Danone reference framework itself was inspired by the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) own procedures manual.

Danone's internal control system is adapted to the Group's strategic orientations and consistent with its international and decentralized organization.

#### SCOPE OF INTERNAL CONTROLS

Danone's internal control system is applicable to all subsidiaries controlled by the Group.

The subsidiaries of the Baby Nutrition and Medical Nutrition divisions, acquired at the end of 2007, continued to roll out Danone's risk management and internal control procedures, in accordance with the medium term integration plan established when they were acquired. In this manner, the largest Baby Nutrition and Medical Nutrition subsidiaries have been integrated into the scope monitored directly by the Internal Control Department.

By the end of 2009, 110 Group subsidiaries, in 45 countries and accounting for more than 95% of Danone's total consolidated net sales, have been assessed using DANgo, the Danone internal control system.

#### ACTORS ON INTERNAL CONTROLS

Danone's **General Management** is responsible for the Group's internal control system, while the **Audit Committee** is responsible

for ensuring the effectiveness of the Group's internal control and risk management systems. In order to accomplish this, General Management relies on operational (divisions, geographical regions, subsidiaries) and functional reporting structures, and especially the Chief Financial Officer and the Vice-President, Risks, Control and Audit (VP RCA), both of whom report to the same co-Chief Operating Officer.

The **Chief Financial Officer** (CFO) is responsible for the finance function throughout the entire Group, directly through various centralized functions (Business Controlling, Consolidation, Treasury and Financing, Tax, Strategy, Financial Communications, Acquisitions), and through the CFO's functional responsibility over the finance directors of the 4 divisions. The directors of Finance Departments and divisions meet in a monthly Executive Finance Committee.

The **Risks, Control and Audit Department** was established in early 2009 to strengthen the impact of the 3 functions that comprise it (risk management, internal control, and internal audit) and to create synergies around certain corporate governance and compliance-related topics. The VP RCA reports directly to one of the two co-Chief Operating Officers, who is a member of the Executive Committee, and reports functionally to the Chairman of the Audit Committee of the Board.

The **Internal Control Department** (ICD) is composed of a three-member central team working alongside two regional coordinators, and the local CBU internal controllers who typically report to the VP finance of the subsidiaries. The department reports directly to the VP RCA and functionally to the CFO, as the latter has shared responsibility for the quality of the Group's internal controls. All of the internal controllers in the CBUs, together with the other members of the RCA Department, ensure that the procedures defined by the Group are applied correctly in the subsidiaries and central functions. The precise role of the Internal Control Department is to maintain the Group's internal control referential, establish the methodology used to document internal control processes, supervise analysis of the results of the assessments, and oversee the establishment of action plans.

Reporting to the VP RCA, the **Risk Management Department** – comprised of a three-person team, along with a coordinator for the Americas region – oversees the risk management procedures described in Section 4 – Risk Factors and below in the paragraphs on Risk assessment.



Reporting to the VP RCA, the **Internal Audit Department**, which utilizes the services of specialized teams from international audit firms, including KPMG in particular, always under the supervision of the Danone audit managers, carries out regularly scheduled audits in the operational units as well as audits of Group-wide topics. In 2009, the department was certified compliant with International Internal Auditing Standards by the French Institute for Internal Audit and Control certification body (IFACI Certification). The IA Corporate Department is supported by internal auditors in certain large subsidiaries and in certain countries, as well as by audit personnel in other central functions (Quality, Safety, Information Systems, Crisis Management, Organization, etc.).

The **operational line managers** at headquarters and in the subsidiaries remain the main actors in internal controls within their respective areas of responsibility, with the support of many central corporate functions (Finance, Risk-Control-Audit, **Human Resources, Sustainable Development, Safety, Quality, Information Systems, Legal**, etc.). It is worth noting the support provided by the Human Resources Department's People and Organization Development function, which contributes strongly to the development of the DANgo internal control procedures manual.

## Overall Danone Internal Control Procedures

Internal control process is comprised of five closely-related components, which, at Danone, are implemented in the following manner:

**Control environment.** The control environment sets the level of staff awareness of the usefulness and necessity of internal control and is the foundation on which the other components of internal control are built, notably through discipline and organization.

Danone's control environment is based on the following:

- Danone's values, which are widely communicated in all of the subsidiaries, are expressed in the following manner: a dual economic/corporate social responsibility strategy; a business code of conduct, which is updated periodically and was redistributed in 2009; a human resource and social policy, particularly with regard to employee development and training; the impetus given by the Board of Directors; the willingness to achieve continuous improvements in all operating procedures, as expressed by the Group's General Management; and the "Danone Way" program, established in nearly all of the Group's subsidiaries and promoting a favorable environment for internal control;
- for several years, the Group has been rolling-out and running an anti-fraud awareness campaign to raise awareness of all employees to the risks of internal fraud and corruption, and has set in place an ethical whistle-blowing system (Dialert), focused on internal control issues, which can also be used by Group suppliers and potential suppliers;
- the standardization of operating processes through the implementation of the DANgo "Danone Governing and Operating Processes" referential managed in a software tool with the same name, and the deployment of *Themis*, an integrated information system, both of which contribute to the strength of the control environment. The Group's internal control procedures referential was created in its present form in 2003, and greatly enriched in 2005 and 2006, as Danone, being a publicly listed corporation in the United States at the time, was subject to the provisions of the Sarbanes-Oxley Act. DANgo now includes operating procedures ("Danone Operating

Models"), an evaluation list of internal control points, in the strict sense of the term ("Danone Internal Control Evaluations"), and a list of the practices promoted by the "Danone Way" program. Coordination of the central functions concerned by DANgo is ensured by holding a periodic, ad-hoc, transversal coordination committee;

- since 2006, the Group has ensured that the DANgo internal control and best practices referential is continuously up-to-date by systematically revising it every year. Major steps have been taken to improve DANgo and to incorporate the Baby Nutrition and Medical Nutrition subsidiaries into the process. The continuous attention paid to the matter also includes the formal documentation or updating of certain procedures, such as, recently, those regarding the delegation of powers, insurance, and business continuity plans. In 2009, the Group continued its program to improve the segregation of duties, notably through organizational changes and reviews of access rights to the various information systems;
- in addition to DANgo, an intranet site presenting all the documents useful for internal control is now accessible to all Danone employees and is updated regularly. Two other charters important to the control environment were also updated and distributed widely throughout the Group in 2009: the Internal Audit Charter, approved by the Audit Committee, and the Risk Management and Insurance Charter.

**Information and communication.** Appropriate information must be identified, collected, quantified and communicated in a format and within an appropriate time frame that enables each person to carry out his or her responsibilities.

To accomplish this, Danone relies on:

- its values, culture, organization, and information systems, all elements that facilitate the dissemination of information necessary to the decision-making process;
- the documentation databases and various intranet sites that enable information to be shared within the Group. These include not only financial information but also non-financial information

## Report on Internal Controls and Risk Management Procedures Established by the Company

that meets the needs of the various operating and functional departments;

- the distribution of the DANgo procedures referential, the methodological coordination and the support provided to the internal controllers of the subsidiaries by the Internal Control Department: training sessions for the integration of new subsidiaries and the use of the DANgo tool; workshops, where more than 100 members of the Danone international internal controllers network met together to exchange best practices in 2009.

**Assessment.** Every company faces internal and external risks that may hinder the achievement of its objectives. The principal risks the Group faces are described – after a brief exposé of the Group’s risk management policy and scope – in Section 4 – Risk Factors of this Registration Document.

The Group has established a risk identification system, using a special risk-mapping application called *Vestalis*. Risks are mapped every year in most of the subsidiaries of the Waters and Fresh Dairy Products business lines, and they were mapped for the first time in this manner in 2009 in several subsidiaries of the Baby Nutrition and Medical Nutrition business lines. The methodology employed enables all of the risks and weaknesses of all operations in the companies covered to be identified, tabulated and ranked based on their probability of occurrence and their financial impact, on the scale of a country or a business line, and accordingly to define the preventive or corrective measures to be taken, either locally or globally as the case may be. The most significant risks are reviewed once a year with the heads of the geographical regions, at specific meetings attended by the Managing Director and the Finance Director of each region. A review of all the most significant risks is performed regularly by the Danone Enterprise Risk Committee (DERC), comprised of the two co-Chief Operating Officers, the Chief Financial Officer, the SVP Human Resources, the VP Risks, Control and Audit, and the ERM Director of Danone. A mapping of Danone’s major risks is assessed during the committee, “risk owners” are systematically designated, and risk mitigation plans are reviewed and assessed. This work serves as the basis for the presentations made to Danone’s Executive Committee and to the Audit Committee.

In addition, the existence of procedures – regarding the monitoring of competition, training, risk prevention and protection, etc. – and the initiatives taken by specialized departments – such as the Environment Department and the Quality and Food Safety Department – all contribute to the identification and analysis of risks. The identification and reporting of risk is also facilitated by the relatively low number of reporting levels, the shortness of the decision processes, and the inclusion of the operating units in strategic discussions. Two Group-wide committees headed up by the VP RCA have also been created to deal with major risks against which the Group must protect itself: a Group-wide Health, Safety, Environment and Quality Committee (HSEQ), created in 2008, and a quarterly Group-wide Compliance Committee, attended – since 2006 – by the various central departments that collaborate on the quality of the control environment.

**Control activities.** The control activities are intended to ensure the application of the standards, procedures, and recommendations that contribute to implementation of the main strategic decisions made by the Group’s General Management.

All DANgo operating procedures and guidelines, which are improved continuously, are disseminated and put into practice within the operating units. Certain items in DANgo are identified as contributing to the prevention of fraud and corruption. The use of the integrated information system Themis by the majority of the operating units also contributes greatly to the reliability of operating control activities.

In addition to these rules and procedures, the Group has also set in place a body of practices and procedures that allow it to carry out its control activities. These practices and procedures include regular monitoring of the performances of each operating unit – notably during performance reviews – and attendance at the units’ Board of Directors and Management Committee meetings. The subsidiaries’ internal controllers oversee the implementation of these practices and procedures. All the subsidiaries integrated into DANgo use this self-evaluation process, and the largest of them follow an additional, more in-depth and intense control process (documentation, testing, etc.).

**Continuous monitoring.** The internal control systems are reviewed periodically so that their performances and effectiveness may be qualitatively evaluated.

The permanent monitoring of control procedures is part of the ongoing activities of the Company and its subsidiaries. The IT application that hosts DANgo allows subsidiaries to document their operating processes, especially those used to prepare financial information; to perform self-evaluations; to assess whether they are compliant with the Group’s internal control procedures (referential); and to monitor any necessary action plans. The results of the annual self-evaluations by the subsidiaries are sent to the Internal Control Department, which analyzes them and communicates relevant synthesis to the different stakeholders. Appropriate action plans are put in place by the entities with a view to continuous improvement; the ICD verifies that the action plans have been created and evaluates them for any oversights, and independent internal audits are subsequently carried out to validate that corrective measures have indeed been taken.

In 2009, internal control performance indicators (coverage rate, “intensity” of controls, and deficiencies rate) were established to facilitate the analysis and disclosure of all results and the assessment of the effectiveness of internal controls within the different regions and the 4 divisions.

The quality of the oversight and of the monitoring of internal controls is ensured by two committees – headed up by the Internal Control Department – which meet regularly: the DANgo Steering Committee (which meets twice a year, and consists of the operational executive managers designated to represent the Group’s key functions: Purchasing, Operations, Sales, Finance, HR, IS, etc.), and the quarterly Internal Control Steering Committee (which includes primarily the heads of the Finance function at headquarters and in the Divisions).

In 2009, the Group Internal Audit Department conducted 47 internal audit assignments in the subsidiaries or of Group-wide functions, based on the plan previously approved by the Audit Committee. Eighteen of these audits covered Baby Nutrition and Medical Nutrition entities, achieving cumulative coverage of nearly 80% of the former Numico subsidiaries since they were acquired in 2007. Following each assignment, an action plan was prepared by the management of the subsidiary to correct any weaknesses identified in the audit report, and the implementation of action plans is routinely monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2009, this monitoring led to 29 short monitoring

assignments being carried out on the implementation of action plans, whenever possible in the 12 months following the audit.

The Treasury and Financing, Information Systems, Internal Control, Environment, and Crisis Management Departments all arrange for audits and periodic inspections in the subsidiaries, in addition to the internal audit assignments.

The Audit Committee and the Group's General Management are informed at least twice a year of the progress made in the subsidiaries' self-evaluations, the related findings, and the results of the audits conducted by the Internal Audit Department.

## Internal Control Procedures for the Preparation and Processing of Danone's Financial and Accounting Information

**Control environment.** The organization of the finance function is based on the use of centralized functional departments (Treasury and Financing, Acquisitions, Strategy, Management Control, Consolidation and Standards and Procedures, and Financial Communication) and each business line's Finance Department. The latter are then organized into regions combining the operating units: in some countries, the accounting and treasury and other specialized units are shared. In any event, the operating units are responsible for the production and content of their financial statements and for their own internal control procedures.

The roles and the skills required at the different levels of the organization are clearly defined and the internal training programs are tailored accordingly. The relevance of the key performance indicators is reviewed on a regular basis, internal control procedures are distributed to all the operating units, and all accounting and financial procedures are available on the DAFnet intranet site (see below).

The control practices and procedures mentioned in DANgo also help ensure the reliability of the process for preparing the financial statements. Indeed, the DANgo procedures referential includes a large number of points concerning the quality of financial and accounting information. It is worth noting that in 2006, under the provisions introduced by Section 404 of the Sarbanes-Oxley Act of 2002, the Company (which was listed in the United States at the time) had conducted a comprehensive assessment of internal control procedures relative to financial and accounting information within the Group.

**Information and communication.** A unified information system, using the most widely used consolidation software on the market, enables the Group to produce the financial information used to manage and control the operating units' activities. All procedures related to the security and use of this consolidation system – as well as the development of new functions – are documented. In 2009, the Group deployed the consolidation software suite in the subsidiaries of the Baby Nutrition and Medical Nutrition business lines, and trained the employees of the Finance Departments concerned.

Also, the implementation of *Themis*, the integrated information system, optimizes the flow of information – both within a company and between subsidiaries – among the finance, purchasing, production, quality, supply chain, and sales functions. This phased deployment in the subsidiaries is accompanied by continuous improvements to the system's features.

The DAFnet intranet portal gives all financial managers access to the Group's procedures manuals and accounting policies. The chief financial managers of each business line and certain department managers meet on a regular basis to share information and best practices. Training sessions on specific accounting issues are held regularly. Lastly, to prepare the year-end close, the Head of the Group Consolidation Department sets up meetings with the finance teams in the principal subsidiaries to address key topics regarding operations and specific accounting issues arising from International Financial Reporting Standards.

Every quarter, the Group's entire finance function is able to connect to a website where the Chief Financial Officer comments on the activity for the quarter, the year-to-date financial results, and the major challenges for the Group.

**Risk assessment.** The use of the results obtained via the different resources in place (*DANgo*, *DanoneWay* and *Vestalis*), the budget and strategic planning processes, the monitoring of performances, and the regularly scheduled meetings in which the finance functions are major stakeholders (Business Controlling, Treasury and Financing, Consolidation, Acquisitions), the meetings of the Danone Enterprise Risk Committee (DERC) and the Executive Committee – enable Danone to monitor and manage the most important risks identified.

Specific risks related to the processes used to prepare and disseminate financial information are also reviewed, and appropriate internal controls are established to handle any risks identified.

**Control activities.** Each business line has a Finance Department, which is responsible for monitoring performance, capital expenditure, and free cash flow. The business lines' Finance

## Report on Internal Controls and Risk Management Procedures Established by the Company

Departments are supported by the Finance Departments in the regions and the operating units. In addition, a central Finance Department oversees the entire financial control function within the Group.

The principal components of the performance review process are combined in a stringent financial planning process that includes: a strategic plan; a budget process, preceded by the preparation of guidelines with the key objectives to be achieved; complete re-estimates at regular intervals; monthly closings; monthly updated forecasts of certain indicators; and monthly performance review meetings attended by the finance teams and the Managing Directors of the business lines.

In this context, each operating unit prepares a monthly, detailed financial report, and a twice-yearly exhaustive consolidation package for use in preparation of the Group's consolidated financial statements.

#### Monthly financial report and quarterly information

- The financial report is prepared using a standard format focusing on a limited number of monthly performance indicators. The financial information is incorporated into a centralized and unified database, used for both internal management purposes and for external reporting.

#### Preparation of the six-month and annual financial statements

- The operating units use consolidation packages to report financial statements presented in compliance with the International Financial Reporting Standards used by the Group and the analytical tables presented by balances and by movements that are used to prepare the consolidated financial statements and the notes to the consolidated financial statements. These consolidation packages are verified by a central team, which: throughout the year checks the accounting options used; is responsible for all elimination and consolidation entries; and validates those line items that present the highest degree of risk (intangible assets, financial assets, taxes, provisions and debt). Members of the central departments visit the operating units on a regular basis (performance monitoring, procedures reviews, pre-closing meetings, *ad hoc* audits, progress on improving internal controls, follow-up on actions plans, training in accounting standards, etc.). The appropriate documents are

provided sufficiently in advance for them to be reviewed by the Group's management bodies.

- Twice yearly, the Managing Director and the Finance Director of each subsidiary, and those in the regions and the business lines, provide written confirmation of compliance with the Group's applicable procedures and affirm that they are compliant with all of the standards applicable to the financial information sent to the central teams, in a certification letter that covers the year-end closing of the financial statements, including all internal control-related subjects.

The control activities are therefore conducted at all of the Group's hierarchical and functional levels and include a variety of steps such as approving and authorizing, verifying and comparing, evaluating operational performances, ensuring the protection of assets and monitoring the segregation of duties. The assignments headed-up and conducted independently by the Internal Audit Department provide validation of this.

**Continuous monitoring.** One of the responsibilities of each Division VP Finance and of each functional director is to improve the procedures used to prepare and process financial information. Detailed audits are conducted on the key control procedures in the preparation of financial information (particularly published disclosures) in the subsidiaries and in the Group's headquarters and on their effective application. Moreover, the internal audits conducted in the operating units are aimed primarily at verifying the quality of the accounting and financial information. The business lines' Finance Departments ensure that the action plans established subsequent to the above-mentioned internal and external audits have been carried out correctly.

**Evaluation.** The procedures intended to control the accounting and financial information provided by the consolidated subsidiaries, as well as the internal control procedures used to prepare the consolidated financial statements, are adequate to provide reliable accounting and financial information.

The Audit Committee examined the report of the Chairman of the Board of Directors on the internal control and risk management procedures put in place by the Group. This report was then reviewed and approved by the Company's Board of Directors on February 10, 2010, in accordance with the French Law of July 3, 2008.

## 16.7 Statutory Auditor's Report

(prepared in accordance with Article L. 225-235 of the French Commercial Code on the report of the Chairman of the Board of Directors of Danone)

In our capacity as Statutory Auditors of Danone, and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Articles L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by Article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

## Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

## Other information

We attest that the report of the Chairman of the Board of Directors contains the other information required by Article L. 225-37 of the French Commercial Code.

Courbevoie and Neuilly-sur-Seine, France, on March 11, 2010

### The Statutory Auditors

**MAZARS**

**PRICEWATERHOUSECOOPERS AUDIT**

**French original signed by:**

**French original signed by:**

Thierry COLIN

Ariane MIGNON

Étienne BORIS

Olivier LOTZ

## EMPLOYEES

**17.1 Human Resources and Social Responsibility**

As of December 31, 2009, the Group's fully-consolidated companies employed 80,976 staff. The table below provides details of the total number of employees and a breakdown by geographical area and business line as of December 31, 2008 and 2009.

	As of December 31,	
	2008	2009
Total number of employees	80,143	80,976
<b>By geographical area</b>		
France	10.9%	10.6%
Rest of Europe	27.2%	26.2%
China	9.9%	10.8%
Rest of Asia-Pacific	18.2%	17.9%
North and South America	28.3%	29.1%
Africa and Middle East	5.5%	5.4%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>
<b>By business line</b>		
Fresh Dairy Products	38.9%	38.7%
Waters	41.2%	41.1%
Baby Nutrition	13.9%	13.7%
Medical Nutrition	4.4%	5.0%
Corporate functions	1.6%	1.5%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

**General Policy**

Danone's mission is to "provide health through food for the largest number of people". Since 2008, four platforms have embodied the challenges of this mission, which the Group continued to develop during 2009. These platforms cover health and nutrition positioning, the development of individuals and their abilities, nature, and social responsibility and environmental responsibility.

The Human Resources Department played a central role in the implementation of these platforms, by promoting in particular the synergies between the Group's various functions. Several projects were carried out in 2009, including:

- the implementation of a "Bottom of the Pyramid" structure applicable to all the Group's business lines. Its aim is to maximize the impact of the Group's activities on the health of all people, worldwide, in particular those with weak purchasing power. These projects involve investments in very small factories,

which are more flexible and less expensive, innovation in terms of new packaging and/or products with nutritional or health benefits appropriate to the needs of the people concerned, as well as the development of new distribution networks enabling certain communities to access the Group's products;

- the creation of the Danone Ecosystem Fund, which has financed two initial projects ("Proximity" and the investment in the Ukraine dairy market) described in Section 6.1;
- the creation of a Nature Department, whose role is described in Sections 6.1 and 8.2.

The Group's human resources policy is based on two principles: a full and complete involvement in operating decisions and the determination to ensure sustainability of social commitments. The Sustainable Development and Social Responsibility Department coordinates and implements the sustainable development policy,

in liaison with the various functional departments of the Group and of its subsidiaries.

Operational decisions are effected by a human resources organization that is close to the needs of the business. Human resources are organized by business line and rely on group-wide structures in key areas such as compensation, organization and know-how, integration of acquisitions, recruitment and senior management. To attract talent worldwide, the Group has developed, therefore, an institutional communication campaign presented on the Internet via the website "danonepeople.com." The development of human resources is ensured by training and quality management, for example, through tools such as "360°"

personal assessments and coaching. Furthermore, human resources promotes the Group's international development through (i) a global recruitment policy, (ii) encouraging the movement of managers around the world through a dedicated team that manages the administrative, financial and personal aspects of transfers and rotations and (iii) the integration of newly acquired companies.

## Social Policy

The Group's Fundamental Social Principles (FSP) are based on International Labor Organization conventions relating to the prohibition of child labor, forced labor, discriminatory practices, safety and working conditions, working hours, the application of national minimum wage laws, freedom of association and expression of employees and the right to collective bargaining. These FSP are minimum requirements to be met by all Group companies, related companies, partners and suppliers, in order that the human resources and social policy is firmly grounded on solid bases applicable to the employees of the Group and its partners.

Internal compliance with these FSP is verified by means of the Danone Way self-assessment process (this verification is supplemented by an audit carried out by KPMG covering 20% of Group companies).

As regards parties external to the Group, all Danone's suppliers are required to sign a clause in their agreement with the Group by which they undertake to comply with the Fundamental Social Principles. This process is referred to as the "Respect agenda". Risk analyses are carried out by the Group's buyers, who may use for this purpose the Supplier Ethical Data Exchange (Sedex) Internet platform that enables suppliers to enter online information concerning their sustainable development and social responsibility policies. The Sedex platform also enables suppliers to share information about themselves with a number of customers simultaneously in the context of the AIM-PROGRESS initiative, which groups together the major companies of the agri-food sector with the objective of developing common Corporate Social Responsibility standards, and pooling information and the results of audits concerning their common suppliers.

The Group's buyers also arrange for audits of those suppliers in respect of which a risk has been identified and ensure that action plans drawn up as a result of the audit are implemented.

**Safety and Working Conditions.** Safety is a fundamental value within Danone and is part of the dual economic and social project. Danone has for several years been involved in the worldwide WISE program aimed at developing a genuine safety culture at all its sites by drastically reducing the number of workplace accidents.

The WISE approach, which has already enabled the Group to reduce its accident frequency rate by 50% in four years, has been adopted in the Baby Nutrition and Medical Nutrition Business lines with audits being carried out on-site. It has been extended to cover both sales and distribution activities as well as on-site subcontractors: in future, on-site subcontractors' safety management policies and processes will be systematically audited as part of the range of audits carried out at the Group's various sites (about one hundred per year).

In 2009, the Group has met its targets for reducing the accident frequency rate, which is 24% lower than in 2008. Danone's objective is to continue this improvement to enable it to achieve one of the best safety records and a firmly entrenched safety culture.

Safety has regularly improved at the Group's industrial sites and appears to be well integrated, in the same way as quality, as both a priority and a performance lever. More work needs to be done in this area as regards the Group's sales and distribution activities (which were later in launching the WISE health and safety at work program than the Group's factories), especially in certain high-risk countries (due to the number of Danone drivers on the roads and the high accident rates in the countries concerned).

In addition, a Safety Steering Committee has been set up at Group level. Its role is to provide a medium-term vision of the Group's safety policy, authorize targets for each business line and monitor the progress of the action plans, ensure the correct allocation of human and financial resources and authorize the recommendations of a project team (set up for this purpose) as regards methodology and directives. This Steering Committee is supported by a project team named "Safety", made up of eight safety professionals whose role is to develop standards for the Group, disseminate best practice and coordinate the organization of the audits at regional and business line level.

The Executive Committee and all General Managers have reaffirmed their commitment to improving safety within the Group by signing the "Safety Engagement" in 2009.

Alongside the strengthening of its safety policy, Danone launched an ambitious program to prevent stress at work and to improve

## Human Resources and Social Responsibility

working conditions. A Group France agreement was signed with the labor unions. This ambitious agreement follows the detailed work the Group and the unions have been involved in over the last two years in this area, which has included the introduction of a Medical Observatory of Stress, Anxiety and Depression (*Observatoire Médicale du Stress, de l'Anxiété et de la Dépression: OMSAD*), in partnership with the French Institute for Stress and Anxiety (*Institut Français de l'Anxiété et du Stress: IFAS*). The objective is to measure each employee's stress level during the annual medical visit which will provide a mapping of those employees suffering from stress so that solutions can be identified to help the employees concerned and improve stress-prevention.

In addition, negotiations have just begun with the International Union of Food Workers (IUF) to sign a framework agreement relating to health, safety, working conditions and stress.

**Welfare.** The Group has developed a welfare policy consistent with the economic realities in the environment in which its subsidiaries operate. Welfare takes into account the fundamental needs for social protection for employees and their families. It covers the following areas: retirement, workplace accidents, access to medical care and insurance for business travel.

The Group's policy in this area is the following:

- to offer a welfare policy in accordance with national legislation;
- to impose a minimum standard, notably by increasing repatriation insurance for all employees working abroad as well as an accidental death indemnity for all employees on either indefinite-term or fixed-term contracts, which amounts to one year of compensation.

In addition, Danone is involved with the "Dan'Cares" project, the aim of which is to provide all employees with a minimum level of welfare and medical cover. During 2009, Danone mapped the situation in each country, taking into account various criteria (general level of cover, split of provision between the employer and the state, risks covered, costs of schemes, amount not covered, etc.) and prepared an action plan in 2010 under which its subsidiaries are required, over the next three years, to gradually improve the medical cover provided to their employees and perhaps also their families.

**Employee Dialogue.** Danone is a forerunner in the field of international employee dialogue: as far back as 1972, a European information committee concerning sheet glass was set up within BSN. In 1988, initial, worldwide, framework agreements were signed with the International Union of Food Workers (IUF), prior

to the setting up of the Group's Information and Consultation Committee (*Comité d'Information et de Consultation: CIC*) in 1996. The CIC meets once a year and is composed of Group labor union members and national labor union representatives on the one hand and Danone human resources and operational managers, depending on the agenda items, on the other. It also includes observer members from the IUF.

2009 was the year in which the CIC gained worldwide coverage as its membership was increased to include employee representatives from the Group's subsidiaries in Asia (Indonesia), North America (United States and Canada), Latin America (including Mexico, Argentina and Brazil) and Africa (including South Africa and Algeria).

The expansion of the CIC's membership was necessary: given that the geographical spread of the Group had changed significantly in recent years and its presence in countries outside Europe had increased considerably, the inclusion of representatives from Asia and from North and South America had become crucial.

In addition, the Group carried out a review of the development of Group bodies involved in international employee dialogue and, in particular, the need to include the Baby Nutrition and Medical Nutrition business lines (including the former Numico companies) and its European Works Council.

Finally, Danone and the IUF wished to increase economic dialogue by setting up Business Line Committees: in addition to being involved in the Group's strategy via CIC meetings, Business Line Committees (Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition) comprising General Management and representatives of the employees concerned discuss the business line's strategy, structure, HR policy and main Group-wide projects. These discussions help the employees' representatives to understand and appraise the major challenges their business line faces.

In addition to this information and consultation body, Danone and the IUF signed eight agreements with worldwide application. Each year, a representative of Danone and a representative of the IUF jointly visit several countries and sites to promote these framework agreements and international employee dialogue and to verify, in the field, that these agreements are being tailored and adapted to local circumstances.

A new agreement on health, safety, working conditions and stress is currently being negotiated with the IUF.



## Training and Development

**Training and Development.** In connection with the Group's mission, employee training at Danone contributes both to the performance of its business, by building necessary distinctive short-term and medium-term abilities, and to the development of its employees, by encouraging professionalization.

Despite the difficult economic climate, in 2009 Danone decided to maintain its training budgets at their existing levels or even to increase them, which resulted in the average number of hours training per employee per year increasing from 25 hours to 28 hours. Overall, training in terms of the number of hours increased across all the Group's business lines by 16%, or 300,000 hours (of which 215,000 related to manual workers, clerical staff, and technical and supervisory staff). As regards the number of employees receiving training, this increased by 7% and the number of hours of training provided was 16% higher in 2009 than in 2008.

Danone's training strategy is based on a training offering which is adapted to both international and local requirements and includes:

- training by area of business (marketing, finance, human resources, purchasing, etc.) and management training for all managers, as well as the "Danone Learning Solutions" ready-to-use training packages tailored to each country's requirements;
- campuses by geographical area where between 300 and 400 managers attend each session and which promote the dissemination of the Group's culture;
- synergies for particular countries, such as the "College of skills" (*Collège des compétences*) in France, and offerings for particular subsidiaries, such as the "Workers Academy" set up within the subsidiary Danone Belgique, together with offerings tailored to local requirements which take into account the expectations of employees at all levels.

Danone's objective is to increase each year the number of employees with access to structured and innovative programs. In this regard, 2009 was characterized by the "Dream Store College" program, the aim of which was to meet the efficiency needs of sales forces on the ground in Africa and the Middle East.

In France, the "Evoluance" program (a training initiative leading to a qualification implemented in all the Group's French companies in partnership with the French National Education Department (*Éducation Nationale*), industry sectors, the French Ministry of Agriculture and the Ministry of Labor) continues: more than 1,000 Danone employees have already participated in this program by means of training initiatives enabling them to obtain a Certificate of General Training (*Certificat de Formation Générale*: CFG), a Validation of Learning Through Experience (*Validation*

*des Acquis de l'Expérience*: VAE) or a Certificate of Professional Qualification (*Certificat de Qualification Professionnelle*: CQP).

**CODE and the Danone Leadership College.** In mid-2008, Danone decided to launch a major initiative to transform its leadership. The objective of the program is to increase the expertise of and encourage the taking of responsibility by 80,000 employees, with the aim of making Danone a "Great Place to Grow", where everyone can grow, learn and develop.

The first initiative was to identify and formalize "Danone-style" leadership attitudes in association with Group values: the Danone "CODE" leadership concept (CODE stands for "Committed, Open, Doer & Empowered/Empowering"). This characterization of leadership attitudes was based on Danone's values of openness, humanism, proximity and enthusiasm. This framework has already been translated into 30 languages and integrated into all human resources processes (recruitment, assessment, training, development and identification of potential) which have been tested in several subsidiaries. The information systems associated with these changes are ready for use as from 2010.

The Danone Leadership College was designed as a platform for developing leadership skills in all team leaders, with the intention that they develop their teams on the same bases. The aim of the Danone Leadership College is to create the conditions for the transformation of Danone. It has three objectives:

- to develop the leadership skills of all team leaders, based on the "CODE" concept;
- to contribute to the improvement of the Group's performance;
- to contribute to the development of employees and make them aware of their responsibilities.

To ensure that the Danone Leadership College is tailored to all circumstances and environments, the program is based on the actual circumstances faced by each Group subsidiary and is characterized by implementation over time, accompanied by several training sessions. To roll out the program, Danone has trained more than 100 of its managers to become internal trainers and contribute to the training of most of the team leaders: this model involving existing staff will help to give the "CODE" culture firmer foundations, since it is driven internally by these team leaders and line managers.

In 2009, the Danone Leadership College was rolled out in nearly 36 Group subsidiaries (in particular in the United Kingdom, the United States, Mexico, Brazil, Spain, France, Japan, Russia, Indonesia and Poland). In total nearly 1,200 staff participated in this training program.

## Societal Responsibility

**Societal Responsibility.** In keeping with the “Danone Way” philosophy, the Group is expanding its approach and increasing the resources available to its subsidiaries to develop in the main fields to which they have committed: human rights, human relations, communication with consumers, governance and the environment. Danone’s approach is based on fundamentals applicable to all of the subsidiaries and the encouragement of local societal projects supporting the Group’s mission. Danone adopted a resolutely open and respectful attitude by promoting dialogue and working in close collaboration with local communities while preserving its responsibility as an economic entity, the mission of which is to bring health through food to the greatest number of people.

The goal of this new ambition is to:

- develop the consumers’ trust in brands that routinely invest in order to guarantee the safety of its products, to respect the environment, and to care about their impact on society;
- attract quality employees seeking an enterprise culture and strong values;
- promote internal cohesion through the dual economic and social project;
- build mutually profitable relationships with the Group’s strategic customers and suppliers;
- meet investors’ expectations and, in particular, those of Socially Responsible Investment (“SRI”) funds.

By spreading, sharing, and enriching the Group’s values and culture, this societal innovation is encouraged within each subsidiary, by means of the Danone Supporting Life program in particular. For example, since 2008, Aqua, the leading brand of packaged water in the world in terms of volume, has undertaken the development of an experimental production site with a goal of controlling all of a site’s environmental impacts: the management of water resources, energy management, waste recycling and transportation. As of the date of this Registration Document, this program has enabled more than 30,000 people to have access to running water and sanitation systems. It has involved nearly

400 Danone Aqua employees and five partner Non-Governmental Organizations. Indonesian consumers were able to take part in the program thanks to the “1 liter bought, 10 liters of water for local communities” program.

In parallel, the fundamentals of the “Danone Way” are self-assessed annually by the Group’s subsidiaries. In 2009, 77 operational subsidiaries representing 89% of the Group’s consolidated revenue (58 operational subsidiaries in 2008 representing 76% of the Group’s consolidated revenue) carried out the self-assessment.

**Danone and local communities.** Danone’s implication in local communities is firmly anchored in its culture and is consistent with its strategic challenges and stakes. Danone and its subsidiaries can intervene in partnership with public authorities, NGOs, associations and local communities.

In an effort to act more efficiently, the Group focuses its involvement in countries where it is present and on a limited number of issues, where the Group has expertise and credibility in order to give a consistent meaning to its subsidiaries’ actions around the world.

- societal projects are grouped under various platforms (nature, and social and environmental responsibility, which are described in the above paragraph entitled “General policy”), which have as a triple objective benefits for the company, the commitment of employees and benefits for society;
- the encouragement and the implementation of social businesses via danone.communities (see Section 20.2.1);
- research in nutrition is supported by the efforts of the Danone Institutes, which have a triple mission: promote research, information, and education on food and nutrition, connect scientists and professionals in health and education with each other, and release scientific knowledge to the public. The Group’s involvement in the area of nutrition can be seen through the updating, in 2009, of the Danone Food, Nutrition and Health Charter;
- the measurement of its ecological footprint (see Sections 4.6 and 6.1).

## 17.2 Profit Sharing and Stock Option Plans

### Employee Profit Sharing

The Company’s employees benefit from a three-year profit sharing plan, which was renewed in 2009, and which is primarily based on the Group’s results.

In addition, the French subsidiaries and certain foreign subsidiaries of the Group have profit sharing plans in place for their employees based on their own results.

All the employee profit-sharing agreements in the French companies have been renegotiated to ensure a better distribution of profit shares at equivalent results. These improvements were made in 2009, or will be made before June 30, 2010 (depending on the renewal date of the agreements).

In 2009, the expense recognized in connection with profit sharing plans for the Group amounted to € 98 million (€ 99 million in 2008).

## Group Performance Units

In 2005, the Group put in place a new system of variable compensation, in the form of Danone Group Performance Units ("GPUs"), for which members of the Executive Committee, and the General Managers and their colleagues are eligible, totaling approximately 1,400 people worldwide.

The value of the GPUs, which can vary between € 0 and € 30, is calculated over a sliding period of three years based on the Group's overall economic performance in the medium term. Each year, the Board of Directors of the Company, based on recommendations by the Nomination and Compensation Committee, sets the performance objectives for the next year and evaluates the achievement of the previous year's objective for each GPU plan.

In the event of a successful tender offer for shares of the Company, the performance objectives of all of the GPU plans will be considered to have been met and the GPUs will be paid in the month following the completion of the offer.

In the event of a disposal of all or part of a business, the performance objectives for the year in which the disposal takes place will be considered to have been met for the beneficiaries

in the business considered and all of the GPU plans concerned will be paid in the month following completion of the disposal. The regulations of the GPU plans stipulate that the conditions regarding continuing employment and performance are partially waived in the event that the beneficiary dies, leaves the Group or retires, or the business employing him is discontinued.

This three-year variable compensation program, based on medium-term performance objectives, increases the unity and commitment of the members of the Executive Committee and of the General Managers and their colleagues, with the objective of strengthening the Group's positions in its markets and improving its operational performance.

The performance objectives set under the 2006 GPU program were achieved in connection with the 2006, 2007 and 2008 periods. Consequently, a payment to all beneficiaries was made in May 2009.

## Group policy for granting Company stock options

Only stock purchase options have been granted to those employees eligible to receive them under the terms of the stock option plans (the Company has not granted any stock subscription options since 1997).

Stock purchase options are granted on an annual basis to the members of the Executive Committee (including the executive directors and officers (*mandataires sociaux*)), to General Managers and some of their colleagues on the basis of a third of the total grants for each of these three groups. Each year, they are granted to around 1,400 beneficiaries.

Stock options are generally granted twice per year: (i) the main grant (generally in April) is intended for members of the Executive Committee (including the four executive directors and officers), the General Managers of the Group and some of their colleagues and (ii) a second grant (generally in October) intended for certain newly-hired employees as well as, if applicable, certain employees of recently acquired companies (as, for example, in December 2007 in the context of the acquisition of Numico).

The exercise price of the options is equal to the average of Danone's share price as listed on the stock market during the twenty trading days preceding the Board of Directors' meeting that decides their grant. The exercise price is not subject to any discount.

The existing stock option plans have a term of 8 years. Since 2006, the options can be exercised after a four-year vesting period starting on the date of their grant (with the exception of the first two stock option plans that took place following the Numico acquisition). Nonetheless, the regulations applicable to stock option plans granted by the Board of Directors as from April 11, 2003 allow beneficiaries of these plans to exercise all or part of the options that they would be granted in the event of a successful tender offer for shares of the Company (see Section 20.2.1).

In accordance with Article L. 225-185 of the French Commercial Code, as introduced by the law of December 30, 2006, the Board of Directors has decided that the Chairman and Chief Executive Officer and each of the three other executive directors and officers must hold (in registered form and until the expiration of their terms of office) a certain number of shares resulting from the

## Profit Sharing and Stock Option Plans

exercise of options applicable to any stock option grant decided as from January 2007, corresponding to 35% of the capital gain upon exercise, net of taxes and social security charges, that was achieved with respect to all of the shares resulting from an exercise of options carried out by the executive concerned under this plan. In addition, the Board of Directors decided to make this holding obligation applicable to all of the members of the Company's Executive Committee.

In the event of resignation, the options granted are cancelled. As such, by way of illustration, as of December 31, 2009, the aggregate number of cancelled options amounted to 3,862,356 as compared with a total of 32,291,500 options granted (see table below, restated to take into account the adjustment to the exercise price and the number of options of previous plans as of the date of the June 25, 2009 capital increase, each option continuing to enable the holder to buy one of the Company's shares).

As of the date of this Registration Document, the Group's policy is to refrain from amending the initial conditions of the regulations applicable to option plans.

Option grants have a limited impact in terms of the shareholder structure and capital dilution. As of December 31, 2009 and 2008, the total number of options granted to all of the Company's option holders represented approximately 0.4% and 0.5% of the number

of shares comprising the share capital, respectively. The total number of options allocated to the four executive directors and officers (*i.e.*, approximately 16% and 15% of the total amounts granted in 2009 and 2008, respectively) represented nearly 0.1% in both 2009 and 2008 of the total number of shares comprising the share capital.

The main characteristics of these stock option plans as of December 31, 2009 are detailed in the following table and take into account:

- the two-for-one splits in the par value of the share that occurred in June 2000, June 2004 and June 2007:
- the adjustments following the June 25, 2009 capital increase made retrospectively to the numbers of purchase options granted and to the exercise prices in respect of the plans in existence as of that date. The adjustment coefficient was determined in accordance with Article L. 225-149-1 of the French Commercial Code by comparing the stock market price of the Danone share before withdrawal of the preferential subscription right associated with the shares issued under the capital increase, *i.e.* € 46.33, and the stock market price after withdrawal of the right, *i.e.* € 43.71. The maximum numbers of purchase options authorized by the various Shareholders' Meetings have not been amended.

## Profit Sharing and Stock Option Plans

Date of the Shareholders' Meeting	Number of options authorized by the Shareholders' Meeting	Date of Board meeting granting options	Number of options granted	Expiration date	Exercise price per share	Number of options cancelled or expired as of December 31, 2009	Number of options exercised as of December 31, 2009	Number of exercisable options	Of which: options exercisable by members of the Executive Committee	Of which: number of members of the Executive Committee concerned
May 19, 1999	8,000,000 <sup>(1)</sup>									
		06/15/1999	877,680	06/15/2007	30.28	159,848	717,832	-	-	
		09/14/1999	83,528	09/14/2007	28.38	-	83,528	-	-	
		01/26/2000	1,413,362	01/26/2008	27.41	47,488	1,365,874	-	-	
		03/15/2000	953,152	03/15/2008	24.31	94,976	858,176	-	-	
		05/22/2000	176,384	05/22/2008	29.95	72,082	104,302	-	-	
		09/13/2000	511,768	09/13/2008	36.75	157,728	354,040	-	-	
		10/17/2000	10,176	10/17/2008	36.27	-	10,176	-	-	
		03/14/2001	3,155,620	03/14/2009	34.70	1,129,780	2,025,840	-	-	
			<b>7,181,670</b>			<b>1,661,902</b>	<b>5,519,768</b>	<b>-</b>	<b>-</b>	
May 29, 2001	8,000,000 <sup>(2)</sup>									
		10/08/2001	659,956	10/08/2009	33.41	140,356	519,600	-	-	
		04/25/2002	2,784,832	04/25/2010	32.74	196,307	1,839,329	749,196	2,968	1
		10/17/2002	497,352	10/17/2010	28.66	84,799	310,510	102,043	-	
		04/11/2003	3,908,538	04/11/2011	27.87	432,475	2,049,553	1,426,510	325,556	6
			<b>7,850,678</b>			<b>853,937</b>	<b>4,718,992</b>	<b>2,277,749</b>	<b>328,524</b>	
April 11, 2003	8,000,000 <sup>(3)</sup>									
		10/15/2003	129,744	10/15/2011	31.04	36,464	50,808	42,472	-	
		04/15/2004	3,976,442	04/15/2012	31.8	434,172	1,291,464	2,250,806	480,286	8
		10/13/2004	93,916	10/13/2012	30.22	8,480	5,936	79,500	55,120	2
		04/22/2005	2,411,983	04/22/2013	35.43	177,756	277,594	1,956,633	418,350	8
			<b>6,612,085</b>			<b>656,872</b>	<b>1,625,802</b>	<b>4,329,411</b>	<b>953,756</b>	
April 22, 2005	6,000,000 <sup>(4)</sup>									
		07/20/2005 <sup>(5)</sup>	29,680	07/20/2013	38.95	-	-	29,680	-	
		10/18/2005	27,136	10/18/2013	42.53	3,392	2,120	21,624	-	
		04/27/2006	2,045,853	04/26/2014	46.92	170,289	-	1,875,564	428,240	8
		10/16/2006	36,040	10/15/2014	52.4	2,332	-	33,708	-	
		04/26/2007	2,633,517	04/25/2015	57.54	177,285	-	2,456,232	677,340	8
			<b>4,772,226</b>			<b>353,298</b>	<b>2,120</b>	<b>4,416,808</b>	<b>1,105,580</b>	

## Profit Sharing and Stock Option Plans

Date of the Shareholders' Meeting	Number of options authorized by the Shareholders' Meeting	Date of Board meeting granting options	Number of options granted	Expiration date	Exercise price per share	Number of options cancelled or expired as of December 31, 2009	Number of options exercised as of December 31, 2009	Number of exercisable options	Of which: options exercisable by members of the Executive Committee	Of which: number of members of the Executive Committee concerned
April 26, 2007	6,000,000 <sup>(6)</sup>									
		10/19/2007	28,408	10/18/2015	52.33	4,664	-	23,744	-	
		12/17/2007	327,078	12/16/2015	56.57	55,291	-	271,787	-	
		04/29/2008	2,762,403	04/28/2016	53.9	223,289	-	2,539,114	710,730	11
		10/21/2008	31,941	10/20/2016	43.71	1,696	-	30,245	-	
		04/23/2009	2,704,611	04/22/2017	34.85	51,407		2,653,204	643,420	11
			<b>5,854,441</b>			<b>336,347</b>		<b>5,518,094</b>	<b>1,354,150</b>	
April 23, 2009	6,000,000 <sup>(7)</sup>									
		10/20/2009	20,400	10/19/2013	40.9	-	-	20,400	-	-
			<b>20,400</b>			<b>-</b>	<b>-</b>	<b>20,400</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>			<b>32,291,500</b>	<b>-</b>	<b>-</b>	<b>3,862,356</b>	<b>11,866,681</b>	<b>16,562,462</b>	<b>3,742,010</b>	

(1) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of May 1999, 1,224,840 options were not granted and expired on May 29, 2001.

(2) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of May 2001, 593,700 options were not granted and expired on April 11, 2003.

(3) Of a total of 8,000,000 options authorized by the Shareholders' Meeting of April 2003, 1,762,184 options were not granted and expired on April 22, 2005.

(4) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2005, 1,497,900 options were not granted and expired on April 26, 2007.

(5) On July 20, 2005, the Board of Directors authorized the grant of 28,000 options and this grant was made by delegation on August 5, 2005.

(6) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2007, 476,942 options have not been granted and expired on April 23, 2009.

(7) Of a total of 6,000,000 options authorized by the Shareholders' Meeting of April 2009, 5,979,600 options have not been granted as of December 31, 2009.

Finally, as of the date of this Registration Document, the Group has not granted any shares free of charge. Nevertheless, the Board of Directors' meeting of February 10, 2010, decided to ask the Shareholders' Meeting of April 22, 2010 to vote on a resolution authorizing the granting of free shares subject to performance conditions which, if adopted, will cancel the resolution authorizing the granting of stock subscription or stock purchase options adopted by the Shareholders' Meeting of April 23, 2009 (see Section 20.2.1).

## Stock Options granted and exercised during the fiscal year

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### **GRANTS OF OPTIONS TO THE TEN EMPLOYEES OF THE GROUP (EXCLUDING EXECUTIVE DIRECTORS AND OFFICERS) WHO WERE GRANTED THE GREATEST NUMBER OF OPTIONS**

In 2009, under the authorization granted by the Shareholders' Meeting of April 26, 2007, 404,920 options to purchase shares were granted at a weighted average exercise price of € 34.85 (of which 314,820 options to eight members of the Executive Committee, excluding executive directors and officers). These figures take into account the adjustment to the exercise price and the number of options in the case of all plans set up before June 25, 2009 (the date of the capital increase).

### **EXERCISE OF OPTIONS BY THE TEN EMPLOYEES OF THE GROUP (EXCLUDING EXECUTIVE DIRECTORS AND OFFICERS) WHO EXERCISED THE GREATEST NUMBER OF OPTIONS**

In 2009, 207,607 options were exercised at a weighted average exercise price of € 32.42 (of which 25,440 options by one member of the Executive Committee, excluding executive directors and officers). These figures have not been restated to take into account the effects of the June 25, 2009 capital increase.

See also Section 15 for details of the options granted and those exercised during the fiscal year by the executive directors and officers of the Company.

