



## BOARD OF DIRECTORS

**Franck Riboud**<sup>1</sup>, 51,  
Chairman and Chief  
Operating Officer

**Jacques Vincent**, 61,  
Vice Chairman and  
Chief Operating Officer

**Bruno Bonnell**<sup>1</sup>, 48,  
Chairman, Infogrames  
Entertainment

**Michel David-Weill**, 74,  
Chairman of Supervisory  
Board, Eurazeo

**Emmanuel Faber**, 43,  
Executive Vice-President  
Asia-Pacific

**Richard Goblet d'Alviella**<sup>1</sup>,  
58, Chief Executive Officer,  
Sofina SA

**Bernard Hours**, 50,  
Executive Vice-President  
Fresh Dairy Products

**Christian Laubie**<sup>1</sup>, 68,  
member, Haut Conseil du  
commissariat aux comptes

**Jean Laurent**<sup>1</sup>, 62,  
Chairman of the Board,  
Calyon SA

**Hakan Mogren**<sup>1</sup>, 62,  
Deputy Chairman,  
Astra Zeneca

**Jacques Nahmias**<sup>1</sup>, 59,  
Chairman,  
Pétrofrance Chimie SA

**Benoît Potier**<sup>1</sup>, 49,  
Chairman of  
Management Board,  
Air Liquide SA

**Naomasa Tsuritani**<sup>2</sup>, 62,  
Senior Managing Director,  
Yakult Honsha

1. Independent director.  
2. Co-opted at the Board Meeting  
of 14 February 2007 to replace  
Hirokatsu Hirano, who resigned.  
Naomasa Tsuritani will sit on the  
board until the Annual General  
Meeting of Shareholders in 2008,  
when Hirokatsu Hirano's mandate  
was due to expire.

# CORPORATE GOVERNANCE

## THE DANONE MODEL

Corporate governance comprises the rules and procedures adopted by a company to reach its targets, take decisions and exercise its powers. At DANONE, governance is based on a willingness to listen.

**In recent years the quality of governance in big international corporations has come in for increasingly close scrutiny.** Highly publicized business failures associated with fraud, mismanagement and unethical behavior, albeit exceptional, have made this a fundamental concern not only for shareholders but also for society at large. Strictly speaking, corporate governance refers to the rules and procedures adopted to achieve two fundamental goals: compliance with applicable law and regulations, and effective risk control. As a result, the concept of corporate governance is often viewed as practically identical with internal controls and risk management. Danone takes a broader view. In keeping with the principles of our DANONE Way process

for engagement with all stakeholders to drive progress at Group subsidiaries in areas under their responsibility—from labor policies to product quality to supplier and client relations—we consider decision-making as a whole. Thus, good corporate governance certainly means effective controls to ensure proper implementation of decisions. But it should also provide for decision-making processes based on willingness to listen, on dialog and on the capacity to look ahead and allow for a full range of challenges, risks and opportunities.

**EFFECTIVE INTERNAL CONTROL**  
Good governance is impossible without mechanisms for effective control and secure operation. This

imperative defines the core mission of the Group Risks department, which combines the Internal Audit and Risk Management units and reports to the Group Secretariat General. The Group Risks department's primary responsibility is to monitor all Group companies and organizations for compliance with applicable laws and regulations, as well as with management principles, procedures, policies and other internally defined requirements. The department also assists the Group's general management and Board of Directors with the assessment and ongoing improvement of internal control and risk management procedures.

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Franck Riboud and Benoît Potier,  
Chairman of Air Liquide SA,  
at the meeting of Group executives  
at Evian in September 2006.



# Activities of the Board of Directors

**In 2006, efforts to enhance the efficiency of Board operation continued.** The Board met five times during the year for an average of three hours per meeting. In addition to recurrent matters such as business reviews, Group finances, treasury, guarantees and endorsements granted, share buybacks and cancellation, and the adoption of financial statements, the Board considered significant acquisitions and divestments at various stages of advancement. Following a first self-assessment in 2004, a number of changes were introduced in 2005 and a new self-assessment was conducted in 2006. This led to the adoption of revised internal Board regulations at the meeting held December 15, 2006.

## INTERNATIONAL AUDIT COMMITTEE

**The Audit Committee met six times.** It reviewed procedures adopted for the monitoring and valuation of non-current assets, in particular those relating to home-and-office deliveries in Europe, progress on Sarbanes Oxley compliance, risk monitoring and assessment, approval of internal and external audit plans, and policies for pre-approval of the statutory auditor's assignments other than those for audit purposes.

