



CORPORATE GOVERNANCE THE DANONE WAY

Extending beyond the traditional areas of internal control and risk management, corporate governance at Danone addresses social responsibility, public health and other critical new challenges. For, in today's environment, the importance of good corporate governance is in no doubt for international businesses. Danone has long been sensitive to these issues and since 1995 has redoubled its efforts to meet the highest standards of governance. With comprehensive rules and procedures for

areas where improvement is necessary. Over 40 field audits were performed in 2007 alone. Danone also remains firmly committed to maintaining a transparent, reliable financial reporting system, even though the Group is no longer subject to Sarbanes Oxley requirements since it delisted from the New York Stock Exchange last July. In 2007 our internal regulation efforts benefited from a robust set of tools. Vestalis, an approach deployed in most of Danone's business units, helps identify and rank operational risks for entire countries or business lines and evaluates their potential impact on the Group. More recently, the DANgo (Danone Governing and Operating) program has centralized best practices from all business lines, ensuring that these are consistent Group-wide. Danone has also stepped up internal anti-fraud measures through a special program and related awareness campaigns. These efforts were rewarded in 2007 when Danone was recognized by the

Corporate governance the Danone Way takes in new business challenges, while still being driven primarily by dialog and the ability to listen.

regulatory compliance and effective risk management already in place, Danone's Corporate Risk Management department is now focusing on implementation at subsidiaries of the Group's operating principles and its commitment to transparency. As part of its internal audit and risk management responsibilities, the department works with the Board of Directors and senior management to improve internal control mechanisms and ensure compliance in each Group company using self-assessment tools. Internal Audit teams take a hands-on approach, going out into the field to track progress in achieving goals, while identifying good practices and

Dow Jones Sustainability Index (DJSI) for its outstanding performance in corporate governance, more specifically in the areas of risk management and codes of conduct. Danone applies its code of conduct to address an increasingly broad range of issues, which now includes societal and environmental responsibility. Its Audit and Social Responsibility Committee—set up in late 2006 to make environmental, social and ethical issues an integral part of the Group's approach to governance—regularly review the primary risks and opportunities associated with Danone's operations. These include environmental issues as well as internal social



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Philippe-Louis Jacob, Secretary General (1)

Bernard Hours, Co-Chief Operating Officer (2) in charge of the Group's four business lines

Felix Martin Garcia, Executive Vice President FDP Central and Eastern Europe, Africa/Middle East, Asia and Oceania (3)

Muriel Pénicaud, Executive Vice President Human Resources (4)

Thomas Kunz, Executive Vice President Waters (5)

policies, reporting systems, ethical guidelines, and the impact of socially-oriented initiatives on the Group and local communities. But Danone's vision of governance is even more comprehensive. In adopting its mission of bringing health through food to as many people as possible, it effectively made a commitment to developing "health governance" guidelines (see page 39). That means tracking social trends, cultivating partnerships with scientists and nutritionists, regulating its own conduct, providing reliable nutrition information to the public, and pursuing a rigorous Research & Development program to validate the health benefits associated with Danone products. The commitment became even more important when the Group added baby nutrition and medical nutrition to its business lines, since these industries are already in dialog with stakeholder organizations and institutions. The common starting point in all these areas is the unique vision that grew out of the Danone *Way* program, which back in 2001 made governance a priority for all 9,000 of Groupe Danone's managers. Updated in 2007 under the new name

Danone *Way Ahead*, this initiative focuses on societal innovation, stressing 16 core principles—universally applicable and regularly audited—and giving Danone's subsidiaries a methodology for evaluating the impacts, risks and opportunities of proposed projects. Societal innovation can also address environmental issues such as protecting water resources, and even includes experimenting with new models for local development, as in the case of Grameen Danone Foods Ltd (see pages 44-57). An even more fundamental source of inspiration dates back to the 1970s, when Antoine Riboud insisted on making the environment an integral part of the Group's dual commitment to business success and social progress. Since then, Danone's internal decision-making processes have been grounded in outside realities and feedback, benefiting from the ideas and criticisms of sources ranging from local officials and associations to the international scientific community. Openness to dialog with all stakeholders has enabled Danone to identify new social issues, particularly in public health, and to anticipate changes in the regulatory environment. ■