## Transactions Carried out during 2009 Related to Company Shares by the Executive Directors and Officers and the Members of the Executive Committee as of December 31, 2009

Name	Position	Nature of securities	Nature of transaction	Date of transaction	Gross unit price (in €)	Quantity of securities	Total gross amount (in €)
Frank RIBOUD	Chairman and Chief Executive Officer	PSR <sup>(*)</sup>	Disposal	06/25/2009	2.1289	62,882	133,869.49
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	3,800	93,974.00
		PSR	Disposal	06/25/2009	2.1491	8,000	17,192.80
		PSR	Disposal	06/25/2009	2.368875	19,000	45,008.63
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	1,200	29,676.00
		PSR	Disposal	06/25/2009	2.27	13,680	31,053.60
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	880.00	21,762.40
		PSR	Disposal	06/25/2009	2.41	3,194	7,697.54
<i>A person associated with Franck RIBOUD</i>		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	200	4,946.00
<i>A person associated with Franck RIBOUD</i>		PSR	Disposal	06/25/2009	2.40	36,394	87,345.60
<i>A person associated with Franck RIBOUD</i>		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	2,344	57,967.12
		Other	Exercise of purchase options	12/14/2009	27.87	70,670	1,969,572.90
		Shares	Disposal	12/14/2009	41.57	70,670	2,937,751.90
		Other	Exercise of purchase options	12/14/2009	31.80	106,000	3,370,800.00
		Shares	Disposal	12/14/2009	41.57	106,000	4,406,420.00
		Other	Exercise of purchase options	12/14/2009	32.74	152,640	4,997,433.60
		Shares	Disposal	12/14/2009	41.57	152,640	6,345,244.80
Jacques VINCENT	Deputy General Manager	Shares	Subscription <sup>(*)</sup>	05/25/2009	32.04	151	4,838.04
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	972	24,037.56
Emmanuel FABER	Deputy General Manager	Shares	Disposal	01/12/2009	44.6751	8,000	357,400.80
		Other	Exercise of purchase options	01/12/2009	29.54	6,500	192,010.00
		Shares	Disposal	01/12/2009	44.5501	6,500	289,575.65
<i>A person associated with Emmanuel FABER</i>		Shares	Disposal	02/12/2009	37.4883	5,500	206,185.65
<i>A person associated with Emmanuel FABER</i>		Shares	Disposal	02/12/2009	37.4883	5,500	206,185.65
<i>A person associated with Emmanuel FABER</i>		Shares	Disposal	02/12/2009	37.4883	5,500	206,185.65
<i>A person associated with Emmanuel FABER</i>		Shares	Disposal	02/13/2009	37.86	100	3,786.00

(\*) A disposal of preferential subscription rights in the context of the share capital increase completed on June 25, 2009.

(#) A subscription in the context of the share capital increase completed on June 25, 2009.

(•) A subscription in the context of the option offered to the shareholders by the General Meeting of April 23, 2009 to receive the payment of the dividend in cash or in new shares of the Company.



## Profit Sharing and Stock Option Plans

Name	Position	Nature of securities	Nature of transaction	Date of transaction	Gross unit price (in €)	Quantity of securities	Total gross amount (in €)
A person associated with Emmanuel FABER		Shares	Disposal	02/13/2009	37.86	100	3,786.00
		PSR	Disposal	06/25/2009	2.1770	5	10.885
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	940	23,246.20
A person associated with Emmanuel FABER		PSR	Disposal	06/25/2009	2.11	2,173	4,585.03
A person associated with Emmanuel FABER		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	132	3,264.36
A person associated with Emmanuel FABER		PSR	Disposal	06/25/2009	2.1228	2,173	4,612.84
A person associated with Emmanuel FABER		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	132	3,264.36
A person associated with Emmanuel FABER		PSR	Disposal	06/25/2009	2.103	2,173	4,569.82
A person associated with Emmanuel FABER		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	132	3,264.36
		Other	Exercise of purchase options	12/03/2009	32.74	28,620	937,018.80
		Shares	Disposal	12/03/2009	40.8844	28,620	1,170,111.53
Bernard HOURS	Deputy General Manager	PSR	Acquisition	06/25/2009	1.9380	2	3.876
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	944	23,345.12
		PSR	Acquisition	06/25/2009	1.96	3	5.88
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	236	5,836.28
A person associated with Bernard HOURS		PSR	Disposal	06/25/2009	2.1491	829	1,781.60
A person associated with Bernard HOURS		PSR	Disposal	06/25/2009	2.1491	800	1,719.28
A person associated with Bernard HOURS		PSR	Disposal	06/25/2009	2.1491	800	1,719.28
A person associated with Bernard HOURS		PSR	Acquisition	06/25/2009	2.20	2	4.40
A person associated with Bernard HOURS		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	23	568.79
Michel DAVID-WEILL	Director	Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	39,520	977,329.60
Richard GOBLET D'ALVIELLA	Director	Shares	Subscription <sup>(*)</sup>	05/25/2009	32.04	150	4,806.00
		PSR	Disposal	06/25/2009	2.169	4,150	9,001.35
		PSR	Acquisition	06/25/2009	2.235	1,037	2,317.69
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	244	6,034.12

(#) A subscription in the context of the share capital increase completed on June 25, 2009.

(\*) A subscription in the context of the option offered to the shareholders by the General Meeting of April 23, 2009 to receive the payment of the dividend in cash or in new shares of the Company.

## Profit Sharing and Stock Option Plans

Name	Position	Nature of securities	Nature of transaction	Date of transaction	Gross unit price (in €)	Quantity of securities	Total gross amount (in €)
Christian LAUBIE	Director	PSR	Disposal	06/25/2009	1.9410	94,000	182,454.00
		PSR	Disposal	06/25/2009	2.2004	50,000	110,020.00
		PSR	Disposal	06/25/2009	2.2620	44,768	101,265.22
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	40	989.20
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	44	1,088.12
<i>A person associated with Christian LAUBIE</i>							
Jean LAURENT	Director	PSR	Disposal	06/25/2009	2.131	5,000	10,655.00
Jacques Alexandre NAHMIAS	Director	PSR	Disposal	06/25/2009	2.1893	4,536	9,930.66
<i>A person associated with Jacques NAHMIAS</i>							
<i>A person associated with Jacques NAHMIAS</i>							
Muriel PÉNICAUD	Member of the Executive Committee	Other	Subscription <sup>(X)</sup>	05/07/2009	10.00	1,000	10,000.00
Benoît POTIER	Director	PSR	Disposal	06/25/2009	2.285	9	20.56
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	1,556	38,479.88
Sven THORMAHLEN	Member of the Executive Committee	PSR	Acquisition	06/25/2009	2.284	2	4.57
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	264	6,528.72
Hakan MOGREN	Director	PSR	Disposal	06/25/2009	2.295	4,000	9,180.00
Guylaine SAUCIER	Director	Shares	Subscription <sup>(*)</sup>	05/25/2009	32.04	150	4,806.00
		PSR	Acquisition	06/25/2009	2.219	15	33.29
		Shares	Subscription <sup>(#)</sup>	06/25/2009	24.73	980	24,235.40
Naomasa TSURITANI	Director	PSR	Disposal	06/25/2009	2.295	4,000	9,180.00
Christian NEU	Member of the Executive Committee	Other	Exercise of purchase options	08/28/2009	33.41	15,440	515,850.40
		Other	Disposal	08/28/2009	38.50	15,440	594,440.00
		Other	Exercise of purchase options	09/07/2009	33.41	10,000	334,100.00
		Other	Disposal	09/07/2009	39.50	10,000	395,000.00

(#) A subscription in the context of the share capital increase completed on June 25, 2009.

(X) A subscription in the context of annual share capital increases reserved for employees of the Company, with the subscription being carried out through a temporary FCPE ("fonds relais", of which the part value was € 10.00 in 2009). This FCPE was, at the end of the capital increase, merged into the main FCPE "Fonds Danone".

(\*) A subscription in the context of the option offered to the shareholders by the General Meeting of April 23, 2009 to receive the payment of the dividend in cash or in new shares of the Company.

The Company's executive directors and officers are required to hold, in registered form and until the termination of their terms of office, a certain number of shares resulting from the exercise of options granted under each option allocation plan approved as from January 1, 2007. This holding obligation was extended by the Board of Directors to the other members of the Executive Committee (see Section 20.2.1).

## 17.3 Employee Share Ownership

In connection with the authorization granted by the Shareholders' Meeting on April 26, 2007, the Company carried out a capital increase in May 2009, reserved for employees of the Group who were members of a French company savings plan (*Plan d'Épargne Entreprise* – PEE), via the “*Fonds Relais*” subsequently merged into the “*Fonds Danone*” FCPE company investment fund for a nominal amount of € 145,010, representing the issuance of 580,040 new shares.

The Shareholders' Meeting of April 23, 2009 renewed the authorization given to the Board of Directors to carry out capital increases reserved for employees who were members of a French company savings plan, within the limit of a nominal amount of € 3 million. This authorization will remain valid until June 2011.

In connection with this authorization, the Board of Directors' meeting of February 10, 2010 decided to issue shares in favor of the Group's employees who were members of a French company savings plan for a maximum subscription amount of € 65 million, representing a maximum of 1,929,355 new shares based on the discounted price of Danone shares of € 33.69.

The final amount that will be subscribed will be known in May 2010. The Board noted that, as in each year, if the share's market price, costs included, at the end of the subscription period is lower than the subscription price, the management company for the Company investment fund would be authorized to acquire shares directly on the stock market, within the limit of the employees' subscriptions (see the Statutory Auditors' supplementary report in Appendix A.2.ter).

## PRINCIPAL SHAREHOLDERS

### 18.1 Shareholding Structure as of December 31, 2009 and Significant Changes over the Last Three Fiscal Years

#### Shareholding Structure as of December 31, 2009

Double voting rights are granted to all fully paid-up shares held in registered form in the name of the same shareholder for a period of at least two years.

Selected information regarding the principal shareholders as of December 31, 2009 is set out below:

Shareholders	Number of shares held	Percentage of share capital	Number of gross voting rights	Percentage of gross voting rights <sup>(2)</sup>	Number of net voting rights	Percentage of net voting rights <sup>(3)</sup>
Eurazeo group <sup>(1)</sup>	26,915,746	4.2%	26,915,746	4.0%	26,915,746	4.2%
Caisse des Dépôts et Consignations group	23,271,322	3.6%	23,271,322	3.4%	23,271,322	3.6%
Sofina and Henex group	13,584,541	2.1%	24,184,541	3.6%	24,184,541	3.8%
Crédit Agricole Assurances group	11,178,709	1.7%	11,178,709	1.7%	11,178,709	1.7%
FCPE "Fonds Danone" (employee savings mutual fund)	8,740,760	1.4%	16,180,078	2.4%	16,180,078	2.5%
The Company	27,527,220	4.3%	27,527,220	4.1%	–	–
Subsidiaries of the Company (Danone SA, the Spanish subsidiary)	5,980,005	0.9%	5,980,005	0.9%	–	–
Public	529,792,547	81.8%	540,511,824	79.9%	540,511,824	84.2%
<b>TOTAL</b>	<b>646,990,850</b>	<b>100.0%</b>	<b>675,749,445</b>	<b>100.0%</b>	<b>642,242,220</b>	<b>100.0%</b>

(1) See below.

(2) The percentage of gross voting rights includes the shares held by the Company and its subsidiaries, which hold no voting rights.

(3) The number of net voting rights (or voting rights that are "exercisable in the Shareholders' Meeting") excludes the shares that hold no voting rights.

As of December 31, 2009, the total number of shares owned by the Company's Directors and the members of the Executive Committee (22 persons) was 635,305 shares, representing 0.10% of the Company's share capital.

As of December 31, 2009, under the authorizations granted by the Shareholders' Meeting of April 23, 2009 and prior authorizations, the Group owned, directly and through its Spanish subsidiary, Danone SA, 33,507,225 shares of the Company, representing 5.2% of its share capital.

There is no clause in the Company's by-laws giving preferential rights for the acquisition or sale of Company shares.

Lastly, as of December 31, 2009, existing pledges on Company shares held in registered form on the books of the Company (*nominatif pur*) and in registered form on the books of a financial intermediary (*nominatif administré*), accounted for respectively 1,576 shares held by 2 shareholders and 79,495 shares held by 13 shareholders.

## Significant Changes in Share Ownership over the Last Three Fiscal Years

Analysis of share ownership and voting rights held by the principal shareholders of the Company over the last three fiscal years:

Shareholders	December 31, 2007			December 31, 2008			December 31, 2009		
	Number of shares	% of share capital	% of net voting rights <sup>(1)</sup>	Number of shares	% of share capital	% of net voting rights <sup>(1)</sup>	Number of shares	% of share capital	% of net voting rights <sup>(1)</sup>
Eurazeo group	27,951,990	5.5	9.2	25,951,990	5.1	5.2	26,915,746	4.2	4.2
Caisse des Dépôts et Consignations group	17,846,870	3.5	3.5	20,283,654	3.9	4.0	23,271,322	3.6	3.6
Sofina and Henex group	10,600,000	2.1	2.6	10,600,000	2.1	3.2	13,584,541	2.1	3.8
Crédit Agricole Assurances group	9,140,212	1.8	1.8	7,192,120	1.4	1.4	11,178,709	1.7	1.7
FCPE "Fonds Danone" (employee savings mutual fund)	7,996,262	1.6	2.9	8,149,914	1.6	3.1	8,740,760	1.4	2.5
The Company and its subsidiaries	37,395,559	7.3	–	35,994,528	7.0	–	33,507,225	5.2	–
Public	401,920,567	78.2	80.0	405,629,938	78.9	83.1	529,792,547	81.8	84.2
<b>TOTAL</b>	<b>512,851,460</b>	<b>100.0</b>	<b>100.0</b>	<b>513,802,144</b>	<b>100.0</b>	<b>100.0</b>	<b>646,990,850</b>	<b>100.0</b>	<b>100.0</b>

(1) This percentage excludes the shares held by the Company and all treasury stock, which hold no voting rights.

During the fiscal year 2009, Eurazeo reported that its holding had fallen below the legal threshold of 5% of the Company's share capital on July 8, and on that date, through its Legendre Holding 22 subsidiary, it held 4.99% of the share capital and 4.77% of the voting rights of the Company.

Moreover, during 2009, Eurazeo announced that it had carried out three successive transactions to which it had committed all of the Danone shares it holds:

- on May 28, 2009, Eurazeo announced the launch of an issue of 5-year bonds convertible into existing DANONE shares, in an initial offering totaling € 500 million, which amount could be increased to a maximum of approximately € 700 million, at a rate of one DANONE share per bond issued (this ratio being subject to adjustment in the event certain financial transactions were to be carried out by DANONE, such as a share capital increase with preferential subscription rights);
- on August 28, 2009, Eurazeo announced that it had sold 6,685,812 DANONE shares after June 30, 2009, and specified that the group subsequently held only 26,915,746 DANONE

shares, representing 4.16% of its share capital and 3.98% of its voting rights, with the understanding that of this total, 16,433,370 shares had been pledged in favor of the holders of bonds convertible into DANONE shares;

- lastly, in a press release dated December 10, 2009, Eurazeo announced that it had established an optimized program to sell all of the DANONE shares it held other than those pledged under the convertible bond issue, *i.e.* 10,482,376 shares, representing 1.62% of Danone's share capital at that date. According to the press release, the number of shares actually sold will depend on the price of Danone's shares through the date the program expires (expected to be summer 2010), and the selling price of these securities will be € 43.47 per share (said price resulting from the coverage already provided by the financial establishment acting as counterpart on the program).

To the best of the Company's knowledge, no other significant changes in the shareholding structure have taken place during the past three fiscal years.

## Survey of the Company's Shareholders

The Company may, in accordance with applicable regulations, at any time ask any entity responsible for clearing shares for the name (or legal name), nationality, and address of the holders of shares or other securities conferring immediate or future voting rights at its Shareholders' Meetings, along with the number of

securities held by each of them and, if applicable, any restrictions placed upon such securities. At the request of the Company, the above information may be limited to those individuals holding a number of securities as determined by the Company.

## Voting Rights

The Company conducted a survey of the Company's identifiable shareholders as of July 20, 2009, which enabled the Company's shareholding structure to be analyzed in light of the share capital increase of June 25, 2009:

<b>Institutional investors</b>	<b>% of share capital</b>
• France	31%
• United Kingdom	9%
• Germany	5%
• Benelux	5%
• Rest of Europe	6%
• United States	20%
• Rest of World	6%
Individual shareholders and FCPE "Fonds Danone" (employee savings mutual fund)	13%
Treasury shares and shares held by its subsidiaries	5%
<b>TOTAL</b>	<b>100%</b>

## 18.2 Voting Rights

The Extraordinary Shareholders' Meeting of October 18, 1935, decided to grant double voting rights, in accordance with the law and in relation to the portion of the Company's share capital that they represent, to all fully paid up shares for which evidence is provided that they have been registered in the name of the same shareholder for at least two years, as well as – in the event of a share capital increase through incorporation of reserves, earnings or additional paid-in capital – to registered shares granted free-of-charge to a shareholder in consideration of existing shares in respect of which he enjoys the said rights. Double voting rights cease in the event of a transfer or conversion into bearer shares. A merger with another company shall not affect double voting rights, which can be exercised within the absorbing company if its by-laws have instituted this procedure.

The Extraordinary Shareholders' Meeting of September 30, 1992 decided that at Shareholders' Meetings, no shareholder can, in his own right and through his agents (*mandataires*), in respect of single voting rights attached to shares which he holds directly and indirectly and of powers which have been granted to him, cast more than 6% of the total number of voting rights attached to the Company's shares. Nevertheless, if, additionally, he enjoys double voting rights in a personal capacity and/or in the capacity of agent, the limit set above may be exceeded by taking into account only the extra voting rights resulting therefrom. In such a case, the total voting rights that he represents shall not exceed 12% of the total number of voting rights attached to the Company's shares.

The aforementioned limitations shall become null and void if any individual or corporate body, acting alone or in concert with one or more individuals or corporate bodies, were to come into possession of at least two-thirds of the total shares of the Company as a result of a public bid for all the Company's shares.

The Board of Directors shall formally record the nullity thereof and shall undertake the relevant formalities relating to amendment of the by-laws. In addition, in accordance with the General Regulations of the French Financial Markets Authority, the effects of the limitations provided for in the preceding paragraphs shall be suspended at the first Shareholders' Meeting following the close of the offer if the offeror, acting alone or in concert, were to come into possession of at least two-thirds of the total shares or total voting rights of the company concerned.

Subject to adoption of the sixteenth resolution by the Shareholders' Meeting of April 22, 2010, the aforementioned limitations shall be suspended for a Shareholders' Meeting if the number of shares present or represented reaches or exceeds 75% of the total number of shares carrying voting rights. In such case, the Chairman of the Board of Directors (or any person acting as Chairman of the meeting in his absence) shall state on opening the meeting that the limitation has been suspended.

Shareholders may vote by mail or by proxy, voting or giving their proxy by any means in accordance with the applicable laws and regulations. In particular, shareholders may send their voting papers or proxy forms to the Company by remote data transmission or electronic means prior to the Shareholders' Meeting in accordance with the applicable laws. If used, the electronic signature of voting papers or proxy forms shall be in the form meeting the conditions set out in Article 1316-4, second paragraph, first phrase of the French Civil Code (*Code Civil*). The Board of Directors may decide that any vote cast during a Shareholders' Meeting may be expressed by videoconference or by any telecommunication means enabling the shareholder to be identified, in accordance with the terms set forth in the applicable regulations.

## 18.3 Change in Corporate Control

To the best of the Company's knowledge, no agreement exists which, if implemented, could, at a future date, lead to a change of control of the Company.

## 18.4 Market for the Company's Securities

The Company's shares are listed on Euronext Paris (Compartment A – Differed Settlement Service; ISIN Code: FR0000120644) and on the Swiss Stock Exchange (SWX Suisse Exchange).

From November 1997, the Company's shares were also listed on the New York Stock Exchange in the form of American Depositary Shares ("ADS"), each ADS representing one fifth of one Company share. In April 2007, the Group announced the delisting of its ADS from the New York Stock Exchange, due to the low trading volume on this Stock Exchange. The delisting took effect on July 5, 2007 and the deregistration with regards to the Securities and Exchange Commission, pursuant to the U.S. Securities Exchange Act of 1934, took effect on October 5, 2007.

The Group nevertheless maintains a sponsored Level 1 program of American Depositary Receipts (ADR), which are traded over the counter.

The Company's shares are included in the CAC 40 Index, the principal Stock Exchange index published by Euronext Paris, and are included in the Dow Jones Eurostoxx and Dow Jones Stoxx indices.

Finally, since September 2000 the Company's shares have been included in the Eurostoxx 50 index, which lists the fifty largest market capitalizations in the euro zone. In addition, the shares of the Company have also been included in the Dow Jones Sustainability Index World, which comprises selected companies based on strict criteria such as the quality of corporate governance, social responsibility policy, their criteria relating to innovation, and their economic performance.

## Market Prices and Trading Volumes

### EURONEXT PARIS (EQUITIES) SHARE PRICES AND VOLUMES

	Volume <sup>(1)</sup>			Price <sup>(1)</sup>		
	Shares (in number of shares)	In value (in € millions)	Daily average (in number of shares)	Average monthly price (in €)	High (in €)	Low (in €)
<b>2009</b>						
January	42,086,894	1,793.15	2,004,138	40.53	43.227	37.744
February	62,983,095	2,404.43	3,149,155	36.19	38.900	33.904
March	64,616,940	2,319.53	2,937,134	33.93	35.999	31.215
April	58,944,856	2,194.03	2,947,243	34.90	36.584	33.456
May	63,765,618	2,400.61	3,188,281	36.08	38.509	33.074
June	129,596,411	4,450.06	5,890,746	34.48	36.280	32.290
July	59,305,589	2,144.30	2,578,504	36.09	38.150	34.525
August	46,680,545	1,729.63	2,222,883	37.00	38.785	35.575
September	68,183,656	2,735.59	3,099,257	40.19	41.990	37.205
October	48,692,391	2,005.84	2,213,291	41.18	43.150	39.540
November	51,101,998	2,112.40	2,433,428	41.46	44.100	39.350
December	45,781,491	1,891.71	2,080,977	41.68	43.020	40.085
<b>2010</b>						
January	42,028,310	1,788.57	2,101,416	42.66	43.730	40.905
February	59,453,312	2,495.73	2,972,666	42.01	43.890	40.100

Source: Euronext Paris SA.

(1) Including over-the-counter transactions.

## 18.5 Investments in Listed Companies

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

- fully consolidated companies:
  - Aqua (Waters – Indonesia), listed on the Jakarta Stock Exchange;
- companies accounted for under the equity method:
  - Yakult Honsha (Fresh Dairy Products – Japan), listed on the Tokyo Stock Exchange,

Centrale Laitière du Maroc (Fresh Dairy Products – Morocco), listed on the Casablanca Stock Exchange,

China Huiyuan Juice Group Limited (Waters – China), listed on the Hong Kong Stock Exchange;

- non-consolidated equity holdings:

ONA (Morocco), listed on the Casablanca Stock Exchange,

Wimm-Bill-Dann (Russia), listed in the Moscow Stock Exchange and in New York in the form of American Depositary Shares (ADS).



## RELATED PARTY TRANSACTIONS

Transactions with related parties are described in Note 24 of the notes to the consolidated financial statements. Also refer to Section 15.3 on related party transactions.

# FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS, FINANCIAL POSITION, AND RESULTS

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## 20.1 Consolidated documents

### 20.1.1 Consolidated financial statements

#### CONSOLIDATED INCOME STATEMENT

<i>(In € millions)</i>	Notes	Year ended December 31	
		2008	2009
<b>Net revenue</b>		<b>15,220</b>	<b>14,982</b>
Cost of goods sold		(7,172)	(6,749)
Selling expenses		(4,197)	(4,212)
General and administrative expenses		(1,297)	(1,356)
Research and development expenses		(198)	(206)
Other revenue (expense)	20	(86)	(165)
<b>Trading operating income</b>		<b>2,270</b>	<b>2,294</b>
Other operating income (expense)	21	(83)	217
<b>Operating income</b>		<b>2,187</b>	<b>2,511</b>
<i>Interest revenue</i>		58	76
<i>Interest expense</i>		(497)	(340)
Cost of net debt	22	(439)	(264)
Other financial revenue (expense)	22	(145)	(225)
<b>Income before tax</b>		<b>1,603</b>	<b>2,022</b>
Income tax	23	(443)	(424)
<b>Income from fully consolidated companies</b>		<b>1,160</b>	<b>1,598</b>
Share of profits of associates	6	62	(77)
<b>Net income from continuing operations</b>		<b>1,222</b>	<b>1,521</b>
Net income from discontinued operations	3	269	–
<b>NET INCOME</b>		<b>1,491</b>	<b>1,521</b>
• Attributable to the Group		<b>1,313</b>	<b>1,361</b>
• Attributable to minority interests		<b>178</b>	<b>160</b>

#### PER SHARE INFORMATION (SEE NOTE 13)

<i>(In euros)</i>	2008	2009
<b>Earnings per share attributable to the Group before dilution</b>		
• underlying	2.66	2.57
• total	2.66	2.48
<b>Earnings per share attributable to the Group after dilution</b>		
• underlying	2.66	2.57
• total	2.66	2.48

In application of IAS 33, "Earnings per share," the dilutive effect of the capital increase with preferential subscription rights on June 25, 2009 has been taken into account retrospectively.

The notes on pages 111 to 155 are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF GAINS AND LOSSES RECOGNIZED DIRECTLY IN EQUITY**

<i>(In € millions)</i>	Year ended December 31	
	<b>2008</b>	<b>2009</b>
<b>NET INCOME ATTRIBUTABLE TO THE GROUP</b>	<b>1,313</b>	<b>1,361</b>
Translation adjustments, net of tax	(924)	289
Share of gains and losses on investments in associates recognized directly in equity, net of tax	(7)	(37)
Unrealized gain (loss) on derivative hedging instruments, net of tax	44	(158)
Unrealized gain (loss) on available-for-sale securities	(379)	248
Stock options	19	28
<b>Total gains and losses recognized directly in equity – attributable to the Group</b>	<b>(1,247)</b>	<b>370</b>
Net income and gains and losses recognized directly in equity – Group share	(1,247)	370
Net income and gains and losses recognized directly in equity – minority interests	1	8
<b>Net income and gains and losses recognized directly in equity</b>	<b>(1,246)</b>	<b>378</b>

Gains and losses recognized directly in equity during previous fiscal years and transferred to the income statement during 2009 include, in particular (i) cumulative translation adjustments in equity relating to companies that have been sold (see Notes 2 and 3) and (ii) the impact of the early settlement of hedging instruments following the June 25, 2009 capital increase and the partial repurchase of bonds in the second half of 2009 (see Notes 15 and 25).

In 2008, gains and losses recognized directly in equity during previous fiscal years and transferred to the income statement during the year were not material.

The notes on pages 111 to 155 are an integral part of the consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

<i>(In € millions)</i>	Notes	As of December 31	
		<b>2008</b>	<b>2009</b>
<b>ASSETS</b>			
Brand names		3,846	3,903
Other intangible assets, net		380	355
Goodwill, net		12,320	12,927
Intangible assets, net	4	16,546	17,185
Property, plant and equipment, net	5	3,083	3,180
Investments in associates	6	1,267	805
Investments in non-consolidated companies	7	237	521
Long-term loans	8	73	27
Other long-term financial assets	9	137	127
Deferred taxes	23	639	621
<b>Non-current assets</b>		<b>21,982</b>	<b>22,466</b>
Inventories	10	795	765
Trade accounts and notes receivable	11	1,534	1,682
Other accounts receivable and prepaid expenses	11	950	645
Short-term loans		26	41
Marketable securities	12	441	454
Cash and cash equivalents		591	644
Assets held for sale	3	546	176
<b>Current assets</b>		<b>4,883</b>	<b>4,407</b>
<b>TOTAL ASSETS</b>		<b>26,865</b>	<b>26,873</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Share capital		128	162
Additional paid-in capital		297	3,596
Retained earnings		10,399	11,137
Cumulative translation adjustments		(1,121)	(869)
Treasury stock		(1,225)	(1,027)
Net income recognized directly in equity		166	256
<b>Shareholders' equity attributable to the Group</b>		<b>8,644</b>	<b>13,255</b>
Minority interests		56	54
<b>Shareholders' equity</b>		<b>8,700</b>	<b>13,309</b>
Non-current financial liabilities	25	11,435	5,958
Retirement commitments	16	208	219
Deferred taxes	23	1,109	937
Other non-current liabilities	17	515	594
<b>Non-current liabilities</b>		<b>13,267</b>	<b>7,708</b>
Trade accounts and notes payable	18	2,189	1,981
Accrued expenses and other current liabilities	18	2,024	2,173
Current financial liabilities	25	652	1,702
Liabilities held for sale	3	33	–
<b>Current liabilities</b>		<b>4,898</b>	<b>5,856</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>26,865</b>	<b>26,873</b>

The notes on pages 111 to 155 are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(In € millions)</i>	Notes	Year ended December 31	
		<b>2008</b>	<b>2009</b>
Net income attributable to the Group		1,313	1,361
Net income attributable to minority interests		178	160
Net income from discontinued operations		(269)	–
Share of profits of associates		(62)	77
Depreciation and amortization		525	549
Dividends received from associates		29	174
Other flows with impact on cash	25	(113)	(157)
Other flows with no impact on cash	25	98	(72)
<b>Cash flows provided by operating activities, excluding changes in net working capital</b>		<b>1,699</b>	<b>2,092</b>
(Increase) decrease in inventories		3	37
(Increase) decrease in trade accounts receivable		(74)	(112)
Increase (decrease) in trade accounts payable		36	(127)
Changes in other accounts receivable and payable		90	110
Change in other working capital requirements		55	(92)
<b>Cash flows provided by (used in) operating activities</b>		<b>1,754</b>	<b>2,000</b>
Capital expenditure		(706)	(699)
Purchase of businesses and other investments, net of cash and cash equivalents acquired	25	(259)	(147)
Proceeds from the sale of businesses and other investments, including indebtedness of companies sold	25	329	1,024
(Increase) decrease in long-term loans and other long-term assets		67	36
<b>Cash flows provided by (used in) investing activities</b>		<b>(569)</b>	<b>214</b>
Increase in capital and additional paid-in capital		48	2,977
Purchases of treasury stock (net of disposals)		46	100
Dividends paid to Danone shareholders and to minority interests		(705)	(451)
Settlement of debt hedge financial instruments (mainly equalization payments)			(154)
Increase (decrease) in non-current financial liabilities	25	1,338	(4,154)
Increase (decrease) in current financial liabilities	25	(1,901)	(427)
Increase (decrease) in marketable securities	25	63	(60)
<b>Cash flows provided by (used in) financing activities</b>		<b>(1,111)</b>	<b>(2,169)</b>
<b>Effect of exchange rate changes</b>		<b>(31)</b>	<b>8</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>43</b>	<b>53</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>548</b>	<b>591</b>
<b>Cash and cash equivalents at end of period</b>		<b>591</b>	<b>644</b>
<b>Supplemental disclosures</b>			
Payments during the year of:			
• net interest		433	272
• income tax		430	413

The notes on pages 111 to 155 are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Number of shares)			(In € millions)								
	Issued	Excluding treasury stock	Capital stock	Additional paid-in capital	Retained earnings	Cumulative translation adjustments	Treasury stock	Net income recognized directly in equity	Shareholders' equity – Group	Minority interests	Shareholders' equity
<b>As of January 1, 2008</b>	<b>512,851,460</b>	<b>475,455,901</b>	<b>128</b>	<b>255</b>	<b>9,594</b>	<b>(190)</b>	<b>(1,270)</b>	<b>501</b>	<b>9,018</b>	<b>82</b>	<b>9,100</b>
<i>Gains and losses recognized directly in equity</i>					19	(931)		(335)	(1,247)	1	(1,246)
<i>Net income for 2008</i>					1,313				1,313	178	1,491
Net income and gains and losses recognized directly in shareholders' equity for 2008					1,332	(931)		(335)	66	179	245
Capital increase	950,684	950,684		42					42	6	48
Changes in treasury stock		1,401,031					45		45		45
Dividends paid					(527)				(527)	(178)	(705)
Changes in the scope of consolidation										(33)	(33)
Put options granted to minority shareholders											
<b>As of December 31, 2008</b>	<b>513,802,144</b>	<b>477,807,616</b>	<b>128</b>	<b>297</b>	<b>10,399</b>	<b>(1,121)</b>	<b>(1,225)</b>	<b>166</b>	<b>8,644</b>	<b>56</b>	<b>8,700</b>
<i>Gains and losses recognized directly in equity</i>					28	252		90	370	8	378
<i>Net income for 2009</i>					1,361				1,361	160	1,521
Gains and losses recognized directly in shareholders' equity for 2009					1,389	252		90	1,731	168	1,899
Capital increase	135,033,148	135,033,148	34	3,392	(61)				3,365	18	3,383
Capital reduction	(1,844,442)			(93)	(14)				(107)		(107)
Change in treasury stock		858,746					198		198		198
Dividends paid		(215,885)			(576)				(576)	(230)	(806)
Changes in the scope of consolidation										(16)	(16)
Put options granted to minority shareholders										58	58
<b>As of December 31, 2009</b>	<b>646,990,850</b>	<b>613,483,625</b>	<b>162</b>	<b>3,596</b>	<b>11,137</b>	<b>(869)</b>	<b>(1,027)</b>	<b>256</b>	<b>13,255</b>	<b>54</b>	<b>13,309</b>

As of December 31, 2009, the number of treasury shares held by Danone and its subsidiaries amounted to 33,507,225 (35,994,528 as of December 31, 2008 and 37,395,559 as of December 31, 2007).

The notes on pages 111 to 155 are an integral part of the consolidated financial statements.

## Notes to the Consolidated Financial Statements

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The consolidated financial statements of Danone, its subsidiaries and affiliates (together, the "Group") as of and for the year ended December 31, 2009 were approved by Danone's Board of Directors on February 10, 2010 and will be submitted for approval to the Shareholders' Meeting on April 22, 2010.

## NOTE 1 - Accounting Principles

The consolidated financial statements of Danone have been prepared in compliance with IFRS (International Financial Reporting Standards) as adopted by the European Union, which are available on the web site of the European Commission ([http://ec.europa.eu/internal\\_market/accounting/ias\\_fr.htm#adopted-commission](http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission)).

The accounting principles applied by the Group comply with the IFRS recommendations of the IASB (International Accounting Standards Board) not adopted at European level.

### 1. FIRST APPLICATION OF NEW ACCOUNTING RULES

The following standards and interpretations became applicable to the Group in 2009:

- IFRS 8, Operating segments. This standard replaces IAS 14, Segment reporting. The standard concerns information to be provided with respect to operating segments. The application of this new standard had no impact on the operating segments as defined previously by the Group;
- amendments to IAS 1R, Presentation of financial statements. Application of these amendments by the Group did not have significant impact on either its net income or its financial position. However, the Group will henceforth present income and expense items recognized during the period in two distinct statements: (i) a statement detailing the components of the net income ("Consolidated income statement") and (ii) a statement detailing the gains and losses recognized directly in shareholders' equity ("Statement of gains and losses recognized directly in equity");
- amendments to IFRS 7, Financial instruments: disclosures, concerning information to be provided on financial instruments;
- IFRIC 11, Group and treasury share transactions, IFRIC 13, Customer loyalty programs, IFRIC 14 – IAS 19, The limit on a defined benefit asset and minimum funding requirements and IFRIC 16, Hedges of a net investment in a foreign operation. These interpretations had no significant impact on the Group's results or its financial position.

The Group is also not concerned by the following new standards, which had no impact on the financial statements because they include provisions that were already taken into account in the Group's accounting principles:

- the amendment to IAS 23 concerning borrowing costs;
- the amendment to IAS 38 concerning accounting for advertising expenses, which precludes recognition of accrued expenditure

on goods or services delivered until the date when they are effectively used;

Finally, the Group is not concerned by:

- amendments to IFRS 2, Share-based payments, concerning conditions for purchase and cancellation of stock options;
- amendments to IFRIC 9 and IAS 39 concerning embedded derivatives and the possible later re-examination of reclassification of a hybrid financial asset in the category "At fair value through profit and loss".

The Group did not early adopt revised IFRS 3, Business combinations, or IAS 27, Consolidated and separate financial statements, application of which is mandatory and forward-looking for the fiscal years beginning on or after July 1, 2009. However, in anticipation of revised IFRS 3, the Group has opted for recognition in other income and expense of acquisition costs for all transactions in progress in 2009 that were not concluded as of December 31, 2009.

Moreover, the Group does not expect that the other standards and interpretations whose application was not mandatory as of January 1, 2009 and that may be applied early would have a significant impact on its results or financial position.

### 2. CONSOLIDATION PRINCIPLES

All subsidiaries in which the Group holds, directly or indirectly, a controlling interest are fully consolidated. Control over an entity exists when the Group has the capacity to govern the operating and financial policies of such entity, regardless of the percentage of its interest in the entity. All assets, liabilities and income statement items relating to the companies concerned are reflected in the Group's consolidated financial statements, the portion of the net income and shareholders' equity attributable to the Group ("Group share") being distinguished from the portion relating to other shareholders' interests ("Minority interests"). All significant intercompany balances and transactions between consolidated entities (including dividends) are eliminated in the consolidated financial statements.

All companies in which the Group exercises, directly or indirectly, a significant influence or joint control are accounted for as associates. Under this method, the Group accounts for its proportionate share in the company's net income and net assets.

Investments in companies that meet the above-mentioned criteria but are not included in the scope of consolidation are reflected as investments in non-consolidated companies. The inclusion of

**Consolidated documents***Notes to the Consolidated Financial Statements - Note 1*

such companies in the scope of consolidation would not have a significant impact on the consolidated financial statements.

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

The scope of consolidation is presented in Note 29.

### 3. FOREIGN CURRENCY TRANSLATION

#### Transactions Denominated in Foreign Currencies

Transactions denominated in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. At period-end, accounts receivable and accounts payable denominated in foreign currencies are translated using period-end exchange rates. Foreign exchange gains and losses arising from transactions in foreign currencies are recognized under the line item "Other revenue (expense)" in the consolidated income statement, except those arising from (i) transactions representing long-term investments in Group companies and (ii) financial liabilities denominated in foreign currencies that are used to hedge long-term investments denominated in the same currencies. Such unrealized gains and losses are reflected in consolidated shareholders' equity, under the heading "Cumulative translation adjustments".

#### Translation of the Financial Statements of Foreign Operations

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

### 4. INTANGIBLE ASSETS

#### Goodwill

Upon acquisition of a subsidiary or an affiliate, the acquisition cost is allocated on a fair value basis to the identifiable assets and liabilities acquired. The difference between the cost of acquisition and the Group's share in the fair value of the assets and liabilities acquired represents goodwill. It is recognized on the assets side of the consolidated balance sheet, under the heading "Goodwill, net" for fully consolidated entities and under the heading "Investments in associates" for equity-accounted investments.

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

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

#### Brands and Other Intangible Assets

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

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

#### Impairment Reviews

Intangible assets are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. An impairment is recognized when the recoverable value of an intangible asset becomes durably lower than its carrying value. The recoverable value of an intangible asset corresponds to the higher of market value and value in use. Value in use is assessed with reference to expected future discounted cash flows of the Cash Generating Unit ("CGU") to which the asset belongs. The CGUs or groups of CGUs correspond to subsidiaries or groups of subsidiaries that are included in the same reportable segment and that generate cash flows largely independent from those generated by other CGUs or groups of CGUs.

Impairment tests on goodwill are performed at the level of the CGU or group of CGUs depending on the expected return on investment. The cash flows used to determine value in use are derived from the business plans of the CGUs or groups of CGUs, which cover a period of three years and are generally extended to a five-year period on the basis of the most recent forecasts. Future cash flows beyond that period are extrapolated using a growth rate to infinity that is specific to each CGU or group of CGUs. Future cash flows are discounted using a weighted average cost of capital that is specific to the countries where the CGU operates. Market value corresponds to the estimated net selling price that could be obtained by the Group in an arm's length transaction or based on multiples of earnings.

## 5. PROPERTY, PLANT AND EQUIPMENT

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

Leased assets are recognized as property, plant and equipment in the consolidated balance sheet, when, in substance, the terms of the lease transfer to the Group the majority of the risks and rewards associated with the ownership of the asset. The asset is recognized for an amount that corresponds to the lower of fair value and the discounted value of future lease payments. The assessment of the level of risks transferred is based on an analysis of the lease agreement. The financial debt associated with the leased asset is recognized as a liability in the consolidated balance sheet.

Interest on borrowings to finance, on the one hand, the cost of construction of property, plant and equipment during the period prior to their being put into operation and on the other hand, the cost of property, plant and equipment acquired is considered to be an integral part of the cost price of the property, plant and equipment, provided that the criteria of IAS 23 – Borrowing costs are complied with.

### Depreciation

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

- buildings: 15 to 40 years;
- machinery and equipment: 5 to 15 years;
- others: 3 to 10 years.

### Property, Plant and Equipment Impairment Reviews

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

### Refundable Containers

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

- physical useful life, taking into account the internal and external breakage rates and wear and tear;
- commercial useful life, taking into account planned or likely modifications of containers.

Liabilities for deposits received are revalued when refundable rates per container change. Any loss arising from changes in refundable rates is charged to the income statement in the year in which it is recognized.

## 6. INVESTMENTS IN NON-CONSOLIDATED COMPANIES

Investments in non-consolidated companies are treated as available-for-sale investments. They are accounted for at fair value in the consolidated balance sheet, with fair value variations recognized directly in shareholders' equity as "Net income recognized directly in equity", except for unrealized losses that are considered to be significant and/or prolonged which are recognized directly in the income statement. For listed companies, fair value is assessed according to a multi-criteria approach, notably using the stock price as of the end of the period. For non-listed companies, fair value is assessed based on recent transactions entered into with third parties, put and/or call options negotiated with third parties or external appraisals. When such elements do not exist, the fair value of investments in non-listed companies is deemed to be equivalent to the acquisition cost of the investments. Impairment charges and gains or losses on disposal of non-consolidated investments are recognized under the line item "Other financial revenue (expense)" in the consolidated income statement.

## 7. LONG-TERM LOANS AND OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets mainly comprise bond securities that are treated as available-for-sale. They are stated at fair value in the consolidated balance sheet, with fair value variations recognized directly in shareholders' equity as "Net income recognized directly in equity", except for unrealized losses that are considered to be sustainable which are recognized directly in the income statement. Long-term loans are measured at amortized cost using the effective interest rate method.

## 8. INVENTORIES

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

## 9. MARKETABLE SECURITIES

Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are treated as trading securities and are carried at their fair value, with changes in fair value recognized in the consolidated income statement in the line item "Interest income".

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*Notes to the Consolidated Financial Statements - Note 1***10. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of highly liquid investments with a maturity of three months or less at the date of purchase. Cash and cash equivalents are carried at their fair value.

**11. TREASURY STOCK**

Danone's share capital held by the Company and its subsidiaries is reflected as a reduction in total shareholders' equity, under the heading "Treasury stock". Treasury stock is measured at historical cost.

**12. GRANTS AND SUBSIDIES**

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

Other grants and subsidies are recognized in the line "Other revenue (expense)" of the income statement in the year during which these grants are earned.

**13. DEFERRED TAXES**

Deferred taxes are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except those differences that relate to goodwill. Deferred taxes are calculated using the liability method, applying the last enacted income tax rates expected to be applicable when the temporary differences will reverse. Deferred taxes relating to the subsidiaries' undistributed retained earnings are recognized when distribution of these retained earnings is expected in the foreseeable future.

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

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

**14. RETIREMENT AND PENSION PLANS, AND OTHER POST-EMPLOYMENT BENEFITS****Defined Contribution Plans**

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

**Defined Benefit Plans**

The Group's obligations relating to retirement indemnities and defined benefit retirement plans are calculated using the projected unit credit method based on actuarial assumptions, including employee turnover, salary increases and employees' expected active lives. The obligation is discounted using a discount rate that is specific to each country. These obligations are covered either through assets held in externally managed funds to which the Group contributes, or through provisions recognized in the balance sheet as and when the rights are acquired by the employees.

Gains and losses resulting from changes in the actuarial assumptions that are used to calculate the obligations and estimated return on the plan's assets are recognized only when they exceed 10% of the higher of the obligation and the plan assets. The fraction exceeding 10% is then spread over the average residual active lives of the employees.

The net periodic pension cost in relation to defined benefit plans comprises the cost of service acquired for the year, the changes in the discounted cost of obligations and the amortization of actuarial gains and losses, net of the return on plan assets.

**15. PROVISIONS FOR RISKS AND LIABILITIES**

Provisions for risks and liabilities are reflected in the line "Other non-current liabilities" in the consolidated balance sheet. Provisions for identified risks and liabilities of uncertain timing or amount are recognized when the Group has a present obligation to a third party as a result of a past event and it is certain or probable that this obligation will result in a net outflow of resources for the Group.

**16. FINANCIAL INSTRUMENTS**

The Group has applied IAS 39, Financial Instruments – Recognition and Measurement, since January 1, 2004. In accordance with IAS 39, all derivative financial instruments must be recognized in the consolidated balance sheet at their fair value. When derivatives are designated as fair value hedges, changes in the fair value of both the derivatives and the hedged items are recognized in the income statement in the same period. When derivatives are designated as net foreign investment hedges, changes in the fair value of the derivatives are recognized in shareholders' equity. When derivatives are designated as cash flow hedges, changes in the value of the effective portion of the derivative are recognized in shareholders' equity: this effective portion is recycled in the income statement when the hedged item is recognized in the income statement. Changes in the value of the ineffective portions of derivatives are directly recognized in the income statement. Changes in the fair value of derivative financial instruments that

are not classified as hedging instruments are recognized directly in the income statement for the period.

Financial debt instruments hedged by derivative financial instruments are recognized in the consolidated balance sheet at their fair value. Financial debt instruments that are not hedged by derivative financial instruments are recognized in the balance sheet under the amortized cost method, using their effective interest rate.

## 17. PUT OPTIONS GRANTED TO MINORITY SHAREHOLDERS

In accordance with IAS 32 – Financial instruments: Disclosure and Presentation, when minority shareholders hold put options that enable them to sell their investment, the minority's share in the Subsidiaries' net assets is reclassified from "Minority interests" to a financial liability in the consolidated balance sheet. This financial liability is measured at the exercise price of the option.

In the absence of specific provisions, the Group has chosen to present the difference between the exercise price of options granted and the historical value of minority interests (reclassified as financial liabilities) as additional goodwill. This goodwill is adjusted at period end to reflect changes in the exercise price of the options and in the carrying value of the minority interests to which they relate. This treatment has no impact on the consolidated income statement.

Acquisitions of minority interests that do not impact exclusive control are recognized in goodwill.

## 18. NET REVENUE

The Group's net revenue mainly comprises sales of finished products. They are recognized when title passes to the customers.

Net revenue is stated net of trade discounts and customer allowances, as well as of the costs relating to agreements on contributions to advertising, listing or concerning occasional promotional actions invoiced by distributors.

Impairment provisions are recognized when it is considered unlikely that trade accounts receivable will be recovered. The method used for determining such reserves, based on historical analysis, has not changed over recent years.

## 19. ADVERTISING COSTS

Advertising costs are expensed as incurred.

## 20. RESEARCH AND DEVELOPMENT COSTS

Development costs are only recognized under assets in the balance sheet if all the recognition criteria set by IAS 38 are met before the products are launched on the market. Research and development costs are generally expensed as incurred due to the

very short time between the date on which technical feasibility is demonstrated and the date on which the products are marketed.

## 21. OTHER OPERATING REVENUE (EXPENSE)

Other operating revenue and expense comprise significant items that, because of their unusual nature, cannot be viewed as inherent to the current activities of the Group. They mainly include capital gains and losses on disposals of consolidated equity interests, impairment charges on goodwill, certain significant costs relating to major acquisitions (restructuring charges and acquisition and integration costs), and (estimated or incurred) costs linked to major litigation.

## 22. STOCK PURCHASE OPTIONS

Stock purchase options granted to employees are measured at fair value on the grant date. Fair value is determined using the Black and Scholes valuation model, based on assumptions determined by management. Fair value is accounted for on the "Other operating revenue (expense)" line of the income statements and expensed over the vesting period (from two to four years), with a corresponding increase in shareholders' equity. Prior period expenses recognized in relation to options that are cancelled before they vest are reversed in the income statement in the period during which they are cancelled.

## 23. EARNINGS PER SHARE

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

Diluted earnings per share are calculated in a similar manner, except that the weighted average number of shares is increased to take into account shares that could potentially be issued following the exercise of share purchase or subscription options.

## 24. DISCONTINUED OPERATIONS, AND ASSETS AND LIABILITIES HELD FOR SALE

Assets held for sale are those assets that will be realized as a result of a sale considered to be highly likely within the next 12 months, rather than as a result of their use.

Assets and liabilities held for sale are reflected in separate line items in the consolidated balance sheet of the period during which the decision to sell is made. Balance sheets of prior periods are not restated. The net income and cash flows from discontinued operations are reflected in separate line items in the consolidated income statement and statement of cash flows, respectively, for all periods presented. IFRS 5 defines a discontinued, sold or held for sale operation as a component of an entity that (i) generates cash flows that are largely independent from cash

**Consolidated documents***Notes to the Consolidated Financial Statements - Note 2*

flows generated by other components (ii) is held for sale or has been sold, and (iii) represents a separate major line of business or geographic area of operations. The Group has determined that, given the way it is organized, its business lines and geographic areas presented in the segment information correspond to the definition of components given in IFRS 5.

