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DANONE 2008

Economic and Social Report

BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE

DANONE

08

economic and social report

Interview with Franck Riboud
**A BUSINESS FOCUSED
100% ON HEALTH,
WITH CLEAR PRIORITIES**

Special report: Nature
**NATURE, OUR PATH
TO THE FUTURE**

Strategy
DANONE FOR ALL?



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To our readers

2008

“Annual reports often focus attention on earnings and numbers. But a business is much more than that. It’s about people and the way they go about things; it’s about values and challenges, a shared culture and a common project. Which is why Danone 08 looks beyond the figures in the hope of sharing with you some of what makes our experience a special adventure.”

The editorial team

.....
Danone 08 is also on www.danone.com

Selected texts, insider news, photos and films—meet the people who are the real subject of Danone 08. More information to carry on the adventure.

.....



AIRFRANCE

SOFITEL
LUXURY HOTELS





Introducing a delicious dessert
with all the goodness of Activia.



New Activia Intensely Creamy is a deliciously thick and indulgent yogurt. It contains the unique culture Bifidus Actiregularis and actually aids digestive health by improving transit.* Try it, it's a little treat that does you good.

*When digestive transit is slower and at least one pot is eaten every day for 14 days as part of a healthy balanced diet and lifestyle.

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2008



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FRANCK RIBOUD

A BUSINESS FOCUSED 100% ON HEALTH, WITH CLEAR PRIORITIES

DANONE TURNED IN A SOUND PERFORMANCE IN 2008, CONFIRMING THE POTENTIAL FOR PROFITABLE GROWTH OF A GROUP THAT IS 100% FOCUSED ON HEALTH AND WELL PREPARED TO STAND UP TO TESTING CONDITIONS.



Our sound results in 2008 show that our staff members have lost none of their agility and commitment—which is what really counts in the current context.

What do you have to say about 2008 for Danone?

Franck Riboud: Even before the end of the year, everyone, especially on the financial markets, had shifted their focus to 2009. But I think it's worth taking a closer look at 2008. There are some important lessons to be drawn for the near future, in particular at Danone.

The first point is that we achieved our targets once again, with organic sales growth reaching 8.4%*, margin up 53 basis points*, and earnings per share up 15.1%***. Of course that partly reflects our record 9.6%* sales growth for the first six months of the year, but I think we can learn more from developments in the second half.

The economic crisis took hold everywhere during the summer of 2008, but our key business indicators held on a firm track through to the end of the year. Growth in the fourth quarter, when the economic environment was very unsettled, was still a very sound 6%*. Which doesn't mean that Danone is immune from recession, but it does demonstrate the real solidity of our business. We have built that up over the years, drawing on our key resources: the strength of our brands, our consistent strategy, business lines and geographical balance. The results also show that our staff members have lost none of their agility and commitment—which is what really counts in the current context.

It looks like Numico also made an important contribution to the quality of results.

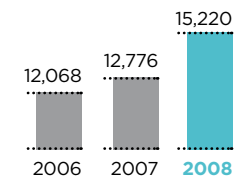
FR: That's the second lesson I want to draw: that the acquisition of Numico's baby nutrition and medical nutrition businesses was the right strategic choice for Danone. The results are there, in terms of sales growth, margin and synergies—cost synergies will be even higher than the €45 million we expected in 2008 and the €15 million forecast for 2009. Most importantly, the results are there in terms of the successful integration and high level of staff motivation, with teams on both sides doing an outstanding job. That's something we can be proud of. The results confirm the promise of our two new global businesses, but they also show that we've avoided getting in the way of growth, and have provided new momentum though the integration process. Integrating a new subsidiary is always risky, but in this case I think we can safely say it has gone very smoothly and efficiently.

The new Danone has four business lines. How did they perform individually?