Executive Committee |

Franck Riboud, 52, French, Chairman and CEO

Emmanuel Faber, 44, French, Co-Chief Operating Officer

Bernard Hours, 51, French, Co-Chief Operating Officer

Jordi Constans, 43, Spanish, Executive Vice President Fresh Dairy Products Western Europe

Philippe-Louis Jacob, 43, French-Canadian, Secretary General

Thomas Kunz, 50, Swiss, Executive Vice President Waters

Felix Martin Garcia, 47, Spanish, Executive Vice President Fresh Dairy Products Central and Eastern Europe, Africa/Middle East, Asia and Oceania

Christian Neu, 51, German, Executive Vice President Baby Nutrition

Muriel Pénicaud, 52, French, Executive Vice President Human Resources

Sven Thormahlen, 51, German, Executive Vice President Danone Research

Dirk Van de Put, 47, Belgian, Executive Vice President Fresh Dairy Products and Waters Americas

New members of the Executive Committee |

The Committee has welcomed five new members reflecting changes in its scope of consolidation including changes in business lines and management structures.



JORDI CONSTANS joined Danone Spain in 1990. In 2002 he became General Manager, before taking charge of Danone France in 2004. In 2007 he was appointed General Manager Fresh Dairy Products, Southern Europe. Since January 2008 he has headed the general management of Fresh Dairy Products Western Europe.

FELIX MARTIN GARCIA joined Danone Mexico in 1998 as General Manager after working with Unilever. In 2001 he took charge of Fresh Dairy Products, Central and Eastern Europe, before becoming General Manager, Fresh Dairy Products Central and Eastern Europe, Africa/Middle East, Asia and Oceania in January 2008.

CHRISTIAN NEU began his career with Procter & Gamble. He joined Danone in 1986 as General Manager, first in Germany, then Belgium and the Benelux. In 2001 he was appointed General Manager of the Northern Europe area. Since early 2008 he has been General Manager, Baby Nutrition.

MURIEL PÉNICAUD was initially a civil servant, holding positions including adviser to the Minister of Labor. She joined Danone in 1993 as Director of Training, then Vice President Organization and HR Policies. In 2002 she moved to Dassault Systèmes as Executive Vice President charged with Organization, HR and Sustainable Development. In 2008 she rejoined Danone as Executive Vice President Human Resources.

DIRK VAN DE PUT began his career with Coca-Cola in Brazil. He joined Groupe Danone in 1998 as General Manager of Fresh Dairy Products Latin America, and also General Manager of the Beverages business line for the same markets. Since 2008 he has been General Manager Fresh Dairy Products and Waters, Americas.



“OUR STRATEGIC SHIFT MAKES GOVERNANCE EVEN MORE CRITICAL”

On July 31, 2007, Danone announced the reorganization of its management team and on January 1, 2008, appointed two Co-Chief Operating Officers—**Bernard Hours** and **Emmanuel Faber**. Interview.

What are the new priorities for the Group and its corporate governance?

Bernard Hours: There are many of them, but they are all guided by the conviction that health is shaped by

Emmanuel Faber: Our ambitions are to live up to the importance of our commitments to economic success—which means growth and increased profitability—but also to the social progress that is an integral part of our mis-

So the challenges Danone faces include societal and business issues?

EF: There’s definitely a link between societal and business issues. Of course we want to create wealth, but we also want

makes investing to protect the environment both a societal imperative and a business imperative.

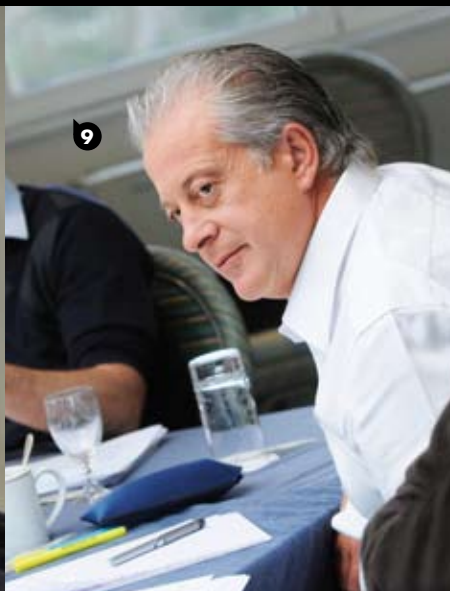
BH: Both of our new businesses—baby nutrition and medical nutrition—serve vulnerable groups, and we