**25. USE OF ESTIMATES**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the consolidated financial statements, especially regarding the valuation of intangible assets, investments in associates,

deferred tax assets, financial liabilities relating to put options granted to minority shareholders, provisions for risks and liabilities, provisions for commercial agreements and retirement obligations. Those estimates and assumptions are assessed based on the information available and conditions as of the end of the financial period presented, and are detailed in the corresponding notes. Actual amounts could differ from those estimates, particularly in a context of economic and financial crisis.

**26. RECLASSIFICATIONS**

Certain amounts in prior-period financial statements may have been reclassified for comparability with the last period presented.

**NOTE 2 - Changes in the Scope of Consolidation****1. SUMMARY****Acquisitions**

In 2009, the main acquisitions were made in the Fresh Dairy Products business line, as follows:

- acquisition of an additional interest in Danone Clover (Fresh Dairy Products – South Africa), thereby increasing the Group's shareholding from 55% to 100%. As a result of this step acquisition, the Group's interest in Mayo Dairy (Proprietary) Ltd, indirectly held by Danone Clover, increased from 38.5% to 70%;
- acquisition of a 26.85% interest in Micropharma (Fresh Dairy Products – Canada). The company has been consolidated as an associate since the second half of 2009.

In 2008, the main acquisitions concerned:

- acquisition of 100% of the shares in Icoara (Waters – Brazil);
- acquisition of a controlling interest in Mayo (Fresh Dairy Products – South Africa) and in Mashhad Milk Powder (Baby Nutrition – Iran) as a result of the acquisition of 70% and 60% interests, respectively;
- acquisition of additional interests in Salus (Waters – Uruguay) and Danone Hayat Antalya (Waters – Turkey), increasing the Group's interests from 58.61% to 94.11% and from 80% to 100%, respectively;
- the purchase of 1.15% of the remaining shares of Royal Numico N.V., in which the Group had held 98.85% since December 31, 2007;

- and acquisition of a 49% interest in the Toeca International Company (Fresh Dairy Products – the Netherlands) and Weight Watchers (Fresh Dairy Products – China) joint ventures.

**Disposals**

In 2009, the main disposals were the following:

- the 100% equity interest in the subsidiary Frucor (Waters – New Zealand and Australia); the net capital gains on sale of the shares and brands, finalized in February 2009, were recognized, respectively, at € 315 million (after a negative € 110 million of translation adjustments recycled through the income statement) in "Other operating revenue (expense)" and € 45 million in "Other revenue (expense)";
- the 100% equity interest in the subsidiary Danone Naya (Waters – Canada). The disposal, finalized in May 2009, generated a net capital gain of € 3 million;
- the 51% equity interest in the Wahaha Subsidiaries (Waters – China). The disposal, finalized in December 2009, generated a net capital loss of € 98 million, including the recycling of translation adjustments, disposal costs and tax effects, and was recognized in "Share of profit of associates" (see Notes 2.2 and 6).

In 2008, the main disposals concerned the 100% equity interest in Sources du Mont-Dore in Auvergne, named SMDA (Waters – France), and the 100% equity interest in Milupa Nutricia SAS and SD France SAS (Baby Nutrition – France) pursuant to the request received by antitrust authorities in connection with the acquisition of Numico.

## 2. DEVELOPMENTS IN RELATIONS WITH A PARTNER OF THE GROUP IN ITS SUBSIDIARY WAHAHA IN CHINA

Wahaha (Waters – China) comprised a group of legal entities (the “Subsidiaries” or “JVs”). The Group held 51% of the capital of the Subsidiaries, and a group of minority shareholders held the remaining 49%. Wahaha’s shares held by the Group had been consolidated as associates in the Group’s consolidated financial statements since July 1, 2007. Since then, the Group has been involved in a number of legal proceedings against its Chinese partner.

In September 2009, the Group announced that it had reached an out-of-court settlement, submitted for approval to the Chinese authorities, for the disposal of its 51% interest in the Danone-Wahaha joint ventures.

Each step in this settlement was executed in accordance with the terms of the agreement and within the time limits specified. The final step was executed in December 2009. The execution of this agreement thus ended the partnership between the Group and Wahaha, as well as all legal proceedings.

The net capital loss realized in the framework of this disposal amounted to € 98 million (including recycling translation adjustments, disposal costs and tax effects) was recognized in “Share of profits of associates” as of December 31, 2009.

## NOTE 3 - Discontinued operations and assets and liabilities held for sale

### ASSETS AND LIABILITIES HELD FOR SALE

As of December 31, 2009, the Group was still engaged in the process of disposal of its minority equity stake of 22.98% in China Huiyuan Juice Group Limited (a company listed on the Hong Kong Stock Exchange and a leader in the fruit drinks market). The Group continues to view this disposal as highly probable during the next 12 months. As of December 31, 2009, this interest was recognized in “Assets held for sale” for € 166 million, net of an impairment provision of € 55 million recognized in “Share of profits of associates” for the difference between fair value of the securities (based on the stock market value on the closing date) and their carrying amount.

As of December 31, 2008, the Group was engaged in a disposal process with its Indian partner concerning its indirect 25.5% shareholding in Britannia Industries Limited (Biscuits – India). This company’s shares are not consolidated and continued to be recognized in “Assets held for sale” at their estimated selling price.

In several agreements signed on April 14, 2009, the Group finalized the sale of its indirect interest in Britannia Industries Limited to its Indian partner, Wadia. Upon conclusion of these agreements, the Group and Wadia also ended their joint venture partnership in India. The net capital gain of € 56 million realized on this transaction was recognized in “Financial revenue” in 2009. It includes € 38 million in income recognized directly in shareholders’ equity on December 31, 2008. The agreement of April 14, 2009 also concluded the dispute between the Group and its Indian partner concerning the Tiger brand.

In 2008, the line “Assets held for sale” included:

- the interest in the Group’s Frucor subsidiary (a major player in the non-alcoholic drinks business in New Zealand and Australia) to be sold to Suntory Limited in February 2009. The assets (net of liabilities) to be sold amounted to € 182 million;
- the interest in its Danone Naya subsidiary (a leader in bottled water in Quebec, Canada). The assets to be sold (net of liabilities) amounted to € 14 million;
- the 22.98% minority interest in China Huiyuan Juice Group Limited for € 234 million, which the Group planned to tender to the offer launched by The Coca-Cola Company before it withdrew the offer in March 2009 following the objections by the Chinese antitrust authorities.

### DISCONTINUED OPERATIONS

In 2007, the Group sold its “Biscuits and Cereal Products” activities to Kraft Foods. The net gain from this sale did not take into account a possible additional € 257 million from disposal of the Group’s interest in Générale Biscuits Glico France.

In 2008, as Glico, the partner in the joint venture, had not exercised its right to terminate the joint venture, additional proceeds of € 257 million were received. This amount, plus accrued interest, was recognized in “Net income from discontinued operations” for a net amount of € 269 million.

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Notes to the Consolidated Financial Statements - Note 4

**NOTE 4 - Intangible assets****CHANGES IN THE NET CARRYING AMOUNT OF INTANGIBLE ASSETS**

Changes in the net carrying amount of intangible assets can be detailed as follows:

		<b>Goodwill</b>	<b>Total</b>	<b>Brands</b>	<b>Other</b>	<b>Total</b>
<i>(In € millions)</i>	Consolidated interests	Put options granted to minority shareholders				
<b>Gross amounts</b>						
<b>As of January 1, 2008</b>	<b>10,565</b>	<b>2,304</b>	<b>12,869</b>	<b>3,961</b>	<b>614</b>	<b>17,444</b>
Capital expenditure	64	-	64	-	43	107
Disposals	-	-	-	-	(7)	(7)
Changes in scope of consolidation	-	-	-	-	3	3
Changes in consolidation method	14	-	14	-	-	14
Translation adjustments	(799)	-	(799)	(83)	(13)	(895)
Reclassification of assets held for sale	(78)	-	(78)	(68)	(3)	(149)
Revaluation of goodwill linked to put options granted to minority shareholders	-	130	130	-	-	130
Adjustment of Numico goodwill	120	-	120	36	(11)	145
Other	-	-	-	-	14	14
<b>AS OF DECEMBER 31, 2008</b>	<b>9,886</b>	<b>2,434</b>	<b>12,320</b>	<b>3,846</b>	<b>640</b>	<b>16,806</b>
<b>Amortization</b>						
<b>As of January 1, 2008</b>			-	-	<b>(213)</b>	<b>(213)</b>
Charge for the year (net of disposals)			-	-	(62)	(62)
Translation adjustments			-	-	7	7
Other			-	-	8	8
<b>AS OF DECEMBER 31, 2008</b>			-	-	<b>(260)</b>	<b>(260)</b>

		<b>Goodwill</b>	<b>Total</b>	<b>Brands</b>	<b>Other</b>	<b>Total</b>
<i>(In € millions)</i>	Consolidated interests	Put options granted to minority shareholders				
<b>Gross amounts</b>						
<b>As of January 1, 2009</b>	<b>9,886</b>	<b>2,434</b>	<b>12,320</b>	<b>3,846</b>	<b>640</b>	<b>16,806</b>
Capital expenditure	115	-	115	-	27	142
Disposals	-	-	-	-	(1)	(1)
Changes in scope of consolidation	-	-	-	-	-	-
Changes in consolidation method	-	-	-	-	-	-
Translation adjustments	226	-	226	57	3	286
Reclassification of assets held for sale	-	-	-	-	-	-
Revaluation of goodwill linked to put options granted to minority shareholders	-	266	266	-	-	266
Adjustment of Numico goodwill	-	-	-	-	-	-
Other	-	-	-	-	5	5
<b>AS OF DECEMBER 31, 2009</b>	<b>10,227</b>	<b>2,700</b>	<b>12,927</b>	<b>3,903</b>	<b>674</b>	<b>17,504</b>
<b>Amortization</b>						
<b>As of January 1, 2009</b>			-	-	<b>(260)</b>	<b>(260)</b>
Charge for the year (net of disposals)			-	-	(72)	(72)
Translation adjustments			-	-	(2)	(2)
Other			-	-	15	15
<b>AS OF DECEMBER 31, 2009</b>			-	-	<b>(319)</b>	<b>(319)</b>



The amortization charge for other intangible assets amounted to € 72 million in 2009 (€ 62 million in 2008). It is allocated to different line items in the income statement consistent with the nature and utilization of the underlying assets.

## Goodwill

### *Goodwill Relating to Consolidated Interests*

In 2009, the change in goodwill relating to consolidated interests was mainly due to:

- translation adjustments on the Numico goodwill for the positive amount of € 222 million;
- recognition of goodwill resulting from purchase of the minority interest in Danone Clover (Fresh Dairy Products – South Africa) for a total of € 74 million.

In 2008, the main changes were due to translation adjustments on the Numico goodwill for the negative amount of € 757 million, the repurchase of the remaining 1.15% of Royal Numico N.V. shares for € 109 million, adjustments to the Numico goodwill booked during the twelve-month allocation period, for € 11 million, the acquisition of Mashhad Milk Powder (Baby Nutrition – Iran) for € 42 million, and the reclassification of the goodwill relating to Frucor (Waters – New Zealand and Australia) in “Assets held for sale” for € 78 million.

### *Goodwill Relating to Put Options Granted to Minority Shareholders*

The Group is committed to acquiring the minority shareholdings owned by third parties who are shareholders in certain consolidated companies, should these third parties wish to exercise their put options. These shareholders may be “historical” shareholders of the entities, private investors or international organizations, such as the European Bank for Reconstruction and Development. The exercise prices of these put options are usually based on the profitability and the financial position of the entity as of the exercise date. The exercise of these options would increase the Group’s shareholding in the related entities. As indicated in Note 1.17, under IAS 32, the minority’s interest in the entities must be reclassified from “minority interests” to financial liabilities in the balance sheet, with the liabilities being measured at the exercise price of the options (see Note 15). In addition, the difference between the exercise price of the options and the historical value of the minority interests is reflected as “Goodwill, net” in the consolidated balance sheet.

As of December 31, 2009, goodwill linked to these put options amounted to € 2.7 billion (€ 2.4 billion as of December 31, 2008). The main item, amounting to € 2.2 billion, related to the put option on Danone Spain, which was revalued in an amount of € 187 million during the fiscal year. These items are detailed in Note 15.

## Brands

This heading corresponds to non-amortized brands recognized in connection with business combinations since 1989. Brand names include, among others, *Nutricia*, *Milupa*, *Dumex*, *Cow&Gate*, *Mellin*, *SHS*, *Volvic* and *Danone* in Spain.

In 2009, changes in brands mainly resulted from translation adjustments on brands held by the Baby Nutrition and Medical Nutrition business lines following the purchase of Numico, for € 20 million and € 37 million respectively.

In 2008, changes mainly resulted from an adjustment in the value of the *Mellin* brand, translation adjustments booked on acquisition of Numico brands, and from reclassifications under “Assets held for sale”.

## Other Intangible Assets

Capital expenditure amounted to € 27 million and is broken down between Medical Nutrition and Fresh Dairy Products for respectively € 10 million and € 7 million.

## Impairment Reviews

The net carrying amount of goodwill, brands and other non-amortized intangible assets is reviewed at least annually and when certain events or circumstances indicate that their value may be impaired. These events or circumstances are linked to significant, unfavorable and durable changes that have an impact on the economic environment, the assumptions or targets set at the time of acquisition.

An impairment charge is recognized when the recoverable value of the assets tested becomes durably lower than their net carrying amount. Recoverable value is determined as detailed in Note 1.4.

As of December 31, 2009, the Group reviewed the carrying value of all its intangible assets with indefinite useful lives. As stated in Note 1.4, the CGU’s or groups of CGU’s value in use is determined based on multiples of earnings or, if applicable, the expected discounted cash flows, for all Group business lines.

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Notes to the Consolidated Financial Statements - Note 4

As of December 31, 2009, the CGUs or groups of CGUs for which the carrying amount of the goodwill or intangible assets with indefinite useful lives is significant are as follows:

(In € millions)	Net carrying amount of goodwill and brands with indefinite useful lives		Sector multiples of operating income before amortization and depreciation	Growth rate to infinity		Discount rate	
	2008	2009		2008	2009	2008	2009
<b>Fresh Dairy Products:</b>							
<i>Southern Europe CGU</i>	2,469	2,605		2.0%	1.0%	7.3%	8.0%
<i>Other CGUs <sup>(1)</sup></i>	631	801		1.0%	1 to 2.5%		
<b>Total Fresh Dairy Products</b>	<b>3,100</b>	<b>3,406</b>	×14 on average				
<b>Waters</b>							
<i>Danone Eaux France</i>	428	428		-	0%	-	7.9%
<i>Other CGUs <sup>(1)</sup></i>	434	492		1 to 2.5%	1 to 2.5%		
<b>Total Waters</b>	<b>862</b>	<b>920</b>	×17 on average				
<b>Baby Nutrition</b>							
<i>Baby Nutrition Asia</i>	2,646	2,724		2.5%	2.5%	8.9%	8.5%
<i>Baby Nutrition Rest of World</i>	5,662	5,744		2.5%	2.5%	8.0%	8.0%
<b>Total Baby Nutrition</b>	<b>8,308</b>	<b>8,468</b>					
<b>Total Medical Nutrition</b>	<b>3,897</b>	<b>4,036</b>		<b>2.5%</b>	<b>2.5%</b>	<b>7.2%</b>	<b>7.3%</b>
<b>GROUP TOTAL EXC. ASSOCIATES</b>	<b>16,167</b>	<b>16,830</b>					

(1) The Fresh Dairy Products and the Waters business lines include about 20 other CGUs.

When value in use is determined based on expected discounted cash flows, the growth rate to infinity and the discount rate vary depending on the geographical area where the CGU or groups of CGUs operate, and in particular on the maturity of the markets.

Following this review, the Group did not recognize any impairment charge as of December 31, 2009. As of December 31, 2008, no impairment charges were recognized.

As of December 31, 2009, value in use exceeded net carrying amount by € 2.2 billion for the Baby Nutrition Asia CGU, € 1 billion for the Baby Nutrition Rest of World CGU, and € 500 million for the Medical Nutrition CGU.

As of December 31, 2009, a sensitivity analysis of the value in use within the three groups of CGUs (Baby Nutrition Asia, Baby Nutrition Rest of the World and Medical Nutrition) shows the following impacts:

- a 0.5% increase in the discount rate would have a negative impact of € 1.4 billion.

Recoverable value would equal net carrying amount for a 0.5% increase in the discount rate for the Medical Nutrition group of CGUs, for a 1% increase in the discount rate for the Baby Nutrition Rest of World group of CGUs, and for a 4.2% increase in the discount rate for the Baby Nutrition Asia group of CGUs;

- a 0.5% decrease in the long-term growth rate would have a negative impact of € 900 million; for each group of CGUs, the value in use would remain greater than net carrying amount.

Value in use would equal net carrying amount for a long-term growth rate of 1.6% for the Medical Nutrition group of CGUs and of 0.9% for the Baby Nutrition Rest of World group of CGUs, and a negative long-term growth rate for the Baby Nutrition Asia group of CGUs;

- a reduction in the margin of 100 basis points would have a negative impact of € 800 million.

Value in use would become equal to net carrying amount for a 240-basis-point margin decrease for the Medical Nutrition group of CGUs, for a 315-basis-point decrease for the Baby Nutrition Rest of World group of CGUs, and for a 950-basis-point decrease for the Baby Nutrition Asia group of CGUs.

## NOTE 5 - Property, plant and equipment

Changes in the net carrying amount of property, plant and equipment can be detailed as follows:

<i>(In € millions)</i>	Land	Buildings	Machinery and equipment	Refundable containers	Other	Capital assets in progress	Total
<b>Gross amounts</b>							
<b>As of January 1, 2008</b>	<b>228</b>	<b>1,304</b>	<b>3,556</b>	<b>173</b>	<b>501</b>	<b>536</b>	<b>6,298</b>
Capital expenditure <sup>(1)</sup>	8	33	141	26	50	428	686
Disposals	(7)	(23)	(116)	(18)	(40)	(8)	(212)
Changes in scope of consolidation	4	4	2	-	29	2	41
Translation adjustments	(2)	(35)	(114)	(7)	(41)	(26)	(225)
Reclassification of assets held for sale	2	(2)	(21)	-	(4)	(2)	(27)
Other	4	113	369	1	16	(526)	(23)
<b>AS OF DECEMBER 31, 2008</b>	<b>237</b>	<b>1,394</b>	<b>3,817</b>	<b>175</b>	<b>511</b>	<b>404</b>	<b>6,538</b>
<b>Depreciation</b>							
<b>As of January 1, 2008</b>	<b>(28)</b>	<b>(572)</b>	<b>(2,242)</b>	<b>(106)</b>	<b>(314)</b>	<b>(1)</b>	<b>(3,263)</b>
Charges for the year	(3)	(69)	(282)	(23)	(74)	(13)	(464)
Disposals	1	17	90	16	35	-	159
Changes in scope of consolidation	-	2	9	-	(9)	-	2
Translation adjustments	-	9	51	4	26	-	90
Reclassification of assets held for sale	-	(3)	2	-	6	-	5
Other	1	(2)	(7)	(1)	13	12	16
<b>AS OF DECEMBER 31, 2008</b>	<b>(29)</b>	<b>(618)</b>	<b>(2,379)</b>	<b>(110)</b>	<b>(317)</b>	<b>(2)</b>	<b>(3,455)</b>

(1) Including assets acquired under finance leases.

<i>(In € millions)</i>	Land	Buildings	Machinery and equipment	Refundable containers	Other	Capital assets in progress	Total
<b>Gross amounts</b>							
<b>As of January 1, 2009</b>	<b>237</b>	<b>1,394</b>	<b>3,817</b>	<b>175</b>	<b>511</b>	<b>404</b>	<b>6,538</b>
Capital expenditure <sup>(1)</sup>	8	47	120	26	38	360	599
Disposals	(1)	(16)	(117)	(40)	(43)	(4)	(221)
Translation adjustments	1	2	14	9	6	2	34
Other	4	145	342	2	(8)	(452)	33
<b>AS OF DECEMBER 31, 2009</b>	<b>249</b>	<b>1,572</b>	<b>4,176</b>	<b>172</b>	<b>504</b>	<b>310</b>	<b>6,983</b>
<b>Depreciation</b>							
<b>As of January 1, 2009</b>	<b>(29)</b>	<b>(618)</b>	<b>(2,379)</b>	<b>(110)</b>	<b>(317)</b>	<b>(2)</b>	<b>(3,455)</b>
Charges for the year	(3)	(75)	(308)	(25)	(67)	-	(478)
Disposals	-	12	101	37	37	-	187
Changes in scope of consolidation	-	-	1	-	-	-	1
Translation adjustments	-	-	(8)	(5)	(3)	-	(16)
Other	-	(41)	(28)	-	27	-	(42)
<b>AS OF DECEMBER 31, 2009</b>	<b>(32)</b>	<b>(722)</b>	<b>(2,621)</b>	<b>(103)</b>	<b>(323)</b>	<b>(2)</b>	<b>(3,803)</b>

(1) Including assets acquired under finance leases.

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Notes to the Consolidated Financial Statements - Note 6

As of December 31, 2009, gross and net amounts of assets acquired under finance leases amounted to € 25 million and € 14 million respectively (€ 21 million and € 11 million respectively as of December 31, 2008).

The depreciation charge for property, plant and equipment amounted to € 478 million in 2009 (€ 464 million in 2008). It is allocated to different lines in the income statement consistent with the nature and utilization of the underlying assets.

## NOTE 6 - Investments in Associates

The net carrying amount of investments in associates is as follows:

<i>(In € millions)</i>	<b>Goodwill, net</b>	<b>Group's share in net assets and results</b>	<b>Total</b>
<b>As of January 1, 2008</b>	<b>470</b>	<b>793</b>	<b>1,263</b>
Acquisition	3	–	3
Disposals and other changes in the scope of consolidation	(14)	–	(14)
Reclassification of assets held for sale: China Huiyuan Juice Group Limited	(121)	(113)	(234)
Share of profits of associates	–	91	91
Dividends paid	–	(31)	(31)
Other changes	–	(6)	(6)
Translation adjustments	75	120	195
<b>As of December 31, 2008</b>	<b>413</b>	<b>854</b>	<b>1,267</b>
Acquisition: Micropharma (see Note 2)	4	1	5
Disposals (in particular Wahaha, see Note 2) and other changes in consolidation scope	(123)	(202)	(325)
Reclassification of assets held for sale: Magyarviz, Polska Woda	–	(7)	(7)
Share of profits of associates	–	110	110
Dividends paid	–	(175)	(175)
Other changes	(3)	3	–
Translation adjustments	(11)	(59)	(70)
<b>AS OF DECEMBER 31, 2009</b>	<b>280</b>	<b>525</b>	<b>805</b>

As of December 31, 2009, investments in associates mainly comprised the holdings in Yakult, in view of the sale of the 51% interest in the Wahaha joint ventures in December 2009. The net assets of associates include the identifiable intangible assets and residual goodwill resulting from the consolidation of their own subsidiaries.

In 2009, the change in value of investments in associates mainly reflects the sale of the Group's interest in the Wahaha joint ventures, dividends paid and translation adjustments recognized

on shares in associates that were neither sold nor reclassified as assets held for sale as of December 31, 2009.

In 2008, the value of investments in associates was unchanged as a result of the positive impact of translation adjustments (mainly for Wahaha and Yakult) for € 195 million, partially offset by reclassification of the investment in China Huiyuan Juice Group Limited under the heading "Assets held for sale" for € 234 million.

### Share of Profits of Associates

The line item "Share of profits of associates" can be detailed as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Group share of profits from continuing operations	91	110
Impairment charges	–	(63)
Gains (losses) on disposal and other	(29)	(124)
<b>TOTAL</b>	<b>62</b>	<b>(77)</b>

The line item "Impairment charge" mainly concerns the shares in China Huiyuan Juice Group Limited, classified as assets held for sale. This amount was determined based on the share price on

December 31, 2009. The losses on disposal correspond mainly to the net capital loss on the Wahaha (Waters, China) shares amounting to € 98 million.

### Significant Financial Information

Significant financial information, as it relates to the main investments in associates as of December 31, 2009, is as follows (100% and for a full year):

<i>(In € millions)</i>	2008			2009		
	Net revenue	Net income	Shareholders' equity	Net revenue	Net income	Shareholders' equity
Yakult <sup>(1)</sup>	945	50	1,542	1,123	61	1,650

(1) Data according to Japanese GAAP.

As Yakult is a listed company, the amounts shown in the table above correspond to the last financial statements published (2008: half-yearly financial statements; 2009: half-yearly financial statements).

### Impairment Reviews

The Group reviews the carrying value of its investments in associates whenever events or circumstances indicate that they may be impaired. An impairment charge is recognized when their recoverable value becomes durably lower than their net carrying amount.

The fair value of investments in associates amounted to € 1,216 million as of December 31, 2009 (€ 1,311 million as of December 31, 2008). It was determined as follows:

- for listed companies, according to a multi-criteria approach based on the stock price as of December 31, the financial health of the company and analysts' notes;
- for non-listed companies, by reference to the value resulting from recent transactions entered into by third parties or put and/or call options negotiated with third parties and/or external appraisals. When such elements do not exist, the fair value is determined to be equivalent to the carrying value.

With the exception of the impairment recognized on the holding in the China Huiyuan Juice Group Limited (classified with assets held for sale, as mentioned above), no significant impairment charge has been recognized during the year.

## NOTE 7 - Investments in non-consolidated companies

### NET CARRYING AMOUNT AND CHANGES IN NON-CONSOLIDATED COMPANIES

The net carrying amount of the main investments in non-consolidated companies can be detailed as follows:

<i>(In € millions)</i>	% interest in		% interest in	
	2008	2008	2009	2009
Wimm-Bill-Dann	18.4%	118	18.4%	406
ONA	2.7%	59	2.7%	54
Others	-	60	-	61
<b>TOTAL</b>		<b>237</b>		<b>521</b>

As indicated in Note 1.6, investments in non-consolidated companies are treated as available-for-sale investments. They are accounted for at fair value, with fair value variations recognized directly in shareholders' equity as "Net income recognized directly in equity", except for unrealized losses that are considered to be significant and/or prolonged, which are recognized directly in the income statement.

In 2009, the increase in non-consolidated investments mainly resulted from the increase in the stock price of the Wimm-Bill-Dann shares.

As of December 31, 2008, an impairment in the value of these shares was recognized for € 131 million. As of December 31, 2009, the fair value of the shares (measured with reference to the stock price on the same date) had again risen above their net

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Notes to the Consolidated Financial Statements - Note 8

carrying amount. Consequently, the positive change in fair value was recognized in shareholders' equity.

As of December 31, 2009, the unrealized gains recognized under the heading "Net income recognized directly in equity" amounted to € 348 million (€ 98 million as of December 31, 2008).

## NOTE 8 - Long-Term Loans

As of December 31, 2009, long-term loans amounted to € 27 million, compared to € 73 million as of December 31, 2008.

The decrease is mainly due to (i) impairment of the vendor loan extended to the buyer of the Group's investment in The Danone

Springs of Eden B.V. and (ii) the reclassification of the short-term component of this loan into short-term loans.

The fair value of long-term loans is considered to be equal to their net carrying amount.

## NOTE 9 - Other Long-Term Assets

As of December 31, 2009, other long-term assets amounted to € 127 million, compared to € 137 million as of December 31, 2008.

As of December 31, 2009, this item included investments held as the counterpart to certain "damage and healthcare" provisions,

amounting to € 95 million. These investments are treated as available-for-sale and are measured at their period-end fair value.

## NOTE 10 - Inventories

Inventories can be detailed as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Goods purchased for resale	52	25
Raw materials and supplies	359	304
Semi-finished goods and work in progress	56	52
Finished products	381	439
Non-refundable containers	29	39
Provision for inventory impairment	(82)	(94)
<b>Inventories, net</b>	<b>795</b>	<b>765</b>

## NOTE 11 - Trade accounts receivable – other accounts receivable and prepaid expenses

### TRADE ACCOUNTS RECEIVABLE

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Trade accounts receivable	1,516	1,686
Notes receivable	77	47
Provision for impaired receivables	(59)	(51)
<b>Trade accounts receivable, net</b>	<b>1,534</b>	<b>1,682</b>

Changes in the provision for impaired receivables are as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
As of January 1	58	59
Charge (net of reversals) for the year	20	16
Utilization	(12)	(25)
Translation adjustments and other changes	(7)	1
<b>As of December 31</b>	<b>59</b>	<b>51</b>

The Group believes its exposure to concentration of credit risk is limited due to the number of customers located in diverse geographic areas and the fact that its main customers are in the mass retail sector. Despite the current economic environment, the Group believes that it is not exposed to significant credit risk, nor is it dependent on one single customer. In 2009, net revenue from

the Group's largest customer represented approximately 7% of the Group's net revenue (7% in 2008).

The fair value of trade accounts receivable is considered to be equivalent to their net carrying amount due to their short-term maturity.

## OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
State and local authorities	430	381
Social security bodies and non-operating receivables	215	104
Prepaid expenses	39	57
Financial instruments	188	-
Other	78	103
<b>TOTAL</b>	<b>950</b>	<b>645</b>

In 2008, the line item "Financial instruments" was mainly linked to currency hedging, which is presented in other accounts payable in 2009 as their fair value is negative.

The fair value of other accounts receivable is considered to be identical to their net carrying amount due to the high degree of liquidity of these items.

## NOTE 12 - Marketable Securities

Marketable securities can be detailed as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Commercial paper and other short-term instruments	421	372
Money market funds	20	82
<b>TOTAL</b>	<b>441</b>	<b>454</b>

Marketable securities are bought from leading financial institutions.

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Notes to the Consolidated Financial Statements - Note 13

## NOTE 13 - Earnings per Share

### DISTRIBUTABLE RESERVES

The subsidiaries' and affiliates' distributable earnings can differ from their reported retained earnings as a consequence of (i) consolidation adjustments applied to their local accounts and (ii) the laws that are applicable in the countries where these entities operate.

In accordance with French law, dividends can only be paid out of the net income for the year and accumulated distributable

earnings of the parent company. As of December 31, 2009, tax-free distributable earnings amounted to € 1,895 million.

### EARNINGS PER SHARE

The reconciliation between basic and diluted earnings per share is as follows:

	<b>Underlying net income from continuing operations attributable to the Group</b> <i>(in € millions)</i>	<b>Non-current net income attributable to the Group</b> <i>(in € millions)</i>	<b>Weighted average number of shares outstanding</b>	<b>Earnings per share attributable to the Group</b> <i>(in euros)</i>	<b>Of which, from continuing operations</b> <i>(in euros)</i>	<b>Of which, from discontinued operations</b> <i>(in euros)</i>
<b>2009</b>						
Before dilution	1,412	(51)	548,701,050	2.48	2.48	–
Stock-based compensation	–	–	90,317	–	–	–
<b>After dilution</b>	<b>1,412</b>	<b>(51)</b>	<b>548,791,367</b>	<b>2.48</b>	<b>2.48</b>	<b>–</b>
<b>2008</b>						
Before dilution	1,313	–	492,850,127	2.66	2.11	0.54
Stock-based compensation	–	–	1,452,270	–	(0.01)	–
<b>After dilution</b>	<b>1,313</b>	<b>–</b>	<b>494,302,397</b>	<b>2.66</b>	<b>2.11</b>	<b>0.55</b>

Pursuant to IAS 33, "Earnings per share," the dilutive effect of the capital increase with preferential subscription rights carried out on June 25, 2009 has been taken into account retrospectively.

## NOTE 14 - Stock-Based Compensation

### STOCK PURCHASE PLANS

#### Plan Characteristics

The Board of Directors can grant certain senior managers and executives options to purchase existing shares of Danone's common stock. These options are granted at an exercise price that cannot be lower than the minimum price authorized under French law. They vest after two to four years and expire no later than eight years from the grant date.

The main characteristics of the option plans as of December 31, 2009 are as follows, after taking into account:

- the two-for-one stock splits that occurred in June 2000, June 2004 and June 2007;

- adjustments made (subsequent to the capital increase on June 25, 2009) on the one hand retrospectively, to the number of purchase options, and on the other hand, to the exercise prices of the plans in existence at that date. The adjustment coefficient was determined (in accordance with Article L. 225-149-1 of the French Commercial Code) by comparing Danone's stock price of € 46.33 before detachment of the preferential subscription rights attached to the capital increase with the price of € 43.71 after detachment of this right.



Date of Shareholders' Meeting	Number of authorized options <sup>(1)</sup>	Number of options granted	Adjusted exercise price (in euros)	Number of options lapsed or forfeited as of December 31, 2009	Number of options exercised as of December 31, 2009	Number of outstanding options as of December 31, 2009
May 19, 1999	8,000,000	7,181,670	34.7	1,661,902	5,519,768	–
May 29, 2001	8,000,000	7,850,678	27.9-33.4	853,937	4,718,992	2,277,749
April 11, 2003	8,000,000	6,612,085	30.2-35.4	656,872	1,625,802	4,329,411
April 22, 2005	6,000,000	4,772,226	38.9-57.5	353,298	2,120	4,416,808
April 26, 2007	6,000,000	5,854,441	34.9-56.6	336,347	–	5,518,094
April 23, 2009	6,000,000	20,400	40.9	–	–	20,400

(1) The number of options authorized has not been adjusted by the adjustment coefficient mentioned above.

The capital increase on June 25, 2009 and changes made to the stock option plans in existence at that date had no impact on the IFRS 2 expense for these plans.

As of December 31, 2009, 5,979,600 options could still be granted under the authorization by the Shareholders' Meeting on April 23, 2009.

As of December 31, 2009, outstanding options can be detailed as follows:

Range of exercise price	Number of options	Average remaining life (in number of years)	Outstanding		Exercisable	
			Weighted average exercise price (in euros)	Number of options	Weighted average exercise price (in euros)	Number of options
€ 27 to € 32	3,901,331	1.9	30.2	3,901,331	30.2	–
€ 33 to € 39	5,388,714	4.9	34.8	2,705,830	34.8	–
€ 40 to € 48	1,947,833	4.4	46.8	–	–	–
€ 49 to € 58	5,324,584	5.8	55.7	–	–	–
	<b>16,562,462</b>			<b>6,607,160</b>		

### Changes in outstanding options

Changes in outstanding options were as follows:

(Number of options)	2008	2009
<b>Balance as of January 1</b>	<b>13,988,745</b>	<b>14,939,198</b>
Granted	2,636,174	2,571,920
Shares granted following the capital increase	–	1,049,443
Exercised	(1,402,831)	(863,324)
Forfeited/lapsed	(282,890)	(1,134,775)
<b>Balance as of December 31</b>	<b>14,939,198</b>	<b>16,562,462</b>

In 2009, the average price of Danone stock was € 37.82.

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Notes to the Consolidated Financial Statements - Note 15

**Valuation of stock options**

As indicated in Note 1.22, stock purchase options granted to employees are measured at their grant date fair value, based on assumptions determined by management. Options granted in 2008 and 2009 were measured based on the following assumptions:

	2008	2009
Risk-free interest rate	4.39%	2.89%
Expected life	5 years	5 years
Expected volatility	27.4%	37.1%
Expected dividend yield	1.9%	2.4%

The expected volatility was determined based on an observation of the historical volatility of the Danone stock over a period identical to the expected life of the options.

The risk-free interest rate was determined based on the interest rate of Treasury bonds.

The weighted average value of options granted in 2009 and 2008 was € 10.2 and € 15.7 per option, respectively.

In 2009, the expense relating to stock options amounted to € 28 million (€ 19 million in 2008). This expense is reflected in "Other revenue (expense)" in the consolidated income statement and in "Retained earnings" in the consolidated balance sheet.

plan. The purchase price of the shares corresponds to 80% of the average Danone stock price over the 20 days preceding the meeting of the Board of Directors that approves the plan. The benefit granted to the employees is calculated based on the grant date fair value of the shares, taking into account the restriction on these shares over a 5-year period and the market parameters that are applicable to employees, in particular the borrowing rate. In 2009, the fair value of the shares was calculated based on a Danone stock price of € 41.44, a 3.1% risk-free interest rate and a 4.8% employees' 5-year borrowing rate. This accounting treatment is compliant with the notice issued by the *Conseil National de la Comptabilité* on December 21, 2004 in relation to share ownership plans.

**EMPLOYEE SHARE OWNERSHIP PLAN**

Employees of the Group's French entities can, on an annual basis, purchase new shares of the Company as part of a share ownership

**NOTE 15 - Financial market risks and derivatives**

In its business activities, the Group is more or less exposed to foreign exchange risks, financing and liquidity risks, and interest rate risks, as well as counterparty and credit risks (the nature of the impact of these risks is described in the management report), as well as risks on shares of the Company or other entities. The Group has set up a risk management policy covering these risks (see the management report) for which the implementation is described below.

The Group is also exposed to volatility in prices for certain commodities that it purchases, mainly to produce its finished products. To manage this exposure, the Group has implemented a commodity purchasing policy, "Market Risk Management" (see the management report). The impact of a price change in the main category of commodities on the Group's annual cost of purchases is presented below in the paragraph headed, "Commodity risks."

**FOREIGN EXCHANGE RISK****Exposure related to operations**

Revenues and operating expenses of the Group's Fresh Dairy Products and Waters subsidiaries are mainly denominated in the local currency of each subsidiary's country. However, some imports, notably raw materials and finished goods, and some exports may be denominated in another currency and are subject to hedging. Moreover, due to the limited number of units of production in the world, the Subsidiaries of the Medical Nutrition and Baby Nutrition business lines and some of the Waters' subsidiaries frequently make use of intra-group imports denominated in currencies other than their functional currencies. These other currencies are also subject to hedging.

The Group's policy consists in significantly reducing the foreign currency exposure caused by its commercial operations that are highly probable and denominated in foreign currencies, generally for a single fiscal year. The Group also makes use of forward currency contracts and plain vanilla options on currencies. As a result, on the basis of operations implemented in 2009, the Group's residual exposure (after hedging of exchange risks on its highly probable commercial operating transactions) is not significant over a given fiscal year.

### Portfolio of foreign exchange derivative instruments related to operations

The following table shows the net notional amount of the derivative instruments set up to manage the foreign exchange risk related to operations for the Group's main currencies (in particular, the U.S. dollar, the U.K. pound, the Japanese yen, the Mexican peso,

the Russian ruble and the Turkish lira) outstanding as of the end of 2009 and 2008. As of December 31, 2009 and 2008, the majority of these instruments were qualified as cash flow hedges according to IAS 39.

(In € millions)	Year ended December 31											
	2008						2009					
(Sales)/Purchases of currencies	USD <sup>(3)</sup>	GBP	JPY	MXN <sup>(3)</sup>	RUB <sup>(3)</sup>	TRY <sup>(3)</sup>	USD <sup>(3)</sup>	GBP	JPY	MXN <sup>(3)</sup>	RUB <sup>(3)</sup>	TRY <sup>(3)</sup>
Net forward contracts <sup>(1)</sup>	340	(253)	(4)	(123)	(137)	(89)	346	(224)	(5)	(118)	(152)	(92)
Currency options, net <sup>(2)</sup>	(27)	(89)	(708)	–	–	–	–	(185)	(288)	–	–	–
<b>TOTAL</b>	<b>313</b>	<b>(342)</b>	<b>(712)</b>	<b>(123)</b>	<b>(137)</b>	<b>(89)</b>	<b>346</b>	<b>(409)</b>	<b>(293)</b>	<b>(118)</b>	<b>(152)</b>	<b>(92)</b>

(1) Closing spot rates.

(2) Notional amount based on the strike price, includes in- and out-of-the-money options.

(3) Transactions denominated in euros or in other currencies.

### Sensitivity of shareholders' equity and net income to changes in the fair value of derivative instruments related to operations

A change in the fair value of the derivative instruments hedging the operating foreign exchange risk, induced by a change in foreign exchange rates, could impact the Group's shareholders' equity and net income: the impacts recognized in profit or loss relate to the time value and swap point variations when they are

excluded from the hedging relation, as well as to transactions to which hedge accounting is not applied.

A 10% fluctuation in the euro against the following currencies as of the closing date, applied to outstanding transactions, would have resulted in an increase (decrease) in shareholders' equity and net income of the Group by the following amounts (at constant volatility and interest rates):

(In € millions)	Shareholders' equity		Gain (loss)	
	10% increase in euro	10% decrease in euro	10% increase in euro	10% decrease in euro
<b>As of December 31, 2009</b>				
USD <sup>(1) (2)</sup>	3	(3)	(1)	1
GBP	35	(29)	(2)	(5)
JPY	23	(25)	–	(3)
MXN <sup>(1) (2)</sup>	1	(1)	–	–
RUB <sup>(1) (2)</sup>	12	(15)	1	(1)
TRY <sup>(1) (2) (3)</sup>	7	(9)	–	–
<b>As of December 31, 2008</b>				
USD <sup>(1) (2)</sup>	10	(10)	(2)	1
GBP	30	(36)	–	1
JPY	39	(50)	8	(7)
MXN <sup>(1) (2)</sup>	(1)	1	–	–
RUB <sup>(1) (2)</sup>	7	(8)	(1)	1
CNY <sup>(1) (2)</sup>	2	(3)	–	–

(1) In the case of transactions denominated in currencies other than the euro, the increase or decrease in the euro is applied simultaneously to the base currency and the secondary currency.

(2) Transactions denominated with the euro or other currencies as counterpart.

(3) As the Turkish lira was not considered a main currency in 2008, the corresponding information is not presented for that year.

### Exposure related to financing

The Group's policy consists in maintaining the debt and/or surplus cash in the functional currency of each subsidiary. Furthermore, in compliance with its policy of managing risks centrally, the Group may manage multi-currency borrowings and surplus cash. Certain loans denominated in foreign currencies are therefore hedged through currency swaps.

As of December 31, 2009 and 2008, the notional amount of these instruments amounted to € 590 million and € 641 million respectively. The majority of them qualified as fair value hedges under IAS 39.

A change in the fair value of the derivative instruments hedging the foreign exchange risk related to financings, induced by a change in foreign exchange rates, would not have a significant impact on

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the Group's shareholders' equity or net income (changes in the fair value of such financial instruments are offset by changes in the fair value of the loans hedged).

### Exposure to Foreign Exchange Translation Risk on Assets

The Group's policy consists in hedging the net equity of certain subsidiaries whose functional currency is not the euro. The Group hedges in priority through borrowings set up locally but also through currency swaps. The main currencies are the Chinese yuan and the Japanese yen.

The total nominal amount outstanding as of December 31, 2009 and 2008, was € 665 million and € 654 million respectively. These outstanding transactions qualified as net foreign investment hedge under IAS 39.

A change in the fair value of the derivative instruments hedging the net foreign investments, induced by a change in foreign exchange rates at the closing date, would not have a significant impact on the Group's shareholders' equity or net income (changes in the fair value of such financial instruments are offset by changes in the fair value of the net foreign investments hedged).

## INTEREST RATE RISK

### Interest Rate Exposure

The interest rate risk is notably induced by the Group's interest-bearing debt. It is mainly denominated in the euro and is managed centrally. The interest rate risk management policy is determined by the Group's Finance department based on indicators and expected interest rate trends, with the aim of minimizing volatility of the Group's financial income. The Group uses derivative instruments in addition to fixed-rate loans to reduce its exposure to short-term interest rate fluctuations. These derivatives are mainly interest rate swaps and caps and to a lesser extent collars. All these instruments are plain vanilla.

### Sensitivity of Net Income to Changes in the Cost of Net Debt Resulting from Changes in Short-Term Interest Rates

As of December 31, 2009, 69% of the Group's consolidated net debt<sup>(1)</sup>, after taking into account the interest rate hedges in place and active<sup>(2)</sup> at that date, is protected against an increase in short-term interest rates. The impact on the cost of debt, calculated over a full year, of a change in the short-term interest rate applied to the net debt<sup>(1)</sup> at year-end, after taking into account the interest rate hedges at that date, is presented in the table below:

(In € millions)	Gain (loss)	
	Increase of 50 bp <sup>(3)</sup>	Decrease of 50 bp <sup>(3)</sup>
<b>As of December 31, 2009</b>	(5)	5
	Increase of 100 bp	Decrease of 100 bp
<b>As of December 31, 2008</b>	(45)	42

(1) The net debt used to measure the Group's exposure to changes in interest rates corresponds to financial debt net of marketable securities and cash and cash equivalents. It excludes financial liabilities linked to options granted to minority shareholders as these liabilities do not bear interest.

(2) Includes (i) fixed-rate borrowings, (ii) interest rate swaps (net) as well as (iii) active option hedges. An option is considered to be active when it is in the money if the increase in the short-term rates does not exceed 100 bp compared to interest rates as of the year-end.

(3) A change of 50 bp in short-term interest rates was applied for the current year because short-term interest rate levels were below 100 bp.

### Sensitivity of Shareholders' Equity and Net Income to Changes in the Fair Value of Interest Rate Derivatives

As of December 31, 2009 and 2008, interest rate derivatives either do or do not qualify as hedge under IAS 39.

A change in the fair value of these instruments induced by a change in the interest rate curve taken into account as of the

balance sheet date would have an impact on the Group's shareholders' equity and net income:

- impacts recognized in shareholders' equity relate to the effective portion of the instruments qualifying as hedges;
- impacts recognized in the income statement relate to the ineffective portion of the instruments qualifying as hedges, as well as to the impact of the change in fair value of the instruments not qualifying as hedges.

A change of 50 basis points in interest rates applied to the full interest rate curve as of the balance sheet date and applied to outstanding transactions as of December 31, 2009 and a change of 100 basis points in interest rates applied to the full interest rate curve as of the balance sheet date and applied to outstanding

transactions as of December 31, 2008 would have resulted in shareholders' equity and net income increasing (decreasing) by the following amounts (at constant foreign exchange rates and volatility):

(In € millions)	Shareholders' equity		Gain (loss)	
	Increase of 50 bp	Decrease of 50 bp	Increase of 50 bp	Decrease of 50 bp
<b>As of December 31, 2009<sup>(1)</sup></b>				
Interest rate options <sup>(2)</sup>	-	-	-	-
Interest rate swaps <sup>(3)</sup> , others	6	(7)	1	(2)
<b>Sensitivity to cash flows – net</b>	<b>6</b>	<b>(7)</b>	<b>1</b>	<b>(2)</b>

(1) A change of 50 bp in short-term interest rates was applied to the current year because short-term interest rates were below 100 bp.

(2) Caps.

(3) Fixed-rate payer and receiver swaps.

(In € millions)	Shareholders' equity		Profit and loss	
	Increase of 100 bp	Decrease of 100 bp	Increase of 100 bp	Decrease of 100 bp
<b>As of December 31, 2008</b>				
Interest rate options <sup>(1)</sup>	6	(8)	2	-
Interest rate swaps <sup>(2)</sup> , others	-	-	(1)	(2)
<b>Sensitivity to cash flows – net</b>	<b>6</b>	<b>(8)</b>	<b>1</b>	<b>(2)</b>

(1) Caps and collars.

(2) Fixed-rate payer and receiver swaps.

## LIQUIDITY RISK

### Exposure to liquidity risk

The Group's liquidity risk is mainly induced by the maturity of its debts (i) bearing interest (bonds, bank borrowings, etc.) and (ii) not bearing interest (liabilities linked to the put options granted to minority interests), as well as by payment flows relating to derivative instruments.

The Group's financing policy consists of (i) borrowing from diversified financing sources, (ii) arranging a significant portion of its financing as medium term financing, (iii) maintaining financing sources available at any time, and (iv) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts.

The Group's financing structure and financial security are mainly comprised of:

- a committed syndicated revolving credit facility entered into in December 2007 in order to finance the acquisition of Numico, for a principal amount of € 4 billion consisting of two tranches: a first tranche, with a principal amount of € 2.3 billion expiring in December 2010 and a second tranche for a principal amount of € 1.7 billion and expiring in December 2012. As of December 31, 2008, the Group had drawn down amounts totaling € 2.5 billion, which were repaid following the capital increase of June 25, 2009. As of December 31, 2009, the Group had not drawn down any amounts in respect of these tranches;

- available committed credit facilities: a portfolio of back-up facilities entered into with major credit institutions, with maturity dates mainly between one and three years, amounting to € 3.7 billion in principal. As of December 31, 2009 and December 31, 2008, the Group had not drawn any amount under these credit lines.

In total, the Group had committed credit facilities totaling € 7.7 billion as of December 31, 2009, which were unused as of that date;

- EMTN (*Euro Medium Term Note*) bond financing: a program with a principal amount of € 7 billion (of which a nominal amount of € 2.8 billion had been drawn as of December 31, 2009);
- Commercial paper: a program with a principal amount of € 3.0 billion (of which € 1.1 billion had been drawn as of December 31, 2009);
- Cash and marketable securities (see Note 12), amounting to € 1.1 billion as of December 31, 2009 (compared with € 1.0 billion as of December 31, 2008).

The aforementioned syndicated credit facility, certain bond issues (implemented after 2007) under the EMTN program and certain available committed credit facilities include a change of control provision.

None of the aforementioned financing sources is subject to any covenants relating to maintaining financial ratios.

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In addition, as of December 31, 2009, debt issues with a maturity of more than one year by the Company are rated as A3/Stable by Moody's and A-/Stable by Standard & Poor's. Issuances of French commercial paper are rated A2 by Standard & Poor's.

