



→ FEBRUARY 10, 2005  
At a board meeting at DANONE  
headquarters in Paris, directors reviewed  
and approved audited consolidated  
financial statements for 2004.



# Corporate governance

Broader powers have enhanced the role of DANONE's Board of Directors as **an active contributor to debate shaping important decisions** on Group strategy. 2004 in review.

There were two main developments in corporate governance at DANONE in 2004, both reflecting 2003 initiatives giving the Board of Directors more powers and more resources.

The Board was consulted throughout the year on key projects including acquisitions, divestments, projected investments and significant restructuring. Its input was rounded out at year-end by a self-assessment of Board procedures, with directors evaluating not only the quality of information they receive, but also Board operating methods, and relations with DANONE management. Results will be analyzed and presented at an upcoming Board meeting.

## 2004 activities

The Board of Directors met five times in 2004. Meetings lasted three hours on average, with 85% attendance.

Members addressed ongoing issues including market trends, Group finances, cash positions and commitments, progress in the share buyback and cancellation program, and financial statements. They also analyzed and debated significant acquisitions and divestments as negotiations progressed, among them the sale of Jacob's biscuits operations in the UK to United Biscuits and W&R Jacob Ltd in Ireland to Fruitfield Foods Ltd, plus Italaquae's bottled-water business in Italy to LGR Holding.

Reorganization of DANONE's water busi-

ness was also reviewed, including the July 1 appointment of Thomas Kunz as Executive Vice-President, Beverages, and plans to raise capacity at the Chekhov dairy plant in Russia (see p. 68). Directors gained new insights through in-depth presentations including one by Japan's Yakult Honsha, a world leader in probiotics, which signed a strategic agreement with Groupe DANONE in January 2004. Hirokatsu Hirano has represented Yakult on the Board of Directors since April 15, 2004.

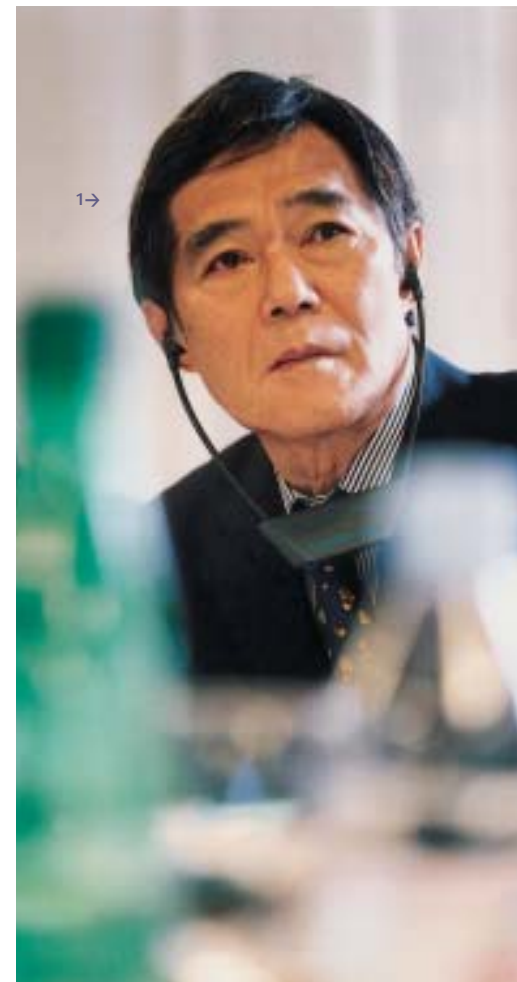
To learn more about Group operations and management, Board members took part in DANONE's Journées d'Evian, a seminar held in September each year for heads of corporate departments and some 160 managers from business units around the world.

In December 2004, directors also spent a half-day with the Executive Vice-Presidents heading business lines, who gave detailed presentations of their business and strategy.

## Two new directors

Meeting on February 10, 2005, the Board co-opted Jean Laurent and proposed that Bernard Hours be appointed director subject to the approval of the shareholders' meeting on April 22.