Sven Thormahlen,
Executive Vice President Danone Research (6)
Jordi Constans,
Executive Vice President Fresh Dairy Products
Western Europe(7)

Christian Neu,
Executive Vice President Baby Nutrition (8)
Dirk Van de Put,
Executive Vice President Fresh Dairy Products &
Waters Americas (9)

Emmanuel Faber,
Co-Chief Operating Officer (10)
in charge of Corporate Functions

Listening to all stakeholders and encouraging dialog have long been a priority for Danone, and will continue to structure our governance policies.



the food you eat. Our first goal is naturally leadership on our market—food with a focus on health—for all four of our business lines. That in turn demands credibility, so we back up our products and growth with airtight clinical studies. Credibility is essential to all our businesses, but perhaps even more so in medical nutrition, which is a highly regulated segment—almost on the line between medicine and food. Then there’s innovation, always a priority for driving performance and meeting local nutrition needs.

sion, in other words, to bring health through food to as many people as possible. These two objectives are closely related. For a business like Danone, it is not enough to simply pile up financial results. Stakeholders including consumers and public authorities keep a close eye on what we are up to; they are very attentive to the quality of the products that we put on the market, how we communicate about them, and their overall impact on society. We have to take this into account in our governance practices.

to share it, because sharing it is the best way to ensure lasting performance. Put another way, when we invest to develop the skills and talent of all our employees, we contribute to their personal development but also to their professional performance over the long term. That is the core priority of human resource policy at Danone. The same applies to the environment. At Danone, we have an objective alliance with nature in that natural produce is the raw material for our own products—milk, water, fruit and so on. Which

simply cannot afford to miss the mark. These sectors are subject to strict regulations and standards—demanding requirements that mean we have to put more effort into organization and quality control than ever. The stakes could not be any higher. People can also be very suspicious of big food companies, so we will have to meet even more stringent standards for transparency and information. Clearly a new approach to governance is needed for Groupe Danone to meet the challenge. ■

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THE BOARD OF DIRECTORS

Franck Riboud,
52, Chairman and
Chief Executive Officer,
Groupe Danone

Jacques Vincent,
62, Vice-Chairman
of the Board of Directors
and Co-Chief Operating
Officer, Groupe Danone

Emmanuel Faber,
44, Co-Chief Operating
Officer, Groupe Danone

Bernard Hours,
51, Co-Chief Operating
Officer, Groupe Danone

Bruno Bonnell*,
49, Chairman,
Robopolis SAS

Michel David-Weill,
75, Vice-Chairman
of the Board of Directors,
Chairman of Supervisory
Board, Eurazeo

**Richard
Goblet d'Alviella***,
59, Deputy director,
Sofina SA

Christian Laubie*,
69, member, Haut
Conseil du commissariat
aux comptes

Jean Laurent*,
63, Chairman of
the Pôle de Compétitivité
"Finance Innovation"

Hakan Mogren*,
63, Deputy Chairman,
Astra Zeneca

Jacques Nahmias*,
60, Chairman and
Chief Executive Officer,
Pétrofrance Chimie SA

Benoît Potier*,
49, Chairman and
Chief Executive Officer,
Air Liquide

Naomasa Tsuritani*,
64, Senior Managing
Director, Yakult Honsha
Co. Ltd.

* Independent director.



DANONE

Activities of the Board of Directors

The company's Board of Directors is made up of 13 members, appointed for renewable terms of three years. Each director is required to hold 4,000 shares in registered form. An eventful year made for a full agenda in 2007, when the Board met nine times for an average of two hours, with attendance averaging 86%. The recurrent subjects considered included business reviews, Group finances, treasury, guarantees and endorsements granted, share buybacks and cancellation, the adoption of financial statements, financial communications in connection with the publication of annual and half-year accounts, acquisitions and divestments, Danone share prices, reports from the three Board committees, business plans and budgets. The Board also considered the sale of the Biscuit business line to Kraft Foods, the tender offer for Numico, financing and refinancing for the acquisitions, the two-for-one share split, withdrawals of listing with the New York Stock Exchange and registration with the SEC, the Wahaha issue, and changes to the Group's general management. Following the self-assessment conducted during the year, the Board also amended internal regulations at its meeting on July 30, providing for Directors to receive more information concerning operational management of the Group as well as acquisitions and divestments.