## Measurement of Liquidity Risk

Forecasted cash outflows linked to the contractual repayment of the principal amount and contractual payments of interest on the financial assets and liabilities, including premiums to be paid on derivative liabilities, booked in the Group's balance sheet as of December 31, 2009, are presented below with their contractual maturity date and based on the assumption of non-renewal:

<i>(In € millions)</i>	<b>Carrying amount on balance sheet at December 31, 2009</b>	<b>Contractual cash flows 2010</b>	<b>Contractual cash flows 2011</b>	<b>Contractual cash flows 2012</b>	<b>Contractual cash flows 2013</b>	<b>Contractual cash flows 2014 and after</b>
Bonds <sup>(1)</sup>	2,834	(107)	(847)	(173)	(193)	(1,514)
Accrued interest and other	215	(215)	-	-	-	-
Bank financing – subsidiaries <sup>(2)</sup>	455	(357)	(39)	(18)	(16)	(25)
Derivative instruments – assets (fair value) <sup>(3) (4)</sup>	(134)	134	-	-	-	-
Derivative instruments – liabilities (fair value) <sup>(3) (4)</sup>	57	(57)	-	-	-	-
Commercial paper <sup>(1) (5)</sup>	1,140	(1,140)	-	-	-	-
<b>Total financings (nominal excluding forecasted flows of interest and financial instruments)</b>	<b>4,567</b>	<b>(1,742)</b>	<b>(886)</b>	<b>(191)</b>	<b>(209)</b>	<b>(1,539)</b>
Liabilities linked to put options granted to minority shareholders <sup>(6)</sup>	3068	-	-	-	-	(3,068)
Lease financing commitments <sup>(2) (3)</sup>	25	(4)	(4)	(3)	(3)	(11)
<b>Total debt (nominal before forecasted flows of interest and instruments)</b>	<b>7,660</b>	<b>(1,746)</b>	<b>(890)</b>	<b>(194)</b>	<b>(212)</b>	<b>(4,618)</b>
Interest on above-mentioned financing <sup>(3) (7)</sup>		(38)	(127)	(88)	(85)	(124)
Flows on derivative instruments <sup>(3) (4) (7)</sup>		(43)	(17)	(12)	-	6

(1) Contractual nominal flows.

(2) Contractual nominal and interest flows.

(3) The floating interest rate is calculated on the basis of the rates applicable as of December 31, 2009.

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

(5) The commercial paper issues are renewed and secured by back-up credit lines. See table below.

(6) The majority of these options can be exercised at any time. No significant cash outflow is currently considered as probable in the short term with respect to these options.

(7) Interest flows are net of accrued interest taken into account in the subtotal "Debt (nominal, before forecasted flows of interest and instruments)."

The sources of financing available at any time set up by the Group are mainly composed of back-up facilities. Changes in the

amount available on the basis of outstanding transactions as of December 31, 2009 are shown in the table below:

<i>(In € millions)</i>	<b>Amount available as of December 31, 2009</b>	<b>Amount available as of December 31, 2010</b>	<b>Amount available as of December 31, 2011</b>	<b>Amount available as of December 31, 2012</b>	<b>Amount available as of December 31, 2013</b>	<b>Amount available as of December 31, 2014 and after</b>
Bank financing lines <sup>(1)</sup>	7,736	3,386	1,850	-	-	-
Other bank financing lines <sup>(2)</sup>	582	-	-	-	-	-

(1) Nominal amount of the portion of the syndicated facility and credit lines not drawn as of December 31, 2009.

(2) Nominal amount of the portion not drawn as of December 31, 2009.

## COUNTERPARTY AND CREDIT RISK

### Exposure to Counterparty Risk

The Group's total exposure to counterparty risk has been reduced, thanks to the Group's policy, which consists of:

- centralizing and offsetting financial risks through the use of cash management tools;
- limiting cash surpluses;
- managing the balance in a secure manner.

The Group's banking policy aims to give greater importance to its counterparties' credit rating quality by allocating its transactions among several counterparties that (i) are first class: their credit ratings as of December 31, 2009 and 2008 were at least in the Single A category; (ii) possess international networks and (iii) provide financing. Nevertheless, in certain countries, the Group may be obliged to conduct hedging transactions with local banks with lower credit ratings, the amount concerned not being significant in terms of the Group's limits.

The Group's exposure with regard to its bank counterparties and induced by the interest rate derivatives and currency swaps (net exposure, for each of the banks, in relation to the interest rate derivatives and currency swaps) as of December 31, 2009 can be broken down by credit rating category as follows:

<i>(As a percentage of total fair values as of December 31, 2009)<sup>(1)</sup></i>	<b>2009</b>
Counterparty's rating (according to Standard & Poor's)	
AAA	–
AA	29%
A	71%

*(1) Net amount, when positive, of the positive and negative fair values by counterparty, of the outstanding interest rate derivatives and currency swaps as of December 31, 2009.*

The Group's exposure with regard to its bank counterparties and induced by the exchange rate derivatives<sup>(1)</sup> hedging operational foreign exchange risk (net exposure, for each of the banks, in

## RISK ON COMMODITIES

### Sensitivity of Net Income to Changes in Prices of the Main Category of Commodities: Milk and Milk-Based Ingredients

The table below measures the impact of changes in the annual cost of purchases of milk and milk-based ingredients (1) on the Group's operating earnings for 2009 and 2008, assuming a 5% increase or decrease the prices for these items, simultaneously in all countries where the Group has production activities, for each fiscal year presented.

<i>(In € millions)</i>	Gains and losses	
	<b>Increase of 5%</b>	<b>Decrease of 5%</b>
<b>As of December 31, 2009</b>		
Fluid milk, powdered milk and other milk-based ingredients	(90)	90
<b>As of December 31, 2008</b>		
Fluid milk, powdered milk and other milk-based ingredients	(104)	104

*(1) Based on the quantities effectively purchased during the fiscal year and average prices during the fiscal year.*

relation to exchange rate derivatives) as of December 31, 2009 can be broken down by credit rating category as follows:

<i>(As a percentage of total fair value as of December 31, 2009)<sup>(1)</sup></i>	<b>2009</b>
Counterparty's (according to Standard & Poor's)	
AAA	–
AA	–
A	100%
BBB	

*(1) Net amount when positive, of the positive and negative fair values by counterparty, of the outstanding foreign exchange rate derivatives as of December 31, 2009.*

### Exposure to Credit Risk

The credit risk represents the risk of financial loss for the Group if a customer or counterparty should fail to meet its contractual payment obligations. The customer payment time is generally 30 days and the main customers are essentially in the mass retail sector where the credit risk is low. As of December 31, 2009 and 2008, the amount of trade receivables that were overdue and not yet depreciated was not significant.

## RISK ON SHARES

### Risk on the Treasury Shares

As of December 31, 2009, the Company held directly or indirectly 33,507,225 treasury shares for a total value of € 1,027 million. The treasury shares are shown as a deduction from consolidated shareholders' equity for the amount of their cost price.

### Risk on Other Shares

As of December 31, 2009, equity interests included listed shares with a market value, reflected in the balance sheet, of € 521 million. These shares mainly include the Group's holdings in Wimm-Bill-Dann and ONA (see Note 7 to the consolidated financial statements). They qualify as assets available for sale under IAS 39.

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**RECONCILIATION OF THE BALANCE SHEET BY CLASS AND ACCOUNTING CATEGORY**

<i>(In € millions)</i>	<b>Assets booked at fair value</b>	<b>Assets held for sale</b>	<b>Loans and financial assets</b>	<b>Liabilities booked at fair value</b>	<b>Liabilities at amortized cost</b>	<b>Carrying amount in balance sheet</b>	<b>Fair value</b>	<b>Fair value level</b>
<b>As of December 31, 2009</b>								
Cash and cash equivalents	644	–	–	–	–	644	644	1
Marketable securities	454	–	–	–	–	454	454	1
Derivatives – assets	134	–	–	–	–	134	134	2
Equity interests	–	521	–	–	–	521	521	1
Other debtor accounts	645	–	–	–	–	645	645	–
Short-term loans	–	–	41	–	–	41	41	–
Long-term loans	–	–	27	–	–	27	27	–
Other creditor accounts	–	–	–	2,173	–	2,173	2,173	–
Trade accounts receivable <sup>(1)</sup>	–	–	1,682	–	–	1,682	1,682	–
Derivatives - liabilities	–	–	–	57	–	57	57	2
Financial liabilities	–	–	–	1,024	3,645	4,669	4,669	2
Liabilities linked to put options granted to minority interests	–	–	–	3,068	–	3,068	3,068	3
Trade accounts payable <sup>(1)</sup>	–	–	–	–	1,981	1,981	1,981	–
<b>Carrying amount of the categories</b>	<b>1,877</b>	<b>521</b>	<b>1,750</b>	<b>6,322</b>	<b>5,626</b>	<b>16,096</b>	<b>16,096</b>	
<b>As of December 31, 2008</b>								
Cash and cash equivalents	591	–	–	–	–	591	591	1
Marketable securities	441	–	–	–	–	441	441	1
Equity interests	–	237	–	–	–	237	237	1
Other debtor accounts	950	–	–	–	–	950	950	–
Short-term loans	–	–	26	–	–	26	26	–
Long-term loans	–	–	73	–	–	73	73	–
Other creditor accounts	–	–	–	2,024	–	2,024	2,024	–
Trade accounts receivable <sup>(1)</sup>	–	–	1,534	–	–	1,534	1,534	–
Derivatives, net	–	–	–	40	–	40	40	2
Financial liabilities	–	–	–	–	9,004	9,004	9,004	2
Liabilities linked to put options granted to minority shareholders	–	–	–	2,855	–	2,855	2,855	3
Trade accounts payable <sup>(1)</sup>	–	–	–	–	2,189	2,189	2,189	–
<b>Carrying amount of the categories</b>	<b>1,982</b>	<b>237</b>	<b>1,633</b>	<b>4,919</b>	<b>11,193</b>	<b>19,964</b>	<b>19,964</b>	

(1) The Group considers that the carrying amount of trade accounts receivable and trade accounts payable corresponds to fair value.



## INCOME AND EXPENSE RELATING TO DERIVATIVE INSTRUMENTS AND FUTURE CASH FLOWS

The recognition of the fair value of derivative instruments qualifying as future cash flow hedges has an impact on the Group's income statement, as indicated below:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Ineffective portion, over the financial year, of change in fair value of instruments qualifying as future cash flow hedges <sup>(1) (2)</sup>	23	(25)
Effective portion of instruments qualifying as future cash flow hedges recycled through profit or loss for the current year <sup>(3) (4)</sup>	26	157 <sup>(5)</sup>

(1) Impacts financial revenue (expense).

(2) Includes in particular (i) changes in the time value of the exchange and interest rate swaps and (ii) forward/backward variations in foreign exchange swaps when they are excluded from the hedging relation.

(3) Impacts operating income or financial revenue (expense).

(4) Includes in particular (i) the effective portion of the forward exchange transactions and the interest rate hedges and (ii) the exchange and interest rate options.

(5) The forward exchange transactions that matured during the year include derivative instruments hedging foreign exchange risk related to operations and asset disposals which had a nominal value of € 941 million as of December 31, 2008.

### FINANCIAL LIABILITIES LINKED TO PUT OPTIONS GRANTED TO MINORITY SHAREHOLDERS

As stated in Note 1.17, the exercise price of the put options granted to minority shareholders is reflected as a financial liability in the consolidated balance sheet. As of December 31, 2009, the financial liabilities relating to these options amounted to € 3,068 million (€ 2,855 million as of December 31, 2008). These financial liabilities do not bear interest.

The main commitment concerns Danone Spain, for € 2,401 million as of December 31, 2009 (€ 2,295 million as of December 31, 2008). These put options apply to nearly all of the 42.71% held by these shareholders of Danone Spain.

The formula used to calculate the amount of this commitment is fixed contractually, based on an average of the Spanish

subsidiary's earnings over several years, to which a multiple is then applied. This commitment decreased by € 5 million due to the purchase of 0.08% of Danone Spain from its minority shareholders, and was written up as of December 31, 2009 by € 111 million, to € 2,401 million. The related goodwill amounted to € 2,181 million as of December 31, 2009.

These put options, which may be exercised at any time, were granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be tacitly renewed for successive five-year periods.

No significant cash outflow is considered as probable in the short term with respect to these options.

## NOTE 16 - Provisions for Retirement Indemnities and Pension Commitments, and Post-Retirement Benefits

The Group contributes to retirement benefit schemes in conformity with the laws and usual practices of countries where the subsidiaries operate. As a result of contributions paid under such schemes to private or state sponsored pension funds, the Group has no actuarial liability in that respect.

The Group is also responsible for supplementary retirement schemes, contractual commitments for termination indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds or through provisions.

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**ACTUARIAL ASSUMPTIONS**

To make the actuarial estimates, basic assumptions have been determined for each country and assumptions specific to the entities have been taken into account, in particular relating to

staff turnover. The main actuarial assumptions adopted for the calculation of the commitments correspond to weighted averages, and are as follows:

	Europe (excluding United Kingdom)		United Kingdom		North America		Asia Pacific		Rest of the World	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Discount rate	4.5%-12%	1.5%-11%	5.6%-9%	5.7%	6.15%-7.5%	6.15%-7%	3.9%-13%	1.5%-11%	6.5%-9%	6%-9%
Expected return of plan assets <sup>(1)</sup>	3%-7%	3%-6.6%	6.25%	6.26%	8.25%	8.25%	9%	9%	10%	8.75%
Salary growth rate	2.18%-15%	2%-5%	4%	4.4%-4.8%	4.5%	4.5%	9%-10%	2%-9%	4.5%	4%-4.5%
Retirement age	54-66 years	57-67 years	65 years	65 years	62-63 years	62-63 years	55-60 years	55-60 years	60-65 years	60-65 years

(1) The expected rate of return of plan assets is determined according to the historical rates of return for the investment portfolio.

For the Subsidiaries located in the euro zone, the 2009 discount rate was determined by reference to the iBoxx euro zone index. The iBoxx index used represents 5.25% and 4.75% for long-term and short-term commitments, respectively. A 0.50% decrease in the discount rate would increase the Group's gross commitment by approximately € 52 million and the expense for the year by approximately € 3 million. Conversely, a 0.50% increase in the discount rate would reduce the Group's gross commitment

by approximately € 47 million and the expense for the year by approximately € 3 million.

The following table reconciles the funded status of the companies' plans with the provision recognized in the consolidated balance sheet as of December 31, 2009 and 2008. The commitments relating to the French subsidiaries are presented separately from the foreign subsidiaries due to their materiality.

(In € millions)	2008		2009	
	France	Other countries	France	Other countries
Defined benefit obligation	269	366	321	422
Fair value of plan assets	(228)	(176)	(219)	(221)
<b>Defined benefit obligation in excess of plan assets</b>	<b>41</b>	<b>190</b>	<b>102</b>	<b>201</b>
Actuarial differences and past service costs	(8)	(15)	(61)	(23)
<b>Net accrued pension costs</b>	<b>33</b>	<b>175</b>	<b>41</b>	<b>178</b>

As of December 31, 2009, the benefit obligation relating to partially or fully funded plans amounted to € 591 million (€ 502 million as of December 31, 2008). The benefit obligation took into account the impact of new taxes applicable as of 2010, as provided in the *Loi*

*de Financement de la Sécurité Sociale 2010* (LFSS) (2010 Social Security Funding Act). This impact was treated as a change in the actuarial assumptions.

Changes in provisions for retirement indemnities and pensions can be detailed as follows:

<i>(In € millions)</i>	<b>Defined benefit obligation</b>	<b>Fair value of plan assets</b>	<b>Actuarial gains and losses and past service costs</b>	<b>Net accrued pension cost</b>
<b>As of January 1, 2008</b>	<b>684</b>	<b>(443)</b>	<b>(51)</b>	<b>190</b>
Net periodic pension cost <sup>(1)</sup> :				
• Service cost	20			20
• Interest cost	36			36
• Return on plan assets		(23)		(23)
• Amortization of actuarial gains and losses and past service costs			-	-
Payments made to retirees	(35)	18		(17)
Contributions to plan assets	-	(13)		(13)
Actuarial gains and losses	(49)	40	28	19
Translation adjustments	(14)	10	-	(4)
Other	(7)	7	-	-
<b>As of December 31, 2008</b>	<b>635</b>	<b>(404)</b>	<b>(23)</b>	<b>208</b>

(1) The net periodic cost of retirement plans is recognized under "Other revenue (expense)."

<i>(In € millions)</i>	<b>Defined benefit obligation</b>	<b>Fair value of plan assets</b>	<b>Actuarial gains and losses and past service costs</b>	<b>Net accrued pension cost</b>
<b>As of January 1, 2009</b>	<b>635</b>	<b>(404)</b>	<b>(23)</b>	<b>208</b>
Net periodic pension cost <sup>(1)</sup> :				
• Service cost	18			18
• Interest cost	41			41
• Return on plan assets		(22)		(22)
• Amortization of actuarial gains and losses and past service costs			1	1
Payments made to retirees	(40)	24		(16)
Contributions to plan assets		(24)		(24)
Actuarial gains and losses	74	(3)	(63)	8
Translation adjustments	5	(2)	-	3
Other	10	(9)	1	2
<b>As of December 31, 2009</b>	<b>743</b>	<b>(440)</b>	<b>(84)</b>	<b>219</b>

(1) The net periodic cost of retirement plans is recognized under "Other revenue (expense)."

The Group's investment policy in plan assets depends, for each company, upon the employees' age structure and the expected return on the different categories of assets. As of December 31, 2009, the plan assets comprised approximately 57% of debt

securities and 27% of equity securities. The plan assets do not comprise any financial instruments issued by the Group. In addition, the actual average return on plan assets in France was 4.98% in 2009.

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Notes to the Consolidated Financial Statements - Note 17

Changes in the commitments provisioned on the balance sheet since 2006 were as follows:

<i>(In € millions)</i>	<b>December 31, 2009</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Benefit obligation and salary projections	743	635	684	552
Market value of plan assets	(440)	(404)	(443)	(339)
Actuarial gains and losses and past service costs	(84)	(23)	(51)	(66)
<b>Commitments provisioned on the balance sheet</b>	<b>219</b>	<b>208</b>	<b>190</b>	<b>147</b>

Benefits expected to be paid to the employees in 2010 are estimated at € 37 million in 2010.

The amount of contributions to be made to plan assets in 2010 is estimated to be around € 9 million.

Moreover, the total amount of contributions paid into defined contribution pension plans in 2009 was € 23 million (the same as in 2008).

## NOTE 17 - Other Non-Current Liabilities

<i>(In € millions)</i>	<b>2008</b>	<b>Increase</b>	<b>Decrease (utilized)</b>	<b>Decrease (not utilized)</b>	<b>Others</b>	<b>Translation adjustment</b>	<b>2009</b>
Provisions for restructuring	54	26	(35)	(8)	(3)	-	34
Other provisions for risks and charges	452	181	(62)	(22)	(4)	7	552
Investment subsidies	9	1	(1)	-	(1)	-	8
<b>TOTAL</b>	<b>515</b>	<b>208</b>	<b>(98)</b>	<b>(30)</b>	<b>(8)</b>	<b>7</b>	<b>594</b>

Other provisions for risks and charges mainly include financial and tax liabilities, as well as provisions for certain "damage and healthcare".

Provisions are booked when a loss appears probable and quantifiable, in particular when legal proceedings are instituted against the Company or its subsidiaries in the normal course of

business. Provisions are written back when payments are made in respect of them or the risk is deemed to no longer exist.

As of December 31, 2009, the short-term portion of non-current liabilities amounted to € 34 million (€ 31 million as of December 31, 2008).

## NOTE 18 - Trade Accounts Payable – Accrued Expenses and Other Current Liabilities

### TRADE ACCOUNTS AND NOTES PAYABLE

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Trade accounts payable	2,124	1,945
Notes payable	65	36
<b>TOTAL</b>	<b>2,189</b>	<b>1,981</b>

The fair value of trade accounts payable is considered to be close to their net carrying amount given their short-term maturities.

**ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Personnel (including social charges)	374	433
Year-end rebates payable to customers	805	831
State and local authorities	146	169
Refundable containers	71	78
Taxes payable	214	180
Prepayments from customers	10	3
Financial instruments	-	53
Others	404	426
<b>TOTAL</b>	<b>2,024</b>	<b>2,173</b>

The line item "Financial instruments" represents derivative instruments hedging foreign exchange risk, which were included in other accounts receivable in 2008 as their value was positive.

The fair value of accrued expenses and other current liabilities is considered to be equivalent to their net book value given their short-term maturities.

**NOTE 19 - Personnel and Compensation**

Group personnel costs (including payroll taxes and related charges) amounted to € 2,253 million in 2009 (€ 2,135 million in 2008).

As of December 31, 2009 and 2008, the number of employees of the consolidated entities could be broken down as follows:

	<b>2008</b>	<b>2009</b>
Europe	30,560	29,710
Asia	22,516	23,136
Rest of the World	27,067	28,130
<b>TOTAL GROUP</b>	<b>80,143</b>	<b>80,976</b>

**NOTE 20 - Other Revenue (Expense)**

Other revenue (expense) can be broken down as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Employee profit-sharing	(99)	(98)
Stock-based compensation	(19)	(28)
Capital gains on disposal of tangible and intangible assets	99	52
Restructuring costs	(39)	(51)
Others	(28)	(40)
<b>TOTAL</b>	<b>(86)</b>	<b>(165)</b>

In 2009, capital gains on the disposal of tangible and intangible assets resulted mainly from the sale, for € 45 million, of the V and Mizone international brands (except in China and Indonesia) in connection with the sale of Frucor.

In 2008, capital gains on the disposal of tangible and intangible assets mainly resulted from the sale of real estate and non-strategic brands.

The line "Others" mainly comprises the scrapping of tangible assets, translation adjustments and other non-significant items.

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Notes to the Consolidated Financial Statements - Note 21

**NOTE 21 - Other Operating Income (Expense)**

In 2009, net other operating income totaling € 217 million corresponded mainly to (i) capital gains on the sale of the equity investment in Frucor (Waters – New Zealand and Australia) and Danone Naya (Waters – Canada) for € 325 million and € 3 million respectively and (ii) the payment of the free and irrevocable capital contribution of € 100 million in connection with the creation of the “Danone Ecosystem Fund”.

In 2008, net other operating expense corresponded to the costs incurred in connection with the acquisition of Numico for € 32 million, the reversal of a provision for litigation (recorded upon the acquisition of Numico) as a result of the agreement entered into with the Dutch Shareholders Association (“VEB”) in February 2009, as well as provisions for various litigations.

**NOTE 22 - Net Interest Expense**

Net interest expense can be detailed as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Interest revenue on net debt	58	76
Interest expense on net debt	(497)	(340)
Cost of net debt	(439)	(264)
Other financial revenue	46	69
Other financial expense	(191)	(294)
<b>TOTAL</b>	<b>(584)</b>	<b>(489)</b>

In 2009, the reduction in the net interest expense was largely due to the decrease in the cost of debt which resulted mainly from the reduction in the level of the Group's net debt (see Note 25 – Change in net debt), despite an increase in other financial expense, mainly on derivative instruments hedging foreign exchange risk related to operations.

In 2009, other financial expenses resulted mainly from:

- derivative instruments hedging foreign exchange risk related to operations and the ineffective part of such hedges in accordance with IAS 39, as well as other recurring items. In 2009, the cost of derivative instruments hedging foreign exchange risk relating to operations was higher than in 2008 due to (i) the rise in interest rates in certain countries because of the financial crisis and the generalization of the use of hedging in all the Subsidiaries in the Baby Nutrition and Medical Nutrition

business lines and (ii) the negative effect of the ineffective part of said hedges as compared with 2008.

- financial transactions carried out following the June 25, 2009 capital increase, which totaled € 121 million and related mainly to the partial redemption of certain of the Company's bonds.

In 2008, other financial expenses resulted mainly from the cost of derivative instruments hedging foreign exchange risk relating to operations, the ineffective part of such hedges in accordance with IAS 39, other recurring items and an impairment loss of € 131 million recognized in respect of the equity investment in Wimm-Bill-Dann.

The net amount of interest paid in 2009 was € 272 million compared with € 433 million in 2008.

## NOTE 23 - Income Taxes

### INCOME TAX EXPENSE

Income before tax and the income tax expense can be detailed as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
<b>Income before tax:</b>		
• French companies	(482)	(284)
• Foreign companies	2,085	2,306
<b>Subtotal</b>	<b>1,603</b>	<b>2,022</b>
<b>Income tax expense (income):</b>		
Current income taxes:		
• French companies	–	(13)
• Foreign companies	(491)	(454)
<b>Subtotal</b>	<b>(491)</b>	<b>(467)</b>
<b>Deferred taxes:</b>		
• French companies	172	33
• Foreign companies	(124)	10
<b>Subtotal</b>	<b>48</b>	<b>43</b>
<b>TOTAL</b>	<b>(443)</b>	<b>(424)</b>

The Company forms a tax group with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital. Some of the subsidiaries that elected to participate in the French tax group have signed a tax sharing agreement with the Company, in conformity with French regulations. Similar consolidated tax schemes exist in other countries, in particular in the United States, in Holland and in Germany.

Payments in relation to income taxes amounted to € 413 million in 2009 and € 430 million in 2008.

### EFFECTIVE INCOME TAX RATE

The effective income tax rate was 20.95% in 2009 (27.62% in 2008). The difference between the effective tax rate and the statutory tax rate in France (34.43% in 2009 and 2008) can be detailed as follows:

<i>(As a percentage of income before tax)</i>	<b>2008</b>	<b>2009</b>
Statutory tax rate in France	34.43%	34.43%
Effect of foreign tax rate differential	(11.92)%	(12.92)%
Effect of gains/losses on disposal and impairment charges	5.30%	(4.71)%
Effect of tax corrections – taxes without basis	– %	2.30%
Effect of permanent differences	– %	1.20%
Effect of other differences	(0.19)%	0.65%
<b>Effective income tax rate</b>	<b>27.62%</b>	<b>20.95%</b>

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Notes to the Consolidated Financial Statements - Note 23

**DEFERRED TAXES**

As explained in Note 1.13, deferred taxes mainly arise from the differences between the book and tax bases of assets and liabilities. The significant components of deferred tax assets and liabilities are as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
Retirement provisions	35	39
Employee profit-sharing provision	13	13
Restructuring provision	11	6
Tax losses carried forward	355	401
Non-current assets	(950)	(946)
Others	66	171
<b>Net deferred taxes</b>	<b>(470)</b>	<b>(316)</b>
Deferred tax assets	639	621
Deferred tax liabilities	(1,109)	(937)
<b>Net deferred taxes</b>	<b>(470)</b>	<b>(316)</b>

As of December 31, 2009, the deferred taxes recorded in respect of the tax losses mainly related to France and to the United States.

The change in net deferred taxes recorded in the balance sheet can be detailed as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
<b>As of January 1</b>	<b>(549)</b>	<b>(470)</b>
Changes recognized in shareholders' equity	30	109
Changes recognized in profit or loss	48	43
Effect of changes in scope	–	(1)
Translation adjustments and other movements	1	3
<b>TOTAL</b>	<b>(470)</b>	<b>(316)</b>

The change in deferred taxes resulted mainly from movements recognized in shareholders' equity in respect of the revaluation at fair value of the financial instruments used to hedge currency receivables and payables.

**TAX LOSSES CARRIED FORWARD**

As of December 31, 2009, tax losses carried forward amounted to € 1,947 million (€ 1,905 million as of December 31, 2008) and the corresponding deferred tax assets amounted to € 648 million (€ 628 million as of December 31, 2008). They mainly resulted from the tax deductibility of the amortization of goodwill in certain countries, losses on disposal, and the losses of the consolidated tax group in France.

As of December 31, 2009, based on the expected taxable income of the entities and tax consolidated groups that have generated tax losses, the Group believes that it is more likely than not that € 732 million (€ 804 million as of December 31, 2008), will not be used. The Group reviews the unutilized tax losses and the recognized deferred tax assets at each balance sheet date.

The Company and its subsidiaries may be subject to tax audits. A provision is recognized in the financial statements whenever it is probable that a tax reassessment will be made.

**TERRITORIAL ECONOMIC CONTRIBUTION**

In accordance with the provisions of the press release issued by the French National Accounting Board (*Conseil National de la Comptabilité: CNC*) on January 14, 2010, the Group has exercised its judgment regarding the classification of the Business Value-Added Contribution (*Contribution sur la valeur ajoutée des entreprises: CVAE*) component. The Group considered that since the base of the CVAE is the difference between revenue and expenses, it comes within the scope of IAS 12. The CVAE component will therefore be recognized within income tax for fiscal years commencing on or after January 1, 2010.

As of December 31, 2009, deferred tax has been recognized in respect of the temporary differences on assets and liabilities representing future charges or revenue liable to the CVAE.



## NOTE 24 - Related party transactions

The main related parties are the affiliated companies, the members of the Executive Committee and the members of the Board of Directors.

Affiliated companies are those companies in which the Group exercises a significant influence and that are accounted for under the equity method.

Transactions with affiliated companies are usually performed at arm's length.

The table below gives the breakdown of the amount of the transactions conducted with affiliated companies in 2008 and 2009:

<i>(In € millions)</i>	2008	2009
Operating revenue	165	92
Operating expense	-	-

The table below gives the breakdown of the amount of receivables and payables with affiliated companies as of December 31, 2008 and 2009:

<i>(In € millions)</i>	2008	2009
Long and short-term loans	1	1
Operating receivables	20	19
Operating payables	-	-

### MEMBERS OF THE EXECUTIVE COMMITTEE AND OF THE BOARD OF DIRECTORS

Total compensation paid to the members of the Executive Committee amounted to € 21.3 million in 2009 (€ 17.5 million in 2008). In addition, as of December 31, 2009, the number of stock options granted to members of the Executive Committee amounted to 3,742,010.

As of December 31, 2009, the amount of pension provisions relating to the members of the Executive Committee amounted to € 61.3 million (€ 41.6 million as of December 31, 2008).

In addition, on July 21, 2004, the Board of Directors set the indemnification conditions of the members of the Executive Committee in certain cases where they cease their mandates or functions at twice the gross compensation (fixed, variable and in-kind) they received over the last 12 months before they cease their functions. In addition, in the case of the Company's four executive directors and officers, payment of these indemnities is

subject to performance conditions as a result of the decision of the Board of Directors of February 13, 2008. The indemnification conditions of Messrs. Riboud, Faber, and Hours were renewed and modified by the Board of Directors of February 10, 2009 (the ones related to the other Board members who are directors and executive officers (*mandataires sociaux*) remained unchanged). Pursuant to the provisions of the French Commercial Code, the indemnification conditions of these three persons will be submitted to the next Shareholders' Meeting.

Finally, the directors' fees paid to the members of the Board of Directors amounted to € 445,000 in 2009 (€ 388,000 in 2008). Following the approval of the Shareholders' Meeting of April 23, 2009, the maximum amount of directors' fees was increased from € 500,000 to € 600,000 per fiscal year.

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Notes to the Consolidated Financial Statements - Note 25

**NOTE 25 - Information on the statement of cash flows****CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Other flows with an impact on cash, which amount to an outflow of € 157 million, relate essentially to € 147 million of interest

accrued as of December 31, 2008 and paid in 2009. Interest accrued as of December 31, 2007 and paid in 2008 totaled an outflow of € 113 million.

The line item "Other flows with no impact on cash" can be broken down as follows:

<i>(In € millions)</i>	<b>2008</b>	<b>2009</b>
(Gains) losses on disposal of non-current assets	(99)	(44)
(Gains) losses on disposal of financial assets	46	(370)
Charges to (reversals) of provisions and deferred tax	40	(10)
Share-based compensation	21	28
Other	90	324
<b>TOTAL</b>	<b>98</b>	<b>(72)</b>

In 2009, the line item "Other" includes the neutralization of the impact of interest not yet paid (€ 140 million) and the settlement of debt hedge financial instruments (€ 160 million) on cash flows provided by operating activities, excluding changes in net working capital. Amounts paid in the context of financial instrument unwind are presented under financing activities in the line item "Settlement of debt hedge financial instruments."

In 2008, the line item "Other" primarily reflected the neutralization of the impact of derivative instruments (negative € 28 million) and interest not yet paid (€ 117 million) on cash flows provided by operating activities, excluding changes in net working capital.

**CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES**

In 2009, purchase of businesses and other investments includes a payment of € 99 million to buy out the minority shareholders of Danone Clover. Proceeds from the sale of businesses and other investments include the proceeds from the sale of equity interests described in Notes 2.1 and 3 of the notes to the consolidated financial statements.

In 2008, purchase of businesses and other investments mainly reflected the payment of costs relating to the acquisition of Numico in 2007 (€ 34 million) and the buyout of Numico's minority shareholders (€ 143 million). Proceeds from the sale of businesses and other investments mainly included an additional gain of € 262 million on the sale of the Biscuits businesses, less disposal costs of € 25 million and taxes of € 67 million, as well as the sale of the Baby Nutrition France business for € 44 million.

**CASH FLOW PROVIDED BY (USED IN) FINANCING ACTIVITIES**

In 2009, cash flows from financing activities include the proceeds of the € 3 billion capital increase and the subsequent debt repayments. In 2008, they primarily reflected the repayment of the syndicated facility contracted in 2007 at the time of the Numico acquisition and refinanced to a large extent by bond borrowing.

## CHANGES IN NET DEBT

Changes in the Group's net debt are as follows:

<i>(In € millions)</i>	<b>As of December 31, 2008</b>	<b>Changes for the year</b>	<b>Transfer to current portion</b>	<b>Translation adjustments</b>	<b>Other</b>	<b>As of December 31, 2009</b>
Cash and cash equivalents	591	46	–	8	(1)	644
Marketable securities	441	60	–	(4)	(43)	454
<b>Total cash and marketable securities</b>	<b>1,032</b>	<b>106</b>	<b>–</b>	<b>4</b>	<b>(44)</b>	<b>1,098</b>
Current financial liabilities	652	(427)	56	(15)	1,436	1,702
Non-current financial liabilities	11,435	(4,154)	(56)	29	(1,296)	5,958
<b>Total</b>	<b>12,087</b>	<b>(4,581)</b>	<b>–</b>	<b>14</b>	<b>140</b>	<b>7,660</b>
<b>Net debt</b>	<b>11,055</b>	<b>(4,687)</b>	<b>–</b>	<b>10</b>	<b>184</b>	<b>6,562</b>

The decrease in net debt as of December 31, 2009 was primarily the result of (i) the capital increase of June 25, 2009 in the amount of € 2,977 million, net of fees; (ii) the receipt of € 898 million from the sale of equity interests; and (iii) cash flows of € 2,000 million generated by operations for the period.

In 2009, the Group repaid all drawings on the syndicated facility—a total of € 2,490 million—and reduced its outstanding commercial paper by € 423 million. In addition, it restructured its bond borrowing by partially repurchasing the outstanding bonds maturing in 2011, 2014, and 2015, for a total nominal amount of € 1,175 million.

The Group's total consolidated net debt as of December 31, 2009, including commitments to buy out minority shareholders in the amount of € 3,068 million, decreased by € 4,493 million, primarily as a result of the following:

- decrease of € 4,687 million in financial liabilities as a result of the above transactions;

- revaluation in the amount of € 213 million of put options granted to minority shareholders and a reduction of € 16 million in the market value of debt hedge instruments;
- changes in the scope of consolidation (reduction of € 11 million);
- translation adjustments (increase of € 10 million).

Commercial paper outstandings (€ 1,140 million as of December 31, 2009) are now shown under current financial liabilities as a result of the restructuring of the Group's financial debt and changes in the lines of credit backing this paper.

In 2008, the Group refinanced the balance of the debt contracted at the time of the Numico acquisition by issuing bonds in the amount of € 3.8 billion.

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Notes to the Consolidated Financial Statements - Note 26

**NOTE 26 - Contractual obligations and off-balance sheet commitments****CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

As of December 31, 2009, the Group's contractual obligations were as follows:

	Amount of commitment expiration per period						<b>2015 and after</b>
	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	
<b>On balance sheet</b>							
Financial liabilities <sup>(1)</sup>	4,567	1 742	886	191	209	727	812
Liabilities linked to put options granted to minority shareholders <sup>(2)</sup>	3,068	–	–	–	–	–	3,068
Liabilities linked to finance leases	25	4	4	3	3	–	11
<b>TOTAL</b>	<b>7,660</b>	<b>1,746</b>	<b>890</b>	<b>194</b>	<b>212</b>	<b>727</b>	<b>3,891</b>
<b>Off-balance sheet</b>							
Operating lease commitments	440	153	92	78	44	31	42
Commitments to purchase goods and services	827	613	125	58	22	6	3
Capital expenditure commitments	42	42	–	–	–	–	–
Guarantees and pledges given	118	94	3	–	–	2	19
Others	93	52	16	10	5	3	7
<b>TOTAL</b>	<b>1,520</b>	<b>954</b>	<b>236</b>	<b>146</b>	<b>71</b>	<b>42</b>	<b>71</b>

	Amount of commitment over the period						<b>2015 and after</b>
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	
<b>Commitments received</b>							
Credit lines <sup>(3)</sup>	7,736	3,386	1,850	–	–	–	–
Other credit lines <sup>(4)</sup>	582	–	–	–	–	–	–
Guarantees and pledges received	61	47	8	1	–	–	5
Others	47	42	2	2	1	–	–
<b>TOTAL</b>	<b>8,426</b>	<b>3,475</b>	<b>1,860</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>5</b>

(1) See Note 15 "Liquidity Risk" for details of financial liabilities.

(2) As explained in Note 15, the majority of these options can be exercised at any time. No significant cash outflow in respect of these options is currently considered probable in the short term.

(3) Nominal amount of the undrawn portion of the syndicated facility and back-up credit lines as of December 31, 2009.

(4) Nominal amount of the undrawn portion as of December 31, 2009.

The Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, notably as a result of guarantees given on disposals between 1997 and 2009. In some cases, damages are sought. Liabilities are accrued

when it is likely that a loss amount will be payable and the amount can be reasonably estimated.

## NOTE 27 - Operating segments

As explained in Note 1 of the notes to the consolidated financial statements, the Group adopted IFRS 8 Operating Segments on January 1, 2009.

Adoption of this new standard has had no impact on the structure of the Group's operating segments as previously presented by the Group. The internal information reviewed and used by its primary operational decision-makers (the two Deputy General Managers, Bernard Hours and Emmanuel Faber, and the Chief Financial Officer, Pierre-André Terisse) is based on its four business lines

and three geographic areas: Europe (Western Europe, Central Europe, and Eastern Europe), Asia (including the Pacific Region), and Rest of World (North and South America, Africa, and the Middle East).

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

### DATA BY BUSINESS LINE

(In € millions)	2009						
	Fresh Dairy Products	Waters	Baby Nutrition	Medical Nutrition	Business Line Total	Other Items <sup>(1)</sup>	Group Total
Revenue from third-parties	8,555	2,578	2,924	925	14,982	–	14,982
Trading operating income	1,244	324	536	190	2,294	–	2,294
Operating income	1,240	646	547	190	2,623	(112)	2,511
Share of profits of associates	26	(121)	–	–	(95)	18	(77)
Impairment	–	–	–	–	–	–	–
Capital expenditures	329	134	99	36	598	19	617
Financial investments	142	2	2	–	146	1	147
Depreciation and amortization	272	131	87	41	531	18	549
Cash flows provided by operating activities, excluding changes in net working capital	1,083	337	454	189	2,063	29	2,092
Investments in associates	670	28	–	–	698	107	805
<b>TOTAL BALANCE SHEET ASSETS</b>	<b>7,843</b>	<b>2,773</b>	<b>10,203</b>	<b>4,781</b>	<b>25,600</b>	<b>1,273</b>	<b>26,873</b>

(1) Assets reflected in the "Other Items" column include assets held for sale and current and deferred tax assets. The income and expense items reflected in the "Other Items" column cannot be directly allocated to the business lines (primarily the payment of a free and irrevocable capital contribution of € 100 million for the establishment of an endowment fund, the Danone Ecosystem Fund).

(In € millions)	2008						
	Fresh Dairy Products	Waters	Baby Nutrition	Medical Nutrition	Business Line Total	Other Items <sup>(1)</sup>	Group Total
Revenue from third parties	8,697	2,874	2,795	854	15,220	–	15,220
Trading operating income	1,224	368	489	189	2,270	–	2,270
Operating income	1,187	323	462	217	2,189	(2)	2,187
Share of profits of associates	15	36	–	–	51	11	62
Impairment	136	–	–	–	136	–	136
Capital expenditures	368	179	115	28	690	16	706
Financial investments	19	20	160	60	259	–	259
Depreciation and amortization	247	131	95	35	508	17	525
Cash flows provided by operating activities, excluding changes in net working capital	1,035	398	405	157	1,995	(296)	1,699
Investments in associates	726	452	–	–	1,178	89	1,267
<b>TOTAL BALANCE SHEET ASSETS</b>	<b>7,145</b>	<b>3,426</b>	<b>9,999</b>	<b>4,450</b>	<b>25,020</b>	<b>1,845</b>	<b>26,865</b>

(1) Assets reflected in the "Other Items" column include assets held for sale and current and deferred tax assets. The income and expense items reflected in the "Other Items" column cannot be directly allocated to the business lines.

## Consolidated documents

Notes to the Consolidated Financial Statements - Note 28

## DATA BY GEOGRAPHIC AREA

(In € millions)	2009			Total
	Europe	Asia	Rest of World	
Net revenue	8,960	1,877	4,145	14,982
Trading operating income	1,437	333	524	2,294

(In € millions)	2008			Total
	Europe	Asia	Rest of World	
Net revenue	9,524	1,854	3,842	15,220
Trading operating income	1,496	313	461	2,270

## NOTE 28 - Legal and Arbitration Proceedings

In January 2008, a number of class actions were filed in the United States, including with the United States District Court of the State of California and the United States District Court of the State of Ohio, against The Dannon Company Inc., one of the Group's U.S. subsidiaries. The plaintiffs alleged false advertising of the health benefits of the *Activia* and *DanActive* ("Actimel") products.

In September 2009, The Dannon Company, Inc. announced the out-of-court settlement of these class actions. Under the terms of this settlement, the US subsidiary has agreed to create a USD 35 million fund to pay, in particular, refund claims from

consumers. Provision for the impact of this litigation on the Group's financial position has been made in the financial statements as of December 31, 2009.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the normal course of business.

Liabilities are accrued when it is likely that damages will be payable and the amount can be reasonably estimated (see Note 17 of the notes to the consolidated financial statements).

## NOTE 29 - Consolidation scope as of December 31, 2009

In 2009, 234 entities were included in the scope of consolidation (251 in 2008), of which 214 were fully consolidated (231 in 2008) and 20 were consolidated as associates (20 in 2008).

### MAIN ENTITIES CONSOLIDATED FULLY FOR THE FIRST TIME IN 2009

- DanSource (Fresh Dairy Products – France);
- Derivados Lacteos (Fresh Dairy Products – Mexico);
- Danone Dairy Farm (Fresh Dairy Products – Egypt);
- PT Nutricia Medical Nutrition (Medical Nutrition – Indonesia);
- HealthSpan Solutions LLC (Medical Nutrition – USA);
- Nutricia Colombia Ltda (Medical Nutrition – Colombia).

### ENTITIES CONSOLIDATED AS ASSOCIATES FOR THE FIRST TIME IN 2009

- Micropharma Limited (Fresh Milk Products – Canada).

### ENTITIES THAT WERE EXCLUDED FROM THE SCOPE OF CONSOLIDATION IN 2009

- Danone Hayat Antalya (Waters – Turkey), merged with Danone Hayat in January 2009;
- Frucor, Frucor Beverages and its holding company, Danone Holding NZ Limited (Waters – New Zealand and Australia), sold in February 2009;
- Danone Naya and its holding company, Ontario Inc (Waters – Canada), sold in May 2009;
- Ultra Pura (Waters – Mexico), merged with CGA (Waters – Mexico) in July 2009;
- Roncevaux (holding company), merged with Danone Italy (Fresh Dairy Products) in July 2009;
- Blanrim (holding company), merged with CGD (holding company – France) in November 2009;
- Wahaha (Waters – China), which consisted of a group of legal entities sold in December 2009;
- Danone Finance Ireland, liquidated in December 2009.

### FULLY CONSOLIDATED ENTITIES

Entity	Country	Group's control	Percent Interest
DANONE	France		Parent company
<b>FRESH DAIRY PRODUCTS</b>			
DANONE PRODUITS FRAIS	France	100.00	100.00
DANSOURCE	France	100.00	100.00
STONYFIELD France	France	100.00	100.00
DANONE GMBH	Germany	100.00	100.00
DANONE GESMBH	Austria	100.00	100.00
N.V DANONE SA	Belgium	100.00	100.00
DANONE SERDIKA	Bulgaria	100.00	100.00
DANONE	Croatia	100.00	100.00
DANONE SA	Spain	57.29	57.29
DANONE CANARIES (ILTESA)	Spain	78.51	44.98
DANONE FINLAND	Finland	100.00	100.00
DANONE GREECE	Greece	100.00	100.00
DANONE KFT	Hungary	100.00	100.00
DANONE LTD	Ireland	100.00	100.00
DANONE SPA	Italy	100.00	100.00
DANONE	Kazakhstan	100.00	100.00
DANONE BERKUT LLP	Kazakhstan	90.00	90.00
DANONE NEDERLAND B.V.	Netherlands	100.00	100.00
DANONE SP Z.O.O	Poland	100.00	100.00
DANONE PORTUGAL SA	Portugal	97.61	55.31

## Consolidated documents

Notes to the Consolidated Financial Statements - Note 29

<b>Entity</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
DANONE A.S	Czech Republic	100.00	100.00
DANONE SRL	Rumania	100.00	100.00
DANONE LTD	UK	100.00	100.00
DANONE INDUSTRIA	Russia	85.00	85.00
DANONE VOLGA	Russia	90.78	77.16
DANONE ADRIATIC	Serbia	100.00	100.00
DANONE SPOL S.RO	Slovakia	100.00	100.00
DANONE	Slovenia	100.00	100.00
DANONE AB	Sweden	100.00	100.00
DANONE	Switzerland	100.00	100.00
DANONE TIKVESLI	Turkey	100.00	100.00
DANONE	Ukraine	100.00	100.00
DANONE DNIPRO (formerly RODICH)	Ukraine	100.00	100.00
DANONE CLOVER	South Africa	100.00	100.00
MAYO	South Africa	70.00	70.00
DANONE DJURDJURA ALGERIA	Algeria	100.00	100.00
ALSAFI DANONE COMPANY	Saudi Arabia	50.10	50.10
DANONE ARGENTINA <sup>(1)</sup>	Argentina	99.45	99.45
DANONE LTDA	Brazil	100.00	100.00
DANONE CANADA DELISLE	Canada	100.00	100.00
DANONE CHILE	Chile	90.00	90.00
DANONE ALQUERIA	Colombia	90.00	90.00
DANONE DAIRY EGYPT	Egypt	100.00	100.00
DANONE DAIRY FARM	Egypt	100.00	100.00
DANNON COMPANY	USA	100.00	100.00
STONYFIELD FARM	USA	84.96	84.96
DANONE GUATEMALA	Guatemala	100.00	100.00
DANONE SAHAR	Iran	70.00	70.00
DANONE DE MEXICO	Mexico	100.00	100.00
DERIVADOS LACTEOS	Mexico	60.00	60.00
DANONE (FORT MASSIS)	Uruguay	100.00	100.00
DANONE CHINA	China	100.00	100.00
DANONE KOREA	Korea	100.00	100.00
DANONE INDIA	India	100.00	100.00
PT DANONE DAIRY INDONESIA	Indonesia	100.00	100.00
DANONE	Indonesia	100.00	100.00
DANONE DAIRY THAILAND	Thailand	100.00	100.00
DANONE JAPAN (formerly CALPIS AJINOMOTO DANONE)	Japan	100.00	100.00

(1) *Belong to the same legal entity in Argentina.*



Entity	Country	Group's control	Percent Interest
<b>WATERS</b>			
DRINKCO	France	100.00	100.00
SA DES EAUX MINÉRALES D'ÉVIAN	France	100.00	100.00
SEAT (Société d'Exploitation d'Activités Touristiques) <sup>(3)</sup>	France	100.00	100.00
VOLVIC	France	100.00	100.00
DANONE WATERS DEUTSCHLAND	Germany	100.00	100.00
DANONE WATER BEVERAGE BENELUX	Belgium	100.00	100.00
AQUA D'OR	Denmark	60.00	49.00
AGUAS FONT VELLA Y LANJARON	Spain	95.00	78.52
ZYWIEC ZDROJ	Poland	100.00	100.00
DANONE WATERS (UK & IRELAND)	UK	100.00	100.00
ÉVIAN VOLVIC SWITZERLAND	Switzerland	100.00	100.00
DANONE HAYAT	Turkey	100.00	100.00
DANONE TESSALA BOISSONS	Algeria	100.00	100.00
AGUAS DANONE DE ARGENTINA	Argentina	100.00	100.00
DANONE ARGENTINA <sup>(1)</sup>	Argentina	99.45	99.45
DANONE WATERS OF AMERICA	USA	100.00	100.00
DANONE WATER BRAZIL (formerly ICOARA)	Brazil	100.00	100.00
BONAFONT	Mexico	100.00	100.00
AGA PUREZA <sup>(2)</sup>	Mexico	50.00	50.00
CGA	Mexico	100.00	100.00
SALUS	Uruguay	94.11	94.11
AQUARIUS	China	50.00	50.00
DANONE PREMIUM BRANDS	China	100.00	100.00
ROBUST DRINKING WATER <sup>(2)</sup>	China	92.00	92.00
ROBUST <sup>(2)</sup>	China	92.00	92.00
SHENZHEN HEALTH DRINKS <sup>(2)</sup>	China	100.00	100.00
AQUA (PT TIRTA INVESTAMA) <sup>(2)</sup>	Indonesia	74.00	74.00

(1) Belong to the same legal entity in Argentina.