Jean Laurent, 60, is CEO of Crédit Agricole SA and Chairman of Crédit Lyonnais. He qualifies as an independent director



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- 1→ HIROKATSU HIRANO
- 2→ CHRISTIAN LAUBIE
- 3→ RICHARD GOBLET D'ALVIELLA
- 4→ BRUNO BONNELL
- 5→ JACQUES VINCENT

according to the criteria defined in the Bouton Report.

Bernard Hours, 48, joined DANONE (then BSN), in 1985 and has been Executive Vice-President, Fresh Dairy Products since 2001 after heading Danone Hungary, Danone Germany and LU France.

These two new appointments follow the departure of Jérôme Seydoux and Jean Gandois, both of whom decided to end their terms as Groupe DANONE directors in 2005.

## Audit Committee

Benoît Potier was appointed head of the Audit Committee, replacing Jean Gandois.

Age 47, Benoit Potier is chairman ●●●

## BOARD OF DIRECTORS

DANONE's Board of Directors has 13 members, appointed for three-year renewable terms of office. Seven qualify as independent under the regulations of the New York Stock Exchange and the recommendations of the Bouton Report.

ON APRIL 22, 2005\*, MEMBERS OF THE BOARD OF DIRECTORS WERE:

→ FRANCK RIBOUD  
49, Chairman and CEO,  
Groupe DANONE

→ MICHEL DAVID-WEILL  
72, Chairman, General  
Partner, Maison Lazard,  
director

→ JACQUES VINCENT  
59, Vice Chairman and  
Chief Operating Officer,  
Groupe DANONE, director

→ HAKAN MOGREN  
60, Deputy Chairman,  
AstraZeneca, independent  
director

→ BRUNO BONNELL  
46, Chairman, Infogrames  
Entertainment SA,  
independent director

→ EMMANUEL FABER  
41, Executive Vice-  
President Finance,  
Strategy and Information  
Systems, Groupe DANONE,  
director

→ JEAN LAURENT\*  
60, CEO, Crédit Agricole,  
independent director

→ RICHARD GOBLET  
D'ALVIELLA  
56, Chief Executive Officer,  
Sofina SA, independent  
director

→ CHRISTIAN LAUBIE  
66, Member, Haut Conseil  
du Commissariat aux  
Comptes, independent  
director

→ HIROKATSU HIRANO\*  
67, Adviser of the  
International Business  
Division, Yakult Honsha,  
director

→ BERNARD HOURS\*  
48, Executive Vice-  
President, Fresh Dairy  
Products, director

→ BENOÎT POTIER  
47, Chairman of the  
Management Board, Air  
Liquide SA, independent  
director

→ JACQUES NAHMIAS  
47, Chairman and CEO,  
Pétrofrance Chimie SA  
independent director

The Board also has three  
honorary directors: Daniel  
Carasso (Honorary  
Chairman), Yves Boël and  
Jean-Claude Haas.

\* Subject to the approval of the  
General Meeting of shareholders



## ADOPTING the IFR Standards

→ In July 2002, the European Union adopted a regulation requiring companies listed on a regulated market to present financial statements in accordance with International Financial Reporting Standards from January 1, 2005 on. This naturally changes the basis for historical comparisons and the calculation of financial ratios. To take some examples, under IFRS\* sales revenues must be stated net of rebates, trade discounts and other considerations granted to retailers, goodwill is no longer amortized, and stock options must be expensed. In addition, certain balance-sheet items have to be stated at fair value and the impact of variations in this value recognized in the income statement. DANONE began preparing for the switch to IFRS in 2003, defining a schedule for transition and identifying and calculating the main impacts, as well as making adjustments to information systems and organizing training for the staff members concerned. Transition took definite form in 2004, when two sets of financial statements were drawn up, one in accordance with IFRS and the other on the basis of French GAAP. From 2005 on, they will appear only in the IFRS format.

\* Consolidated financial statements prepared in accordance with IFRS are included in the DANONE 04 20-F and can be accessed at [www.danone.com](http://www.danone.com).