## NOMINATION AND COMPENSATION COMMITTEE

**The Committee met once in 2006, conducting a detailed review of all compensation and benefits granted to members of the Executive Committee.** At its meeting on December 15, the Board of Directors adopted internal regulations for the Committee, defining its various assignments. In particular, it is charged with drawing up proposals

for the Board of Directors regarding the appointment of Directors; preparing deliberations of the Board on governance issues; conducting, at their request, assessments of the Board of Directors and the Audit Committee; proposing criteria for all forms of executive compensation; making proposals to the Board for the grant of stock options or free allotments to senior executives; proposing the distribution of Directors' fees; and, in a general way, drawing up any recommendations on group compensation policies that the Board may ask for.

## MANAGEMENT COMPENSATION

**Management compensation is made up of a fixed salary and a variable bonus representing between 40 and 60% of the total.** Bonuses are determined on the basis of business, staff development and individual targets. For all members of the Executive Committee, bonuses are based on a combination of quantitative business targets and qualitative assessments of strategy pursued over the year. In the cases of the Chief Executive and Chief Operating Officer, the business criteria for bonuses are the Group targets for sales, operating margin on ordinary business, free cash flow and net ordinary income per share announced to financial markets. The business criteria used in the calculation of the bonuses of Executive Committee members in charge of a Business Line are based on the Business Line's budget targets for sales, operating income on ordinary business, free cash flow and operating margin on ordinary business.

Quantitative criteria for other Committee members relate to Group budget targets for operating margin on ordinary business, net ordinary income per share and operating expense. The compensation of the Chief Executive Officer and the Chief Operating Officer is set by the Board of Directors on the basis of the recommendations of its Nomination and Compensation Committee. Policies governing compensation of other Executive Committee members are reviewed annually by the same Committee. Total direct and indirect compensation attributed to Directors and the 19 members of the Board of Directors and Executive Committee for the 2006 financial year came to €11.4 million. Of this, €11.1 million was attributed to Executive Committee members in connection with their functions on the Committee, an amount including €6 million in variable compensation. Other benefits, including supplementary pension entitlements allocated to the same members in 2006, totaled €0.6 million. Compensation of each of the four members of the Executive Committee who are also members of the Board of Directors was as follows in 2006: Franck Riboud, Chairman and Chief Executive Officer, €2,579,100; Jacques Vincent, Deputy Chairman

and Chief Operating Officer, €1,592,980; Emmanuel Faber, Executive Vice-President Asia-Pacific, €998,084; Bernard Hours, Executive Vice-President Fresh Dairy Products, €1,364,170.

## MANAGEMENT COMPENSATION

At the end of 2006 the Board of Directors decided to create a third governing body, the Social Responsibility Committee. Its mission will include the following tasks: examine the main environment-related risks and opportunities facing the Group; carry out assessments of the labor policies which the Group conducts; review reporting systems; and ensure the implementation of ethics rules defined by the Group. As regards the Group's investment in social action programs, the Committee's mission is to evaluate their impact both on local communities and on the Group; to examine how the rules drawn up by the Group have been implemented in social investment and programs; to prevent any conflicts of interest between social investment and the rest of the Group's activities; and, more broadly, to prepare and explain the Committee's work in social investment and action programs.

**1/ DANIEL CARASSO**  
Honorary Chairman

**2/ JEAN LAURENT**  
Chairman of the Board, Calyon SA

**3/ BRUNO BONNELL**  
Chairman, Infogrames Entertainment

**4/ MICHEL DAVID-WEILL**  
Chairman of the Supervisory Board, Eurazeo

**5/ CHRISTIAN LAUBIE**  
Member, Haut Conseil du commissariat aux comptes

6/ HIROKATSU HIRANO

Adviser of the International Business division, Yakult Honsha. Naomasa Tsuritani was re-elected at the Board Meeting of 14 February 2007 to replace Hirokatsu Hirano, who had resigned. Naomasa Tsuritani will sit on the board until the 2008 Annual General Meeting, when Hirokatsu Hirano's mandate was due to expire.

7/ HAKAN MOGREN

Deputy Chairman, Astra Zeneca

8/ JACQUES NAHMIAS

Chairman, PétroFrance Chimie SA

9/ RICHARD GOBLET D'ALVIELLA

Chief Executive Officer, Sofina SA



AUDIT COMMITTEE

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

NOMINATION AND  
COMPENSATION COMMITTEE

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

SOCIAL RESPONSIBILITY COMMITTEE

Jean Laurent\*, Chairman  
Bruno Bonnell\*  
Emmanuel Faber

\* Independent director.



The Group Audit Charter allows internal audit teams to intervene independently and audit any group organization at any time. Moves are now afoot to streamline structures even further—not only at Group level, but also through support for each subsidiary to develop its own internal control organization.

Recent initiatives have included circulation of an updated version of Danone's Business Conduct Policies Guide (see sidebar) to each of our 9,000 managers, and publication of a Risk Management Charter to raise employee awareness and help them to assess and anticipate business-related risks more effectively.