(2) The consolidated company consists of several legal entities.

(3) SEAT operates the Evian casino. It is subject to the supervision of the French Ministry of the Interior and the regulations applicable to gaming activities in casinos.

## Consolidated documents

Notes to the Consolidated Financial Statements - Note 29

Entity	Country	Group's control	Percent Interest
<b>BABY NUTRITION</b>			
MILUPA GMBH <sup>(1)</sup>	Germany	100.00	100.00
NUTRICIA GRUNDSTUCKSVERWALTUNGS GMBH	Germany	100.00	100.00
CENTRAL LABORATORIES FRIEDRICHSDORF GMBH	Germany	100.00	100.00
MILUPA GMBH	Austria	100.00	100.00
N.V. NUTRICIA BELGIË <sup>(1)</sup>	Belgium	100.00	100.00
NUMIL NUTRICIÓN S.R.L.	Spain	100.00	100.00
NUTRICIA BABY OY LTD	Finland	100.00	100.00
BLEDINA	France	100.00	100.00
NUMIL HELLAS S.A. <sup>(1)</sup>	Greece	100.00	100.00
NUMIL HUNGARY TÁPSZERKERESKEDELNI KFT. <sup>(1)</sup>	Hungary	100.00	100.00
NUTRICIA IRELAND LTD. <sup>(1)</sup>	Ireland	100.00	100.00
MELLIN S.P.A.	Italy	100.00	100.00
NUTRICIA KAZAKHSTAN LLP	Kazakhstan	100.00	100.00
NUTRICIA SIA AMAIJA LATVIA <sup>(1)</sup>	Latvia	100.00	100.00
UAB NUTRICIA BALTICS <sup>(1)</sup>	Lithuania	100.00	100.00
NUTRICIA NEDERLAND B.V. <sup>(1)</sup>	Netherlands	100.00	100.00
NUTRICIA CUIJK B.V.	Netherlands	100.00	100.00
NUTRICIA EXPORT B.V.	Netherlands	100.00	100.00
DANONE BEHEER B.V. <sup>(1)</sup>	Netherlands	100.00	100.00
DANONE RESEARCH B.V. <sup>(1)</sup>	Netherlands	100.00	100.00
DANONE TRADING BV <sup>(1)</sup>	Netherlands	100.00	100.00
NUTRICIA POLSKA SP. Z.O.O. <sup>(1)</sup>	Poland	100.00	50.00
NUTRICIA ZAKLADY PRODUKCYNE SP. Z.O.O.	Poland	99.96	49.98
MILUPA PRODUÇÃO S.A.	Portugal	100.00	100.00
MILUPA COMERCIAL S.A. <sup>(1)</sup>	Portugal	100.00	100.00
NUTRICIA DEVA A.S.	Czech Republic	100.00	100.00
NUTRICIA A.S. <sup>(1)</sup>	Czech Republic	100.00	100.00
MILUPA S.R.L.	Rumania	100.00	100.00
NUTRICIA LTD. <sup>(1)</sup>	UK	100.00	100.00
OJSC ISTRA NUTRICIA BABY FOOD	Russia	99.69	99.69
LLC NUTRICIA RUSSIA <sup>(1)</sup>	Russia	100.00	99.91
MILUPA S.A.	Switzerland	100.00	100.00
NUTRICIA SLOVAKIA S.R.O. <sup>(1)</sup>	Slovakia	100.00	100.00
NUMIL TURKEY TRY <sup>(1)</sup>	Turkey	100.00	100.00
NUTRICIA UKRAINE LLC	Ukraine	100.00	100.00
KASDORF SA	Argentina	100.00	100.00
NUTRICIA BAGO SA <sup>(1)</sup>	Argentina	51.00	51.00
SUPPORT PRODUTOS NUTRICIONAIS LTDA. <sup>(1)</sup>	Brazil	100.00	100.00
MASHHAD MILK POWDER INDUSTRIES COMPANY	Iran	60.00	60.00
NUTRICIA AUSTRALIA PTY LTD. <sup>(1)</sup>	Australia	100.00	100.00
NUTRICIA LTD. (NEW ZEALAND) <sup>(1)</sup>	New Zealand	100.00	100.00
DUMEX BABY FOOD Co. Ltd	China	100.00	100.00
PT SARI HUSADA	Indonesia	99.97	99.97
PT NUTRICIA INDONESIA SEJAHTERA	Indonesia	100.00	100.00
PT SUGIZINDO	Indonesia	99.85	99.82
DUMEX (MALAYSIA) SDN. BHD.	Malaysia	100.00	100.00
DUMEX LTD. THAILAND	Thailand	98.91	98.91

<sup>(1)</sup> Belong to the Baby Nutrition and Medical Nutrition business lines.

<b>Entity</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
DANONE VIETNAM COMPANY LTD	Vietnam	100.00	100.00
<b>MEDICAL NUTRITION</b>			
PFRIMMER NUTRICIA GMBH	Germany	100.00	100.00
SHS GES. FÜR KLINISCHE ERNÄHRUNG MBH	Germany	100.00	100.00
NUTRICIA NAHRUNGSMITTEL GMBH & CO AG	Austria	100.00	100.00
NUTRICIA A/S	Denmark	100.00	100.00
NUTRICIA SRL	Spain	100.00	100.00
NUTRICIA CLINICAL OY LTD.	Finland	100.00	100.00
NUTRICIA NUTRITION CLINIQUE S.A.S.	France	100.00	100.00
NUTRICIA ITALIA S.P.A.	Italy	100.00	100.00
NUTRICIA NORGE AS	Norway	100.00	100.00
NV NUTRICIA	Netherlands	100.00	100.00
SCIENTIFIC HOSPITAL SUPPLIES INTERNATIONAL LTD	UK	100.00	100.00
NUTRICIA NORDICA AB	Sweden	100.00	100.00
NUTRICIA SA	Switzerland	100.00	100.00
NUTRICIA COLOMBIA LTDA	Colombia	100.00	100.00
HEALTHSPAN SOLUTIONS LLC	USA	48.30	48.30
NUTRICIA NORTH AMERICA INC.	USA	100.00	100.00
NUTRICIA PHARMACEUTICAL COMPANY WUXI	China	100.00	100.00

(1) *Belong to the Baby Nutrition and Medical Nutrition business lines.*

## Consolidated documents

Notes to the Consolidated Financial Statements - Note 29

Entity	Country	Group's control	Percent Interest
<b>HOLDING AND FINANCIAL COMPANIES</b>			
ALFABANQUE	France	100.00	100.00
CIE GERVAIS DANONE	France	100.00	100.00
DANONE FINANCE	France	100.00	100.00
DANONE RESEARCH	France	100.00	100.00
HOLDING EUROPÉENNE DE BOISSONS	France	100.00	100.00
DANONE DAIRY AMERICAS	France	100.00	100.00
DANONE DAIRY ASIA	France	100.00	100.00
PRODUITS LAITIERS FRAIS EST EUROPE	France	100.00	100.00
PRODUITS LAITIERS FRAIS NORD EUROPE	France	100.00	100.00
PRODUITS LAITIERS FRAIS SUD EUROPE	France	100.00	100.00
DANONE HOLDING	Germany	100.00	100.00
DANONE PENSIONS MANAGEMENT	Germany	100.00	100.00
BIALIM BELGIUM	Belgium	100.00	100.00
DANONE SERVICES BENELUX	Belgium	100.00	100.00
DANONE FINANCE INTERNATIONAL	Belgium	100.00	100.00
DANONE DENMARK	Denmark	100.00	100.00
TRICAMP LACTEOS	Spain	100.00	100.00
STONYFIELD EUROPE	Ireland	100.00	96.99
DANONE RE	Luxembourg	100.00	100.00
DANONE FINANCE NETHERLANDS	Netherlands	100.00	100.00
DANONE HOLDINGS UK	UK	100.00	100.00
DANONE FOODS	USA	100.00	100.00
DANONE HOLDINGS	USA	100.00	100.00
DANONE WATERS HOLDINGS INC.	USA	100.00	100.00
DS WATERS LP	USA	100.00	100.00
DANONE HOLDING DE MEXICO	Mexico	100.00	100.00
ASIA HOST	China	100.00	100.00
DANONE ASIA PACIFIC MANAGEMENT	China	100.00	100.00
CALVON	Singapore	100.00	100.00
DANONE ASIA	Singapore	100.00	100.00
DANONE ASIA HOLDINGS (Ex FEDDIAN)	Singapore	100.00	100.00
DANONE DAIRY INVESTMENTS INDONESIA	Singapore	100.00	100.00
DANONE PROBIOTICS	Singapore	100.00	100.00
FESTINE	Singapore	100.00	100.00
JINJA INVESTMENTS	Singapore	100.00	100.00
KING SILVER	Singapore	100.00	100.00
MYEN	Singapore	100.00	100.00
NOVALC	Singapore	100.00	100.00
DANONE HOLDING NEW ZEALAND	New Zealand	100.00	100.00
NUTRICIA DEUTSCHLAND GMBH	Germany	100.00	100.00
INTERNATIONAL NUTRITION CO. LTD. A/S	Denmark	100.00	100.00
NUTRICIA INFANT NUTRITION LTD.	Ireland	100.00	100.00
NUTRICIA INTERNATIONAL B.V.	Netherlands	100.00	100.00
NUTRICIA POLAND B.V.	Netherlands	50.00	50.00
DANONE BABY AND MEDICAL NUTRITION BV	Netherlands	100.00	100.00
UK HOLDINGS CAP LTD.	UK	100.00	100.00
NUTRICIA (COW & GATE, MILUPA) HOLDINGS LTD.	UK	100.00	100.00

**ENTITIES CONSOLIDATED AS ASSOCIATES**

<b>Entity</b>	<b>Country</b>	<b>Group's control</b>	<b>Percent Interest</b>
<b>FRESH DAIRY PRODUCTS</b>			
GLENISK	Ireland	36.90	35.79
TOECA INTERNATIONAL COMPANY	Netherlands	49.00	49.00
STRAUSS DAIRY	Israel	20.00	20.00
CENTRALE LAITIÈRE	Morocco	29.22	30.71
STIAL/SOCOGES	Tunisia	50.00	50.00
MICROPHARMA LIMITED	Canada	26.85	26.85
GRAMEEN DANONE FOODS	Bangladesh	21.43	21.43
WEIGHT WATCHERS JV	China	49.00	49.00
YAKULT DANONE INDIA	India	50.00	50.00
YAKULT HONSHA	Japan	20.02	20.02
YAKULT VIETNAM	Vietnam	20.00	20.00
<b>WATERS</b>			
FERMINVEST	France	57.00	57.00
DASANBE AGUA MINERAL NATURAL	Spain	50.00	50.00
MAGYARVIZ	Hungary	50.00	50.00
POLSKA WODA	Poland	50.00	50.00
DAMAVAND	Iran	69.98	39.89
SOTHERMA	Morocco	29.99	29.99
CHINA HUIYUAN JUICE	China	22.98	22.98
KIRIN MC DANONE WATERS	Japan	25.00	25.00
<b>BISCUITS</b>			
BAGLEY LATINO AMERICA	Spain	49.00	49.00

(1) The consolidated company consists of several legal entities

## 20.1.2 Statutory Auditors' Report on the Consolidated Financial Statements

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In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Danone;
- the justification of our assessments;
- the specific verifications and information required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of article L. 823-9 of French Company Law (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- your company performed at the closing date an impairment test on goodwill and assets with an indefinite useful life, with the assistance of an external valuation expert for values in relation to Numico, and also assessed whether there was any indication of impairment of other long-term assets according to the conditions described in Notes 1.4 and 1.5 to the consolidated financial statements. We reviewed the conditions of implementation of this impairment test and of indication of impaired value, and verified that Notes 4 and 5 to the consolidated financial statements gave the appropriate information, in particular in relation to sensitivity analysis.

As indicated in Note 1.25 to the consolidated financial statements, this impairment test is based on estimates that are by nature uncertain, and the realization of which is likely to postpone, possibly in a significant way, forward-looking data that is used, in particular due to the current economical and financial context;

- your company is committed to acquiring the shares held by shareholders of certain consolidated subsidiaries, should the latter wish to exercise their put options. Note 1.17 to the consolidated financial statements describes the accounting treatment adopted for the options granted to the shareholders of certain consolidated subsidiaries in the absence of any specific provision under IFRS as adopted by the European Union on this subject. We verified that the accounting treatment applied did not contravene the general principles of these standards.

We also reviewed the methods adopted by your company for the valuation of the debt and goodwill recorded in connection with the put options granted to the shareholders of certain consolidated subsidiaries on the basis of the information available to date.

We satisfied ourselves that Notes 4 and 15 to the consolidated financial statements contain appropriate information on these options and the assumptions used by your Company.

The assessments were made in the context of our audit of the consolidated financial statements taken as a whole and therefore contributed to the opinion we formed which expressed in the first part of this report.

### III. SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also, as required by law, verified the information given in the Group Management report.

We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, France, on March 11, 2010

#### The Statutory Auditors

##### MAZARS

##### PRICEWATERHOUSECOOPERS AUDIT

##### French original signed by:

##### French original signed by:

Thierry COLIN

Ariane MIGNON

Étienne BORIS

Olivier LOTZ

## 20.1.3 Fees paid by the Group to the statutory auditors and members of their networks

Analysis of fees paid to the Group's statutory auditors for services performed in 2008 and 2009:

(in € millions, except %)	2008				2009			
	Pricewaterhouse Coopers		Mazars		Pricewaterhouse Coopers		Mazars	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Audit</b>								
<b>Statutory audit, certification, review of individual and consolidated financial statements</b>	<b>5.4</b>	<b>55.0</b>	<b>3.0</b>	<b>100.0</b>	<b>4.8</b>	<b>76.0</b>	<b>2.8</b>	<b>97.0</b>
<i>Issuer</i>	1.0	10.0	0.6	20.0	0.8	13.0	0.6	21.0
<i>Fully-consolidated subsidiaries</i>	4.4	45.0	2.4	80.0	4.0	63.0	2.2	76.0
<b>Other reviews and services directly related to the statutory auditors' assignment</b>	<b>1.9</b>	<b>19.0</b>	<b>-</b>	<b>-</b>	<b>0.9</b>	<b>14.0</b>	<b>0.1</b>	<b>3.0</b>
<i>Issuer</i>	1.5	15.0	-	-	0.5	8.0	0.1	3.0
<i>Fully-consolidated subsidiaries</i>	0.4	4.0	-	-	0.4	6.0	-	-
<b>Other services rendered by the networks to the fully-consolidated subsidiaries</b>	<b>2.6<sup>(1)</sup></b>	<b>26.0</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>10.0</b>	<b>-</b>	<b>-</b>
<i>Tax</i>	2.6	26.0	-	-	0.6	10.0	-	-
<b>Total fees</b>	<b>9.9</b>	<b>100.0</b>	<b>3.0</b>	<b>100.0</b>	<b>6.3</b>	<b>100.0</b>	<b>2.9</b>	<b>100.0</b>

(1) The tax services carried out in 2008 concerned primarily the former Numico entities in compliance with the independence rules applicable in France and specific to the Group. These were non-recurring services and were transferred to other service providers.

## 20.2 Corporate documents

### 20.2.1 Excerpt from the Board of Directors' report to the Shareholders' Meeting

Danone (the "Company"), the parent company of the Danone group (the "Group"), is a holding company that does not exercise any commercial or industrial activity.

In addition to the activities it exercises in its capacity as a holding company, Danone performs management, assistance, and advisory duties on behalf of the Group's companies.

The Company's balance sheet is composed for the most part of:

- with respect to its assets, the equity interests it holds in its direct subsidiaries, and;
- with respect to its liabilities, debt taken on to meet the Group's financing needs.

The Company is also the central entity with respect to the tax consolidation of the French companies in which the Group holds an equity interest that is higher than 95%.

#### COMMENTS ON THE COMPANY'S ACTIVITY OVER THE COURSE OF THE 2009 FISCAL YEAR

##### Main Events of the Fiscal Year

Over the course of the 2009 fiscal year, the Company undertook the following transactions:

- a € 3,048 million capital increase was carried out on June 25, 2009, by issuing 123,236,352 new shares at a subscription



price of € 24.73 per share. This transaction increased the Company's share capital by € 30,809,088.00 and its additional paid-in capital by € 3,016,825,896.96;

- following the capital increase, the drawings then outstanding under the syndicated credit were repaid in June 2009, for a total nominal value of € 1,750 million;
- the transfer by Danone Finance to the Company of all the bonds issued through its Euro Medium Term Note program under the terms of the substitution agreement dated November 16, 2009 (see Section 15), for a total nominal value of € 1,837 million;
- the partial redemption of certain of the Company's bonds, following the issuer bid made on November 27, 2009, for a total nominal amount of € 1,175 million;
- the payment of a free and irrevocable capital contribution of € 100 million as part of the creation of the 'Danone Ecosystem Fund' endowment fund.

#### Analysis of the income statement

Net sales, which are mainly comprised of amounts re-invoiced to the Group's companies for services rendered by the Company, amounted to € 294 million in 2009, compared with € 304 million in 2008.

Operating expenses increased to € 536 million in 2009 from € 457 million in 2008, due primarily to the impact of the € 86 million in bank fees incurred on the June 25, 2009 capital increase.

Revenue from equity interests increased to € 1,222 million in 2009 from € 1,021 million in 2008.

The increase is primarily attributable to dividends received from Danone Asia in connection with the disposal of the Wahaha and Frucor subsidiaries.

The net non-recurring € 250 million expense during fiscal year 2009 comprised mainly € 116 million in bond redemption charges and the € 100 million free and irrevocable capital contribution on creation of the "Danone Ecosystem Fund" endowment fund.

#### COMMENT ON THE COMPANY'S FINANCIAL POSITION AS OF DECEMBER 31, 2009

As of December 31, 2009, the Company had net debt of approximately € 6.3 billion. This included primarily € 6.4 billion in financial liabilities less € 0.1 billion in short-term investments. In 2009, the decrease in net debt was attributable essentially to the capital increase of June 25, 2009.

#### INFORMATION REGARDING DEDUCTIBLE EXPENSES

In accordance with the provisions of Article 39.4 of the French Tax Code, an amount of € 461,692 was added back to the 2009 fiscal year taxable base with respect to depreciation and rental payments for non-professional vehicles.

The application of Article 39.5 of the French Tax Code did not lead to any amount being added back into taxable income.

#### INFORMATION CONCERNING THE PROVISIONS OF THE FRENCH ECONOMIC MODERNIZATION ACT REGARDING DISCLOSURE REQUIREMENTS FOR PAYMENT TIMES (DECREE 2008-1492)

In accordance with this decree, an analysis as of December 31, 2009 of the Company's trade payables by maturity dates is presented below, pursuant to Article D.441-4 of the French Commercial Code.

<i>(In € thousands)</i>	<b>Outstandings</b>	<b>&lt; or = to 30 days</b>	<b>between 31 and 60 days</b>	<b>&gt; 60 days</b>
As of December 31, 2009	16,752	4,732	12,020	–

#### MAIN KNOWN SHAREHOLDERS

Pursuant to Article L. 233-13 of the French Commercial Code, it is hereby specified that as of December 31, 2009:

- Eurazeo held 4.2% of the share capital and 4.2% of the net voting rights;
- the Caisse des Dépôts et Consignations group held 3.6% of the share capital and 3.6% of the net voting rights;
- the "Fonds Danone" employee savings mutual fund held 1.4% of the share capital and 2.5% of the net voting rights;

- the Sofina and Henex Group held 2.1% of the share capital and 3.8% of the net voting rights;
- the Crédit Agricole Assurances Group held 1.7% of the share capital and 1.7% of the net voting rights;
- the Company held 4.3% of the share capital and its Danone SA subsidiary (Spain) held 0.9% of the share capital.

The voting rights percentages indicated above were calculated on the basis of all of the shares that hold voting rights, with the exception of the shares held by the Company and its Spanish subsidiary Danone SA, which are deprived of voting rights.

## SHAREHOLDERS' VOTING RIGHTS

Double voting rights are granted to all fully paid-up shares registered in the name of the same shareholder for at least two years.

Since 1992, the Company's by-laws have limited the voting rights of shareholders during Shareholders' Meetings (see Section 18.2 – Voting rights). Regarding the application of these provisions, please refer to the Company's by-laws, which can be obtained upon request from the Company's registered office.

## OPTIONS ON COMPANY SHARES

During the fiscal year just ended, the Board of Directors of the Company granted the following options, at prices corresponding to 100% of the average of the first listed prices during the twenty stock market trading days preceding the day on which the options were granted (in historical data):

- under the April 2009 plan, 2,551,520 purchase options were granted to 1,311 beneficiaries at a unit exercise price of € 36.94 (i.e., after adjusting for the June 25, 2009 capital increase, 2,704,611 options at a unit exercise price of € 34.85);
- under the October 2009 plan, 20,400 purchase options were granted to 17 beneficiaries at a unit exercise price of € 40.90.

The main characteristics of the stock option plans implemented by the Company are described in Section 17.2.

## AUTHORIZATION GRANTED TO THE COMPANY TO OPERATE ON THE STOCK MARKET FOR THE BUY-BACK OF ITS OWN SHARES

Under the authorizations granted by the Shareholders' Meetings of April 26, 2007 and April 29, 2008, the Company did not buy-back any of its own shares in 2008 or 2009.

As of December 31, 2009, the Company held 27,527,220 treasury shares, representing 4.3% of its share capital.

See also Section 21.1.3.

## EMPLOYEE PARTICIPATION IN THE COMPANY'S SHARE CAPITAL

The number of Company shares held directly or indirectly by its employees and by employees of companies related to it, and which are notably subject to collective management or lock-up conditions, either within the framework of a French Plan d'Épargne Entreprise (company savings plan), or via a French FCPE (employee savings mutual fund) (the "Fonds Danone" FCPE and the FCPEs of other Group subsidiaries), amounted to 8,914,035 shares, or 1.4% of the Company's share capital.

## COMMITMENT TO HOLDING SHARES RESULTING FROM THE EXERCISE OF OPTIONS

Pursuant to Article L. 225-185 of the French Commercial Code introduced by the new law of December 30, 2006, the Chairman and Chief Executive Officer and the Deputy General Managers must hold (in registered form) a certain number shares resulting

from the exercise of options allocated within the framework of each option allocation plan decided on from January 1, 2007 onward until such time as they cease their functions.

The Board of Directors meeting dated April 23, 2009 confirmed the previous year's decision dated April 29, 2008, which stipulated that the commitment to hold the shares would apply to a number of shares corresponding to 35% of the capital gain upon acquisition, net of taxes and social security charges, realized on all of the shares resulting from an exercise of options carried out by the executive concerned under this plan. The Board of Directors also decided to subject all other members of the Executive Committee to this commitment to hold shares, which is applicable under the same conditions.

The Board of Directors meeting dated February 10, 2010 reviewed the requirement for Messrs. Riboud and Faber to hold shares derived from the exercise of stock options in connection with their renewal proposed to the Shareholders' Meeting of April 22, 2010, and the same requirement incumbent upon Mr Hours. The Board maintained the requirement to hold shares, under the same conditions as set out above, it being specified that this requirement will be re-examined when free performance shares are potentially granted should the 15th resolution related to such authorization be approved by the Shareholders' Meeting of April 22, 2010.

## INFORMATION ON THE WAY IN WHICH THE COMPANY TAKES INTO ACCOUNT THE SOCIAL AND ENVIRONMENTAL CONSEQUENCES OF ITS BUSINESS ACTIVITY

As of December 31, 2009, the Company had 668 employees (661 employees on December 31, 2008), of whom approximately 79% were managers. The gross compensation of these employees and the associated social security charges totaled € 181 million in 2009 (€ 168 million in 2008), of which € 6.6 million related to profit sharing agreements (€ 6.2 million in 2008).

The large majority of Company employees work under indefinite term employment contracts.

Following a company agreement signed with labor unions, in 2004 the Company implemented an additional retirement benefit plan with set contributions for certain managers.

Pursuant to agreements regarding the organization and reduction in the length of the workweek concluded in 1999, and the implementation, in 2004, of the day of solidarity, the number of workdays in a single year was established at 210 for non-executive managers. For employees, technicians and supervisors, the number of hours worked per year was set at 1,589.

A large number of internal and external training programs are available at the employees' request. In 2009, 15,492 hours of training were allotted to 71% of employees.

The Company's involvement in civil society is very strongly anchored in its culture. As an example, the mainlining of youth is favored through qualification and apprenticeship contracts, which cover approximately 3% of the total workforce as of December 31, 2009. The "Coup de Pouce" skills network provides aid to associations, selected by employees, which play an active role in

educational support, and professional and social mainstreaming. Since 2009, the "Coup de Pouce" network has also been working toward the professional mainstreaming of disabled workers. Also, in 2009 the Group renewed the disabled workers agreement initially signed with its unions in 2006. Lastly, the Company also offers its employees the option of taking humanitarian leave of absence (*Congés Solidaires*) to work with the "Planète Urgence" association and the "Coup de Pouce Humanitaire" network.

Due to the nature of its business activities, the Company's impact on the environment is very low. However, certain actions aimed at raising awareness regarding protection of the environment were undertaken in 2009 and CO<sub>2</sub> emission reduction programs were implemented. These measures were mainly related to the Company's travel policy, limiting the use of air travel, to the recycling of raw materials (aluminum, plastic, glass, etc.), the collection of paper, used batteries and ink cartridges, and to the use of supplies made from partially or totally recycled materials.

Analysis of quantified indicators associated with the environmental impact of Company's subsidiaries' operations in all four business lines:

	Units	2009
<b>Energy</b>		
Thermal energy <sup>(1)</sup>	GWh <sup>(2)</sup>	2,248
Electrical energy	GWh <sup>(2)</sup>	1,563
Total energy	GWh <sup>(2)</sup>	3,811
<b>Solid waste</b>		
Total waste <sup>(3)</sup>	Thousands of tons	245
Recovered waste <sup>(4)</sup>	Thousands of tons	210
Recovery rate	%	86
<b>Water</b>		
Consumption <sup>(5)</sup>	Millions of m <sup>3</sup>	33
Net CDO discharge <sup>(6)</sup>	Tons	3,896
Number of significant accidental discharges (chemical products and hydrocarbons)		2
<b>Gas contributing to the greenhouse gas effect (direct) <sup>(11)</sup></b>	Thousands of tons equivalent CO <sub>2</sub> <sup>(7)</sup>	514
<b>Gas contributing to atmospheric acidification</b>		
Sulfur oxide	Tons equivalent SO <sub>2</sub> <sup>(8)</sup>	2,695
Nitrogen oxide	Tons equivalent NO <sub>2</sub> <sup>(9)</sup>	1,218
<b>Gas with an impact on the ozone layer <sup>(12)</sup></b>	kg equivalent CFC <sup>(10)</sup>	853

(1) Energy consumed by factories, derived from gas, oil, coal or other sources of thermal energy.

(2) Gigawatt hour.

(3) Waste generated by factories.

(4) Waste recovered via recycling of matter or via incineration with energy recuperation.

(5) Water consumed by factories, excluding water placed in containers.

(6) CDO (chemical oxygen demand) is a measure of water pollution; net CDO discharges are measured after treatment of used water.

(7) Carbon dioxide (CO<sub>2</sub>) is essentially produced by the combustion of matter; only primary CO<sub>2</sub> emissions are indicated.

(8) SO<sub>2</sub>: sulfur dioxide.

(9) NO<sub>2</sub>: nitrogen dioxide.

(10) CFC: chlorofluorocarbons.

(11) Includes: CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, CFC, HCFC, HFC and Halons (according to IPCC 2001).

(12) Includes: CFC, HCFC and Halons (according to the Montreal Protocol).

For a more complete description of the way in which the Company and its subsidiaries account for the social and environmental consequences of their business activities, please refer to Section 17 "Employees" and Section 4.6 "Risks related to the Environment".

## INFORMATION ON DANONE.COMMUNITIES

During the Company's Shareholders' Meeting of April 26, 2007, a substantial majority of the shareholders approved the

implementation of a socially and economically innovative project called danone.communities.

Following the creation of the danone.communities SICAV (open-ended investment company) and the establishment of the danone.communities FCPR (venture capital fund), the Company subscribed € 20 million in danone.communities.

Launched in May 2007, by the end of December 2009 the five sub-funds of the danone.communities fund had reached a total value of approximately € 71 million.

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The fund's investment strategy consists in investing at least 90% of its assets in a selection of fixed income instruments in the euro zone, while favoring a "Socially Responsible Investment" (SRI) approach, and at most 10% of its assets in the danone.communities FCPR. The sub-funds are differentiated by their investment term and their risk/return ratio.

Offered since 2008, through a *Fonds Commun de Placement d'Entreprise* (FCPE, a French employee savings mutual fund) created for the Danone group's French employees in the framework of the *Plan d'Épargne Groupe* (PEG, the French group savings plan) as one of the investment options for French obligatory and discretionary profit-sharing, nearly 25% of all employees in France and more than 60% of all employees working in the head office and the research center have subscribed.

To date, the FCPR has made three investments in three different regions and sectors:

### 1. Grameen Danone Foods, Bangladesh

The FCPR's first investment was made in Grameen Danone Foods, a company located in Bangladesh. This financing is notably aimed at enabling the construction of a factory for manufacturing micronutrient-fortified yogurts to be sold in Dhaka, Bangladesh. Sold at a very affordable price by Grameen ladies and small retail stores, it will help combat children's nutritional deficiencies.

It represents a combined investment from the FCPR and other entities of the Grameen group, taking the form of a subscription to a capital increase for Grameen Danone Foods, totaling 100 million takas (approximately € 1 million), with the FCPR subscribing a total of 50 million takas to the capital increase.

### 2. 1001 Fountains, Cambodia

1001 Fountains makes it possible for isolated villages in Cambodia to access clean drinking water, in order to prevent their inhabitants from drinking the water found in ponds (which is the cause of a high infant mortality rate and diarrhea-related illnesses). 1001 Fountains uses an ultraviolet treatment process powered by solar energy to purify the water in these ponds. Danone.communities supports this project through an investment in the UV+Solaire company. This investment took the form of a € 51,000 (33%) subscription to a capital increase and a € 99,000 short-term current account advance.

### 3. La Laiterie du Berger, Senegal

The Senegalese company known as "Laiterie du Berger" is a dairy company that processes and distributes fresh milk produced by Fulani farmers (and not imported milk, which accounts for the larger portion of consumption in Senegal, while a significant portion of the population survives through farming). Quality products made from this milk are sold at competitive prices on the Senegalese market. The FCPR invested 341 million CFA francs (approximately € 520,000) by subscribing to a capital increase.

In accordance with the Governance Charter of danone.communities, the Social Responsibility Committee of the Company's Board of Directors was consulted and issued a

favorable opinion on the compliance of each of these three investments with the Charter.

Finally, in accordance with the commitments given by the Board of Directors, in 2009 the Company made financial contributions to danone.communities projects totaling € 2.35 million, which is less than the € 2.50 million ceiling set by Danone's Board of Directors. In light of the strong acceleration of this project in the months ahead, this ceiling has been increased to € 4 million for fiscal year 2010. It will be reviewed every year by the Company's Board of Directors to take account of the growth achieved by danone.communities.

## INFORMATION REGARDING THE DANONE ECOSYSTEM FUND

At the Shareholders' Meeting of April 23, 2009, the shareholders approved the proposed creation of an endowment fund, the "Danone Ecosystem Fund" (the Fund).

Under the terms of the resolution approved by that Shareholders' Meeting, in 2009 the Company made a free and irrevocable capital endowment of € 100 million into the Fund. In addition to this capital endowment, every year, for a period of five years, the Company and its subsidiaries will also make additional annual donations (the Additional Annual Donations) totaling up to 1% of the Danone group's total consolidated underlying net income per year. In 2010, the Social Responsibility Committee will assess the possibility of making an Additional Annual Donation in respect of fiscal year 2009, in accordance with the commitments given at the Shareholders' Meeting.

The Fund is governed by the provisions of the French Economic Modernization Act no. 2008-776 of August 4, 2008 and is run by a Board of Directors. A Strategy Board, composed of representatives of the Danone group and non-Group members, establishes the Fund's major strategic guidelines, especially with regard to priorities and resource allocation principles, as presented by the Board of Directors.

The purpose of the Fund is to expand the dual economic and social project to strengthen and grow the businesses of the partners that comprise the Danone group's ecosystem, including: agricultural producers, suppliers and subcontractors, transportation and logistics operators, and distributors.

To date, two projects have already been financed and set in place by the Fund in two regions and two different sectors:

### 1. Proximity

The Fund's first investment was recently made in a mainstreaming enterprise, La Petite Reine, specialized in the green transport of goods using delivery tricycles. This initiative consists of establishing a new type of distribution service for independent local businesses that promotes the mainstreaming of persons experiencing difficulty entering the workforce. The project, which has already been set up in Paris, could be extended to other French cities.

## 2. Ukraine

The Fund has also started to finance a project for investing in the dairy industry in the Ukraine. This initiative, which is situated upstream from the Danone group's own operations, consists of helping small milk producers by federating them into agricultural cooperatives. These cooperatives, located near the factories of Danone's Ukraine subsidiary, will provide farmers with milking and storage equipment to improve productivity and the quality of their milk, agricultural training sessions to develop the farmers' skills, and shared agricultural services to optimize costs. In this manner, the project contributes to strengthening and adding value to the entire agricultural production chain.

### FACTORS THAT MIGHT HAVE AN IMPACT IN THE EVENT OF A TENDER OFFER

In accordance with Article L. 225-100-3 of the French Commercial Code resulting from Law 2006-387 dated March 31, 2006, the factors that might have an impact in the event of a tender offer are set out below:

#### (i) Structure of the Company's share capital

A table describing the structure of the Company's capital is presented in Section 18.1.

#### (ii) Restrictions in the by-laws upon the exercise of voting rights

The Company's by-laws provide for a system of capping voting rights. This mechanism is described in Section 18.2. The Shareholders' Meeting of April 22, 2010 will be asked to include in the by-laws a mechanism for suspending this limitation if the number of shares present or represented reaches or exceeds 75% of the total number of shares carrying voting rights.

#### (iii) Direct or indirect holdings in its share capital of which the Company is aware

On June 13, 2008, Eurazeo announced that it indirectly held, through its Legendre Holding 22 subsidiary, and acting in concert with it, a shareholding interest in Danone representing 5.44% of the share capital and 5.22% of the voting rights. During fiscal 2009, Eurazeo reported that its holding had fallen below the legal threshold of 5% of the Company's share capital on July 8, and that since that date, through its Legendre Holding 22 subsidiary, it held 4.99% of the share capital and 4.77% of the voting rights of the Company.

A detailed analysis of the Company's shareholder structure is presented in Section 18.1.

#### (iv) Holders of securities providing special control rights over the Company, and description of such rights

None.

#### (v) Control mechanisms provided for any employee shareholding program, when such control rights are not exercised by employees

Only the Supervisory Board of the "Fonds Danone" employee savings mutual fund, which on December 31, 2009, held 1.4% of the share capital and 2.5% of the net voting rights, has the authority to decide how to respond to a possible tender offer. As an exception to this principle, employees may be consulted directly by referendum if the Supervisory Board were to have a split vote.

#### (vi) Agreements between shareholders of which the Company is aware and that could impose restrictions on the transfer of shares and the exercise of voting rights

To the best of the Company's knowledge, no agreement between shareholders exists that could impose restrictions on the transfer of the Company's shares and the exercise of voting rights.

#### (vii) Rules applicable to the nomination and replacement of members of the Company's Board of Directors

Under the terms of an agreement concluded between the Company and Yakult Honsha on March 4, 2004, the Company has undertaken to make every effort to ensure that the candidate proposed by Yakult Honsha be appointed as a member of the Company's Board of Directors by the Shareholders' Meeting, for such period as two Company representatives sit on the Board of Directors of Yakult Honsha.

#### (viii) Powers of the Board of Directors in the event of a tender offer

The Shareholders' Meeting of April 29, 2008 ended the authorization granted to the Board of Directors to make use of the Company share buyback program at the time of a tender offer. The Shareholders' Meeting of April 23, 2009 explicitly confirmed that shares may no longer be repurchased at the time of a tender offer. The Shareholders' Meeting of April 22, 2010 will be asked to continue this limitation.

#### (ix) Agreements signed by the Company that are amended or terminated in the event of a change in control of the Company

- The Group granted put options that may be exercised at any moment and, in particular, during a tender offer, to minority shareholders of its Spanish subsidiary Danone SA. The description and amount of such options is presented in Section 22 and in Note 15 of the notes to the consolidated financial statements.
- In 2005, the Company and the Arcor group signed an agreement governing the relations between the Group and Arcor within the joint venture named Bagley Latino America, a leader in biscuits in Latin America, in which the Company holds a 49% equity interest. In the event of a change in control of the Company, the Arcor group will have the right to repurchase the interest

## Corporate documents

in Bagley Latino America held by the Company, for an amount equal to its fair value.

- Under the terms of contracts regarding the use of mineral springs, in particular Volvic and Evian in France, the Group has very old and privileged relations with local municipalities in which these springs are located. It is difficult for the Company to assess with certainty the impact on these contracts of any change in its control.
- Certain stock option plans as well as Group Performance Units plans that were put in place by the Company for the benefit of its executive directors and officers (*mandataires sociaux*) and certain employees, include specific provisions in the event of a change in control of the Company resulting from a tender offer on the Company's securities, described in Section 17.2
- In December 2007, as part of the refinancing of the acquisition of the Numico group, the Company signed a syndicated facility agreement (described in Section 10.3) that included a change in control clause. This syndicated credit (for a principal amount of € 4 billion) offers the creditors the right to early repayment in the event of a change in control of the Company, if such change in control results in the rating agencies giving the Company a sub-investment grade.
- The Group's EMTN program and certain bank credit lines also include a similar feature in the event of a change in control of the Company (see Section 10.3).

**(x) Agreements providing for indemnities to be paid to employees and executives of the Company in the event that they resign or their employment is terminated in the absence of a real and serious cause or if their employment expires due to a tender offer**

The indemnities that would be paid to the Company's executive directors and officers (*mandataires sociaux*) under certain circumstances are described in Section 15.3.

**COMMENTS ON THE RESOLUTIONS SUBMITTED TO THE SHAREHOLDERS' MEETING**

**Approval of the Company and consolidated financial statements for the year ended December 31, 2009 (1st and 2nd resolutions)**

We request that you approve the Company and consolidated financial statements for the year ended December 31, 2009.

**Allocation of income (3rd resolution)**

We request that you:

• note that the net income for the 2009 fiscal year amounts to	€ 563,650,076.68
• note that retained earnings are equal to	€ 3,926,588,923.27
• therefore corresponding to an available amount for the distribution of income of	€ 4,490,238,999.95
• decide to allocate the total thus calculated between:	
• the legal reserve in the amount of	€ 1,266,150.72
• a dividend in the amount of	€ 776,389,020.00
• and retained earnings in the amount of	€ 3,712,583,829.23

The sum of € 776,389,020.00 divided among the shareholders will be eligible for the 40% tax reduction provided for in Article 158-3 2° of the French Tax Code, in payment of a dividend of € 1.20 per share.

The shares will be declared ex-dividend on May 4, 2010 and the dividend relative to fiscal year 2009 will be payable as from May 7, 2010.

In accordance with Article L. 225-210 of the French Commercial Code, dividends on any treasury stock held on the payment date will be allocated to retained earnings.

**Dividends paid in respect of the last three fiscal years**

Fiscal year	Number of shares <sup>(1)</sup>	Dividend paid <sup>(2)</sup>
2006	521,729,492	1
2007	512,851,460	1,1
2008	513,802,144	1,2 <sup>(3)</sup>

(1) The 2006 figures have been restated to take into account the 2:1 stock split in 2007.

(2) Distribution fully eligible for the 40% reduction.

(3) With the option of payment of the dividend in shares (see Section 20.3)

**Renewal of the tenure of directors (resolutions 4 and 5)**

We are asking you to renew the tenure of Messrs. Franck Riboud and Emmanuel Faber as directors for the standard term of three years set in the by-laws. Their terms of office would expire at the close of the Shareholders' Meeting called to approve the 2012 financial statements.

**Appointment and reappointment of statutory auditors (resolutions 6, 7, 8 and 9)**

On the recommendation of the Audit Committee, issued February 9, 2010, we are asking you to reappoint PricewaterhouseCoopers Audit, as well as to appoint Ernst & Young et Autres as statutory auditors and Mr Yves Nicolas and Auditex as their respective substitute statutory auditors.

Their appointments would expire at the close of the Shareholders' Meeting called to approve the 2015 financial statements.

**Approval of the agreements referred to in the special report of the statutory auditors (resolution 10)**

We are asking you to approve the agreements described in the special report of the statutory auditors on the agreements referred to in Articles L. 228-38 et seq. of the French Commercial Code, with the exception of the agreements dealt with in resolutions 11, 12 and 13.

You are being asked to approve the following agreements which have been concluded during the 2009 fiscal year or at the Board of Directors' meeting on February 10, 2010, namely: (i) the amendment of two intra-Group guarantees made by your Company to its financial subsidiaries, Danone Finance and Alfabanque, for unchanged amounts, *i.e.*, € 3 billion (for the Group's commercial paper program, operated by Danone Finance) and for € 500 million (for market transactions), respectively, in order to include new beneficiaries: in the first case, Danone Finance International and, in the second, Alfabanque; (ii) an agreement substituting Danone in issues of Danone Finance debt securities for its EMTN program, and (iii) a contribution-in-kind transaction authorized by the Board of Directors as part of an internal reorganization, by which the Company contributes its holdings in Blédina to Danone Baby and Medical Holding.

These agreements are described in the special report of the statutory auditors on regulated agreements and undertakings, in Section 20.2.4.

**Approval of regulated agreements and undertakings involving the Company's executive directors and officers (*mandataires sociaux*) (resolutions 11, 12 and 13)**

Your Board of Directors has decided to renew and modify all of the rights to compensation for termination of office of Messrs. Franck Riboud, Emmanuel Faber, and Bernard Hours and to amend their employment contracts.

These agreements and undertakings are described in the special report of the statutory auditors on regulated agreements and undertakings (see Section 20.2.4).

**Purchase by the Company of its own shares (resolution 14)**

It appears appropriate at this time for your Board to continue to have the authority to purchase shares of the Company's stock.

We are therefore asking you to authorize your Board to purchase, retain or transfer the Company's shares, within the context of a share repurchase program, pursuant to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code and European Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

The purchase of the Company's shares may be executed for the purpose of:

- the allocation of share purchase options to the Group's employees and to executive directors and officers (*mandataires sociaux*);
- the allocation of free shares to employees and to executive directors and officers (*mandataires sociaux*);
- the sale of shares to employees (either directly or through an employee savings mutual fund (in French, an "FCPE") within the context of employee shareholding plans or savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the retaining and the later delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares, within the maximum legal limit; or
- boosting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

These transactions may be carried out at any time other than during periods of tender offers on the Company's stock. The maximum number of shares that could be repurchased would represent 10 percent of the share capital, or 64,699,085 shares as of December 31, 2009, at a maximum purchase price of € 60, resulting in a maximum theoretical total purchase amount of € 3,881,945,100. The latter figure is for information purposes only, as it does not include shares already held by the Company.

This authorization is given for a period of 18 months as from the present Meeting.

## Authorization granted to the Board of Directors to allocate the Company's common shares (resolution 15)

### 1. Nature of the authorization

The purpose of this authorization is to authorize the Board of Directors, for a period of 26 months as from the present Shareholders' Meeting, to allocate existing shares or to issue new shares at no charge, subject to performance conditions, for the benefit of employees or certain categories of thereof, to be determined by it from among the employees and eligible executive directors and officers (*mandataires sociaux*) of the Company or affiliates of the Company within the meaning of Article 225-197 of the French Commercial Code.

### 2. Authorization maximum

The number of existing or new shares allocated may not exceed 0.4% of the Company's share capital as of the close of the present Meeting.

This number of shares does not include the adjustments that may be made in accordance with any applicable legal and regulatory requirements or any contractual provisions providing for other adjustments to protect the rights of the holders of securities or other rights giving access to the share capital. Thus, given that share allocation plans may contain provisions for adjusting the number of shares allocated in the event of transactions affecting the share capital during the vesting period, application of these adjustment provisions may mean that the final number of shares allocated is greater than 0.4% of the share capital.

### 3. Secondary limit for allocations to executive directors and officers (*mandataires sociaux*)

Shares allocated by virtue of this authorization may be granted, subject to performance conditions, to the Chairman of the Board of Directors and to the Company's Chief Executive Officer and Deputy General Managers, for up to a maximum of 0.1% of the Company's share capital as of the close of the present Meeting (subject to the same possible adjustments as indicated in paragraph 2 above).

### 4. Vesting period

- (i) Allocation of the shares to their recipients shall become final at the end of a vesting period to be determined by the Board of Directors, it being understood that this period may not be less than three years. Furthermore, recipients must retain such shares for a period to be established by the Board of Directors, it being specified that this retention period may not be less than two years as from final allocation of said shares.
- (ii) However, if the vesting period for all or part of one or more allocations is four years or more, the Board of Directors may decide not to impose a retention period for the shares in question.

### 5. Requirements to which the final allocation of shares is subject

**5.1.** The final allocation of existing or new shares must be subject to the attainment of one or more performance conditions, to be determined by the Board of Directors in accordance with the terms herein below (the "Performance Conditions").

**5.2.** Your Board will apply the following Performance Conditions

#### 5.2.1. Nature of the Performance Conditions

- (i) These conditions consist of two complementary criteria indicative of the Group's performance and suited to its activities:
  - (a) growth in the Group's revenue (on a consolidated basis and on a like-for-like basis, i.e. excluding changes in consolidation scope and foreign exchange rates).
  - (b) growth in its free cash flow, or FCF (on a consolidated basis and on a like-for-like basis, i.e. excluding changes in consolidation scope and foreign exchange rates).
- (ii) Final allocation of half of the shares subject to Performance Conditions to the recipient shall be conditional on the attainment of each of these two criteria (subject to compliance with the requirement of continued employment by the Group; see paragraph 5.4 below).
- (iii) The Performance Conditions will be calculated for the first two years of the vesting period

#### 5.2.2. Performance Conditions for any allocations made in 2010

First and second years of the vesting period (2010 and 2011):

annual arithmetic average revenue growth of 5% and FCF growth of 10% for the period.

#### 5.2.3. Performance Conditions for any allocations made in 2011

- (i) First year of the vesting period (2011):
  - annual revenue growth of 5% and FCF growth of 10%.
- (ii) Second year of the vesting period (2012):
  - as a general rule, the Performance Conditions (annual revenue growth of 5% and FCF growth of 10%) stay the same, and in this case, the arithmetic averages of annual revenue and FCF growth for the two years in the period shall be used;
  - exceptionally, for 2012, the Board may adjust the numerical performance objectives that were used in 2011 and may even change the performance conditions that were used in 2011;
    - in the case of an adjustment of the numerical performance objectives or a change in 2012 in the Performance Conditions criteria, as provided for in this resolution, and only in such case:
      - (a) the Board undertakes to submit a resolution authorizing the allocation of Company shares for approval by the 2012 Shareholders' Meeting. In such case, the management report will indicate the performance conditions in respect of 2012 to be used under this new resolution. These conditions must be identical to the modified Performance Conditions for 2012,



- (b) if the 2012 Shareholders' Meeting does not approve the new resolution proposed by the Board, the Performance Conditions for 2012 applied to shares allocated in 2011 will remain unchanged, i.e., revenue growth of 5% and FCF growth of 10% (the arithmetic averages of annual revenue and FCF growth for the two years in the vesting period shall be used).

**5.3.** As an exception to the rule set out in paragraph 5.1 above, share allocations not subject to Performance Conditions may be made, subject to the following restrictions:

- (i) recipients must be employees of the Group (excluding executive directors and officers (*mandataires sociaux*) and general management – the Executive Committee);
- (ii) the shares shall not represent more than 25% of the total number of shares that could be allocated under the terms of this authorization;
- (iii) the shares shall not represent more than 33% of the total number of shares awarded to the employee in question.

**5.4.** Requirement of continued employment by the Group

A recipient of a share allocation who leaves the Group's employment prior to the expiration of the vesting period may not retain his or her shares, except in statutory cases of early termination (including death and disability) or if otherwise decided by the Board of Directors.

**6. Impact in terms of dilution/ownership of the Company's share capital**

If this resolution were to be approved, it would nullify, with respect to the unused portion as of the date of the present Meeting, the authorization to grant share purchase and/or subscription options given in resolution 30 of the Shareholders' Meeting of April 23, 2009.