### AUDIT COMMITTEE (AT 04/22/2005)

→ Benoit Potier\*, Chairman  
→ Richard Goblet d'Alviella\*  
→ Christian Laubie\*

### COMPENSATION AND APPOINTMENTS COMMITTEE (AT 04/22/2005)

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

\* independent directors



## // Everything related to ethics is fundamentally important"

### JEAN LAURENT, CEO, Crédit Agricole

#### What led you to join the DANONE Board of Directors?

Jean Laurent → First of all, DANONE is a remarkable business. Its achievements are truly outstanding and its success in winning a leading place on international markets has been exemplary. Then there are the values it stands for, which I wholeheartedly share with its CEO—trust, transparency, team spirit and the importance of people. I am looking forward to seeing how DANONE works from the inside, and not just in figures, balance sheets and so on. I am very honored to take on this new responsibility in addition to my existing roles as a member of the Supervisory Boards of M6 and Eurazeo in France, and as a Director of Banca Intesa in Italy and Banco Espirito Santo in Portugal.

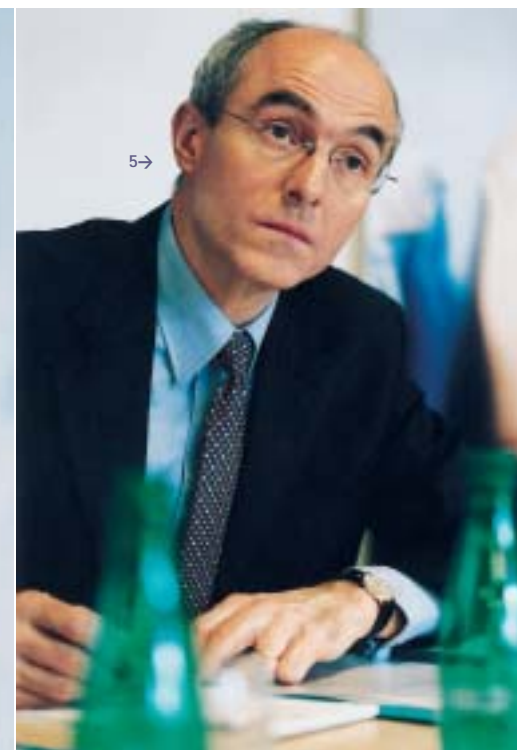
#### What do you consider is your role as a Director and member of the Board's Compensation and Appointments Committee?

J. L. → Everything related to ethics is fundamentally important. That is something I believe very strongly and that I will be very attentive to. More generally, I think that

directors should have the independence to make up their own minds and say what they think in a constructive way, contributing to the work of the board as a whole. I think my experience and knowledge of business from the point of view of an international banker will be useful. As for my role on the Compensation and Appointments Committee, I will be doing what I can to help achieve what it was set up to do—defining rules of governance attuned to the life of the business and favoring the right balance within the Board, as well as the transparency and fairness of compensation.

#### What do you think are the main corporate governance issues today?

J. L. → Relationships between the boards and management teams of large business have become much clearer over recent years. The board now has a more defining role in strategy and risk control, and directors are much more conscious of their personal responsibility for the business. Although, of course, the precise balance can vary considerably from one company to the next. However that may be, the overriding priorities will always be trust and transparency.



1→ MICHEL DAVID-WEILL  
2→ JEAN GANDOIS\*  
3→ HAKAN MOGREN  
4→ JACQUES NAHMIAS  
5→ BENOÎT POTIER  
6→ JEAN LAURENT

\*Director until 04/22/2005

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••• of the Management Board of Air Liquide and has been a director of Groupe DANONE since April 2003. Made up of three independent directors, the Audit Committee is charged with analyzing parent company and consolidated financial statements before approval by the Board of Directors. It ensures in particular that accounts have been prepared in accordance with Group accounting principles, and checks the reliability of internal procedures for the collection and verification of data. It also examines the methods and results of internal and external audits, as well as any special assignments entrusted to Group auditors. In 2004, the Audit Committee met seven times, with Group auditors attending three meetings. Specific assignments during the year included a review of the impact on Groupe

DANONE of the change to IFRS, including procedures for monitoring long-term assets and risk. The Committee played an active role in defining criteria and reviewing candidates prior to the selection of a Group auditor, interviewing short-listed applicants and submitting its recommendation to the Board of Directors. This was presented to the shareholders for approval at the annual General Meeting held on April 15, 2004.