Two thousand and six also saw the deployment of Vestalis, a software package that ranks and maps risks of all kinds—industrial, financial, environmental and regulatory—for an overview that favors quicker, more reliable decision-making.

CONSTRAINTS  
AND OPPORTUNITIES

Throughout the year, we continued to improve our system of controls. Progress included a new employee alert system that stepped up existing anti-fraud mechanisms. Yet Sarbanes-Oxley compliance, an obligation for Danone as an NYSE listed company, remained the biggest single project. Under the terms of the Act, all companies publicly traded in the US must provide detailed information on controls, together with related tests and assessments, and although this entails significant constraints, it also offers an opportunity to gain a firmer grasp on business processes. Compliance is clearly a basic component of any governance structure, but it is no guarantee of enlightened governance, which requires a decision-making process designed to consider a full range of issues and points of view in order to reach the best possible response.

A BROADER BASE FOR INFORMED  
DECISION-MAKING

Danone management has thus adopted working methods to open up the process, avoiding the dangers of a too narrowly focused approach and

There can be no good governance if there is no dialog with stakeholders.

gaining access to new input for more broadly based strategic thinking and better informed decisions.

In concrete terms, this starts by drawing inspiration from the ideas of local managers. Most of the ten members of the Danone Executive Committee have direct experience of operational management with at least one subsidiary, but given the fundamental role of geography in the food industry, it is crucially important to be aware of local concerns and factor these into business planning. This is the idea behind our International Committee, an informal grouping with no fixed membership that brings together the Executive Committee and some 30 managing directors heading subsidiaries in all parts of the world.

The Committee meets for three days every year, each time at a different location conducive to reflection and exchange. Participants conduct an in-depth review of strategic issues with particular relevance to current developments. Formal presentations take a backseat to open discussion allowing participants to express their points of view, clarifying points of disagreement as well as agreement. This input fuels debate within Group management throughout the year, including the annual management conference at Evian and the DANONE Way committee, helping to shape the priorities identified for discussion by the Board of Directors. At the end of September, the outcome of this process is presented to the managing directors in charge of subsidiaries and important business functions at Evian meeting—a session also attended by Board members who thus have an opportunity for direct



Principles of  
Business Conduct

First drawn up in 1996 and updated in 2006, DANONE's Principles of Business Conduct are widely circulated among staff members worldwide. They state non-negotiable obligations for individuals and business entities. Referring to such internationally recognized texts as the Universal Declaration of Human Rights and ILO (International Labour Organization) conventions, the Principles define rules of governance and set out DANONE's commitments to consumers, customers, suppliers, employees and shareholders, along with responsibilities for the environment and to the countries where we operate. They also define the duties of employees as regards relationships with people from outside the business, confidentiality, conflicts of interest and trading in DANONE shares.



discussions with operational teams. This model for decision-making based on dialog and interchange favors the continued evolution and ripening of strategies that managers can readily accept as their own.

**STAYING IN TOUCH WITH THE WORLD AT LARGE**

Cultivating dialog with the broader social environment is a well established tradition at Danone. It became part of stated policy in the early 1970s and then the focus of systematic procedures as part of the DANONE Way social responsibility program (see page 30). Over time, dialog has played an increasingly important role in our governance, providing as it does the essential basis for decision-making and management processes open to the realities and ideas of society and the world at large. Dialog takes place through structures that begin at local level, requiring directors of all the Group's factories—some 200 in all—to participate actively in

community life through regular contacts with elected officials and associations, at the same time reaching out to create new opportunities for fruitful exchange. The aim in each case is to multiply opportunities for discussion. Relationships with nutritionists are one case in point.

Every year, heads of French subsidiaries hold a meeting with 12 highly reputed nutrition scientists to present their ideas and projects and hear the scientists' comments and suggestions. The following year, they come back to report on how these suggestions have been put into practice. This procedure has proven its worth in generating practical measures with significant impact. For example, dialog between Danone and consumer groups resulted in the elimination of dangerous allergens from the production cycle—just one illustration of the many benefits of a management model that makes willingness to listen a fundamental principle. ●

**Sarbanes Oxley compliance**

**The US Sarbanes Oxley Act, adopted in the wake of financial scandals associated in particular with the Enron case,** is intended to provide business and the financial community in general with reasonable assurance of the reliability of financial reporting. Applicable from 2006 on to all listed companies in the US and thus to DANONE, traded on the New York Stock Exchange, the Act requires a full description of internal controls, which must be tested and assessed. Meeting these requirements has been the occasion for DANONE to reinforce its internal controls and operational procedures. Against this backdrop, the group also launched Dialert, a system enabling all employees to report to group management any breaches of accounting and financial rules that might affect the reliability of accounts, and any failure to abide by our Principles and procedures or comply with anticorruption rules.