FR: The most impressive performance has come from the two new businesses I just mentioned, with organic growth reaching 17%* for Baby Nutrition and almost 13%* for Medical Nutrition. But at the heart of our group, Fresh Dairy Products turned in another robust performance with sales up nearly 8%*, to top €8 billion. This division is our real powerhouse, making an unmatched volume contribution of €400 million to growth. Water sales were up 1.9%*, an overall figure that combines results from two very different worlds. On the one hand we have four large and mature markets—France, Spain, the UK and Japan—where sales of bottled water have declined fairly markedly, but our own market shares are holding up well, even rising. Then there is the rest of the world, which already accounts for over half of our sales and where we are seeing double-digit growth. →

Key figures

Sales
(€ millions)



Organic growth
+8.4%*
(Volume up 2.8%
and value up 5.6%*)

Positions

no. 1 worldwide
for fresh dairy products

no. 2 worldwide
for bottled water

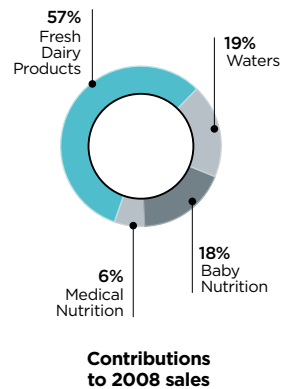
no. 2 worldwide
for baby nutrition

no. 1 in Europe
for medical nutrition

* At constant scope of consolidation and exchange rates.
** Based on diluted net earnings on ordinary business, pro forma.

The growing role of emerging countries is the consequence of the strategy we adopted a decade ago, going for growth where we could find it and extending our geographical reach.

4 businesses for health



Organic sales growth (like for like)

- +17% Baby Nutrition
- +12.7% Medical Nutrition
- +7.7% Fresh Dairy Products
- +1.9% Waters

* At constant scope of consolidation and exchange rates.

↳ Examples are Argentina, Indonesia, China and Mexico, which is set to become our largest single market for water within four or five years.

Geographically, emerging markets appear to be the main sources of growth.

FR: Yes, they are still the most vigorous. They already account for over 40% of group sales—and since they are growing faster than others, their weight can only increase. Sales in Asia were up 16%* and growth was in double digits in the rest of the world, which mainly means the Americas for Danone, reaching 13%*. But the overall result for Europe, which saw a rise of 5%*, was nothing to be ashamed of, even if conditions were already tough in some countries. What you have to be clear about is that the swing to emerging markets hasn't just happened. It's the consequence of the strategy we adopted a decade ago, going for growth where we could find it and extending our geographical reach.

Doesn't the growing weight of these new markets also mean risks, for example margin dilution and instability?

FR: Moving into a new country is an investment. And at the beginning, in the first few months, it costs more than it brings in. But that's the only way to build the future. And an important thing to note is that margin rates already equal our group average on many emerging markets—and that includes some where we've only recently arrived. Business in Asia even beat that average in 2008. As for instability, it's definitely a risk and we have to deal with it. To do that, we are careful to diversify our presence, which not only spreads risk, but also put us in a position to seize opportunities as they arise.

Will you be continuing investment in emerging markets despite the economic crisis?

FR: We will continue to take advantage of local opportunities, even if there is no reason to expect any massive or spectacular acquisition. We want to keep moving into new national markets each year, even if we are not going about it as aggressively as we might in calmer times. Because we have a duty to go on investing for the future. That is what we are doing in Kazakhstan and will soon be doing in South Korea.

Looking in the opposite direction, are you planning any divestments, to trim debt for example?

FR: We got into debt to buy Numico, but you have to remember a few things. Our debt ratio remains completely manageable, especially considering our capacity to consistently generate over €1 billion in free cash flow, year after year. Secondly, we made a bond issue to raise over €3.8 billion on attractive terms.