The Board points out that the Group's policy concerning authorizations to allocate share options and free shares has always had a limited impact in terms of dilution and/or ownership of the Company's share capital. Specifically:

- the number of share purchase options outstanding as of December 31, 2009 was 16,562,462, or 2,56% of the share capital;
- the number of shares resulting from free share allocations granted under this resolution may not exceed 0.4% of the share capital.

Together, these represent a total of around 2,96% of the share capital.

Lastly, the Board points out that, in the absence of any currently valid authorization, the Company has not made any free share allocations to date.

The Board of Directors will issue a special report each year, informing the Shareholders' Meeting of any free share allocations that have been made.

**Amendment of Article 26.II of the by-laws regarding restrictions on voting rights at Shareholders' Meetings (resolution 16)**

The amendment of the by-laws that will be submitted to you in the 16th resolution pertains to Article 26.II of the Company's by-laws.

This article limits the votes that a shareholder may cast in a general meeting (i.e. no more than 6% of the total number of voting rights in the company's shares, with this limit being raised to 12% for shares with double voting rights).

As announced at the April 23, 2009 General Meeting, your Board reconsidered this provision of the by-laws.

1. Regarding the principle of this provision, the Board confirmed its opinion issued in March 2007 and announced at the 2007 general meeting that said limitation of voting rights was genuinely in the best interest of the Company's shareholders and should be maintained.

In fact, the Board found that:

- said limitation stops any single shareholder from influencing corporate decisions in a way that would be out of proportion to the actual weighting of his interest;
- said limitation also stops any shareholders from taking "creeping" control of the company, i.e. without requiring him to make a tender offer. Specifically, the voting rights limitation avoids this situation from arising by obligating the shareholders wishing to take over the Company to make a tender offer for all of the Company's shares. From this viewpoint, said clause protects all of the shareholders and guarantees an optimum share value;
- this provision in no way acts as an obstacle to a tender offer for the Company because the provision is automatically null and void if one or more shareholders acting together become the owners of more than 2/3 of the Company's shares or voting rights;
- lastly, the voting-rights limitation clause is legal according to the French Commercial Code and has been used by a certain number of French public companies composing the CAC 40 stock market index.

## Corporate documents

2. However, the Board decided that it was appropriate and timely to change the way this voting-rights limitation works in order to automatically suspend this limitation for any General Meeting where the *quorum* reached is sufficiently high.

In fact, although your Board finds this limitation necessary and justified where the quorum reached in a general meeting is low, it seems no longer relevant where the *quorum* reached is high because such a *quorum* would ensure that all the shareholders would be heard without any possible distortion.

For this reason, your Board has decided to submit to your approval that said limitation be suspended for a given general meeting, where the number of shareholders present or represented reaches or exceeds 75% of the shares with voting rights.

Regarding the matter of sufficient *quorums*, the Board noted that *quorums* have increased gradually and significantly (from approximately 42% in 2005 and 2006 to approximately 56% in 2009) and should continue to increase to eventually achieve the average of the *quorums* reached by the general meetings of the French public companies making up the CAC 40 index (which was 63% in 2009). Where a shareholder builds up a significant minority interest in the share capital of the Company, the *quorum* should rise automatically and render the clause ineffectual while ensuring that said shareholder does not wield undue influence over the general meeting relative to his interest.

## 20.2.2 Financial Statements of the Parent Company, Danone

### INCOME STATEMENT

<i>(in € millions)</i>	Notes	2008	2009
Net sales		304	294
Other income		–	–
<b>Total operating income</b>	<b>8</b>	<b>304</b>	<b>294</b>
Personnel costs	10	(168)	(181)
Other operating expenses		(289)	(355)
<b>Total operating expenses</b>	<b>9</b>	<b>(457)</b>	<b>(536)</b>
<b>Net operating expense</b>		<b>(153)</b>	<b>(242)</b>
Revenue from investments		1,021	1,222
Interest and similar revenue		5	11
Interest and similar expense		(425)	(286)
Other financial (expense) revenue		10	(4)
<b>Net financial income</b>	<b>11</b>	<b>611</b>	<b>943</b>
<b>Income before non-recurring items and tax</b>		<b>458</b>	<b>701</b>
<b>Net non-recurring (expense) income</b>	<b>12</b>	<b>260</b>	<b>(250)</b>
Income tax	13	131	113
<b>Net income</b>		<b>849</b>	<b>564</b>

**BALANCE SHEET****Assets**

<i>(in € millions)</i>	Notes	2008	2009		
		Net	Gross	Depreciation, amortization and provisions	Net
Intangible assets		11	40	(22)	18
Tangible assets		7	22	(16)	6
Equity interests		16,234	16,264	(30)	16,234
Other financial assets		1,104	1,037	–	1,037
Financial assets	2	17,338	17,301	(30)	17,271
<b>Non-current assets</b>		<b>17,356</b>	<b>17,363</b>	<b>(68)</b>	<b>17,295</b>
Receivables	3	118	1,066	(1)	1,065
Marketable securities	4	133	133	–	133
Cash and cash equivalents		1	1	–	1
<b>Current assets</b>		<b>252</b>	<b>1,200</b>	<b>(1)</b>	<b>1,199</b>
Deferrals and prepaid expenses		21	21	–	21
<b>TOTAL ASSETS</b>		<b>17,629</b>	<b>18,584</b>	<b>(69)</b>	<b>18,515</b>

**Shareholders' equity and liabilities**

<i>(in € millions)</i>	Notes	2008	2009	
		(after allocation)	(before allocation)	(after allocation)
Share capital		128	162	162
Additional paid-in capital		93	3,392	3,392
Revaluation reserve		4	4	4
Reserves		3,794	3,780	3,781
Retained earnings		3,890	3,927	3,713
Net income (loss) for the year			564	
Regulated provisions		10	18	18
<b>Shareholders' equity</b>	<b>5</b>	<b>7,919</b>	<b>11,847</b>	<b>11,070</b>
Provisions for risks and liabilities		6	6	6
Bonds	6	2,329	2,924	2,924
Financial liabilities	6	3,266	2,006	2,006
Other liabilities	7	4,109	1,732	2,509
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>17,629</b>	<b>18,515</b>	<b>18,515</b>

## Notes to the Financial Statements of the Parent Company

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### ● ● ● NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

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Notes to the Financial Statements of the Parent Company - Note 1

**NOTE 1 - Accounting principles**

The Company's financial statements are prepared according to French statutory and regulatory provisions and to generally accepted accounting principles.

The main methods used are as follows:

**INTANGIBLE AND TANGIBLE ASSETS**

Intangible and tangible assets are valued at their acquisition cost (including acquisition-related costs) and are amortized or depreciated on a straight-line basis according to their estimated useful lives as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other tangible assets	4 to 10 years
Software	1 year

**FINANCIAL ASSETS**

These are comprised of equity interests, the long-term possession of which is deemed to be useful for the Company's activity, notably because it enables the Company to exercise an influence on or control over the issuing company. Investments that do not meet this definition are classified as other financial assets.

Equity interests are recognized at the lower of their acquisition cost and their value in use. Acquisition-related costs are included in the cost of acquisition of equity interests acquired since January 1, 2007 and amortized over five years as from the date of acquisition. For tax purposes, these assets are subject to accelerated tax amortization rates. The value in use is determined on the basis of various criteria, including market value, expected profitability and revalued shareholders' equity. Impairment is recognized when the value in use of equity interests falls below their carrying value on a lasting basis.

Impairment is recognized as financial (expense) revenue, with the exception of reversals of impairment in connection with investment disposals, which is recognized under non-recurring items. The results of disposals of equity interests are recognized as non-recurring (expense) revenue.

This item includes all DANONE shares held in connection with the authorizations given by the Shareholders' Meeting, which are valued at their purchase price. An impairment provision is booked, if necessary, for shares that are not to be cancelled when their value (assessed at the average rate for the last month of the financial year or on the basis of the allocation prices in the case of stock options granted) falls below their carrying amount.

**RECEIVABLES**

Receivables are stated at their nominal value. An impairment provision is recorded when the recoverable amount is less than the carrying amount.

**TRANSACTIONS IN FOREIGN CURRENCIES**

Expenses and income in foreign currencies are recorded at their exchange value in euros at the date of the transaction. Liabilities, receivables and cash denominated in foreign currencies are recorded in the balance sheet at their exchange value in euros at the year-end rate. The differences resulting from the translation of foreign currency liabilities and receivables at this latter rate are recorded in the balance sheet in the line item "Deferrals and prepaid expenses." A provision for risk is recognized for non-hedged unrealized exchange losses.

**MARKETABLE SECURITIES**

The gross value corresponds to the acquisition cost excluding acquisition-related costs. Marketable securities other than treasury stock (see below) are valued, for each category of securities of the same nature, at the lower of their acquisition cost and their market value.

This item includes treasury stock acquired in connection with the setting-up of stock option plans, which is immediately allocated to such plans. Treasury stock is recorded at acquisition cost, and may also be the subject of a provision (see section below).

**PROVISIONS**

Provisions are recognized for identified risks and liabilities of uncertain timing or amount, when the company has an obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the company.

In the case of treasury stock recorded in marketable securities, when options are granted a provision for risk is recognized equal to the difference between the exercise price of the option set in the plan and the price Danone paid to acquire the share, to reflect the expense related to the likely exercise of options. This provision is recalculated at every balance sheet date, based on the market price of DANONE shares at that date.

## NOTE 2 - Financial assets

<i>(in € millions)</i>	<b>2008</b>	<b>2009</b>
Equity interests	16,234	16,234
Other financial assets	1,104	1,037
<b>TOTAL</b>	<b>17,338</b>	<b>17,271</b>

Detailed information about equity interests is provided in the section "Securities held in portfolio as of December 31, 2009" in Note 15.

Other financial assets include loans, deposits and sureties, long-term investments other than equity interests, and DANONE treasury stock.

The change in the treasury stock held by the Company included in this item corresponds to the delivery to employees of 858,746 treasury shares following the exercise of stock purchase options and the cancellation of 1,844,442 treasury shares following the April 23, 2009 capital reduction.

As of December 31, 2009, after these operations, this item comprised 25,663,720 treasury shares.

## NOTE 3 - Receivables

This item includes primarily € 1,030 million in loans receivable due within less than one year from the Company's subsidiaries and equity interests. The main change since 2008 corresponds

to a new € 967 million short-term intercompany loan to Danone Finance.

## NOTE 4 - Marketable Securities

This item comprises € 113 million in treasury stock acquired in connection with the setting-up of stock option plans and allocated to such plans from the outset, and investments made by the Company in the danone.communities fund. Danone.communities

is an open-ended investment fund, the aim of which is to finance certain social projects through an investment with a return that is very close to the money-market rate.

## NOTE 5 - Share Capital and Additional Paid-in Capital

<i>(in € millions)</i>	<b>Number of shares</b>	Share capital <b>Amount</b>	APIC <b>Amount</b>
<b>As of December 31, 2008</b>	<b>513,802,144</b>	<b>128</b>	<b>93</b>
Capital increase reserved for the PEE employee savings plan	580,040	-	19
Capital reduction by cancellation of treasury stock	(1,844,442)	-	(93)
Capital increase relative to option of payment of stock dividend	11,216,756	3	356
Capital increase of June 25, 2009	123,236,352	31	3,017
<b>As of December 31, 2009</b>	<b>646,990,850</b>	<b>162</b>	<b>3,392</b>

### Capital increase relative to option of payment of stock dividend

On May 25, 2009, the share capital of the Company was increased to reflect the 11,216,756 newly issued shares that were delivered on May 27, 2009 to shareholders who elected to receive

a stock dividend. These new shares, immediately fungible to existing shares, were listed for trading on Euronext Paris effective May 27, 2009. As a result of this transaction, the share capital was increased by € 2,804,189.00 and additional paid-in capital by € 356,580,673.24.

## Corporate documents

*Notes to the Financial Statements of the Parent Company - Note 6***Capital increase of June 25, 2009**

On June 25, 2009, the Group carried out a € 3,048 million capital increase by issuing 123,236,352 new shares at the subscription price of € 24.73 per share. This transaction increased the

Company's share capital by € 30,809,088.00 and its additional paid-in capital by € 3,016,825,896.96.

**NOTE 6 - Financial Liabilities**

The capital increase enabled Danone to reduce its debt in 2009. Danone also restructured its bond debt with that of its Danone Finance subsidiary. The following transactions were carried out:

- repayment in May 2009 of its outstanding drawings under its syndicated facility, for a total nominal value of € 1,750 million;
- transfer to Danone of all of the bonds issued by Danone Finance under its Euro Medium Term Note program, in accordance with the terms of the substitution agreement of November 16, 2009, for a total nominal value of € 1,837 million (€ 1,000 million in bonds and € 837 million in Euro Medium Term Notes.)

- partial redemption of certain of the Company's bonds, following its public tender offer made on November 26, 2009, for a total nominal value of € 1,175 million.

As of December 31, 2009, this line consisted primarily of € 2.16 billion in bonds, € 759 million in Euro Medium Term Notes, and a € 2 billion medium-term loan from Danone Finance International.

Of this debt, € 222 million matures in less than one year, € 3,895 million in one to five years, and € 813 million in more than five years.

**NOTE 7 - Other Liabilities**

As of December 31, 2009, this item consisted primarily of the Company's liabilities to subsidiaries and equity interests, including a € 1.5 billion short-term intercompany advance from Danone Finance International. In the balance sheet after allocation, this

item also included the € 776 million dividend to be paid in respect of financial year 2009. The majority of other liabilities have a maturity of less than one year.

**NOTE 8 - Operating Income**

Operating income mainly comprises the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries.

**NOTE 9 - Operating Expenses**

Operating expenses mainly include personnel costs, rental charges, and fees paid to external service providers. The increase

in operating expenses is attributable primarily to the € 86 million in bank fees relating to the June 25, 2009 capital increase.



## NOTE 10 - Compensation and personnel

### COMPENSATION OF MEMBERS OF MANAGEMENT BODIES AND OF THE BOARD OF DIRECTORS

The compensation of members of management bodies amounted to € 21.3 million in 2009 (€ 17.5 million in 2008).

The attendance fees paid to Directors amounted to € 0.4 million, gross, in 2009 (€ 0.4 million in 2008), and are recorded in the line item "Other operating expenses."

### AVERAGE NUMBER OF EMPLOYEES

	2008	2009
Executives	510	525
Supervisors and technicians	115	112
Clerical staff	36	31
<b>TOTAL</b>	<b>661</b>	<b>668</b>

## NOTE 11 - Net Financial Income

Financial revenue mainly comprises the dividends received from the Company's equity interests. In 2009, these dividends amounted to € 1,222 million against € 1,021 million in 2008, with the increase attributable mainly to the dividends received from Danone Asia in the context of the sale of the Wahaha Subsidiaries and of Frucor.

Financial expenses include primarily interest payments of:

- € 148 million on short- and medium-term loans from Danone Finance International and Danone Finance;

- € 14 million on drawings under the syndicated facility, and
- € 122 million on bonds.

The decrease in financial expenses is directly related to the Company's reduction of its debt (see Note 6).

## NOTE 12 - Net Non-Recurring (Expense) Income

In 2009, non-recurring items included primarily € 116 million in charges on the repurchase of bonds and € 100 million for the free and irrevocable capital contribution on creation of the "Danone Ecosystem Fund" endowment fund.

In 2008, non-recurring items mainly included € 257 million of additional revenue received in respect of the disposal of stock held by the Company in Générale Biscuit Glico France.

## Corporate documents

Notes to the Financial Statements of the Parent Company - Note 13

**NOTE 13 - Income Tax****TAX GROUP**

Danone forms a tax group with the French subsidiaries in which it holds, directly or indirectly, a stake of more than 95%. The Company has signed an agreement covering the application conditions of the tax consolidation, in compliance with the rules set by the French tax authorities, with some of the companies that have opted for this regime. This agreement does not provide for the repayment by Danone to its consolidated subsidiaries of

The companies belonging to the tax group in 2009 were:

Alfabanque	Danone
Arcil	Holding Européenne de Boissons
Blédina	Menervag
Celaco	Danone Baby and Medical Holding
Compagnie Gervais Danone	Heldinvest 3
Danone Produits Frais France	Produits Laitiers Frais Est Europe
Danone Dairy Asia	Produits Laitiers Frais Nord Europe
Danone Finance	Produits Laitiers Frais Sud Europe
Danone Research	Société Anonyme des Eaux Minérales d'Evian
Drinkco	Société des Eaux de Volvic
Et Votre Corps Sourit	Step St Just
DanSource	Stonyfield France

As of December 31, 2009, tax loss carry-forwards generated within the tax group in France amounted to € 1,033 million, compared to € 938 million as of December 31, 2008. Procedures are in place to ensure that all of these losses are utilized in the future.

tax savings made as a result of the Subsidiaries' tax losses, if the latter should subsequently make a taxable profit or leave the tax group.

The tax credit recorded in the income statement in 2009 mainly resulted from the excess tax paid by the profit-making subsidiaries in relation to the tax charge resulting from the tax consolidation, for € 113 million, and adjustments of the tax charge from prior years.

The Company and its subsidiaries may be subject to tax audits. When a probable risk of a tax adjustment exists, the adjustment is estimated and a provision is set aside. In December 2009, the French subsidiaries were notified by the tax authorities of an accounting audit for fiscal years 2006, 2007, and 2008.

## NOTE 14 - Off-balance sheet commitments

The Company or certain of its direct or indirect subsidiaries have undertaken to acquire the shares held by third-party shareholders in certain companies in which the Company has a direct or indirect stake, should such shareholders wish to exercise their put option. The exercise price of these options is generally based on the profitability and financial position of the company concerned at the exercise date of the put option. As of December 31, 2009, the financial commitments given by the Company and all of its subsidiaries were estimated at € 3.1 billion. No significant cash outflow is considered probable in the short term in respect of these options.

As of December 31, 2009, the maximum amount authorized by the Company in respect of endorsements, deposits and other guarantees given amounted to € 7.5 billion and concerned guarantees given on Danone Finance obligations. As of that same date, rent commitments and commitments relating to purchases of services amounted to € 76 million and € 24 million, respectively. The Company contractually committed to pay to the Fondation Danone a total of € 10 million over three years.

Commitments relating to guaranteed additional retirement benefits, valued using the retrospective actuarial method, amounted to approximately € 47 million as of December 31, 2009 after taking into account the fund's available assets. The € 46 million increase is attributable primarily to the inclusion of new taxes in accordance with the provisions of the French Financing and Social Security Act in 2010.

As regards the retirement plan reserved for certain Group executives, the Company's commitment and the fund's available assets amounted to € 215 million and € 180 million respectively as of December 31, 2009, compared to € 180 million and € 184 million respectively as of December 31, 2008. In addition, as of December 31, 2009, the total commitment by the Company in respect of executive directors and officers (*mandataires sociaux*) retirement benefits amounted to € 49.9 million.

In addition, indemnification payments to members of the Executive Committee in certain cases where they cease their terms of office or functions were set at twice the annual gross compensation (fixed, variable, and in-kind) they received over the 12 months preceding the date on which they cease their functions and, in the case of the Company's four corporate officers, the Board of Directors decided on February 13, 2008 that the payment of these indemnities would be subject to the achievement of certain performance objectives.

Lastly, commitments received by the Company concern € 6 billion in available committed credit facilities.

The Company and certain of its subsidiaries are parties to a variety of legal and arbitration proceedings arising in the normal course of business. Some of these proceedings involve claims for damages, and liabilities are provided for when a loss is probable and can be reasonably estimated.

## Corporate documents

Notes to the Financial Statements of the Parent Company - Note 15

**NOTE 15 - Related party transactions**

<i>(in € millions)</i>	As of December 31	
	<b>2008</b>	<b>2009</b>
Other receivables	59	1,030
Other liabilities	3,228	1,515
Financial liabilities	1,506	2,007
Operating income	282	280
Financial revenue	1,024	1,230
<b>Total income</b>	<b>1,306</b>	<b>1,510</b>
Operating expenses	(66)	(99)
Financial expenses	(177)	(148)
<b>Total expenses</b>	<b>(243)</b>	<b>(247)</b>

**SECURITIES HELD IN PORTFOLIO AS OF DECEMBER 31, 2009**

<i>(in € millions)</i>	As of December 31	
	<b>Number of shares</b>	<b>Carrying amount as of December 31, 2009</b>
<b>1. French holdings</b>		
Alfabanque	249,994	31
Blédina	735,026	15
Compagnie Gervais Danone	33,440,080	536
Danone Finance	53,900,740	876
Holding Européenne de Boissons	57,835,571	1,178
<b>Total French holdings</b>		<b>2,636</b>
<b>2. Foreign holdings</b>		
Danone Singapore Holdings	144,830,596	159
Danone Asia	701,114,726	651
Danone Services Benelux	72,464	400
Danone Finance Netherlands	800,000	63
Danone Baby and Medical Nutrition BV	223,444,608	12,325
<b>Total foreign holdings</b>		<b>13,598</b>
<b>Total equity interests</b>		<b>16,234</b>
<b>3. Long-term investments and other financial assets</b>		
Treasury stock	27,527,220	900
<b>Total long-term investments and other financial assets</b>		<b>900</b>
<b>TOTAL</b>		<b>17,134</b>

## FINANCIAL RESULTS AND OTHER SIGNIFICANT INFORMATION RELATING TO THE LAST FIVE YEARS

	2005	2006	2007 <sup>(2)</sup>	2008	2009
<b>Capital at balance sheet date</b>					
Share capital (in euros)	132,117,595	130,432,373	128,212,865	128,450,536	161,747,712 <sup>(1)</sup>
Number of shares issued	264,235,190	260,864,746	512,851,460	513,802,144	646,990,850 <sup>(1)</sup>
Number of convertible bonds:					
Nominal value: € 197	353,887	-	-	-	-
<b>Operations and results for the year (in € millions)</b>					
Net sales	132	228	290	305	294
Income before taxes, amortization, depreciation and provisions	885	394	3,843	(501)	472
Income tax (credit)	196	226	230	131	113
Income after taxes, amortization, depreciation and provisions	810	874	4,046	850	564
Earnings distributed	449	522	564	617	776
<b>Earnings per share (in euros)</b>					
Income after taxes, but before amortization, depreciation and provisions	4.09	2.38	7.94	0.83	0.90
Income after taxes, amortization, depreciation and provisions	3.07	3.35	7.89	1.65	0.87
Dividend paid per share	1.70	2.00	1.10	1.20	1.20
<b>Personnel</b>					
Average number of employees for the year	713	673	692	661	668
Payroll expense (in € millions)	98	99	131	114	121
Benefits paid (social security, social benefit schemes, etc.) (in € millions)	46	50	55	54	60

(1) Includes notably the impact of the capital increase of June 25, 2009.

(2) The stock underwent a 2:1 split in June 2007.

## Corporate documents

Notes to the Financial Statements of the Parent Company - Note 15

**SUBSIDIARIES AND AFFILIATES AT DECEMBER 31, 2009**

<i>(in € millions)</i>	Capital <sup>(1)</sup>	Other shareholders' equity <sup>(1) (3)</sup>	Percentage of capital held <i>(in %)</i>	Carrying value of shares held		Guarantees and endorsements given by the Company	Sales for last fiscal year <sup>(2)</sup>	Income or (loss) for last fiscal year <sup>(2)</sup>	Dividends received by the Company during the fiscal year
				Gross	Net				
<b>SUBSIDIARIES (at least 50% of the share capital held by the Company)</b>									
<b>FRENCH ENTITIES</b>									
ALFABANQUE	5	57	83	31	31			2	2
BLÉDINA	20	72	55	15	15		610	67	43
CIE GERVAIS DANONE	843	552	100	536	536			1,103	
DANONE FINANCE	862	(210)	100	876	876	8,000		344	
HOLDING EUROPÉENNE DE BOISSONS	1157	37	100	1178	1178			128	156
<b>FOREIGN ENTITIES</b>									
DANONE SINGAPORE HOLDINGS	187	(275)	61	159	159			296	198
DANONE ASIA	629	(914)	71	651	651			858	823
DANONE SERVICES BENELUX	181	266	100	400	400			3	
DANONE FINANCE NETHERLANDS	8	36	100	94	63				
DANONE BABY AND MEDICAL NUTRITION BV	56	1,520	100	12,325	12,325			190	
<b>AFFILIATES (at least 10% to 50% of the share capital held by the Company)</b>									
None									

(1) The amounts relating to foreign companies are translated at the year-end rate.

(2) The amounts relating to foreign companies are translated at the average rate for the year.

(3) Excluding results for the year.

## 20.2.3 Statutory auditors' report on the annual financial statements

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2009 on:

- the audit of the accompanying annual financial statements of Danone;
- the justification of our assessments;
- the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### I. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applicable in France: those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the financial position and assets and liabilities of Company, as of December 31, 2009, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

### II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- equity interests are recorded as assets in your company's balance sheet for a book value of € 16,234 million. Note 1 to the financial statements describes the methods adopted for accounting for these shares as well as the methods used to calculate impairment losses. We performed sample tests to confirm that these methods were applied correctly and we reviewed the methods used to determine the amount of the impairment losses. We have assessed the data and assumptions on which these estimates are based, that are uncertain by nature, and the realization of which is likely to postpone, possibly in a significant way, forward-looking data that are used, in particular due to the current economical and financial context;
- as stated in Note 14 to the financial statements, your company and/or its subsidiaries are committed to acquiring the shares held by third-party shareholders in certain companies in which your company and/or its subsidiaries hold majority or minority interests, should these companies wish to exercise their put options. We reviewed the methods used by your company to calculate these financial commitments based on the information currently available. We have assessed the data and assumptions on which these estimates are based and the resulting valuations.

The assessments were thus made in the context of our audit of the financial statements taken as a whole and therefore contributed to the formation of the opinion expressed in the first part of this report.

### III. SPECIFIC VERIFICATIONS AND INFORMATION

In accordance with the professional standards applicable in France, we have also performed the specific verifications required by law.

We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

As regards the information provided in accordance with the provisions of Article L. 255,102-1 of the French Commercial Code relating to remuneration and benefits granted to the directors and officers (mandataires sociaux) and any other commitments made in their favor, we have verified that it is consistent with the financial statements or the data used to prepare the financial statements and, where relevant, with the information obtained by your company from companies controlling it or controlled by it. In our opinion, on the basis of this work, the information is true and fair.

In accordance with French law, we have ensured that the required information concerning the names of the principal shareholders (and holders of the voting rights) has been properly disclosed in the management report.

Courbevoie and Neuilly-sur-Seine, France, on March 11, 2010

#### The Statutory Auditors

##### MAZARS

##### PRICEWATERHOUSECOOPERS AUDIT

##### French original signed by:

##### French original signed by:

Thierry COLIN

Ariane MIGNON

Étienne BORIS

Olivier LOTZ



## 20.2.4 Statutory auditors' special report on regulated agreements and commitments

In our capacity as Statutory Auditors of your company, we present you with our report on regulated agreements and undertakings.

### AGREEMENTS AND UNDERTAKINGS AUTHORIZED DURING THE FISCAL YEAR AND UNTIL THE DATE OF CLOSING THE FINANCIAL STATEMENTS

Pursuant to Article L. 225-40 of the French Commercial Code (Code de commerce), we have been informed of the agreements and undertakings that were subject to a prior authorization of your Board of Directors.

Our duty is not to research the possible existence of other agreements and undertakings but instead to inform you, on the basis of the information that has been provided to us, of the essential characteristics and terms and conditions of those agreements and undertakings presented to us, without having to provide an opinion on their usefulness or appropriateness. It is your responsibility, in accordance with the terms of Article R. 225-31 of the French Commercial Code, to assess the Company's interest in entering into these agreements and undertakings, with a view to their approval.

We have conducted our work in accordance with the professional standards of the Compagnie Nationale des Commissaires aux Comptes (French National Association of Statutory Auditors) with regard to this assignment. This work consisted in verifying the consistency of the information given to us relative to the documents they are taken from.

#### 1.1 Substitution agreement

##### *Companies concerned: Danone, Danone Finance*

*Director concerned and capital relationship: Danone is a director of Danone Finance and holds 99.99% of its share capital.*

The Board of Directors' Meeting of July 23, 2009 authorized the signing of an agreement for the substitution of your company in the issues of debt instruments by Danone Finance as part of its EMTN (Euro Medium Term Note) program and in derivatives contracts associated with said issues, in return for the payment by Danone Finance to your company of a total amount of €1,836,678,952.66 corresponding to the resulting reduction in its debt. Said issues were covered by first demand guarantees provided by your company in respect of the EMTN program.

This substitution agreement was signed on November 16, 2009, bringing an end to the previously authorized guarantee.

#### 1.2 Guarantees and securities granted

##### *1.2.1 Companies concerned: Danone, Danone Finance and Alfabanque*

*Director concerned and capital relationship: Danone is a director of Danone Finance and holds 99.99% of its share capital. Danone is a director of Alfabanque and holds 83.33% of its capital.*

The Board of Directors' Meeting of February 10, 2010 modified the previous agreement authorized by the Board of Directors on February 14, 2007, renewed by the Board of Directors on February 13, 2008, that allowed your company to guarantee or to stand as surety for Danone Finance, one of the Group's specialized financial companies, when this company operates on financial markets within the framework of financial risk management transactions, up to a limit of €500 million, to also include financial transactions entered into by its subsidiary, Alfabanque.

##### *1.2.2 Companies concerned: Danone, Danone Finance and Danone Finance International*

*Director concerned and capital relationship: Danone is a director of Danone Finance and holds 99.99% of its share capital.*

The Board of Directors' Meeting of February 10, 2010 modified the previous agreement authorized by the Board of Directors on February 14, 2007 and modified by the Board of Directors on April 29, 2008, that allowed the Chief Executive Officer of your company to guarantee the issue of commercial paper by Danone Finance, up to a limit of €3 billion, plus any interest, costs, disbursements and incidental payments related to such amount, as well as any additional amounts that may become due by this subsidiary within the framework of said commercial paper program, to also include its subsidiary, Danone Finance International.

### 1.3 Contribution in kind

#### *Companies concerned: Danone, Danone Baby and Medical Holding*

*Director concerned and capital relationship: Danone is a director of Danone Baby and Medical Holding and holds 100% of its share capital.*

The Board of Directors' Meeting of February 10, 2010 authorized the contribution in kind of your company's equity interest in Blédina, representing 54.98% of its capital, to Danone Baby and Medical Holding, on the basis of the net carrying amount of the Blédina securities stated in your company's financial statements as of December 31, 2009, namely, €14,962,462. By way of consideration for said contribution Danone Baby and Medical Holding issued 14,962,462 shares, with a nominal value of €1 each, to your company.

### 1.4 Undertaking entered into by the Company with regard to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the conditions applicable to indemnities paid to them in certain cases of termination of their respective terms of corporate office

*Persons concerned: Messrs Franck Riboud (Chairman and CEO), Emmanuel Faber (Deputy General Manager) and Bernard Hours (Deputy General Manager)*

At its meeting on February 10, 2010, the Board of Directors decided to replace the provisions authorized by the Board of Directors' meeting on February 13, 2008 by the following provisions:

#### **(i) Amount of the indemnity**

The person concerned will receive, by way of indemnity (the "Indemnity") and subject to performance conditions, an amount equal to twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased.

The total of (i) the Indemnity for Breach of the Employment Agreement (the portion of said indemnity corresponding to the length of service acquired in respect of the term of office being also subject to performance conditions) and (ii) the Indemnity, must not exceed twice the gross annual compensation (comprising both fixed and variable compensation) received in respect of his term of office for the twelve months preceding the date on which said term of office ceased. Any amounts exceeding said upper limit will be deducted in priority from the Indemnity and then, where relevant, from the portion of the Indemnity for Breach of the Employment Agreement subject to performance conditions and corresponding to the length of service acquired in respect of the term of office.

In the event the employment agreement is terminated after the date on which the Board of Directors decides whether the performance conditions have been met, the procedure described in the previous paragraph shall apply on the basis of an estimated amount of Indemnity for Breach of the Employment Agreement on the date the person concerned ceases to hold a corporate office, in which case the performance conditions taken into consideration to calculate the estimated amount of the part of the Indemnity for Breach of the Employment Agreement corresponding to length of service shall also be assessed on said date.

#### **(ii) In the event of payment of the Indemnity**

The indemnity will be due to the person concerned only in the event that his term of office is terminated by the Board of Directors, regardless of the form of such termination, including dismissal or the non-renewal of his term of office (but excluding serious misconduct, i.e. extremely serious misconduct which precludes any continuation of the term of office, or gross negligence, i.e. extremely serious negligence committed by the person with the intention of harming the Company), and subject to the performance conditions being met. Termination of a term of office in this context includes, in particular, the consequence of a change of strategy or of control (change of control means all changes in the Company's legal position resulting from any merger, restructuring, disposal, takeover bid or exchange offer, following which a shareholder, whether an individual or corporate body, acting alone or in concert, directly or indirectly holds more than 50% of the Company's share capital or voting rights).

In addition, no payment will be due under the Indemnity if the person concerned, as of the date on which his term of office ceases, is able to claim his retirement rights in accordance with the terms and conditions stipulated by the pension plans.

Given the automatic resumption of the employment agreement of the person concerned in the event of the termination of his term of office as an executive director and officer, the Indemnity will also be due if the person concerned ceases to carry out his duties under said employment agreement or asks to be removed from his salaried position within the three months following the date on which his term of office as a executive director and officer ceased due to a change of control.

**(iii) Performance conditions governing payment of the indemnity**

The amount paid under the indemnity will be based on:

- a) the average organic growth in the Group's revenue (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the executive director and officer (the "Reference Period"); and
- b) the average organic growth in the revenue generated by the Panel members (the "Panel CICA"), over the Reference Period.

The Group and Panel CICAs are both calculated at constant scope and exchange rates.

The Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and General Mills.

On the basis of a report drawn up by a financial adviser, the Board of Directors must specifically announce its decision as to whether said performance conditions have been met within three months following the date on which the term of office of the executive director and officer ceases.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

In addition, it is specified that the Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no indemnity will be paid to the person concerned.

Each time the term of office of the executive director and officer concerned is renewed, these performance conditions as well as, where relevant, the composition of the Panel, will be reviewed by the Board of Directors and, where relevant, amended to take into account changes to the Company and its sectors of activity.

**(iv) Payment of the indemnity**

The amount of the indemnity will be paid within 30 days following the date of the Board of Directors' meeting which decides whether the performance conditions governing payment of the indemnity have been met.

## 1.5 Amendments made to the suspended employment agreements of the Chairman and Chief executive Officer and of the Deputy General Managers

*Persons concerned: Messrs Franck Riboud (Chairman and Chief Executive Officer), Emmanuel Faber (Deputy General Manager) and Bernard Hours (Deputy General Manager)*

At its meeting on February 10, 2010, the Board of Directors made the following amendments to the suspended employment agreements of the three aforementioned persons:

- the Indemnity for Breach of the Employment Agreement is (i) subject to a limit of two years' fixed and variable gross compensation and (ii) in the event of the payment of both the Indemnity for Breach of the Employment Agreement and the indemnity due in certain instances of the termination of the term of office of an executive director and officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment agreement;
- the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the executive director and officer, and

## Corporate documents

- in the event only of the termination of his term of office caused by a change of control, the person concerned may, provided he is not guilty of serious misconduct or gross negligence, request the cancellation of his employment agreement in the form of lay-off within three months from the date of the termination of his term of office as a executive director and officer (i.e. the date on which his employment agreement is resumed).

In the event of the amendment of the performance conditions applicable to the indemnity due in certain instances of the termination of the term of office of an executive director and officer, the performance conditions applicable to the portion of the Indemnity for Breach of the Employment Agreement corresponding to the seniority acquired in respect of the term of office will be automatically amended.

The portion of the Indemnity for Breach of the Employment Agreement which is subject to performance conditions and which corresponds to the seniority acquired in respect of the term of office will be subject to the agreement of the Board of Directors and the approval of the shareholders on each occasion the term of office is renewed.

In addition, the non-compete clause included in the suspended employment agreements of Mr. Emmanuel Faber and Mr. Bernard Hours was amended and expanded such that it can only be exercised by the Company and result in the payment of consideration in the event of the resignation of either of the persons concerned.

## AGREEMENTS AND UNDERTAKINGS APPROVED DURING PAST FISCAL YEARS AND THAT CONTINUED TO BE PERFORMED DURING THIS FISCAL YEAR

In addition, in compliance with the French Commercial Code, we have been informed of the fact that the following agreements and undertakings approved during past fiscal years continued to apply during the last fiscal year.

### 2.1 Guarantees and securities granted

#### 2.1.1 Companies concerned: Danone, Danone Finance and Alfabanque

*Director concerned and capital relationship: Danone SA is a director of Danone Finance and holds 99.99% of its share capital. Danone is a director of Alfabanque and holds 83.33% of its capital.*

The Board of Directors' Meeting of December 18, 2008 authorized your company to guarantee all of the commitments of its subsidiaries Danone Finance and Alfabanque with respect to covering all of their financial commitments in principal, interest, costs, fees and incidental expenses and, more generally, with respect to any payments due in their capacity as additional borrowers under a bank credit line, and up to a limit of a maximum principal amount of €500 million.

This guarantee was not implemented during the 2009 fiscal year, and the line of credit was cancelled on December 15, 2009.

#### 2.1.2 Companies concerned: Danone, Danone Finance

*Director concerned and capital relationship: Danone SA is a director of Danone Finance and holds 99.99% of its share capital.*

- (a) The Board of Directors' Meeting of October 19, 2007 renewed its authorization allowing your company to guarantee the full amount of the sums due by Danone Finance with respect to its Euro Medium Term Note issuance program, up to a maximum principal amount of € 3 billion, as well as any interest, costs, fees, disbursements and incidental expenses in connection with the outstanding amount, as well as any additional amounts that may be owed by this subsidiary under this program.

*(In € thousands)*

Average outstanding amount in 2009	1,578,038
Interest revenue	1,578

This guarantee was cancelled on November 16, 2009 following the signature of the substitution agreement entered into by your company and its subsidiary, Danone Finance (see paragraph 1.1).

- (b) The Board of Directors' Meeting of February 13, 2008 renewed the previous authorization by the Board of Directors on February 14, 2007 allowing your company to guarantee or to stand surety for Danone Finance when this company operates on financial markets within the framework of financial risk management transactions, up to a limit of € 500 million.

This guarantee had not been implemented as of December 31, 2009, and was renewed and modified by the Board of Directors on February 10, 2010 (see paragraph 1.2.1)

- (c) The Board of Directors' Meeting of April 29, 2008 modified the previous authorization by the Board of Directors on 14 February 2007 allowing the Chief Executive Office of your company to guarantee the issue of commercial paper by Danone Finance, up to a limit of €3 billion, plus any interest, costs, disbursements and incidental expenses related to such amount, as well as any additional amounts that may become due by this subsidiary within the framework of said commercial paper program.

(In € thousands)

Average outstanding amount in 2009	1,355,004
Interest revenue	1,355

This guarantee was made use of during the 2009 fiscal year, and was renewed and modified by the Board of Directors on February 10, 2010 (see paragraph 1.2.2).

### 2.1.3 Companies concerned: Danone, Danone Finance, Danone Finance International

*Director concerned and capital relationship: Danone is a director of Danone Finance and holds 99.99% of its share capital, Danone Finance International is a wholly-owned subsidiary of Danone Finance.*

The Board of Directors' Meeting of October 19, 2007 authorized your company to grant a collateral security for the benefit of its subsidiaries Danone Finance and Danone Finance International, and all other direct or indirect subsidiaries that may subsequently gain the status of additional borrowers under the bank credit facility entered into by the Company on December 7, 2007 with respect to all of their financial commitments in principal, interest, and incidental payments and, more generally, with respect to any payments due in their capacity as additional borrowers in the context of this facility, and up to a limit of a maximum principal amount of € 4 billion.

(In € thousands)

Average outstanding amount in 2009	295,452
Interest revenue (billing in 2010)	295

## 2.2 Cooperation agreement

### *Companies concerned: Danone, danone.communities SICAV, danone.communities FCPR, companies of the Crédit Agricole Group*

*Director concerned: Mr. Jean Laurent, Director of Danone and as of April 26, 2007, Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group.*

The Board of Directors' Meeting of April 26, 2007, within the framework of the danone.communities project, approved the signing of a cooperation agreement established between the Company, the danone.communities open-ended investment fund (Société d'Investissement à Capital Variable - SICAV), the danone.communities venture capital fund (Fonds Commun de Placements à Risques - FCPR), and the companies of the Crédit Agricole Group (namely Ideam and Crédit Agricole Private Equity, respectively management companies for the SICAV and the FCPR, it being specified that as of the date of this meeting, Mr. Jean Laurent, Director of the Company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole Group). This agreement governs the relations among the Company and other entities that have taken part in the danone.communities project, and in particular provides for the subscription of shares of the SICAV by the Company for a maximum amount of €20 million, as well as the annual financial contribution by the Company of a maximum amount of €1.5 million for the first fiscal year, it being specified that this amount must be revised annually by the Board of Directors of the Company.

The Board of Directors meeting of February 13, 2008 decided to increase the annual level of financial contributions that the Company makes to the FCPR to a maximum of €2.5 million for the second fiscal year of danone.communities. Mr. Franck Riboud and Mr. Emmanuel Faber, Directors of Danone, did not vote, as both were Directors of the danone.communities SICAV.

The Board of Directors' meeting of February 10, 2009 decided to maintain the annual level of financial contributions that the Company makes to the FCPR at a maximum of €2.5 million for the third fiscal year of danone.communities. Mr. Franck Riboud and Mr. Emmanuel Faber, Directors of Danone, did not vote, as both were Directors of the danone.communities SICAV.

The financial contribution made by the Company to danone.communities projects in 2009 amounted to €2.35 million.

### 2.3 Approval of undertakings made by the Company with respect to the Chairman and Chief Executive Officer and the Deputy General Managers relative to the conditions applicable to indemnities paid to them in certain cases of termination of their respective terms of corporate office

*Persons concerned: Messrs Franck Riboud (Chairman and Chief Executive Officer), Emmanuel Faber (Deputy General Manager), Bernard Hours (Deputy General Manager) and Jacques Vincent (Deputy General Manager)*

The Board of Directors meeting of February 13, 2008 decided on the principle and the terms and conditions of a right to the payment of an indemnity to each of the four officers of the Company designated above in the event that (i) their respective term of office is not renewed, for whatever reason other than serious misconduct or gross negligence, or (ii) they resign from their duties within twelve months following a change in control of the Company.

In these cases, the person concerned shall receive, as an indemnity, an amount equal to two times his gross annual compensation (including fixed and variable compensation and benefits in kind) received with respect to the performance of his duties during the twelve months preceding the expiration date of his duties.

The payment of this indemnity will be dependent on satisfying performance conditions that are identical for each of the four persons, and based on the comparison of the growth in the Danone group's revenue with that of a panel of international reference groups in the food and beverages sector over a five-year period.

The amount paid as the Indemnity will be based on:

- the average organic growth in the Group's revenue (the "Group CICA") over the five fiscal years preceding the date of termination of the term of office of the person concerned (the "Reference Period"); and
- the average organic growth in the revenue generated by the Panel members (the "Panel CICA"), over the Reference Period,

it being specified that:

- the Group and Panel CICAs are both calculated at constant scope and exchange rates; and
- the Panel consists of seven leading international groups in the food sector: Kellogg Company, Unilever N.V., Nestlé, Kraft Foods Inc., Pepsi Co. Inc., The Coca-Cola Company and Cadbury Schweppes PLC.

To ensure the comparability of the CICAs used, it is specified that:

- in the event of the absence or delayed publication of audited accounting or financial data for one Panel member, the Board of Directors will, exceptionally, have the option of excluding this member from the Panel;
- in the event of the absence or delayed publication of audited accounting or financial data for several Panel members, the Board of Directors will make a decision based on the last audited financial statements published by the Panel members and by Danone over the last five fiscal years for which financial statements have been published for all Panel members and for Danone.

The Board of Directors may exclude a Panel member in the event of the purchase, absorption, dissolution, merger or change of activity of a Panel member, subject to the overall consistency of the sample being maintained.

The Board of Directors will determine for the Reference Period the median of the Panel CICAs (i.e. the central value of the CICAs of the Panel separating the CICAs of the Panel into two equal units), as well as the value corresponding to the first quartile of the CICAs of the Panel (i.e. the value below which 25% of the CICAs of the Panel are situated).

Over the Reference Period:

- if the Group's CICA is equal to or greater than the median Panel CICA, the person concerned will be allocated 100% of the amount of the indemnity;
- if the Group's CICA is greater than or equal to the first quartile and lower than the median of the Panel CICA, the person concerned will be allocated 50% of the indemnity;
- if the Group's CICA is lower than the first quartile of the Panel CICA, no indemnity will be paid to the person concerned.

For this purpose, the Board cancelled the contractual indemnities authorized by the Board of Directors' Meeting of July 21, 2004 with respect to the terms of corporate office of Mr. Franck Riboud and Mr. Jacques Vincent, respectively, and of certain cases of termination of the employee agreements of Mr. Emmanuel Faber and Mr. Bernard Hours.

These undertakings were not implemented during the 2009 fiscal year and were modified by the Board of Directors on February 10, 2010 (see paragraph 1.4).

## 2.4 Agreements concluded with the Chairman and Chief Executive Officer and one of the Deputy General Managers relative to the conditions under which their employment agreements would again become enforceable following the expiration of their terms of corporate office

### 2.4.1. Persons concerned: Mr. Franck Riboud (Chairman and Chief Executive Officer) and Mr. Jacques Vincent (Deputy General Manager)

At its July 21, 2004 meeting, the Board of Directors, pursuant to the Compensation Committee's proposal, updated the conditions under which the employment agreements of Mr. Franck Riboud and Mr. Jacques Vincent would be resumed (it being specified that such employment agreements were suspended on August 26, 1994 when they were appointed as executive director and officers of the Company), assuming that their term of office had ended, for whatever reason, and established that:

- the amount of time during which they have exercised their duties as executive director and officers for the benefit of the Company will be entirely taken into account with respect to length of service and to their resulting rights within the framework of their employment agreement;
- the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee;
- the annual compensation that will be paid to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement;
- they will benefit from the Company's defined benefit pension plan based on their length of service as an executive director and officer and their length of service under the employment agreement.

### 2.4.2. Persons concerned: Mr. Emmanuel Faber and Mr. Bernard Hours

The Board of Directors meeting of February 13, 2008 authorized an amendment to the employment agreements concluded with Mr. Emmanuel Faber and Mr. Bernard Hours, for the purpose of determining the conditions under which their respective employment agreements would be resumed (it being specified that such employment agreements were suspended when they were appointed as executive directors and officers of the Company), assuming that their term of office had ended, for whatever reason. This amendment provides that:

- the amount of time during which they have exercised their duties as executive directors and officers for the benefit of the Company will be entirely taken into account with respect to length of service and to their resulting rights within the framework of their employment agreement,
- the Company undertakes to offer them a position involving duties comparable to those currently exercised by the members of the Company's Executive Committee,
- the annual compensation that will be paid to them cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the twelve months preceding the resumption of their employment agreement,
- they will benefit from the Company's defined benefit pension plan based on their length of service as an executive director and officer and their length of service under the employment agreement,
- the contractual indemnity due in the event of a breach in the employment agreement will be cancelled.

## 2.5 Compliance of ongoing undertakings relative to defined benefit pension plans of the Chairman and Chief executive Officer and of the Deputy General Managers

Persons concerned: Messrs Franck Riboud (Chairman and Chief Executive Officer), Emmanuel Faber (Deputy General Manager), Bernard Hours (Deputy General Manager) and Jacques Vincent (Deputy General Manager)

The Board of Directors meeting of February 13, 2008 confirmed the commitment the Company undertook with respect to each of the four persons designated above relative to the payment of a pension under the defined benefit pension plan in the form of an annuity (with a reversion option), calculated based on the following elements:

- the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last three years of activity within the Group. The length of service taken into account would include the period corresponding to the term of corporate office,
- in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity,

## Corporate documents

- the amount of the annuity that would be paid to Mr. Franck Riboud and Mr. Jacques Vincent would correspond to 2% of this calculation basis per year of seniority (this amount will however be subject to a ceiling of 65% of this calculation basis), minus the full amount of pension rights that Mr. Franck Riboud and Mr. Jacques Vincent are entitled to and have acquired over the course of their professional careers, including the supplementary pension plan fully funded by the Company,
- the amount of the annuity that would be paid to Mr. Emmanuel Faber and Mr. Bernard Hours would correspond to (i) 1.5% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche located between 3 and 8 French Social Security ceiling levels (3 et 8 plafonds de la Sécurité Sociale), and (ii) 3% per year of seniority (including the period corresponding to the term of office) of this calculation basis, for the tranche that is higher than these 8 ceiling levels (this amount will however be limited on the basis of a maximum seniority of 20 years) minus the full amount of pension rights that Mr. Emmanuel Faber and Mr. Bernard Hours have acquired due to the implementation of the supplementary plan fully funded by the Company.

The person concerned is eligible to this pension plan only if he was performing his duties within the Group at the time of retirement (it being specified that in the event the officer leaves the Group before reaching the age of 55, all the rights acquired will be lost, and that in the event such officer is laid off after the age of 55, the benefit derived from this plan is preserved, on the condition that the officer does not take up a salaried position).