#### Compensation Committee

Charged with supervising executive compensation policy, the Compensation Committee is made up of three directors. It met three times in 2004 to consider recommendations to the Board of Directors concerning executive compensation and stock options. At December 31, 2004, committee mem-

bers were Michel David-Weill (chairman), Jean Gandois and Jérôme Seydoux.

#### Appointments Committee

The Appointments Committee is made up of three directors and serves in an advisory capacity to the Board. It met once in 2004. During the year, the Committee analyzed proposals on Board operating procedures and the appointment of three new directors. At December 31, 2004, committee members were Michel David-Weill (chairman), Benoît Potier and Jérôme Seydoux.

#### Merger of Compensation and Appointments Committees

The Board of Directors has voted to merge these two committees into a single Compensation and Appointments Committee with effect from April 22, 2005. Three directors will serve on the new committee. •••

**STOP PRESS:** A self-assessment of Board procedures was carried out at year-end 2004 evaluating information received, Board operating methods, relations with management and more.



## RISK management with Vestalis

→ In 1998 Groupe DANONE adopted a system for managing global risk that has since become a benchmark, recognized for the managerial flair and vision behind it.

The aim was initially to identify and preempt risks that might keep the Group from achieving its targets, while avoiding undue caution or immobility.

The solution? A system to flag areas of potential risk early on and generate the information needed for timely, informed intervention. DANONE's experts went to work and developed a tool to map risks at each business unit around the globe.

Launched in 2002 at three pilot sites, the system—called Vestalis—compiles a comprehensive list of all risks at each unit, which it ranks by frequency and financial impact on Group operations. It then defines an action plan. With Vestalis, risk can be summarized for each country or business line, and countered with action based on international standards. The Audit Committee of the Board of Directors reviews a summary of the main risks identified and monitors initiatives to limit Group exposure.

Today Vestalis covers 95% of annual sales with clear benefits for Group finances. Advantages include optimization of decisions on hedging and transfer of risk to insurance coverage, thus allowing more efficient management of risks that can—or cannot—be insured.



→ Annual meeting of shareholders on April 15, 2004

### ● ● ● Executive compensation policy

Executive compensation at DANONE includes a fixed portion and a variable portion. Based on business and individual targets, the latter represents between 40% and 60% of total compensation.

For Executive Committee members in change of a business line, the variable portion of compensation reflects both success in meeting targets for sales, operating profit and free cashflow as defined in the budget, and an assessment of strategy during the year. For other members of the Executive Committee, the variable portion is based on Group targets for sales, operating margin, free cashflow and net earnings per share as communicated to financial markets. Compensation of the eight members of the Executive Committee is reviewed by the Board of Directors on the basis of the recommendations of the Compensation Committee.

In 2004, the three members of the Executive Committee who were also members of the Board of Directors received the following amounts:

Franck Riboud, Chairman and CEO: €2,426,860, down 2.7%, of which a fixed portion of €990,920 and a variable portion of €1,435,950.

Jacques Vincent, Vice Chairman and Chief Operating Officer, €1,511,140, down 3.1%, of which a fixed portion of €760,000 and a variable portion of €751,140.

Emmanuel Faber, Executive Vice-President Finance, Strategy and Information Systems, €786,430, up 4.5%, of which a fixed portion of €440,000 and a variable portion of €346,430.

In 2004, the Board granted a total of 1,919,980 stock options to approximately 1,250 staff members. The aim is to give Group managers a stake in DANONE's long-term performance.

Full information on these issues is set out in the DANONE 2004 20-F, which can be downloaded from [www.danone.com](http://www.danone.com). ●

**KUDOS:** DANONE's achievements in corporate governance were rewarded in 2004 with the top place at the annual Agéfi competition. In addition to the Grand Prix du Jury, the Groupe received awards for "Quality and Transparency of Information and Communication" and "Independent Advisors." Groupe DANONE also won a special prize from the French financial analysts' association SFAF.

Why have an ordinary day?  
Have a **NutriDay**



Only **NutriDay** yoghurt from **Clover Danone** contains all the nutrients of milk (protein, vitamins, minerals, especially calcium) and **NutriPlus**, unique live and active cultures that help your body absorb these essential nutrients. So you and your family can have balanced nutrition for a healthy, balanced life.

