

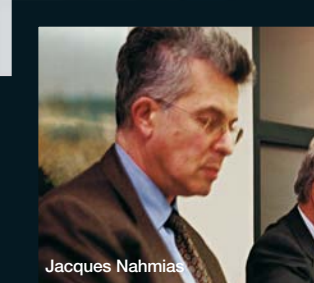
# A YEAR WITH THE BOARD

In 2005 the Board of Directors welcomed two new members and continued efforts to make its own operations more efficient.

Photos: Benoît Linero and Rafaël Trapet/Aleph



Bruno Bonnell



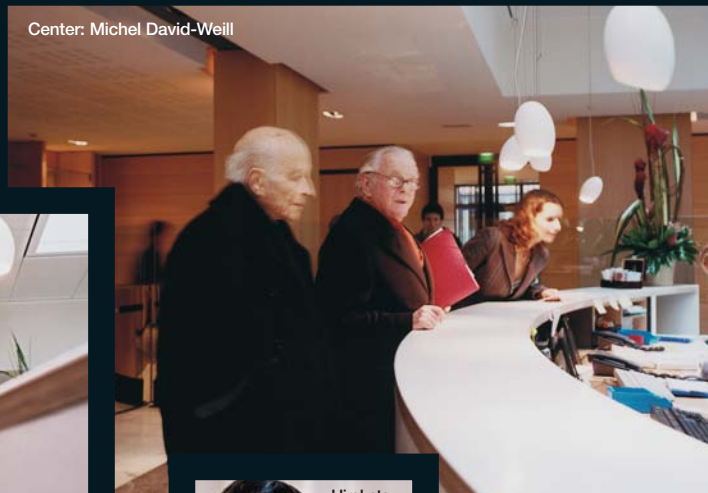
Jacques Nahmias



Benoît Potier



Franck Riboud



Center: Michel David-Weill

Daniel Carasso, Honorary Chairman



Hakan Mogren



Left: Christian Laubie



Jean Laurent



Richard Goblet d'Alviella



Hirokatsu Hirano



**Members of the Board of Directors**

**Franck Riboud**, 50, Chairman and CEO, Groupe DANONE  
**Jacques Vincent**, 60, Vice-Chairman and Chief Operating Officer, Groupe DANONE  
**Bruno Bonnell**, 47, Chairman, Infogrames Entertainment  
**Michel David-Weill**, 73, Chairman of the Supervisory Board, Eurazeo

**Emmanuel Faber**, 42, Executive Vice-President Asia-Pacific  
**Richard Goblet d'Alviella**, 57, Chief Executive Officer, Sofina SA  
**Hirokatsu Hirano**, 68, Adviser of the International Business Division, Yakult Honsha  
**Bernard Hours**, 49, Executive Vice-President, Fresh Dairy Products  
**Christian Laubie**, 67, Member, Haut Conseil du Commissariat aux

comptes  
**Jean Laurent**<sup>1</sup>\*, 61, Chairman of the Board, Calyon SA  
**Hakan Mogren**\*, 61, Deputy Chairman, Astra Zeneca  
**Jacques Nahmias**\*, 58, Chairman, Pétrofrance Chimie SA  
**Benoît Potier**\*, 48, Chairman of the Management Board, Air Liquide SA

<sup>1</sup> Board member since April 22, 2005  
 \* Independent director.

**Members of the Audit Committee\***

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

\* made up entirely of independent directors

**Members of the Compensation and Appointments Committee**

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

The Board of Directors met six times in 2005. Meetings averaged three hours in length, with attendance at 92%, up from 85% in 2004. Ongoing business regularly handled by the Board included market trends, the Group's finances, cash position, share buybacks and cancellations, and financial statements. In 2005, the Board also analyzed and debated significant acquisitions and divestments as negotiations progressed, focusing in particular on the resales of the Group's Sauces business—HP Foods in the United Kingdom, Lea & Perrins in the United States, and Amoy in Asia—and on completing its pullout from the Mahou brewery

a half-day with the Executive Vice-Presidents of the three business lines in December. In late 2004, the Board of Directors voted to assess its own procedures to improve efficiency and maximize its contribution to the Group. Following the arrival of two new directors in 2005, the Board decided to perform another self-assessment during fiscal 2006.

**AUDIT COMMITTEE** The Audit Committee, which met nine times in 2005, is charged with analyzing parent company and consolidated financial statements before they are approved by the Board of Directors (see interview with Benoît

signments entrusted to Group auditors. Finally, it makes recommendations on auditors' fees.