**PHILIPPE-LOIC JACOB, DANONE Corporate Secretary**  
**“Attentive to society”**

**What makes DANONE attentive to its stakeholders?**  
 To begin with, this is an integral part of our dual commitment to social progress and business success, which was clearly stated a good 35 years ago. This aspect of our approach to governance is also borne out in ratings and indexes that recognize our performance in this area.  
**Why is dialog with society at large important?**  
 Listening to other people is an effective way to avoid upsets that can be put down to poor or non-existent communications

with stakeholders. Being attentive to society at large and more particularly to consumers also helps us to detect emerging trends with possibly lasting effect that can be negative—or instead offer new opportunities. To take one example, through DANONE's social watch procedure, we realized over five years ago that obesity was going to become a major social issue and that we would have to take action. Which had important implications for product development.  
**What about relationships with EU institutions?**  
 For a long time we were

not much involved, but over the past few years we have been working to build stronger links. Before it adopts any new laws or regulations, the European Commission calls for input from stakeholders including businesses and consumer groups, which offers DANONE an opportunity to put its points of view and arguments. This must also bring positive effects for consumers. An example are the new restrictions on nutritional claims. While this law obviously has an impact on our business, we were in favor of it because we believe that consumers should never be misled.

# DANONE Way ahead and going even further



subsidiaries to gain a 360° view of their business, favoring new awareness of the progress to be made in areas relating to sustainable development, social responsibility and constructive dialog with all stakeholders. Example: DANONE Way findings helped Danone France take new initiatives to reach out to stakeholders outside the business and thus gain a clearer understanding of their perceptions and its own image. The conclusion was that while it is a recognized leader with a powerful image, Danone France is also considered remote from the concerns of its stakeholders. Action plans set up response to these findings focused in particular on reinforcing ties to consumers and customers as well as raising awareness of the broader environment within the business. Danone France's initiatives are among the 800 DANONE Way action plans adopted by Group business around the world, with 98% of these already leading to improved links to the community.

**A FRESH STEP FORWARD**

DANONE Way is now ready for fresh progress with a new version dubbed DANONE Way Ahead. This will pursue the twin goals of defending the Group's reputation and favoring social innovation. The first of these goals is defined in terms of 16 fundamentals that make up the essential underpinnings of socially responsible business operation. These will be applied by all Group entities and be subject to independent audits. The second goal, social innovation, involves adopting a methodical approach across the Group, with projects conducted in association with NGOs and other representatives of civil society aimed at benefiting both society at large and the business over the medium to long term. One example of this kind of project already under way in Poland is the Share Your Meal program to combat malnutrition; another is the factory built by DANONE and Grameen Bank in Bangladesh (see pages 45 and 96).

98%

is the percentage of DANONE subsidiaries in which DANONE Way had been deployed by the end of 2006. In addition, over 800 actions had been undertaken worldwide since 2001.

**DANONE Way is a unique management tool based on self-assessments covering quality, ethics, management, environmental standards and other aspects of operations within each subsidiary.** Initiated in 2001, it calls on the participation of executive committees, managers and staff at all levels to provide the broadest possible base for findings. Subsidiaries' self-assessments are used to identify both strong points and areas for improvement, which are then the object of targeted action plans.

**PERFORMANCE AND RESPONSIBILITY**

Now, five years on, the benefits are clear in terms of business performance, staff commitment, public awareness of the DANONE group and recognition for its appeal. DANONE Way has also enabled individual

# Snapshots

## Executive Committee

**Evian, September 2006.** Members of the Group's Executive Committee pass on the DANONE strategy to the subsidiaries at the meeting of 150 executives that takes place at Evian every year at the end of September.

- 1/ JACQUES VINCENT, 61**  
Deputy Chairman and Chief Operating Officer
- 2/ FRANCK MOUGIN, 49**  
Executive Vice-President Human Resources
- 3/ PHILIPPE-LOÏC JACOB, 42**  
Corporate Secretary
- 4/ GEORGES CASALA, 65**  
Executive Vice-President Biscuits and Cereal Products
- 5/ SVEN THORMAHLEN, 50**  
Executive Vice-President Research & Development
- 6/ ANTOINE GISCARD D'ESTAING, 46**  
Executive Vice-President Finance, Strategy and Information Systems
- 7/ THOMAS KUNZ, 49**  
Executive Vice-President Beverages
- 8/ EMMANUEL FABER, 43**  
Executive Vice-President Asia-Pacific
- 9/ BERNARD HOURS, 50**  
Executive Vice-President Fresh Dairy Products





# THE HEALTH IMPERATIVE

Food and nutrition have become critical public health issues. As the world's fifth largest food group and a leader in healthy food, Groupe DANONE finds itself at the heart of the issue. Our response makes stringent health standards a principle of corporate governance.