Courbevoie and Neuilly-sur-Seine, France, on March 11, 2010

**The Statutory Auditors****MAZARS****PRICEWATERHOUSECOOPERS AUDIT****French original signed by:****French original signed by:**

Thierry COLIN

Ariane MIGNON

Étienne BORIS

Olivier LOTZ



## 20.3 Dividend distribution policy

The following is withheld from earnings (from which, if applicable, have already been deducted past losses): (i) first, at least 5% for the creation of the legal reserve, a deduction that ceases to be mandatory when the legal reserve reaches one tenth of the share capital, but that will be reinstated if, for any reason whatsoever, this amount is no longer reached, and (ii) any sums to be allocated to reserves in accordance with the law.

The balance, to which is added retained earnings, represents the amount of distributable earnings from which is allocated to shareholders, as a first dividend payment, an amount corresponding to interest at 6% per annum on the amount of their shares that has been paid up and not reimbursed, it being specified that if in a given fiscal year earnings are not sufficient to make this payment, the shortfall may be paid by deduction from the earnings of future fiscal years.

Any balance remaining is available for allocation by the annual Shareholders' Meeting, in accordance with a proposal by the Board of Directors, to shares as dividends or, in full or in part, to any reserve accounts or to retained earnings.

The reserves that are available to the Shareholders' Meeting can be distributed, should it so decide, as a dividend payment on the shares. In this case, the decision shall expressly state the reserve accounts from which such distributions shall be made.

A dividend payment of € 1.2 will be proposed at the Shareholders' Meeting of April 22, 2010 with respect to shares for which the dividend entitlement date is January 1, 2009. If this dividend is approved, the shares will be declared ex-dividend on May 4, 2010 and the dividend will be payable as from May 7, 2010.

After restatement of the data for the period prior to June 2007 following the two-for-one stock split in that month, the dividends distributed with respect to the three preceding fiscal years were as follows:

<b>Dividend for the year</b>	<b>Dividend per share</b>	<b>Dividend approved <sup>(1)</sup> (in € millions)</b>	<b>Dividend paid <sup>(1)</sup> (in € millions)</b>
2006	1	522	483
2007	1,1	564	530
2008	1,2	617	275 <sup>(2)</sup>

(1) The shares held directly by the Company do not carry dividend rights. Conversely, shares held by Danone Espagne carry dividend rights.

(2) The Shareholders' Meeting of April 23, 2009 offered each shareholder the possibility of opting for the full dividend payment in respect of fiscal year 2008 to be made in new shares of the Company, which resulted in the delivery of 11,216,756 new shares of the Company to those shareholders who opted for such stock dividend and in the payment of € 275 million to those shareholders who opted for a payment in cash.

The payment of the dividend is carried out by Euroclear France.

The net future dividends will depend on the Company's ability to generate a profit, on its financial position, and on any other factor that the Board of Directors shall consider pertinent.

Dividends that have not been claimed within a five-year period revert to the French State.

## 20.4 Legal and arbitration proceedings

Since January 2008, several class actions have been filed in the United States, notably in the United States District Court of the State of California and in the United States District Court of the State of Ohio, against The Dannon Company Inc., a subsidiary of the Company. The plaintiffs alleged the existence of false advertising with regard to the health claims made for the products *Activia* and *DanActive* ("Actimef").

In September 2009, The Dannon Company Inc. announced that it had reached an out-of-court settlement of these class actions. Under the terms of this agreement, the U.S. subsidiary agreed to set up a fund – capped at USD 35 million – notably to reimburse the cost of products purchased by those consumers who request reimbursement. A provision for the impact of this lawsuit on the Group's financial position has been set aside in the consolidated financial statements as of December 31, 2009.

A request certification of a class action seeking monetary redress and punitive damages under the Civil Code of Quebec and the Quebec Consumer Protection Act, alleging misrepresentation

by Danone Inc. to Canadian and Quebec purchasers of Danone products (including *Activia* and *DanActive*) has been submitted in October 2009. Petitioner alleges that claims that probiotic bacterial supplements provide health benefits are false and misleading. The Motion for authorization of a class action was filed before the Quebec Superior Court but has not yet been heard.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the normal course of business. Provisions are set aside when the payment of an indemnity seems probable and can be reasonably estimated (see Note 17 of the notes to the consolidated financial statements).

There are no other legal, or arbitration proceedings, including any proceedings of which the Group is aware or that are pending, that are likely to have, or have had over the course of the last twelve months, a significant impact on the Group's financial position or its profitability.

## 20.5 Significant change in the financial or commercial position

The Company and its subsidiaries have not experienced any significant changes in their financial or commercial position since the end of the 2009 fiscal year.

## ADDITIONAL INFORMATION

### 21.1 Share Capital

#### 21.1.1 Share Capital as of February 28, 2010

As of February 28, 2010, the Company's share capital amounted to € 161,747,712.50, fully paid, and divided into 646,990,850 common shares of the same class with a par value of € 0.25 per share. Each share gives a right to ownership of a proportion of the Company's assets, profits and any liquidation

surplus, based on the percentage of share capital that it represents.

The comparison between the number of shares in issue as of December 31, 2008 and December 31, 2009 is detailed in the table included in Section 21.1.7 – Changes in the share capital over the last five fiscal years.

#### 21.1.2 Shares Not Representing Share Capital

The Company has not issued shares not representing share capital.

#### 21.1.3 Treasury Stock

##### **PURCHASE BY THE COMPANY OF ITS OWN SHARES**

The Board of Directors may, pursuant to legal provisions, purchase the Company's shares on the market.

The Shareholders' Meeting of April 29, 2008 authorized the Board of Directors, for an eighteen-month period, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company at a maximum purchase price of € 80 per share.

Subsequently, the Shareholders' Meeting of April 23, 2009, authorized the Board of Directors, for an eighteen-month period, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company at a maximum purchase price of € 65 per share. This authorization cancelled and replaced the authorization previously granted by the Shareholders' Meeting of April 29, 2008.

Over the course of 2009 and up to February 28, 2010, the Company did not repurchase any of its own shares.

The following table details the allocation of treasury shares repurchased up to April 2007 pursuant to the authorizations granted by Shareholders' Meetings, it being specified that since that date the Company has not repurchased any of its own shares:

<b>Date of Shareholders' Meeting authorizing the share repurchase program</b>	<b>Use of repurchase</b>	<b>Number of repurchased shares</b>	<b>Total value of repurchased shares</b>
April 27, 2006	Cancellation of shares	4,156,173	€ 469,118,405
	Stock purchase option plans	155,186	€ 18,036,537
	Acquisitions	1,814,037	€ 171,067,712
April 26, 2007	Cancellation of shares	2,467,050	€ 290,228,560
	Stock purchase option plans	806,564	€ 97,744,110
	Acquisitions	–	–

## Share Capital

During 2009, the Company carried out the following transactions on its previously repurchased shares:

- 858,746 shares were transferred to employees following the exercise of stock options;
- 1,915,450 shares and 780,000 shares were reallocated successively in April and in November 2009 from the coverage of acquisitions to the coverage of stock purchase options to take account either of the stock purchase options granted in 2009, or adjustments to the number of stock purchase options made following the share capital increase of June 25, 2009;
- 1,844,442 shares were cancelled;
- none of the Company's own shares were repurchased.

In addition, the Board of Directors will submit to the Shareholders' Meeting to be held on April 22, 2010, a resolution valid for eighteen months, which will cancel and replace the authorization granted by the Shareholders' Meeting of April 23, 2009, to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company (for purposes of illustration, 64,699,085 shares as of December 31, 2009, representing a maximum aggregate purchase amount of € 3,881,945,100) at a maximum purchase price of € 60 per share.

The purpose of the share repurchase program is the following:

- the allocation of shares deriving from the exercise of stock purchase options by the Company's employees, officers and directors, and employees, officers and directors of companies or economic interest groups in which the Company holds, directly or indirectly, at least 10% of the share capital or voting rights;
- the implementation of any plan for the free allocation of shares to all or to certain eligible employees, directors and officers;
- the sale of shares to employees (either directly or through an employee savings mutual fund) within the framework of employee stock ownership programs or company savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving rights to the Company's share capital;
- the retention or eventual delivery of shares as payment or in exchange, particularly with regard to acquisitions;
- the cancellation of shares up to the maximum legal limit;
- boosting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Pursuant to applicable regulations, shares may be purchased, sold, exchanged or transferred, by any available means, on all markets, including multilateral trading systems, or over-the-counter, including the purchase or sale of blocks of shares. These means include the use of any financial contract, under the conditions authorized by the French Financial Markets Authority.

These transactions may be carried out at any time for a period of 18 months as from April 22, 2010, with the exception of periods during which a public tender offer for the Company's securities has been made, within the limits indicated in the applicable regulations.

### CANCELLATION OF SHARES AND CAPITAL REDUCTIONS FOLLOWING SHARE REPURCHASES

The Shareholders' Meeting of April 23, 2009 granted an authorization to the Board of Directors for twenty-four months to cancel shares repurchased in the context of a share repurchase program subject to a limit of 10% of the existing share capital on the day of the meeting.

Under a similar authorization granted by the Shareholders' Meeting of April 26, 2007, 1,844,442 shares were cancelled by the Board of Directors on April 23, 2009, which reduced the share capital by a total par value of € 0.5 million and the additional paid-in of € 93.3 million.

### TREASURY SHARES HELD BY THE COMPANY

As of February 28, 2010, the Company held, directly or indirectly, 33,238,732 shares (comprising 27,258,727 shares held by the Company and 5,980,005 shares held by its Spanish subsidiary Danone SA) with a total value of € 1,011 million, including:

- 16,543,650 shares for the coverage of stock purchase option plans and debt securities giving access to the capital of the Company;
- 10,715,077 shares for use in connection with acquisitions.

Based on the closing prices of the Company's share on Friday February 26, 2010 (*i.e.* € 42.95), the market value of the 33,238,732 treasury shares held as of that date amounted to € 1,427 million. A positive or negative variation of 10% in the price of the Company's share would result in a variation of € 143 million in the market value of the Company's treasury shares and shares held by subsidiaries.

## 21.1.4 Capital Authorized but Not Issued, Share Capital Increase Commitments

### VALID AUTHORIZATIONS TO ISSUE SHARES AND OTHER SECURITIES AS OF DECEMBER 31, 2009

The Shareholders' Meeting regularly authorizes the Board of Directors to carry out a share capital increase through the issuance of common shares or other securities giving access to the Company's share capital.

- The maximum par value amount for the issuance of common shares and securities giving access to the share capital with preferential subscription rights is € 45 million following renewal of the authorization by the Shareholders' Meeting of April 23, 2009, representing a maximum of 180 million new shares to be issued.

This authorization was implemented in 2009 for a par value of € 30,809,088 (see Section 20.2.2).

- The maximum par value amount for the issuance of common shares and securities giving access to the share capital without preferential subscription rights (but with the obligation for the Board of Directors to grant a priority right to Company shareholders) is € 30 million, representing a maximum of 120 million new shares to be issued.

The existing authorizations for the issuance of common shares and securities giving access to the share capital, with or without preferential subscription rights, approved by the Shareholders' Meeting of April 23, 2009, are summarized in the following table:

Type of authorization	Authoriza- tion Date	Expiration Date	Common shares (par value of the issue)	Authorized Limits		Available balance as of December 31, 2009 (par value)
				Securities giving access to the share capital	Used in 2009 (par value)	
<b>Non-dilutive issues</b> (with preferential subscription rights for shareholders)	04/23/2009 (26 months)	06/23/2011	€ 45 million <sup>(1)</sup>	} Common limit of € 2 billion	€ 30,809,088	€ 14,190,912
<b>Dilutive issues</b> (without shareholders' preferential subscription rights, but with the obligation to grant a priority period)	04/23/2009 (26 months)	06/23/2011	€ 30 million <sup>(1)</sup> , to be applied to the € 45 million limit for non- dilutive issuances above		–	€ 30 million
Dilutive issues (public exchange offer initiated by the Company)	04/23/2009 (26 months)	06/23/2011	€ 25 million, to be applied to the € 30 million aggregate limit for dilutive issuances above		–	€ 25 million
Dilutive issues (contributions- in-kind made to the Company)	04/23/2009 (26 months)	06/23/2011	10% of the capital, to be applied to the € 30 million aggregate limit for dilutive issuances above		–	10% of the share capital
Capital increase by capitalization of reserves, earnings or additional paid-in capital	04/23/2009 (26 months)	06/23/2011	€ 33 million	–	–	€ 33 million
Authorization for the benefit of employees and/or officers of the Group	Capital increase reserved for members of a French employee savings plan and/or the sale of reserved shares	04/23/2009 (26 months)	€ 3 million	–	– <sup>(2)</sup>	€ 3 million
	Grant of stock purchase or subscription options	04/23/2009 (26 months)	6 million new or existing shares	–	20,400 options granted	5,979,600 <sup>(3)</sup> options

(1) For issues resulting from cash subscriptions, the Board of Directors may increase the number of securities to be issued by a maximum of 15% of the initial issues and at the same price as for those issues. The issues that may be carried out as a result of this delegation must comply with the limits provided in these two resolutions.

(2) The capital increase reserved for employees approved by the Board of Directors of February 10, 2009 and carried out in May 2009 made use of the authorization granted by the Shareholders' Meeting of April 26, 2007 (and not the authorization granted by the Shareholders' Meeting of April 23, 2009).

(3) The Board of Directors meeting held on February 10, 2010 proposed a resolution to be submitted to the Shareholders' Meeting to be held on April 22, 2010 authorizing the grant of shares subject to performance conditions. If adopted, that resolution will cancel the authorization to grant stock subscription or purchase options adopted by the Shareholders' Meeting of April 23, 2009 (see Section 20.2.1).

## Share Capital

**NEW FINANCIAL AUTHORIZATION**

The Shareholders' Meeting of April 22, 2010 is requested to approve the following issue authorization:

	Date of the Shareholders' Meeting	Expiration date	Authorized limit Common shares
Free grant of shares subject to performance conditions <sup>(1)</sup>	04/22/2010 (26 months)	06/22/2012	0.4% of the share capital as formally noted at the close of the Shareholders' Meeting

*(1) If the resolution to grant shares subject to performance conditions is adopted, it will cancel the authorization to grant stock subscription or purchase options adopted by the Shareholders' Meeting of April 23, 2009 (see Section 20.2.1)*

**21.1.5 Securities Not Representing Capital**

At the Combined Shareholders' Meeting of April 23, 2009, it was decided to delete Article 27.1.9 of the Company's by-laws, which reserved the jurisdiction to decide on or authorize bond issues for the Shareholders' Meeting, in order to recognize the Board of Directors' jurisdiction in principle in this area, pursuant to the first paragraph of Article L. 228-40 of the French Commercial Code.

Furthermore, in accordance with the substitution agreement signed on November 16, 2009 between the Company and Danone Finance (see Section 15.3), the Company replaced Danone Finance as the issuer of debt securities in the context of its Euro Medium Term Note (EMTN) program (bonds for an outstanding capital amount of € 1,787,851,790.50, as shown in

the financial statements of Danone Finance as of June 30, 2009). The Company is now the sole issuer of the Group's bonds. As of February 28, 2010, the total outstanding principal amount on the Company's bonds was € 2,834 million.

Lastly, at its meeting of October 20, 2009, the Board of Directors decided to delegate all bond issuing authority to the General Management for a period of one year, for up to a maximum outstanding principal amount at any time of € 7 billion, or the equivalent amount in any other currency or accounting unit.

**21.1.6 Other Securities Granting Access to Share Capital****STOCK PURCHASE AND SUBSCRIPTION OPTION PLANS**

The Shareholders' Meeting authorized the Board of Directors on various occasions, to grant, on one or more occasions over a maximum period of 26 months, stock purchase options for up to 1% of the Company's share capital for the plan approved by the Shareholders' Meeting in May 1997, 8 million shares for the plan approved by the Shareholders' Meetings of May 1999, May 2001, and April 2003, and 6 million shares for the plan approved by the Shareholders' Meetings of April 2005, April 2007 and April 2009 (after taking into account the stock-splits in 2000, 2004 and 2007).

As of December 31, 2009, 16,562,462 of these options could still be exercised by their beneficiaries.

In addition, as of December 31, 2009, the Board of Directors had the authority to grant 5,979,600 stock purchase options out of a total amount of 6 million shares authorized by the Shareholders' Meeting of April 23, 2009 (see Section 17.2).

At its meeting of April 23, 2009, the Board of Directors decided, on the basis of the authorization given by the Shareholders' Meeting of April 26, 2007, to grant stock purchase options in respect of a total of 2,551,520 shares.

**PLAN FOR THE GRANT OF FREE SHARES**

The Shareholders' Meeting of April 26, 2007 authorized the Board of Directors to grant, on one or more occasions over a maximum period of 26 months, up to 2,000,000 existing or newly-issued common shares of the Company to be issued free of charge. This authorization has not yet been used. The authorization was withdrawn by the Shareholders' Meeting of April 23, 2009.

To this date, the Group has not granted any free shares. Nevertheless, the Board of Directors' meeting of February 10, 2010 proposed that the Shareholders' Meeting of April 22, 2010 vote on a resolution authorizing the granting of shares subject to performance conditions which, if adopted, will cancel the resolution authorizing the granting of stock subscription or purchase options adopted by the Shareholders' Meeting of April 23, 2009 (see Section 20.2.1).

## 21.1.7 Changes in the Share Capital over the Last Five Fiscal Years

Observation Date	Number of shares issued or cancelled (in shares)	Type of Transaction	Change in share capital		Total share capital (in €)	Total number of shares (in shares)
			Par value (in €)	Additional paid-in capital (in €)		
January 17, 2003	143,750	Exercise of options	143,750	7,586,252.60	137,335,122	137,335,122
April 24, 2003	332,861	Capital increase reserved for employees who are members of a company savings plan	332,861	31,042,616.86	137,667,983	137,667,983
July 22, 2003	(1,000,000)	Decrease in share capital through share cancellations	(1,000,000)	(128,529,669.74)	136,667,983	136,667,983
December 22, 2003	(1,700,000)	Decrease in share capital through share cancellations	(1,700,000)	(216,882,782.43)	134,967,983	134,967,983
January 20, 2004	7,510	Exercise of options	7,510	473,881.00	134,975,493	134,975,493
February 10, 2004	(1,300,000)	Decrease in share capital through share cancellations	(1,300,000)	(155,926,934.77)	133,675,493	133,675,493
April 26, 2004	352,232	Capital increase reserved for employees who are members of a company savings plan	352,232	37,572,587.44	134,027,725	134,027,725
June 15, 2004	2,265	Exercise of options	2,265	142,921.50	134,029,990	134,029,990
June 15, 2004	134,029,990	Two-for-one stock split	-	-	134,029,990	268,059,980
January 20, 2005	35,540	Exercise of options	17,770	1,121,287.00	134,047,760	268,095,520
April 22, 2005	(4,600,000)	Decrease in share capital through share cancellations	(2,300,000)	(56,206,484.93)	131,747,760	263,495,520
May 2, 2005	704,730	Capital increase reserved for employees who are members of a company savings plan	352,365	39,246,413.7	132,100,125	264,200,250
January 23, 2006	34,940	Exercise of options	17,470	1,102,357.0	132,117,595	264,235,190
May 3, 2006	629,556	Capital increase reserved for employees who are members of a company savings plan	314,778	44,345,924.64	132,432,373	264,864,746
August 1, 2006	(1,400,000)	Decrease in share capital through share cancellations	(700,000)	(84,694,695.3)	131,732,373	263,464,746
December 15, 2006	(2,600,000)	Decrease in share capital through share cancellations	(1,300,000)	-	130,432,373	260,864,746
May 2, 2007	560,984	Capital increase reserved for employees who are members of a company savings plan	280,492	52,177,121.84	130,712,865	261,425,730
June 1, 2007	261,425,730	Two-for-one stock split	-	-	130,712,865	522,851,460
July 9, 2007	(10,000,000)	Decrease in share capital through share cancellations	(2,500,000)	(580,397,463.00)	128,212,865	512,851,460
May 5, 2008	950,684	Capital increase reserved for employee members of a company savings plan	237,671	41,164,617.20	128,450,536	513,802,144
April 23, 2009	1,844,442	Decrease in share capital through share cancellations	(461,111)	(93,341,739)	127,989,426	511,957,702
May 7, 2009	580,040	Capital increase reserved for employee members of a company savings plan	145,010	19,083,316	128,134,436	512,537,742
May 25, 2009	11,216,756	Capital increase for payment of dividend in shares	2,804,189	356,580,673	130,938,625	523,754,498
June 25, 2009	123,236,352	Capital increase	30,809,088	3,016,825,897	161,747,713	646,990,850

## 21.2 Incorporation Documents and By-Laws

### 21.2.1 Corporate Purpose

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

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

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

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

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

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

### 21.2.2 Internal Regulations of the Board of Directors

The Board of Directors adopted Internal Regulations specifying the rights and obligations of Directors and the operating practices of the Board of Directors at its meeting of April 25, 2002. In 2003, following the Bouton Report (on better corporate governance practices in companies listed in France), the Board of Directors evaluated its operating practices and decided to modify its Internal Regulations. Following an evaluation conducted in 2007, the Board of Directors amended its Internal Regulations at its meeting of July 30, 2007. During the second half of 2008, the Board conducted another evaluation following which the Board decided to amend its Internal Regulations (see Section 16.5).

The main provisions of the Board of Directors' Internal Regulations are summarized below.

**Responsibilities of the Board of Directors.** The Board of Directors is a collective board in which all of the Directors have the same powers and responsibilities and all decisions are made collectively. The Board has a responsibility toward all of the shareholders and meets at least five times per year. It determines its rules of operation and those of its various committees.

The Board of Directors determines the Company's business orientation and oversees its implementation. It makes major decisions regarding the Company's strategic, economic, social, financial, and technological direction. It ensures the relevancy, comparability, reliability, and accuracy of the information provided to shareholders and to the financial market in accordance with applicable accounting standards.

At each meeting, the Chairman sets out the transactions concluded since the previous meeting as well as the main

projects underway that may be concluded prior to the next meeting. Each year, the Board of Directors examines the essential points of the management report, as well as the resolutions to be submitted at the Shareholders' Meeting. In addition, General Management reports to the Board of Directors at least once per half-year on the Company's financial position, treasury position, and commitments.

The Board of Directors approves strategic investment plans and any transactions, particularly acquisitions or disposals, which may significantly impact the Group's financial results, balance sheet, or risk profile. In particular, the Chairman and Chief Executive Officer must obtain the prior approval of the Board of Directors for the following transactions:

Type of transaction	Authorization limit
Purchases and sales of securities and/or assets, partnerships or joint ventures (in cash or through a contribution of assets, made in one or more installments)	Limit of € 250 million applicable to: <ul style="list-style-type: none"> <li>• acquisitions, partnerships, and joint ventures: per investment, for the Group's portion</li> <li>• disposals: payment received by the Group</li> </ul>
Any off-balance sheet commitment given by the Group	Limit of € 100 million for the Group's portion
Other investments	Any significant overrun of the amount set in the annual budget
Internal restructuring	Any restructuring where the total cost for the Group's portion exceeds € 50 million



Between meetings of the Board, Directors receive any useful information on events or transactions of significance for the Group. More generally, they may have the Chairman provide them at any time with such information and documents as they may deem useful in carrying out their responsibilities.

**Meetings of the Board of Directors.** In accordance with legal and regulatory provisions and the Board's Internal Regulations, Directors participating in Board meetings by videoconference or any other means of telecommunication are deemed present for the purposes of calculating *quorum* and majority. However, this means of attendance is not permitted when the Board of Directors meets to approve the Company's financial statements and its consolidated financial statements or to prepare the management report including the Group's management report.

**Committees of the Board of Directors.** The Board of Directors may form one or more special committees, whose composition and powers it determines and which act under the responsibility of the Board. These committees may not interfere in the Company's management or reduce or limit the powers of the Chairman and Chief Executive Officer, the Deputy General Managers or the Board of Directors. In its field of competence, each committee submits proposals, recommendations, opinions, and reports to the Board of Directors on its activities.

The committees are comprised solely of Directors. Their members are appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee. They are appointed in their individual capacity and may not be represented by proxy. Committee chairmen are appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee.

**Compensation of the Members of the Board of Directors.** The Shareholders' Meeting sets the maximum total amount of attendance fees (*jetons de présence*) to be distributed among the Directors. Directors who are members of the Executive Committee do not receive attendance fees.

**Code of Ethics Applicable to Members of the Board of Directors.** The Directors are bound by a general duty of confidentiality that applies to the discussions and deliberations of the Board and its committees and to information of a confidential nature. Each Director acts in the interest and on behalf of all of the shareholders. In carrying out his or her responsibilities, each Director must make decisions independently of any interest other

than the corporate interest of the Group and its shareholders. Each Director must constantly ensure that his or her personal situation does not create a conflict of interests with the Group. Any Director who has a conflict of interests must (i) inform the Board of Directors so that it may make a decision regarding his or her particular case and (ii) refrain from participating in the vote on the relevant discussion.

**Transactions Involving the Company's securities.** These securities include the Company's shares as well as any financial instruments connected with these shares.

In general, the members of the Board of Directors are bound by a duty of care and due diligence as well as by a special precautionary obligation with regard to any personal transaction involving the Company's securities.

In particular, the Directors may not carry out speculative or short-term transactions involving the Company's securities and may not carry out transactions involving the Company's securities in the following cases:

- if they have information that, when published, will affect the price of these securities;
- during the periods explicitly indicated by the Company; in particular, the month preceding the preliminary announcement of the Company's annual and mid-year financial results and two weeks preceding the publication of the Company's quarterly revenues.

In addition, the members of the Board of Directors must refrain from employing hedging instruments in connection with Danone stock or financial income deriving from Danone stock (in particular stock purchase options or rights to free awards of Danone stock).

All of these rules also apply to transactions by individuals bound by relationship with the Directors.

**Evaluation of the Board of Directors' Performance.** The Board's performance shall be evaluated every two years, either through self-assessment or by the Nomination and Compensation Committee or a third party.

### 21.2.3 Shareholders' Meetings

The Board of Directors convenes Shareholders' Meetings in accordance with French law.

Meetings shall be held in the town in which the registered office is located or in any other locality, depending on the decision made in such regard by the person calling the meeting, and at the venue specified in the notice of meeting.

All shareholders may attend Shareholders' Meetings, regardless of the number of shares held, subject to the loss of rights incurred under any applicable laws or regulations.

When properly convened and constituted, the Shareholders' Meeting represents all the shareholders. Its resolutions are binding on all, even dissenting, incompetent, or absent shareholders.

## Incorporation Documents and By-Laws

Any shareholder may be represented by his or her spouse or by another shareholder by virtue of a proxy statement, whose form shall be determined by the Board of Directors.

Minors and incompetent persons shall be represented by their legal guardians and trustees, who not need to be shareholders themselves. A corporate entity shall be legitimately represented by any legal representative so entitled or by a person specially empowered for the said purpose.

Participation in Shareholders' Meetings by any means shall be contingent on the registration or recording of stock ownership,

according to the terms and within the time-limits stipulated by the regulations in force.

At the Shareholders' Meeting of April 23, 2009, the Company's by-laws were amended (i) to facilitate the implementation of electronic voting for the vote prior to Shareholders' Meetings and (ii) to allow the Board of Directors to decide that votes during the Shareholders' Meeting may be cast by videoconference or any other means of telecommunication by which shareholders may be identified in accordance with regulatory conditions.

### 21.2.4 Crossing of Thresholds

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In addition to the legal declarations, the by-laws provide that any individual or entity that acquires or ceases to hold in any manner whatsoever, within the meaning of Articles L. 233-7 *et seq.* of Book II of the French Commercial Code, a fraction equivalent to 0.5% of the voting rights or a multiple thereof must, within five trading days of crossing such threshold, notify the Company of the total number of shares or securities giving future access to the capital and the total number of voting rights that said individual or entity holds alone, or indirectly, or in concert, by registered mail with return receipt to the Company's registered office. If the threshold is crossed as a result of a purchase or sale on the

market, the period of five trading days begins as from the date of trade and not the date of delivery.

In the event of failure to comply with this notification requirement, upon the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been declared may not be exercised or delegated by the non-complying shareholder for a period of two years as from the date on which the shareholder comes into compliance with the notification requirement.

### 21.2.5 Changes in the Share Capital and in the Rights Associated with the Shares

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Any changes in the share capital or the rights attached to the securities comprising the share capital are subject to applicable legal provisions, as the by-laws do not contain any specific provisions related thereto.

## IMPORTANT CONTRACTS

The contracts signed by the Company and its subsidiaries in the normal course of business operations are not shown below.

The Group has committed to acquiring the holdings of third-party shareholders in certain companies that are consolidated fully or as associates, in the event that such shareholders wish to exercise their put option. The exercise price of these options is generally based on the profitability and financial position of

the entity concerned at the date of exercise of the option. As of December 31, 2009, the amount of these commitments totalled approximately € 3.1 billion, which is reflected in the Group's financial liabilities. The main commitment, for an amount of € 2.4 billion, relates to Danone Spain. See Section 20.1 in the Note 15 of the notes to the consolidated financial statements.

INFORMATION ORIGINATING FROM  
THIRD PARTIES, EXPERT OPINIONS AND  
DECLARATIONS OF INTEREST

NIL

## DOCUMENTS AVAILABLE TO THE PUBLIC

The by-laws, the minutes of Shareholders' Meetings, reports of the statutory auditors, and other corporate documents may be consulted at the Company's registered office. Moreover, historical financial information and certain information regarding the

organization and businesses of the Company and its subsidiaries are available on the Group's website in the section pertaining to regulated information.

The table below lists all of the regulated information published between January 1, 2009 and February 28, 2010:

Subject	Date	Place of consultation
December 2008 voting rights declaration	01/02/2009	www.danone.com AMF
Danone completes sale of Frucor to Suntory	02/02/2009	www.danone.com AMF
January 2009 voting rights declaration	02/02/2009	www.danone.com AMF
Full year results 2008	02/11/2009	www.danone.com AMF
February 2009 voting rights declaration	03/02/2009	www.danone.com AMF
Publication of 2008 Registration Document	03/23/2009	www.danone.com AMF
Appointment of Flemming Morgan, Managing Director - Medical Nutrition, to the Danone group's Executive Committee	04/01/2009	www.danone.com AMF
Publication of preparatory documents	04/03/2009	www.danone.com AMF
March 2009 voting rights declaration	04/01/2009	www.danone.com AMF
Danone group and Wadia Group end their joint venture in India	04/14/2009	www.danone.com AMF
First quarter sales 2009	04/16/2009	www.danone.com AMF
Danone 2008 dividend	04/23/2009	www.danone.com AMF
2009 Shareholders' Meeting	04/23/2009	www.danone.com AMF
2009 grants to the executive directors and officers ( <i>mandataires sociaux</i> ) of Danone	05/04/2009	www.danone.com AMF
April 2009 voting rights declaration	05/04/2009	www.danone.com AMF
Danone to expand R&D operations in the Netherlands. Opening expected in 2012 of a new world center in the Utrecht science park	05/18/2009	www.danone.com AMF
Danone intends to increase financial and strategic flexibility through the launch of a capital increase of around € 3 billion, with preferential subscription rights	05/25/2009	www.danone.com AMF
Danone launches a capital increase in cash with preferential subscription rights for € 3.0 billion.	05/29/2009	www.danone.com AMF
May 2009 voting rights declaration	06/02/2009	www.danone.com AMF
Success of Danone's € 3 billion capital increase -182% offer subscription rate	06/23/2009	www.danone.com AMF
June 2009 voting rights declaration	07/03/2009	www.danone.com AMF
Executive Committee: Jordi Constans and Felix Martin promoted to Co-Managing Directors of the Fresh Dairy Products business line	07/07/2009	www.danone.com AMF
First half results 2009	07/24/2009	www.danone.com AMF
Notification of publication of Danone's six-month financial report as of June 30, 2009	07/24/2009	www.danone.com AMF
July 2009 voting rights declaration	08/24/2009	www.danone.com AMF
August 2009 voting rights declaration	09/10/2009	www.danone.com AMF
Amicable settlement by The Dannon Company of the class action initiated in the United States in January 2008	09/18/2009	www.danone.com AMF
Danone denies the market rumors reported by the media today regarding Mead Johnson	09/29/2009	www.danone.com AMF
Danone and the Group Wahaha reach an amicable settlement	09/30/2009	www.danone.com AMF
September 2009 voting rights declaration	10/06/2009	www.danone.com AMF
Third quarter and nine-month sales 2009	10/23/2009	www.danone.com AMF
October 2009 voting rights declaration	11/03/2009	www.danone.com AMF
Danone adapts its financial structure by launching a tender offer in cash for certain of its bonds	11/16/2009	www.danone.com AMF
Danone reconfirms its objectives for 2009 and releases its medium-term objectives	11/18/2009	www.danone.com AMF
Danone announces the success of its tender offer for certain of its bonds	11/25/2009	www.danone.com AMF
November 2009 voting rights declaration	12/04/2009	www.danone.com AMF
Danone acquires 100% of Danone Clover in South Africa	12/10/2009	www.danone.com AMF
December 2009 voting rights declaration	01/08/2010	www.danone.com AMF
Danone: Full year results 2009	02/11/2010	www.danone.com AMF

## INFORMATION REGARDING THE COMPANY'S EQUITY INTERESTS

A list of the Company's subsidiaries and equity interests is presented in Section 20.1 in the Note 29 of the notes to the consolidated financial statements.

# A

## APPENDICES TO THE COMBINED SHAREHOLDERS' MEETING OF APRIL 22, 2010

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## A.1 Draft of Resolutions presented at the Combined Shareholders' Meeting of April 22, 2010

### A.1.1 Resolutions within the authority of the Ordinary Shareholders' Meeting

#### First Resolution

*(Approval of the statutory financial statements for the fiscal year ended December 31, 2009)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the reports of the Board of Directors and of the Statutory Auditors on the statutory financial statements, hereby approves the statutory financial statements of the Company for the fiscal

year ended December 31, 2009, which include the balance sheet, the income statement and the notes, as presented, as well as the transactions reflected in the statutory financial statements and summarized in the abovementioned reports.

#### Second Resolution

*(Approval of the consolidated financial statements for the fiscal year ended December 31, 2009)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the reports of the Board of Directors and of the Statutory Auditors on the consolidated financial statements, hereby

approves the consolidated financial statements of the Company for the fiscal year ended December 31, 2009, as presented, as well as the transactions reflected in the consolidated financial statements and summarized in the abovementioned reports.

#### Third Resolution

*(Allocation of the earnings for the fiscal year ended December 31, 2009 and setting of the dividend at € 1.20 per share)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the reports of the Board of Directors and of the Statutory Auditors:

- acknowledges that the earnings for the fiscal year 2009 amount to € 563,650,076.68;
- acknowledges that retained earnings amount to € 3,926,588,923.27;
- totaling earnings available for allocation of € 4,490,238,999.95;
- decides to allocate the total earnings as follows:
  - to the legal reserve in the amount of € 1,266,150.72;
  - to dividends in the amount of € 776,389,020.00;
  - to retained earnings in the amount of € 3,712,583,829.23;

The Shareholders' Meeting therefore decides to distribute a dividend of € 1.20 per share. The amount distributed among the shareholders is eligible in its entirety for the 40% allowance provided for in Article 158-3.2° of the French Tax Code (*Code général des impôts*) for those shareholders who may benefit from it, unless they opt for the flat-rate withholding tax provided for in Article 117 *quater* of the French Tax Code.

The shares will be declared ex-dividend on May 4, 2010 and will be payable as of May 7, 2010.

In accordance with the provisions of Article L. 225-210 of the French Commercial Code (*Code de commerce*), the Shareholders' Meeting decides that the amount of the dividend corresponding to the shares held by the Company on the payment date will be allocated to the "retained earnings" account.



The dividends distributed for the three previous fiscal years were as follows:

<b>Fiscal year</b>	<b>Number of shares <sup>(1)</sup></b>	<b>Dividend distributed <sup>(2)</sup></b>
2006	521,729,492	1
2007	512,851,460	1.1
2008	513,802,144	1.2 <sup>(3)</sup>

(1) The figures for 2006 have been recalculated to take into account the two-for-one stock split in 2007.

(2) Distribution eligible in its entirety for the 40% allowance.

(3) With an option to receive payment of the dividend in shares.

## Fourth Resolution

*(Renewal of the tenure of Mr. Franck RIBOUD as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, renews the tenure of Mr. Franck RIBOUD as a Director for the period of three years as set in the by-laws.

Mr. Franck RIBOUD's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2012.

## Fifth Resolution

*(Renewal of the tenure of Mr. Emmanuel FABER as Director)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, renews the tenure of Mr. Emmanuel FABER as a Director for the period of three years as set in the by-laws.

Mr. Emmanuel FABER's term of office will expire at the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2012.

## Sixth Resolution

*(Renewal of PricewaterhouseCoopers Audit as Statutory Auditor)*

The Shareholders' Meeting, acting under the conditions of *quorum* and majority required for Ordinary Shareholders' Meetings, acknowledges that the appointment of PricewaterhouseCoopers Audit is expiring and renews the appointment of

PricewaterhouseCoopers Audit as Statutory Auditor for a period of six years, *i.e.*, until the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2015.



## Seventh Resolution

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*(Appointment of Ernst & Young & Autres as Statutory Auditor)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, appoints Ernst & Young & Autres as Statutory Auditor for a period

of six years, *i.e.*, until the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2015.

## Eighth Resolution

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*(Appointment of Mr. Yves NICOLAS as substitute Statutory Auditor)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, appoints Mr. Yves NICOLAS as substitute Statutory Auditor for a

period of six years, *i.e.*, until the end of the Ordinary Shareholders' Meeting convened to approve the financial statements for the fiscal year 2015.

## Ninth Resolution

---

*(Appointment of Auditex as substitute Statutory Auditor)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, appoints Auditex as substitute Statutory Auditor for a period of six years, *i.e.*, until the end of the Ordinary Shareholders' Meeting

convened to approve the financial statements for the fiscal year 2015.

## Tenth Resolution

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*(Approval of the agreements referred to in the special report of the Statutory Auditors)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the special report of the Statutory Auditors concerning the agreements referred to in Article L. 225-38 *et seq.* of the

French Commercial Code, acknowledges the conclusions of this report and approves the agreements referred to therein, other than those the subject of the eleventh, twelfth and thirteenth resolutions.

## Eleventh Resolution

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*(Approval of the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code regarding Mr. Franck RIBOUD)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the special report of the Statutory Auditors, acknowledges the conclusions of said report and approves the

agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code accepted in favor of Mr. Franck RIBOUD as described in said report.

## Twelfth Resolution

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*(Approval of the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code regarding Mr. Emmanuel FABER)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the special report of the Statutory Auditors, acknowledges the conclusions of said report and approves the

agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code accepted in favor of Mr. Emmanuel FABER as described in said report.

## Thirteenth Resolution

---

*(Approval of the agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code regarding Mr. Bernard HOURS)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the special report of the Statutory Auditors, acknowledges the conclusions of said report and approves the

agreements and undertakings referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code accepted in favor of Mr. Bernard HOURS as described therein.

## Fourteenth Resolution

*(Authorization granted to the Board of Directors to purchase, retain or transfer the Company's shares)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the report of the Board of Directors and the description of the program established in accordance with Articles 241-1 *et seq.* of the General Regulations of the French Financial Markets Authority.

1. – Authorizes the Board of Directors to purchase, retain or transfer the Company's shares, within the context of a share repurchase program, pursuant to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code and European Regulation 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

The purchase of the Company's shares may be executed for the purpose of:

- the allocation of shares with respect to the exercise of stock purchase options by the Company's employees and directors and officers (*mandataires sociaux*) as well as by employees, directors and officers of companies or economic interest groups in which the Company holds, directly or indirectly, at least 10% of the share capital or voting rights;
- the implementation of any plan for the allocation of free shares to eligible employees, directors and officers, or to some of them;
- the sale of shares to employees (either directly or through an employee savings mutual fund (in French, an "FCPE") within the context of employee shareholding plans or savings plans);
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the retaining and the later delivery of shares as payment or for exchange in the context of acquisitions;
- the cancellation of shares, within the maximum legal limit;
- boosting the market for the shares pursuant to a liquidity contract concluded with an investment service provider in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Within the limits permitted by the regulations in force, the shares may be acquired, sold, exchanged or transferred by any means on any stock market, including multilateral trading systems, or over-the-counter, including by acquisition or disposal of blocks of shares. These means may include the use of any financial contract, provided that the means so used are pursuant to the conditions authorized by the French Financial Markets Authority.

2. – Decides that these transactions may be executed at any time, except during the period of a public tender offer for the Company's securities, within the limits allowed by applicable regulations.

3. – Decides that the maximum purchase price may not be greater than € 60 per share.

In the event of a capital increase by the incorporation of reserves and allocation of free shares or through a stock split or a reverse stock split, the price indicated above will be adjusted by a coefficient equal to the ratio between the number of shares comprising the share capital before the transaction and the number of shares comprising the share capital after the transaction.

4. – Acknowledges that the maximum number of shares that may be purchased under this authorization may not, at any time, exceed 10% of the total number of shares comprising the share capital (*i.e.*, 64,699,085 shares as of December 31, 2009, representing a maximum theoretical purchase amount of € 3,881,945,100, excluding the shares already held by the Company), it being specified that this limit applies to an amount of the Company's capital that will be, if necessary, adjusted to take into account the operations affecting the share capital following this Shareholders' Meeting. The acquisitions made by the Company may not, under any circumstances, result in the Company holding more than 10% of its share capital, either directly or indirectly through subsidiaries.

Notwithstanding the above, the number of shares acquired by the Company to be retained and later delivered for payment or exchange in the context of an acquisition may not exceed 5% of its share capital.

5. – Delegates full powers to the Board of Directors to implement this authorization, with the right to sub-delegate, to:

- place all orders on any market or carry out any operation off the market;
- conclude all agreements, for purposes of, among other things, the maintenance of the share purchase and sale registries;
- file all the necessary declarations and carry out all the necessary formalities with the French Financial Markets Authority or any other authority;
- carry out all other formalities and, generally, take any necessary measures.

The Board of Directors shall notify the Shareholders' Meeting of the transactions carried out in application of this resolution.

This resolution cancels and replaces the authorization granted by the Shareholders' Meeting of April 23, 2009 in its thirteenth resolution and is granted for an 18-month period as from the date of this Shareholders' Meeting.

## A.1.2 Resolutions within the authority of the Extraordinary Shareholders' Meeting

### Fifteenth Resolution

*(Authorization granted to the Board of Directors to allocate existing or newly issued shares of the Company)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Extraordinary Shareholders' Meetings, having reviewed the report of the Board of Directors as well as the special report from the statutory auditors, in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code:

1. – Authorizes the Board of Directors to allocate, on one or more occasions, common shares of the Company, existing or to be issued, to employees or to certain categories thereof that it shall select from among the employees and the eligible directors or officers of the Company and of affiliates of the Company within the meaning of Article L. 225-197-2 of the French Commercial Code. If the shares allocated are to be issued, this authorization shall constitute, after the expiration of the vesting period(s), a capital increase through the incorporation of reserves, earnings or additional paid-in capital in favor of the beneficiaries of said shares.
2. – Decides that the Board of Directors will proceed with the allocations and will determine the identity of the beneficiaries of said allocations.
3. – Decides that the allocation of shares in accordance with this authorization may not affect a number of existing or new shares that represents more than 0.4% of the Company's share capital at the close of this meeting; this percentage shall be calculated without taking into account the adjustments that may be made in accordance with any applicable legal and regulatory requirements or any contractual provisions providing for other adjustments to protect the rights of the holders of securities or other rights giving access to the share capital.
4. – Decides that the existing or new shares allocated pursuant to this authorization may be allocated, subject to legal requirements, to the Chairman of the Board of Directors, the Chief Executive Officer and the General Managers of the Company, provided that they are allocated subject to performance conditions and if the total thereof does not represent more than 0.1% of the Company's share capital at the close of this meeting (subject to any adjustment as specified in the prior paragraph).
5. – Decides that the allocation of shares to their beneficiaries will become final after a vesting period, the duration of which will be set by the Board of Directors. This vesting period shall not be less than two years and the beneficiaries must hold the said shares for a duration set by the Board of Directors. The retention period may not be less than two years after the final allocation of such shares. However, if the vesting period for all or a part of one or more allocations is a minimum of four years, the Shareholders' Meeting authorizes the Board of Directors not to impose any retention period for the shares in question. If necessary, the Board of Directors may make the duration of the vesting period and of the retention period longer than the aforementioned minimum duration.
6. – Expressly subjects the final allocation of existing or new shares under this resolution to the achievement of one or more performance objectives that the Board of Directors shall determine.
7. – Decides that, as an exception to the foregoing and for a maximum of 25% of the total share allocations authorized in this resolution, shares may be allocated to certain employees, other than officers, Directors and General Management (the "Executive Committee"), without being subject to performance conditions, provided that the shares allocated not subject to performance conditions do not represent more than 33% of the total number of shares allocated to each employee in question.
8. – Decides, moreover, that, in the event that the invalidity of the beneficiary corresponds to a classification in the second or third categories provided in Article L. 341-4 of the French Social Security Code (*Code de la Sécurité sociale*), the shares will be definitively attributed to the beneficiary before the end of the remaining acquisition period. The said shares will be freely transferable on delivery.
9. – Acknowledges that this authorization entails *ipso jure* the waiver by the shareholders of their preferential subscription right to the shares that would be issued as a result of this resolution, for the benefit of the beneficiaries;
10. – Decides that this resolution cancels the unused portion of the authorization granted by the Shareholders' Meeting of April 23, 2009 in its thirtieth resolution to allocate share purchase and/or subscription options.
11. – Grants full power to the Board of Directors, with the ability to subdelegate in accordance with legal and regulatory provisions, to implement this resolution, within the limits set forth above and within the limits authorized by applicable laws and regulations, and in particular to determine, if applicable, the terms and conditions of the issuances that will be completed as a result of this authorization, as well as the dividend entitlement dates of the new shares, acknowledge the share capital increases, amend the by-laws accordingly, and more generally complete all formalities necessary for the issuance, listing and financial servicing of securities issued as a result of this resolution and take all useful and necessary steps in accordance with applicable laws and regulations.



This authorization is granted for a 26-month period from the date of this Shareholders' Meeting.

Each year, the Board of Directors shall inform the Ordinary Shareholders' Meeting, in accordance with legal and regulatory requirements, and in particular Article L. 225-197-4 of the French

Commercial Code, of the transactions completed pursuant to this resolution.

## Sixteenth Resolution

*(Amendment of Article 26, paragraph II of the by-laws regarding the limitation of voting rights)*

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Extraordinary Shareholders' Meetings, having reviewed the report of the Board of Directors decides to amend Article 26, paragraph II of the by-laws as follows:

### Previous wording

Article 26 – Attendance sheet – Votes

II – Subject to the following conditions, each shareholder at the meeting shall have as many votes as shares he holds or represents:

- a double voting right shall be granted, as provided for by law and in light of the percentage of share capital that they represent, to all shares that are fully paid in and that are documented as having been registered for at least two years in the name of the same shareholder as well as, in the event of a capital increase through the incorporation of reserves, earnings or additional paid-in capital, to registered shares allocated at no charge to a shareholder as a result of existing shares that grant the shareholder such a right. A merger of the company shall not affect this double voting right, which may be exercised with respect to the absorbing company if the by-laws of that company provide for a double voting right;
- at Shareholders' Meetings, no shareholder may exercise, either himself or as a proxy holder, single voting rights of shares that he holds directly, indirectly or through the proxies that have been given to him, representing more than 6% of the total number of voting rights of the Company's shares; however, if the shareholder also has, personally and/or as a proxy holder, double voting rights, said limit may be exceeded by taking into consideration only the additional voting rights resulting therefrom, provided that all voting rights that he exercises do not exceed 12% of the total number of voting rights of the Company's shares.

To apply the foregoing provisions:

- the total number of voting rights taken into consideration shall be calculated as of the date of the Shareholders' Meeting and the shareholders shall be notified thereof when said Shareholders' Meeting is called to order;
- the number of voting rights held directly or indirectly includes, *inter alia*, those that are attached to the shares that a shareholder holds personally, shares that are held by a legal entity that he controls within the meaning of Article L. 233-3 of the French Commercial Code and shares treated the same as shares held as defined in Articles L. 233-7 et seq. of the French Commercial Code;
- for voting rights exercised by the Chairman of the Shareholders' Meeting, the voting rights of shares for which proxies have been returned to the Company without specifying the proxy holder and that, individually, do not violate the specified limits, will not be taken into consideration for the purposes of the foregoing limits.