In 2005, the Audit Committee focused in particular on the recently implemented International Financing Reporting Standards and their impact on the Group; procedures for monitoring and valuing long-term assets, especially Groupe DANONE's Home and Office Delivery business in the United States, Europe and Canada; progress on compliance with Sarbanes Oxley; and procedures for monitoring and assessing risks. The Committee also approved internal and external audit plans.

**COMPENSATION AND APPOINTMENTS COMMITTEE**

By decision of the Board of Directors, the Compensation and Appointments committees were combined on April 22, 2005. The new Compensation and Appointments Committee serves the Board in an advisory capacity, making recommendations on Board operating procedures, appointment of new directors, and executive compensation and stock options. During the year two new directors joined Groupe DANONE. Independent director Jean Laurent, Chairman of Calyon SA, was co-opted by the Board, and Bernard Hours, Executive Vice-President, Fresh Dairy Products division, was appointed by the shareholders' meeting of April 22, 2005.

The Compensation and Appointments Committee also recommended adoption of a medium-term variable compensation plan. Until now, members of Management Committees for the

**"To learn more about Groupe DANONE operations and personnel, Board members join managers for selected operational meetings."**

Group's business units have received variable compensation consisting of a bonus based on achieving annual targets plus stock options that can be exercised over the long term. Under the new plan, Group Performance Units (GPUs) will replace a portion of the stock options, providing medium-term compensation linked to achieving the multi-year Group targets for sales growth, operating margin and net earnings per share announced to financial markets.

**EXECUTIVE COMPENSATION**

Executive compensation at Groupe DANONE includes a fixed portion and a variable portion. Based on business and individual targets, the variable portion represents between 40% and 60% of total compensation. For Executive Committee members, variable compensation is based on quantitative business targets as well as a qualitative assessment of strategy during the year. For the Chairman/CEO and for the Vice-Chairman/Chief Operating Officer, the quantitative component is based on Group targets for sales, operating margin, free cashflow and net earnings per share as communicated to financial markets. For Executive Committee members in charge of a business line, the quantitative component is based on targets for sales,

operating income, free cashflow, and operating margin as defined in the budget for the business line. For the remaining members of the Executive Committee, the quantitative component is based on targets for operating income, net earnings per share and operating costs as defined in the Group's budget.

In fiscal 2005, direct and indirect compensation paid to the members of the Board of Directors and Executive Committee—20 people in all—totaled €11.2 million. Of that, €10.9 million went to the members of the Executive Committee for performance of their duties, including €5.4 million for the variable portion. Supplemental retirement and other benefits paid by the Group to the same individuals in 2005 totaled €0.6 million.

In 2005, the following amounts were paid to the four members of the Executive Committee who also sit on the Board of Directors: Franck Riboud, Chairman and CEO, €2,485,540; Jacques Vincent, Vice-Chairman and Chief Operating Officer, €1,544,620; Emmanuel Faber, Executive Vice-President Asia-Pacific, €966,058; Bernard Hours, Executive Vice-President, Fresh Dairy Products, €941,408.

**RETIREMENT LIABILITY** All Group executives who were enrolled in a retirement plan under French law at December 31, 2003 are covered by a defined-benefit retirement program. Participants who are still with the Group at retirement will receive a pension based on seniority and final salary levels. At December 31, 2005, total retirement liability for Group management was €39 million. ■

**"The Compensation and Appointments committees were combined on April 22, 2005. The new Compensation and Appointments Committee serves the Board of Directors in an advisory capacity."**

in Spain and from DS Waters and LP, its Home and Office Delivery units in the United States.

To learn more about Group operations and personnel, Board members took part in DANONE's Journées d'Évian, a seminar held in September each year the heads of all of the Group businesses around the world. Directors also spent

Potier, page 14). It ensures that Group accounting principles are appropriate and consistent, particularly where judgments and estimates are required, and checks the reliability of internal procedures for collecting and verifying data. The Audit Committee also examines the methods and results of internal and external audits, as well as special as-

**The Internal audit team at DANONE**

At DANONE, the Internal Audit Division ensures that all Group companies and structures comply with all applicable rules, both external—such as statutes and regulations—and internal—such as codes of conduct, policies and procedures. The Division also contributes to the Group's overall efficiency by helping management

and the Board of Directors to assess and continually improve internal controls, risk management procedures, and corporate governance in general.