Audit Committee

The missions of the Audit Committee were defined at a meeting of the Board of Directors on December 15, 2006, then transposed into the Committee's internal regulations. The Committee is charged with reviewing parent-company and consolidated financial statements before their adoption by the Board of Directors, selecting statutory auditors, and reviewing audit plans. It also verifies the existence and effective implementation of internal control and risk management procedures, reviews internal control reports and validates and comments on internal audit plans. In 2007, the Committee met five times to consider, among other things, progress on internal control procedures, risk assessment and control, audit plans and findings, pre-approval of statutory auditors' assignments, and the method used to account for Wahaha in consolidated accounts.

Social Responsibility Committee

Set up on December 15, 2006, the Committee adopted internal regulations defining its mission and organization in February 2007. It is in particular charged with considering the main environmental risks and opportunities for the Group and reviewing social policies, their objectives and results. It also reviews reporting, assessment and control procedures to ensure the reliability of the non-financial information the Group supplies, and examines this information, in particular as it concerns social and environmental issues. It conducts an annual review of non-financial ratings of the company and its subsidiaries from independent agencies and oversees compliance with the Group's code of ethics. Similarly, it assesses the impact of the Group's CSR (Corporate Social Responsibility) initiatives and compliance with Group principles where investments and action in this area are related to the Group's business. It is attentive to the protection of the Group's interests and acts to avoid any conflicts of interests between CSR investments and the Group's other activities. In 2007, the Committee met three times, considering in particular new sustainability policies for water management, the impact of social, environmental and governance issues in the food sector, and the Group's plans for societal initiatives.

Nomination and Compensation Committee

The Nomination and Compensation Committee submits proposals for the appointment of Directors to the Board, conducts preparatory work for the Board's consideration of governance issues, takes charge of the assessment of the Board of Directors and other Committees, proposes methods for the calculation of the various components of corporate officers' compensation, proposes distribution of Directors' fees, and submits any other proposals it may have concerning the Group's compensation policies. In 2007, the Committee met four times, considering in particular salaries and benefits for members of the Executive Committee, as well as a number of appointments. These include the co-optation of Naomasa Tsuritani to the Board of Directors, the appointment of the members of the new Social Responsibility Committee, and renewal of senior management with the appointment of two Co-Chief Operating Officers, Bernard Hours and Emmanuel Faber. It also reviewed conditions for the termination of the mandates of corporate officers.

Executive Compensation

Compensation of the Chairman and Chief Executive Officer, Franck Riboud, and the Vice Chairman, Jacques Vincent, is set by the Board of Directors on the basis of recommendations from the Nomination and Compensation Committee. Policies regarding compensation of other members of the Executive Committee are reviewed annually by the Committee. Executive compensation includes a fixed portion and a variable portion, the latter ranging from 40 to 60% of the total. The variable portion is dependent on targets for financial, social and personal achievement. In the case of Chairman and Chief Executive Officer, Franck Riboud, and the Vice Chairman, Jacques Vincent, the business performance criteria of the variable portion is based on the Group targets announced to financial markets for sales, operating margin on ordinary business (trading operating margin), free cash flow and net income per share on ordinary business. Total compensation and benefits in kind received by members of the Board of Directors in 2007 were as follows: Franck Riboud, Chairman and Chief Executive Officer, €2,503,948; Jacques Vincent, Vice Chairman and Chief Operating Officer, €1,553,668; Emmanuel Faber, Executive Vice President, Asia-Pacific, €1,121,220; Bernard Hours, Executive Vice President, Fresh Dairy Products, €1,353,620.

Full details of compensation and benefits received by executive officers and board members are presented in the Group's 2007 reference document, accessible at www.finance-danone.com.

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.



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