### New wording

Article 26 – Attendance sheet – Votes

II – Subject to the following conditions, each shareholder at the meeting shall have as many votes as shares he holds or represents:

- a double voting right shall be granted, as provided for by law and in light of the percentage of share capital that they represent, to all shares that are fully paid in and that are documented as having been registered for at least two years in the name of the same shareholder as well as, in the event of a capital increase through the incorporation of reserves, earnings or additional paid-in capital, to registered shares allocated at no charge to a shareholder as a result of existing shares that grant the shareholder such a right. A merger of the company shall not affect this double voting right, which may be exercised with respect to the absorbing company if the by-laws of that company provide for a double voting right;
- at Shareholders' Meetings, no shareholder may exercise, either himself or as a proxy holder, single voting rights of shares that he holds directly, indirectly or through the proxies that have been given to him, representing more than 6% of the total number of voting rights of the Company's shares; however, if the shareholder also has, personally and/or as a proxy holder, double voting rights, said limit may be exceeded by taking into consideration only the additional voting rights resulting therefrom, provided that all voting rights that he exercises do not exceed 12% of the total number of voting rights of the Company's shares.

To apply the foregoing provisions:

- the total number of voting rights taken into consideration shall be calculated as of the date of the Shareholders' Meeting and the shareholders shall be notified thereof when said Shareholders' Meeting is called to order;
- the number of voting rights held directly or indirectly includes, *inter alia*, those that are attached to the shares that a shareholder holds personally, shares that are held by a legal entity that he controls within the meaning of Article L. 233-3 of the French Commercial Code and shares treated the same as shares held as defined in Articles L. 233-7 et seq. of the French Commercial Code;
- for voting rights exercised by the Chairman of the Shareholders' Meeting, the voting rights of shares for which proxies have been returned to the Company without specifying the proxy holder and that, individually, do not violate the specified limits, will not be taken into consideration for the purposes of the foregoing limits.

**Previous wording**

- The limitations provided for above shall be null and void without any requirement for a new decision of an Extraordinary Shareholders' Meeting, if a natural person or legal entity, acting alone or in concert with one or more natural persons or legal entities, holds at least two-thirds of the total number of shares of the Company following a public offering for all of the Company's shares. The Board of Directors shall formally acknowledge that the limitations have become null and void and shall complete the corresponding modifications to the by-laws.
- The limitations provided for in the foregoing paragraphs shall not affect the calculation of the total number of voting rights, including double voting rights, of the Company's shares that must be taken into consideration for the application of legal or regulatory provisions or the provisions of the by-laws that contain special obligations related to the number of voting rights existing within the Company or the number of shares having voting rights.

**New wording**

- The limitations provided for above shall be null and void without any requirement for a new decision of an Extraordinary Shareholders' Meeting, if a natural person or legal entity, acting alone or in concert with one or more natural persons or legal entities, holds at least two-thirds of the total number of shares of the Company following a public offering for all of the Company's shares. The Board of Directors shall formally acknowledge that the limitations have become null and void and shall complete the corresponding modifications to the by-laws.
- **The limitations specified above shall be suspended for a Shareholders' Meeting if the number of shares present or represented at said meeting reaches or exceeds 75% of the total number of voting shares. In such event, the Chairman of the Board of Directors (or any other person who is presiding over the meeting in his absence) shall formally acknowledge the suspension of said limitation when the Shareholders' Meeting is called to order.**
- The limitations provided for in the foregoing paragraphs shall not affect the calculation of the total number of voting rights, including double voting rights, of the Company's shares that must be taken into consideration for the application of legal or regulatory provisions or the provisions of the by-laws that contain special obligations related to the number of voting rights existing within the Company or the number of shares having voting rights.

## Seventeenth Resolution

### *(Powers to effect formalities)*

The Shareholders' Meeting gives full power to any bearer of an original, a copy or an excerpt of the minutes of this meeting to

complete all legal and administrative formalities and complete all filings and any publicity required by law.



## A.2 Statutory Auditors' special reports presented at the Shareholders' Meeting of April 22, 2010

### STATUTORY AUDITOR'S SPECIAL REPORT ON THE ALLOCATION OF FREE SHARES EXISTING OR TO BE ISSUED FOR THE BENEFIT OF PERSONNEL OR CERTAIN CATEGORIES TO BE DETERMINED FROM AMONG THE EMPLOYEES

#### Extraordinary General Shareholders' Meeting of April 22, 2010

##### (15th resolution)

In our capacity as Statutory Auditors' of your company, and in execution of our assignment pursuant to Article L. 225-197-1 of the French Commercial Code, we have prepared this report on the proposed allocation of common shares, existing or to be issued, free of charge for the benefit of personnel or certain categories of personnel to be determined from among the employees and the eligible directors and officers (*mandataires sociaux*) of Danone or of the companies related to Danone according to Articles L. 225-197-2 of the French Commercial Code.

Your Board of Directors proposes that you authorize it to allocate shares, existing or to be issued, free of charge, in accordance with the terms and conditions stipulated in its report. It is the responsibility of the Board of Directors to submit a report on this transaction that it wishes to carry out. Our role is to report to you, if applicable, our observations on the information thus provided to you on the proposed transaction.

We have carried out the procedures we deemed necessary with regard to the professional standards of the French society of auditors (*Compagnie Nationale des Commissaires aux Comptes*) relative to this assignment. These procedures required us to verify that the methods proposed and provided in the Board of Directors' report comply with provisions provided for by law.

We have no observations to report regarding the information provided in the Board of Directors' report on the planned free allocation of shares.

Courbevoie and Neuilly-sur-Seine, France, on March 11, 2010

#### The Statutory Auditors

##### MAZARS

##### PRICEWATERHOUSECOOPERS AUDIT

##### French original signed by:

##### French original signed by:

Thierry COLIN

Ariane MIGNON

Étienne BORIS

Olivier LOTZ

## A.2 bis Board of Directors' supplementary report

This supplementary report has been prepared in accordance with Articles L. 225-129-5 and R. 225-116 of the French Commercial Code.

### 1. Legal context of the issue

We remind you that, under the terms of its twenty-third resolution, the Combined Shareholders' Meeting of the Company of April 23, 2009 delegated to the Board of Directors, with power to sub-delegate to the Chief Executive Officer or, with the permission of the latter, to one or more of the Deputy General Managers, for a period of twenty-six months, its authority to issue, with maintenance of preferential subscription rights, shares of the Company and all securities of any kind giving access, immediately or at a later date, to shares of the Company, with a total aggregate par value not to exceed € 45 million, to which amount will be added, if applicable, the par value of any additional shares issued to protect the interests of holders of rights attached to securities giving access to the capital of the Company, in accordance with all applicable legal and regulatory provisions and all applicable contractual terms.

Pursuant to the delegation of powers provided under the terms of the twenty-third resolution adopted by the Combined Shareholders' Meeting of the Company of April 23, 2009, the Board of Directors, in its May 25, 2009 meeting, decided: (i) to use the delegation of powers granted to it by Danone's April 23, 2009 Combined Shareholders' Meeting in its twenty-third resolution to proceed with a capital increase in cash, with preferential subscription rights, for a total amount not to exceed € 3.050 billion, including additional paid-in capital, to be completed before June 30, 2009; (ii) to give shareholders the right to subscribe to this capital increase for a number of shares greater (*à titre réductible*) than the number of shares to which they would be legally entitled to subscribe in direct proportion to the subscription rights they hold (*à titre irréductible*) and, in any event, limited to the number of securities requested; (iii) that the subscription price of any shares that may be so issued must be fully and exclusively paid up in cash at the time of subscription; and, accordingly (iv) to sub-delegate to the



Chairman and Chief Executive Officer the necessary powers to decide whether to carry out or to defer this capital increase with preferential subscription rights, to establish the final details of this operation, and to formally note its final completion.

Making use of this sub-delegation, the Chairman and Chief Executive Officer decided on May 28, 2009, to conduct a capital increase with a par value of € 30,809,088 (the "**Capital Increase**") by issuing 123,236,352 new shares with a par value of € 0.25 per share (the "**Shares**"), with preferential subscription rights of 4 new shares for 17 existing shares, to be subscribed to and paid up in cash at a subscription price of € 24.73 per new share, comprising a par value of € 0.25 and additional paid-in capital of € 24.48.

The French Financial Markets authority (AMF) authorized the prospectus for the Capital Increase, under no. 09-0165 dated May 28, 2009.

By a decision dated June 25, 2009, the Chairman and Chief Executive Officer formally noted that the issue of 123,236,352 shares had been fully subscribed, and that shareholders' requests for their legal proportional subscriptions [à titre irréductible] and their oversubscriptions [à titre réductible] had been fully satisfied, and formally noted the final completion of the Capital Increase as of June 25, 2009.

On this basis, and in accordance with the legal and regulatory provisions mentioned above, we present the following report: (i) detailing the principal terms of the Share issue; (ii) analyzing the impact of the Share issue on the positions of holders of equity securities and securities giving access to the capital of the Company; and (iii) analyzing the theoretical impact of the Share issue on the market value of Danone stock.

## 2. Principal terms of the issue

Analysis of the principal terms of the Share issue:

### Subscription period and the exercise of preferential subscription rights:

The subscription period was from June 1 to June 12, 2009, inclusive. The preferential subscription rights were separated from the shares on June 1, 2009 and were traded on Euronext Paris from June 1, 2009 to June 12, 2009,

During that time, holders of preferential subscription rights were able to subscribe (i) proportional to their existing shareholdings, to 4 new shares for each 17 existing shares owned, and (ii) to the number of new shares they desired over and above the number for which they held preferential subscription rights.

### Subscription price:

The subscription price of one new share was set at € 24.73, comprising a par value of € 0.25 and additional paid-in capital of € 24.48.

### Amount of Capital Increase:

The par value of the Capital Increase was € 30,809,088,

The Share issue totaled € 3,047,634,984.96, comprising a par value of € 30,809,088 and additional paid-in capital of € 3,016,825,896.96.

### Number of shares issued:

A total of 123,236,352 new shares were issued.

### Record date and listing of shares:

The new shares issued were common shares of the same class as the Company's existing shares. They confer beneficial ownership as from January 1, 2009 and entitle their holder to all dividends declared by the Company as from the issue date,

The new shares were listed for trading on Euronext Paris on June 25, 2009. They are fungible with the existing shares of the Company, which were already traded on Euronext Paris, and after that date may be traded on the same quotation line as the existing shares under the same ISIN Code (FR0000120644),

The detailed terms of the Capital Increase are contained in the prospectus authorized by the AMF on May 28, 2009 under no. 09-165, which is available without charge at the Company's headquarters, 17, boulevard Haussmann – 75009 Paris – France, on the Company's website ([www.danone.com](http://www.danone.com)), and on the AMF's website ([www.amf-france.org](http://www.amf-france.org)).



### 3. Impact of the share issue on the positions of holders of equity securities

Analysis of the impact of the share issue on shareholders' interests in consolidated shareholders' equity attributable to the Group, per share (calculated on the basis of "Shareholders' equity attributable to the Group" as of December 31, 2008, as reflected in the consolidated financial statements as of December 31, 2008, and the number of shares comprising the share capital as of May 27, 2009):

	<b>Interest in shareholders' equity</b> <i>(in €)</i>	
	Undiluted basis	Diluted basis <sup>(1)</sup>
Before issue of new shares from the Capital Increase	18.09	18.91
After issue of 123,236,352 new shares from the Capital Increase	19.32	19.94

(1) *In the event that all options were exercised, be they exercisable or not (i.e. 14,939,198 options to subscribe to a total of 14,939,198 shares).*

Analysis of the impact of the share issue on the interest in the Company's capital of a shareholder holding 1% of the Company's share capital prior to the share issue and who does not subscribe to this issue (calculated on the basis of the number of shares comprising the share capital as of May 27, 2009):

	<b>Shareholder's share</b> <i>(in %)</i> <sup>(1)</sup>
Before issue of new shares from the Capital Increase	1%
After issue of 123,236,352 new shares from the Capital Increase	0.81%

(1) *The only financial instruments issued by the Company and providing access to its capital are options to purchase shares. Any exercise of these options would impact the percentage share of shareholders' equity held but not the value of the shareholder's holding. There is therefore no need to distinguish the impact of the issue on the shareholder's holding on a diluted and undiluted basis.*

### 4. Theoretical impact of the share issue on the market value of Danone stock prior to the launch of the issue

Analysis of the theoretical impact on the market value of Danone stock, i.e. € 38.37 (average closing price of the 20 trading days preceding May 29, 2009), of the issuance of the Shares:

Number of shares before the Capital Increase	523,754,498 shares
Current market value of Danone stock (average closing price of 20 trading days preceding May 29, 2009)	€ 38.37
Number of new shares from the Capital Increase	123,236,352 shares
Total number of shares after the Capital Increase	646,990,850 shares
Theoretical impact on the market value of Danone stock	€ 35.64 <sup>(1)</sup>
Change	7.1%

(1) *Calculated as follows:*

*$$\frac{(\text{market value} \times \text{number of shares before the Capital Increase}) + \text{net proceeds from Capital Increase}}{\text{total number of shares after the Capital Increase}}$$*

The Board of Directors

## A.2 ter Statutory Auditors' supplementary report to the Shareholders' Meeting of April 22, 2010

### RAPPORT COMPLÉMENTAIRE DES COMMISSAIRES AUX COMPTES SUR L'AUGMENTATION DU CAPITAL AVEC SUPPRESSION DU DROIT PRÉFÉRENTIEL DE SOUSCRIPTION

As your company's statutory auditors and pursuant to the provisions of Article R.225-116 of the French Commercial Code we submit to you a report in addition to our special report of March 11, 2009, on the issue of shares with no preferential subscription rights that was authorized by your combined ordinary and extraordinary general meeting of April 23, 2009.

Said general meeting gave your Board of Directors the authority to decide whether to conduct the issue for a period of 26 months for a maximum amount of €3 million.

Using said authority, the directors resolved at the February 10, 2010 Board of Directors' meeting to conduct the following capital increase set aside for the Fonds Danone Relais 2010 fund:

- amount of the capital increase and related premium: €60 million, to be raised to EUR 65 million if employee subscriptions require it.
- subscription period: March 15, 2010 to March 31, 2010.
- rights-to-dividend date of the new shares: January 1, 2010.
- share subscription price: €33.69, i.e. a price equaling the average of the first prices listed for the Danone share on the Euronext Paris exchange (Eurolist : compartment A) during the twenty trading sessions prior to the Board of Director's meeting date less 20%.

Your Board of Directors has the responsibility of drafting an additional report pursuant to Article R.225-115 and Article R.225-116 of the French Commercial Code. It is our responsibility to issue an opinion on the fairness of the figures drawn from the financial statements, the proposal to strip the shares of the preferential subscription right, and certain other information on the issue contained in said report.

We have completed our work in accordance with the professional standards of the Compagnie Nationale des Commissaires aux Comptes (National Association of Statutory Auditors) with regard to this mission. Such procedures consisted in verifying:

- the figures contained in the additional report of the Board of Directors and drawn from the consolidated statements prepared by said Board. We have audited said financial statements using the auditing standards applicable in France.
- compliance of the issue with the authorization granted by the General Meeting and the fairness of the data contained in the additional report of the Board of the Directors on the choice of methods used to compute the issue price and its overall issue amount.

We issue no opinion on:

- the fairness of the figures drawn from the company's consolidated financial statements and contained in the additional report of the Board of Directors, which consolidated financial statements have not yet been approved by the General Meeting.
- compliance of the terms and conditions of said issue with the authority granted by the combined ordinary and extraordinary general meeting of April 23, 2009 and the information provided to said meeting.
- the proposal to strip said issue of the preferential subscription right on which you voted previously, the method used to compute the issue price, and its final overall amount.
- the presentation on the impact of the issue on the existing holders of shares and other securities entitling their holders to acquire shares, assessed by taking into consideration shareholders' equity and the market value of the share.

In Courbevoie and Neuilly-sur-Seine, France, March 11, 2010

#### The Statutory Auditors

##### MAZARS

Thierry COLIN

Ariane MIGNON

##### PricewaterhouseCoopers Audit

Étienne BORIS

Olivier LOTZ



## **A.3 Positions and responsibilities of the Directors and the nominees to the Board of Directors**

(Article R. 225-83 of the French Commercial Code)

Information related to the Directors and nominees to the Board of Directors

### **1 – RENEWAL OF TERMS OF OFFICE**

Franck RIBOUD

Emmanuel FABER

### **2 – CURRENT DIRECTORS**

Bruno BONNELL

Michel DAVID-WEILL

Richard GOBLET D'ALVIELLA

Bernard HOURS

Christian LAUBIE

Jean LAURENT

Hakan MOGREN

Jacques Alexandre NAHMIAS

Benoît POTIER

Guyline SAUCIER

Naomasa TSURITANI

Jacques VINCENT

## A.3.1 Renewal of terms of office

### Mr. Franck RIBOUD

Born on November 7, 1955 – Age: 54

Professional address: 17 Boulevard Haussmann – 75009 Paris – France

Number of Danone shares held as of December 31, 2009: 183,132

French Nationality

### Responsibilities and positions as of 12/31/2009

Position	Company	Country
Chairman and Chief Executive Officer (since May 2, 1996) Director (term of office from September 30, 1992 to Shareholders' Meeting to approve the 2009 financial statements) Chairman of the Executive Committee (since July 4, 1997)	Danone SA <sup>(1)</sup>	France
Director Chairman of the Compensation Committee	RENAULT SA <sup>(1)</sup>	France
Chairman of the Board of Directors	danone.communities (SICAV)	France
Director	ACCOR SA <sup>(1)</sup>	France
	BAGLEY LATINOAMERICA, SA <sup>(2)</sup>	Spain
	DANONE SA <sup>(2)</sup>	Spain
	LACOSTE FRANCE SA	France
	OMNIUM NORD AFRICAIN (ONA) <sup>(1)</sup>	Morocco
	RENAULT SAS	France
Position	Association/Foundation/Other	Country
Chairman of the Fund Guidance Committee	Danone Ecosystem Fund (endowment fund, French law of August 4, 2008)	France
Member representing Danone	CONSEIL NATIONAL DU DEVELOPPEMENT DURABLE	France
Director	ASSOCIATION NATIONALE DES INDUSTRIES AGROALIMENTAIRES	France
	INTERNATIONAL ADVISORY BOARD OF HEC	France
	FOUNDATION GAIN - GLOBAL ALLIANCE FOR IMPROVED NUTRITION	Switzerland

(1) Listed companies.

(2) Danone group companies.

### Responsibilities and positions during the last five years

Position	Company/Association/Foundation/Other	Country
Chairman of the Board of Directors	COMPAGNIE GERVAIS DANONE SA	France
	GÉNÉRALE BISCUIT SA	France
Chairman and Director	DANONE ASIA PTE LIMITED	Singapore
Director	L'ORÉAL SA	France
	QUIKSILVER	USA
	DANONE FINANCE SA	France
	SOFINA	Belgium
	WADIA BSN INDIA LIMITED	India
Member of the Supervisory Board	ACCOR	France
	EURAZEO SA	France
Commissioner	P.T. TIRTA INVESTAMA	Indonesia
Director	ASSOCIATION NATIONALE DES SOCIÉTÉS PAR ACTIONS	France



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Emmanuel FABER**

Born on January 22, 1964 – Age: 46

Professional Address: 17 Boulevard Haussmann – 75009 – France

Number of Danone shares held as of December 31, 2009: 4,940

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Deputy General Manager (since January 1, 2008) Director (term of office from April 25, 2002 to Shareholders' Meeting to approve the 2009 financial statements) Member of the Social Responsibility Committee (since February 14, 2007) Member of the Executive Committee (since January 1, 2000)	DANONE SA <sup>(1)</sup>	France
Director Member of the Audit Committee	RYANAIR HOLDINGS Plc <sup>(1)</sup>	Ireland
Director	GRAMEEN DANONE FOODS LIMITED <sup>(2)</sup> YAKULT HONSHA Co, LTD <sup>(1) (2)</sup> RYANAIR Limited danone.communities (SICAV)	Bangladesh Japan Ireland France
Member of the Supervisory Board	LEGRIS INDUSTRIES SA <sup>(1)</sup>	France
<b>Position</b>	<b>Association/Foundation/Other</b>	
Member of the Fund Guidance Committee	Danone Ecosystem Fund (endowment fund, French law of August 4, 2008)	France

(1) Listed companies.

(2) Danone group companies.

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

## Responsibilities and positions during the last five years

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman	BLÉDINA SAS	France
Chairman of the Board of Directors	MECANIVER SA	Belgium
Chairman and Chief Executive Officer Director	DANONE WATER HOLDINGS, INC.	USA
President Commissioner	PT DANONE BISCUITS INDONESIA PT DANONE DAIRY INDONESIA	Indonesia Indonesia
Managing Director – Director	DANONE ASIA Pte Ltd JINJA INVESTMENTS Pte Ltd	Singapore Singapore
Chairman, Vice-Chairman and Director	WAHAHA/DANONE PARTNER COMPANIES	China
Director – Deputy General Manager	COMPAGNIE GERVAIS DANONE SA GÉNÉRALE BISCUIT SA	France France
Director	ABI HOLDINGS LIMITED (ABIH) ASSOCIATED BISCUITS LIMITED (ABIL) BAGLEY LATINOAMERICA, SA BRITANNIA INDUSTRIES LIMITED (BIL) CONTINENTAL BISCUITS LIMITED DANONE ASIA PRIVATE LIMITED FESTINE Pte Ltd MYEN Pte Ltd NOVALC Pte Ltd WADIA BSN INDIA LIMITED YAKULT DANONE INDIA PVT LTD	UK UK Spain India Pakistan Singapore Singapore Singapore Singapore India India
Member of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V.	Netherlands
Board representative of Danone Waters Holdings, INC. (Chairperson)	DS WATERS GENERAL PARTNER, LLC	USA
President, Board of Commissioner	PT TIRTA INVESTAMA	Indonesia
Commissioner	PT TIRTA INVESTAMA	Indonesia
Permanent representative of Danone on the Board of Directors	ALFABANQUE SA	France



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

## A.3.2 Current Directors

**Mr. Bruno BONNELL**

Born on October 6, 1958 – Age: 51

Professional address: 11 Avenue Albert Einstein – 69100 Villeurbanne – France

Number of Danone shares held as of December 31, 2009: 4,000

Independent Director

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from February 18, 2002 to Shareholders' Meeting to approve the 2010 financial statements)	DANONE SA <sup>(1)</sup>	France
Member of the Social Responsibility Committee (since February 14, 2007)		
Chairman	I-VOLUTION SA	France
	SOROBOT SAS	France
Member of the Supervisory Board	ANF SA <sup>(1)</sup>	France
	ZSLIDE SA	France
Member of the Management Board	PATHÉ SAS	France

*(1) Listed companies.***Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman of the Board of Directors	INFOGRAMES ENTERTAINMENT SA	France
Chairman	INFOGRAMES INTERACTIVE SA	France
	I-VOLUTION SA	France
	ROBOPOLIS	France
Chairman of the Board and Chief Executive Officer	ATARI, INC.	USA
	CALIFORNIA U.S. HOLDINGS, INC.	USA
Director	ATARI INTERACTIVE, INC.	USA
Director	CALIFORNIA US HOLDINGS, INC.	USA
	INFOGRAMES FRANCE SA	France
	INFOGRAMES EUROPE SA	France
	INFOSOURCES	France
	INTERACTIVE-PARTNERS	France
	IXO SA	France
	LZ PUBLICATIONS SA	France
	OLYMPIQUE LYONNAIS SA	France
Member of the Supervisory Board	EURAZEO SA	France
Permanent representative of Infogrames Entertainment SA	ATARI EUROPE SAS	France
	EDEN STUDIO SAS	France
Permanent representative of Atari Europe SAS	ATARI FRANCE SAS	France





## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Michel DAVID-WEILL**

Born on November 23, 1932 – Age: 77

Professional address: 32 rue de Monceau – 75008 Paris – France

Number of Danone shares held as of December 31, 2009: 207,455

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from June 26, 1970 to Shareholders' Meeting to approve the 2010 financial statements)	DANONE SA <sup>(1)</sup>	France
Vice-Chairman of the Board of Directors (since July 10, 1987)		
Chairman of the Nomination and Compensation Committee (since April 22, 2005)		
Chairman of the Supervisory Board	EURAZEO SA <sup>(1)</sup>	France
Manager	PARTEMAN SNC	France
Director	BANCA LEONARDO GROUP SpA	Italy

(1) Listed companies.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman	MAISON LAZARD SAS	France
	SOCIÉTÉ MALESHERBES	France
Chairman and Chief Executive Officer	LAZARD FRÈRES BANQUE	France
Managing Director	LAZARD FRÈRES & CO, LLC	USA
Managing Partner	LAZARD FRÈRES SAS	France
General Partner and Manager	PARTENA	France
Director	LAZARD FRÈRES BANQUE	France
	FONDS PARTENAIRES-GESTION	France
	RUE IMPERIALE	France
Manager	BCNA SNC	France
	PARTEMIEL SNC	France
	PARTEGER SNC	France
Liquidator	BCNA	France
	PARTEMIEL SNC	France
	PARTEGER SNC	France
Chairman	LAZARD LLC	USA
Member of the Audit Committee	PUBLICIS	France
Member of the Supervisory Board	PUBLICIS GROUPE SA	France



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Richard GOBLET D'ALVIELLA**

Born on July 6, 1948 – Age: 61

Professional Address: rue de l'Industrie 31 – 1040 Brussels – Belgium

Number of Danone shares held as of December 31, 2009: 4,394

Independent Director

Belgian Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from April 11, 2003 to Shareholders' Meeting to approve the 2011 financial statements) Member of the Audit Committee (since April 11, 2003)	DANONE SA <sup>(1)</sup>	France
Vice-Chairman, Deputy Director	SOFINA SA <sup>(1)</sup>	Belgium
Deputy Director	UNION FINANCIÈRE BOEL SA	Belgium
Director, Member of the Compensation Committee	DELHAIZE GROUP <sup>(1)</sup>	Belgium
Director, Member of the Audit Committee	CALEDONIA INVESTMENTS <sup>(1)</sup>	Great Britain
Director	HENEX SA <sup>(1)</sup>	Belgium
	SOCIÉTÉ DE PARTICIPATIONS INDUSTRIELLES SA	Belgium
	SUEZ-TRACTEBEL	Belgium
Member of the Supervisory Board Member of the Accounts Committee Member of the Compensation Committee	EURAZEO SA <sup>(1)</sup>	France
Non-voting member ( <i>censeur</i> ) of the Board of Directors	GDF/SUEZ <sup>(1)</sup>	France

(1) Listed companies.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman	SIDRO SA	Belgium
Director	ADSB TELECOMMUNICATIONS-BELGACOM	Netherlands
	DANONE ASIA Pte Ltd	Singapore
	FINASUCRE SA	Belgium
	GLACES DE MOUSTIER-SUR-SAMBRE	Belgium
	SES GLOBAL	Luxembourg
Director and Member of the Audit Committee	SUEZ SA	France

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Bernard HOURS**

Born on May 5, 1956 – Age: 53

Professional Address: 17 boulevard Haussmann – 75009 Paris – France

Number of Danone shares held as of December 31, 2009: 6,182

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Deputy General Manager (since January 1, 2008) Director (term of office from April 22, 2005 to Shareholders' Meeting to approve the 2010 financial statements) Member of the Executive Committee (since November 1, 2001)	DANONE SA <sup>(1)</sup>	France
Member of the Supervisory Board	CEPRODI SA	France
Director	ESSILOR INTERNATIONAL <sup>(1)</sup> FLAM'S	France France
Permanent representative of Danone on the Board of Directors and the Executive Board	DANONE SA <sup>(2)</sup>	Spain
<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Director	FONDATION D'ENTREPRISE DANONE	France
Member of the Fund Guidance Committee	Danone Ecosystem Fund (endowment fund, French law of August 4, 2008)	France

(1) Listed company.

(2) Danone group companies.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Vice-Chairman and Director	DANONESA TIKVESLI SÜT ÜRÜNLERİ SANAYİ VE TİCARET A.S.	Turkey
Chairman of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V. DANONE BABY AND MEDICAL NUTRITION NEDERLAND B.V. DANONE GmbH DANONE HOLDING AG	Netherlands Netherlands Germany Germany
Director	COLOMBUS CAFÉ FRANCESCA GRUPO LANDON STONYFIELD FARM, INC. THE DANNON COMPANY	France France Spain USA USA



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Christian LAUBIE**

Born on August 19, 1938 – Age: 71

Professional Address: 8 rue Guynemer – 75006 Paris – France

Number of Danone shares held as of December 31, 2009: 188,974

Independent Director

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from December 19, 1985 to Shareholders' Meeting to approve the 2011 financial statements) Member of the Audit Committee (since January 30, 2001)	DANONE SA <sup>(1)</sup>	France

<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Member	HAUT CONSEIL DU COMMISSARIAT AUX COMPTES	France

(1) Listed company.

Responsibilities and positions during the last five years

<b>Position</b>	<b>Company</b>	<b>Country</b>
None		

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Jean LAURENT**

Born on July 31, 1944 – Age: 65

Professional Address: 9 Quai du Président Paul Doumer – 92920 Paris La Défense cedex – France

Number of Danone shares held as of December 31, 2009: 5,000

Independent Director

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from February 10, 2005 to Shareholders' Meeting to approve the 2011 financial statements) Member of the Nomination and Compensation Committee (since April 22, 2005) Chairman of the Social Responsibility Committee (since February 14, 2007)	DANONE SA <sup>(1)</sup>	France
Director	CRÉDIT AGRICOLE EGYPT SAE UNIGRAINS SA	Egypt France
Vice-Chairman and Member of the Supervisory Board Member of the Audit Committee	EURAZEO SA <sup>(1)</sup>	France
Member of the Supervisory Board	M6 SA <sup>(1)</sup>	France
<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Chairman	FINANCE INNOVATION BUSINESS AND RESEARCH CLUSTER (ASSOCIATION)	France
Chairman of the Board of Directors	EUROPLACE INSTITUTE OF FINANCE (FOUNDATION)	France

(1) Listed companies.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company/Association/Foundation/Other</b>	<b>Country</b>
Chairman of the Board of Directors	CRÉDIT LYONNAIS SA CALYON	France France
Vice-Chairman	BANCA INTESA SpA BANCO ESPIRITO SANTO SGPS	Italy Portugal
Chief Executive Officer, Chairman of the Executive Committee	CRÉDIT AGRICOLE SA	France
Director	BANCA INTESA SpA	Italy
Member of the Board	ASSOCIATION FRANÇAISE DES BANQUES (FRENCH BANKING ASSOCIATION) CNCT (NATIONAL CREDIT AND SECURITIES COUNCIL) M6 SA PARIS EUROPLACE	France France France France
Member of the Board	AFECEI (FRENCH ASSOCIATION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS)	France



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Hakan MOGREN**

Born on September 17, 1944 – Age: 65

Professional Address: Investor AB, Arsenalsgatan 8 C, SE-103 32 Stockholm - Sweden

Number of Danone shares held as of December 31, 2009: 4,000

Independent Director

Swedish Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from April 11, 2003 to Shareholders' Meeting to approve the 2011 financial statements) Member of the Nomination and Compensation Committee (since April 22, 2005)	DANONE SA <sup>(1)</sup>	France
Director	INVESTOR AB <sup>(1)</sup>	Sweden
<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Director	MARIANNE AND MARCUS WALLENBERG FOUNDATION	Sweden
Academy Member	THE ROYAL SWEDISH ACADEMY OF ENGINEERING SCIENCES (IVA) (ASSOCIATION) GASTRONOMIC ACADEMY (ASSOCIATION)	Sweden Sweden

(1) Listed companies.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company/Association/Foundation/Other</b>	<b>Country</b>
Chairman	AFFIBODY AB	Sweden
Deputy Chairman	ASTRA ZENECA	Great Britain
Director	NORSK HYDRO ASA REMY COINTREAU SA	Norway France
Vice-Chairman	GAMBRO AB	Sweden



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Jacques Alexandre NAHMIAS**

Born on September 23, 1947 – Age: 62

Professional Address: 42 avenue Raymond Poincaré – 75116 Paris – France

Number of Danone shares held as of December 31, 2009: 4,536

Independent Director

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from June 12, 1981 to Shareholders' Meeting to approve the 2010 financial statements)	DANONE SA <sup>(1)</sup>	France
Chief Executive Officer and Director	PETROFRANCE SA PETROFRANCE CHIMIE SA	France France
Chairman	CASAS ALTAS SA PETROFRANCE CHIMIE SA TERMINALES PORTUARIAS SL	Spain France Spain
Director	PETROREP SA PETROPEP ITALIANA Spa TERMINALES PORTUARIAS SL DANONE SA	France Italy Spain Spain

(1) Listed company.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
None		



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Benoît POTIER**

Born on September 3, 1957 – Age: 52

Professional Address: 75 quai d'Orsay – 75007 Paris – France

Number of Danone shares held as of December 31, 2009: 8,178

Independent Director

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from April 11, 2003 to Shareholders' Meeting to approve the 2011 financial statements)	DANONE SA <sup>(1)</sup>	France
Chairman of the Audit Committee (since April 22, 2005)		
Chairman and Chief Executive Officer	L'AIR LIQUIDE SA <sup>(1)</sup>	France
	AIR LIQUIDE INTERNATIONAL	France
Chairman, Chairman & Chief Executive Officer	AIR LIQUIDE INTERNATIONAL CORPORATION (ALIC)	USA
	AMERICAN AIR LIQUIDE INC. (AAL)	USA
Chairman	AMERICAN AIR LIQUIDE HOLDINGS, INC.	USA
Member of the Supervisory Board	MICHELIN <sup>(1)</sup>	France
Member of the Audit Committee		

<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Chairman	AIR LIQUIDE COMPANY FOUNDATION	France
Director	ÉCOLE CENTRALE DES ARTS ET MANUFACTURES	France
	ANSA (NATIONAL ASSOCIATION OF JOINT STOCK COMPANIES)	France
	CERCLE DE L'INDUSTRIE	France
Member of the Board (France)	INSEAD	France
Member of the Board	AFEP (FRENCH ASSOCIATION OF INVESTMENT FIRMS)	France

(1) Listed companies.

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Chairman of the Management Board	AIR LIQUIDE SA	France
Director	AIR LIQUIDE ASIA PTE	Asia
	AIR LIQUIDE CANADA	Canada
	AIR LIQUIDE ESPAÑA SA	Spain
	AIR LIQUIDE ITALIA SRL	Italy
	SOAEO	France





## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mrs. Guylaine SAUCIER**

Born on June 10, 1946 – Age: 63

Professional address: 1000 Rue de la Gauchetière Ouest – Bureau 2500 – Montréal QC H3B 0A2 – Canada

Number of Danone shares held as of December 31, 2009: 5,130

Independent Director

Canadian Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from since April 23, 2009 to Shareholders' Meeting to approve the 2011 financial statements) Member of the Audit Committee (since April 2009)	DANONE SA <sup>(1)</sup>	France
Member of the Supervisory Board Chairman of the Audit Committee	GROUPE AREVA <sup>(1)</sup>	France
Member of the Board of Directors Member of the Verification Committee Member of the Risk Management Committee	BANQUE DE MONTRÉAL <sup>(1)</sup>	Canada
Member of the Board of Directors Member of the Verification Committee	AXA ASSURANCES INC.	Canada
Chairman	2158-4933 QUÉBEC INC. 9155-4676 QUÉBEC INC.	Canada Canada

<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Member of the Board of Directors	MONTREAL MUSEUM OF FINE ARTS FOUNDATION	Canada
	MONTREAL SYMPHONY ORCHESTRA FOUNDATION	Canada
	INSTITUTE FOR GOVERNANCE OF PRIVATE AND PUBLIC ORGANIZATIONS	Canada
	INSTITUTE OF CORPORATE DIRECTORS	Canada

(1) Listed companies.



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

## Responsibilities and positions during the last five years

<b>Position</b>	<b>Company</b>	<b>Country</b>
Member of the Board of Directors Member of the Governance Committee Member of the Management Succession and Compensation Committee	PETRO-CANADA	Canada
Member of the Board of Directors Member of the Verification Committee	CHC HELICOPTER CORPORATION	Canada
Member of the Supervisory Board Chairman of the Verification Committee Member of the Compensation Committee	ALTRAN TECHNOLOGIES	France
Member of the Board of Directors Member of the Verification Committee Member of the Pensions Committee	NORTEL NETWORKS CORPORATION	Canada
Member of the Board of Directors	TEMBEC INC.	Canada
<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Member of the Board of Directors	DUCKS UNLIMITED QUÉBEC FOUNDATION	Canada
	FOUNDATION OF THE MONTREAL MUSEUM OF ARCHAEOLOGY AND HISTORY, POINTE-À-CALLIÈRE	Canada
	PUBLIC POLICY FORUM	Canada



## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Naomasa TSURITANI**

Born on January 28, 1944 – Age: 66

Professional address: 1-19, Higashi-Shinbashi, 1-Chome, Minato-Ku, Tokyo, 105-8660 Japan

Number of Danone shares held as of December 31, 2009: 4,000

Japanese Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from February 14, 2007 to Shareholders' Meeting to approve the 2010 financial statements)	DANONE SA <sup>(1)</sup>	France
Chairman	YAKULT PHILIPPINS, INC.	Philippines
Chairman	YAKULT MATERIALS CO., LTD	Japan
Director	HONG-KONG YAKULT CO., LTD KOREA YAKULT CO. LTD	China Korea
<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Chairman	JAPAN BOUND TENNIS ASSOCIATION	Japan
Standing Director	JAPANESE ASSOCIATION OF FERMENTED MILKS AND FERMENTED MILK DRINKS	Japan
Councillor	YAKULT BIO-SCIENCE FOUNDATION	Japan
Director	FAIR TRADE COUNCIL OF FERMENTED MILKS AND FERMENTED MILK DRINKS	Japan

(1) Listed companies.



Positions and responsibilities of the Directors and the nominees to the Board of Directors

Responsibilities and positions during the last five years

Position	Company	Country
Chairman	HONG KONG YAKULT CO., LTD	China
	KAGAWA TOBU KOHSAN CO., LTD	Japan
	TOKYO YAKULT KOHSAN CO., LTD	Japan
	YAKULT FUKUYAMA KOHSAN CO., LTD	Japan
	YAKULT INTERNATIONAL (USA) INC	USA
	YAKULT SAPPORO KOHSAN CO., LTD	Japan
Senior Managing Director, Managing Director	YAKULT HONSHA CO., LTD	Japan
Chairman of the Audit Committee	P.T. YAKULT INDONESIA PERSADA	Indonesia
Chairman	CORPORACION VERMEX S.A. DE C.V.	Mexico
	GUANGZHOU YAKULT CO., LTD	China
	HONG KONG YAKULT CO., LTD	China
	SHANGHAI YAKULT CO., LTD	China
	YAKULT (CHINA) CORPORATION	China
	YAKULT (MALAYSIA) SDN. BHD.	Malaysia
	YAKULT (SINGAPORE) PTE. LTD	Singapore
	YAKULT DEUTSCHLAND GMBH	Germany
	YAKULT EUROPE B.V.	Netherlands
	YAKULT U.S.A. INC.	USA
	YAKULT OESTERREICH GMBH	Austria
	YAKULT S.A. DE C.V.	Mexico
	YAKULT UK LTD	Great Britain
Vice-President	KOREA YAKULT CO., LTD	Korea
Director	BOUNDY JAPAN CO., LTD	Japan
	YAKULT AICHI PLANT CO., LTD	Japan
	YAKULT ARGENTINA S.A.	Argentina
	YAKULT AUSTRALIA PTY. LTD	Australia
	YAKULT BELGIUM S.A./N.V.	Belgium
	YAKULT CHIBA PLANT CO., LTD	Japan
	YAKULT CO., LTD	Taiwan
	YAKULT DANONE INDIA PVT. LTD	India
	YAKULT ESPANA S.A.	Spain
	YAKULT FUKUOKA PLANT CO., LTD	Japan
	YAKULT HEALTH INSURANCE SOCIETY	Japan
	YAKULT HOKURIKU PLANT CO., LTD	Japan
	YAKULT ITALIA S.R.L.	Italy
	YAKULT IWATE PLANT CO., LTD	Japan
	YAKULT KOBE PLANT CO., LTD	Japan
	YAKULT KYUDAN CO., LTD	Japan
	YAKULT MATERIALS CO., LTD	Japan
	YAKULT NAGASAKI PLANT CO., LTD	Japan
	YAKULT NEDERLAND B.V.	Netherlands
	YAKULT OKAYAMA PLANT CO., LTD	Japan
YAKULT OSAKA PLANT CO., LTD	Japan	
YAKULT VIETNAM CO., LTD	Vietnam	
Appointed Representative	YAKULT CORPORATE PENSION FUND	Japan

## Positions and responsibilities of the Directors and the nominees to the Board of Directors

**Mr. Jacques VINCENT**

Born on April 9, 1946 – Age: 63

Professional Address: 17 Boulevard Haussmann – 75009 Paris – France

Number of DANONE shares held as of December 31, 2009: 4,000

French Nationality

**Responsibilities and positions as of 12/31/2009**

<b>Position</b>	<b>Company</b>	<b>Country</b>
Director (term of office from March 17, 1997 to Shareholders' Meeting to approve the 2010 financial statements) Deputy General Manager (since May 2, 1996) Vice Chairman of the Board of Directors (since September 15, 1998)	DANONE SA <sup>(1)</sup>	France
Chairman	DANONE RESEARCH SAS <sup>(2)</sup>	France
Chairman of the Board of Directors	COMPAGNIE GERVAIS DANONE SA <sup>(2)</sup>	France
Director and Member of the Executive Board	DANONE SA <sup>(2)</sup>	Spain
Director	CEREPLAST, INC <sup>(1)</sup>	USA
	INSTITUT BIOPHYTIS SAS	France
	MEDIAPERFORMANCES PUBLIC'AD SA	France
	SYNGENTA AG <sup>(1)</sup>	Switzerland
	WEIGHT WATCHERS DANONE CHINA LIMITED <sup>(2)</sup>	China
	WIMM BILL DANN FOODS OJSC <sup>(1)</sup>	Russia
	YAKULT HONSHA <sup>(1) (2)</sup>	Japan
	YAKULT DANONE INDIA PVT LTD <sup>(2)</sup>	India
<b>Position</b>	<b>Association/Foundation/Other</b>	<b>Country</b>
Chairman of the Board of Directors	ÉCOLE NORMALE SUPÉRIEURE DE LYON (E.N.S)	France

(1) Listed companies.

(2) Danone group companies

**Responsibilities and positions during the last five years**

<b>Position</b>	<b>Company</b>	<b>Country</b>
General Manager	COMPAGNIE GERVAIS DANONE SA	France
Deputy General Manager	GÉNÉRALE BISCUIT SA	France
Permanent representative of Danone on the Board of Directors		
Director	CENTRALE LAITIÈRE	Morocco
	DANONE WATERS OF CANADA INC	Canada
	DASANBE AGUA MINERAL NATURAL SA	Spain
	MAHOU	Spain
	P.T. TIRTA INVESTAMA	Indonesia
	THE DANONE SPRINGS OF EDEN BV	Netherlands
Member of the Supervisory Board	DANONE BABY AND MEDICAL NUTRITION B.V.	Netherlands
	DANONE BABY AND MEDICAL NUTRITION NEDERLAND B.V.	Netherlands
Board representative	DS WATER GENERAL PARTNER, LLP	USA
Permanent representative of Danone on the Board of Directors	DANONE FINANCE SA	France
Member of the Executive Committee	DANONE SA	France

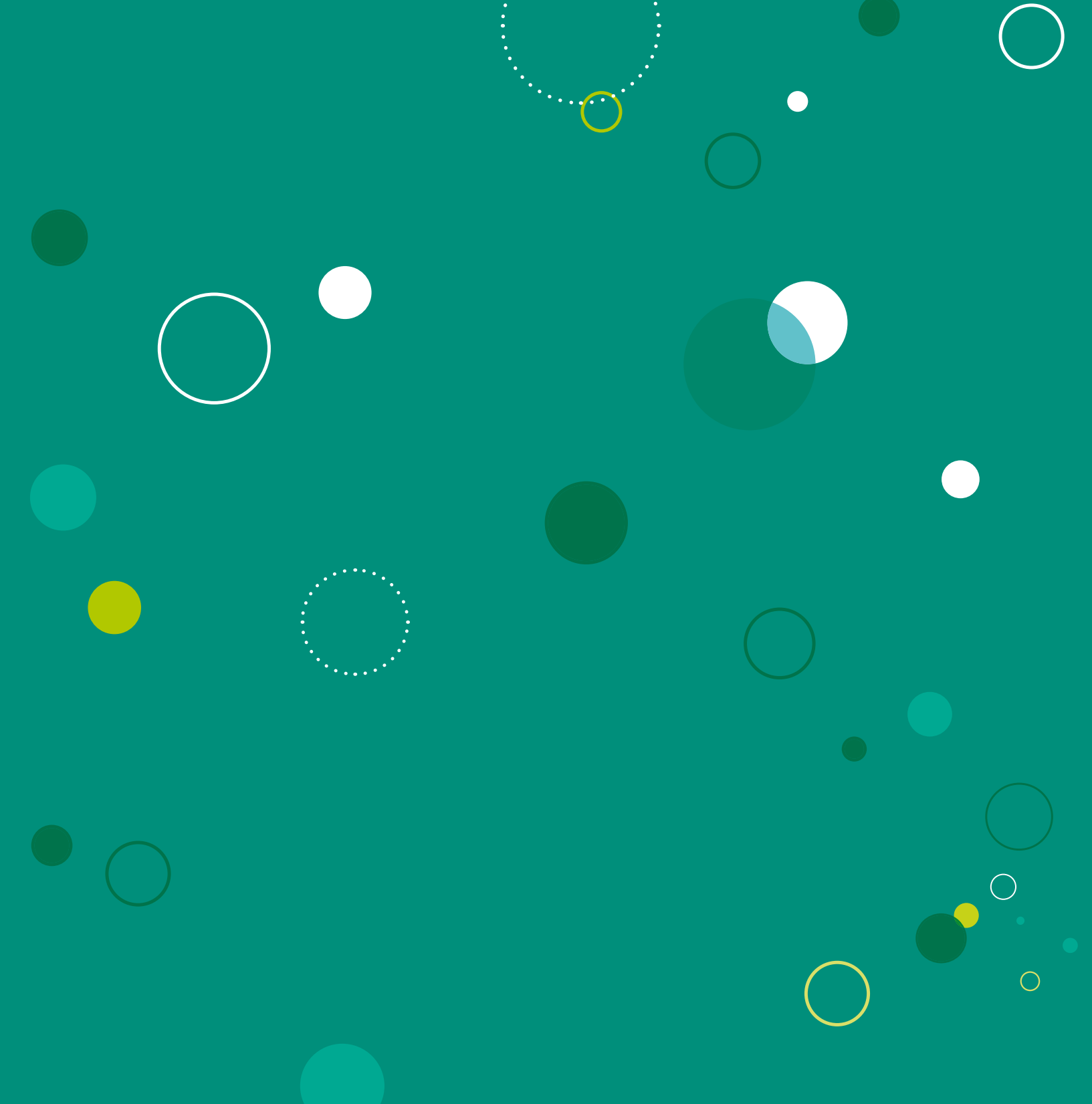


# CROSS-REFERENCE TABLE TO THE ANNUAL FINANCIAL REPORT

In order to facilitate the reading of this document, this cross-reference table identifies allows the sections of this Registration Document containing the information that constitutes the annual financial report required to be disclosed by listed companies in accordance with Article L. 451-1-2 of the French Monetary and Financial Code and Article 222-3 of the AMF's General Regulations.

<b>ANNUAL FINANCIAL REPORT</b>	<b>REGISTRATION DOCUMENT</b>
<b>1. COMPANY ANNUAL FINANCIAL STATEMENTS</b>	Section 20.2.3
<b>2. CONSOLIDATED FINANCIAL STATEMENTS</b>	Section 20.1.1
<b>3. MANAGEMENT REPORT (WITHIN THE MEANING OF THE FRENCH MONETARY AND FINANCIAL CODE)</b>	
3.1 INFORMATION REQUIRED BY ARTICLE L. 225-100 OF THE FRENCH COMMERCIAL CODE	
• Analysis of business trends	Section 6
• Analysis of results	Sections 9 and 20.2.1
• Analysis of financial position	Sections 9 and 10
• Main risks and uncertainties	Section 4
• Summary table of the powers granted to the Board of Directors by the Shareholders' Meeting in connection with capital increases	Section 21.1.4
3.2 INFORMATION REQUIRED BY ARTICLE L. 225-100-3 OF THE FRENCH COMMERCIAL CODE	
• Elements that may have a significant impact in the event of a public offer	Section 20.2.1
3.3 INFORMATION REQUIRED BY ARTICLE L. 225-211 OF THE FRENCH COMMERCIAL CODE	
• Repurchases by the Company of its own shares	Sections 5.2, 20.2.1 and 21.1.3
<b>4. STATEMENT OF THE NATURAL PERSONS RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT</b>	Section 1.2
<b>5. STATUTORY AUDITORS' REPORTS ON THE COMPANY'S ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS</b>	Sections 20.2.4 and 20.1.2
<b>6. INFORMATION RELATING TO THE FEES OF THE STATUTORY AUDITORS</b>	Section 20.1.3
<b>7. REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE AND ON INTERNAL CONTROL (ARTICLE L. 225-37 OF THE FRENCH COMMERCIAL CODE)</b>	Sections 14.1,16.3,16.5, 16.6
<b>8. STATUTORY AUDITORS' REPORT ON THE REPORT OF THE CHAIRMAN ON INTERNAL CONTROL</b>	Section 16.7

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