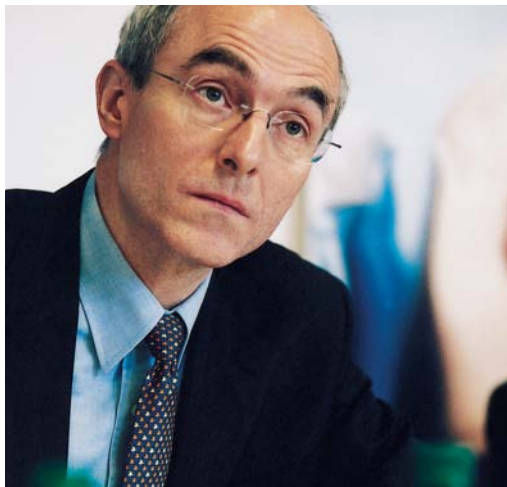
"What sets DANONE apart from other companies is that we rely largely on specialized auditing firms for field work," explains Jean-Claude Horen, Chief Risk Officer, and direct supervisor for the head of Internal Audit.

"As a result, we have a team of experienced auditors that can handle complex issues anywhere in the world, and the team's size and expertise can be adjusted as needed. Our Group head of audits keeps the work on track, overseeing these external auditors with the help of a small in-house team. This original and highly flexible approach means that we can always call in the right skills in the right place at the right time."

The Internal Audit Division reports directly to the General Secretary, and to prevent conflicts of interest internal auditors have no operational responsibilities. Under DANONE's Audit Charter, the Division has complete discretion to audit any organization within the Group. "They make sure everyone follows the rules," says Jean-Claude Horen. "Which gives them a protective role. But they

also create value through their ability to advise line managers and to encourage best practices within the Group."

"IDENTIFYING WHAT'S BEHIND THE NUMBERS, STRIKING THE RIGHT BALANCE BETWEEN FINANCIAL PRIORITIES AND OPERATIONS AT EACH BUSINESS UNIT: THAT'S GOOD BUSINESS JUDGMENT."



Interview with Benoît Potier, Chairman of the Audit Committee

**C**hairman of the Audit Committee, Benoît Potier chairs the Management Board at Air Liquide and has been on DANONE's Board of Directors since April 2003. He was appointed Chairman of the Group's Audit Committee in 2005.

**How would you define your work on DANONE's Audit Committee?**

**Benoît Potier:** The Audit Committee consists of three independent members, charged with analyzing the company's financial statements before they are approved by the Board of Directors. Which means three complementary tasks. First, we review the financial statements and check them for compliance with accounting standards—and in particular with IFRS\*. We then take a look at things from a business standpoint, analyzing what the numbers really say about our operations. Finally, we ensure that the Group is complying with risk management procedures and other standards of practice, and suggest improvements as needed for its business lines and operations.

**What is your role as Chairman of the Audit Committee ?**

**B. P.:** In addition to coordinating the Committee's own work, I try to offer insights through suggestions, advice and constructive comments. We make recommendations and guide management through the decision-making process, but without taking its place. It's always useful to have an outside view, and in this case it comes from long experience in an international manufacturing group.

Identifying what's behind the numbers, striking the right balance between financial priorities and operations at each business unit—that's what I call good business judgment.

**How did you close out the 2005 year?**

**B. P.:** We ran a thorough review of the tests used to value our operations—accounting regulations, depreciation and amortization, and so on. And we analyzed the Group's business strategy in depth, requesting detailed explanations on some of our operations. We also studied risk management strategies and tools, particularly for security and information systems. It was a comprehensive annual review that looked at everything in detail.

**How would you rate the work of the Board of Directors?**

**B. P.:** It examines substantive issues very thoroughly. We get detailed information on performance—organized by subject area and type of operation—as well as our competitors, risk management and the Group's overall status. We also get very good information on the Group's people and their skills, both through special presentations and during the Journées d'Évian seminar, which allows us to get acquainted with the Executives heading DANONE's business units. In general, DANONE's approach to corporate governance works very well. The rules are clear and transparent, and the shareholders know what they are. The range of nationalities and the wealth of experience represented on the Board are enormous assets for the company.

**Do you think the Board could operate even more effectively?**

**B. P.:** Given the increasing complexity of the business we handle, it would surely be useful to broaden the Audit Committee to include new skill sets. More substantively, I think that we could take a closer look at Group policies on finance and acquisitions, this time from a risk management perspective. Given DANONE's current momentum, these strike me as key issues. ■

\* Since January 2005, all European companies listed on financial markets must comply with International Financial Reporting Standards.