The next payment of €1.2 billion, due in December 2010, is covered, regardless of any divestments. Of course, divestments could speed up repayment, but purely financial considerations will never be our first reasons for that kind of decision. To take an example, we sold off Frucor, a beverage leader in New Zealand, because it focuses on flavored drinks and energy



Bringing health through food to as many people as possible also means a need for nutrition information and labels identifying the health benefits associated with Danone products. Above: infant formula in an Italian supermarket.

drinks whereas our strategy is now clearly centered on natural waters. We will never sell a strategic business just to speed up reduction of debts that are perfectly under control.

On the subject of China, how is your dispute with your associate in Wahaha beverages going and, more generally, what is Danone's current position there?

FR: Even without Wahaha, we are a leading player on the food market in China. We have very strong positions in baby nutrition with the country's top brand, Dumex, and in water with the Robust and Health brands. And we are now full owners of our new dairy-product business, which is launching Activia products—Bio in China—in Shanghai and Guangzhou. In 2008, our total sales in the country rose by nearly 30%, even though the business had not yet started up. As for our interest in Wahaha, it is no longer strategically important for Danone. It has been accounted for under the equity method in our financial statements since July 1, 2007. We are expecting the Arbitration Institute of the Stockholm Chamber of Commerce to hand down its decision in May or June, but our most likely option is in any case to sell the interest, although we are in no hurry. Our experience over the ten years from 1996 to 2006 was very worthwhile and rewarding for both Danone and Wahaha and its staff. But we've moved on now.

Danone is one of the world's top two bottled-water companies, but in developed countries the segment has been criticized for its price and environmental impact.

FR: There are a lot of uncritical assumptions bandied about on the subject. First of all, mineral water is not an ecological anomaly. On the contrary. Nothing could be more natural, in the most direct meaning of the word, than mineral water. There is nothing to filter, nothing to hide, nothing to add and nothing to subtract.



90 years' focus on health 2009 is the 90th anniversary of the Danone brand, launched in Barcelona in 1919. Its inventor, Isaac Carasso, used it for the yogurts he was the first to develop with the support of the research findings of the Pasteur Institute on lactic ferments. Carasso drew special inspiration from the work of Elie Metchnikoff, winner of the Nobel Prize for Medicine in 1908. In 1929, his son Daniel (photo above, left) brought Danone to France. Now over 100 years old, Daniel Carasso is Honorary Chairman of Danone's Board of Directors.

Nobody would deny that the year ahead will be challenging, but wringing our hands won't get us anywhere. In this kind of situation, what counts is attitude, courage, and commitment.

“Evian will be our first carbon-neutral product by 2011”

Evian, the world's number-one mineral water brand, is backed by unrivalled experience in the conservation of water resources, with care of the catchment area for its own spring a priority. Evian is also looking at the broader picture with a drive to reduce its environmental impact through optimization of energy consumption, packaging and transport. The target is to halve its carbon footprint from 2000 to 2011, and Evian is backing initiatives to offset the remainder. This includes the support it will be providing from 2009 on for the rehabilitation of wetlands, which act as natural carbon traps, in association with the Ramsar Convention and IUCN (International Union for Conservation of Nature). See page 85.

↳ It comes from the depths of the earth, where it is protected against all forms of pollution, and it undergoes no treatment, especially no chemical treatment. It's even better than organic. And that means that mineral-water producers are also the most determined defenders of the environment in the regions where they operate, for the simple reason that no other business has such strong incentives to protect its immediate environment. When I say that, I am not trying to dodge the issues relating to the environmental impact of mineral-water packaging and transport. But there again you need to look at the facts. To take an example, two-thirds of the deliveries made by Danone Water France—which covers our Volvic, Evian and Badoit brands—are by rail or barge. How many businesses do you think have such an environment-friendly record on transport? As for the bottles, they are 100% recyclable—which is much more than can be said of most other packaging—and the unit weight is declining from one year to the next. And for the past few months we have finally been allowed to use up to 25% of recycled materials. Lastly, Evian, the world's number-one mineral water, will be our first carbon-neutral product by 2011 (see sidebar this page and page 85).

What would you reply to people who say that it's irrational to choose bottled water since tap water serves the same purpose?

FR: There are several points worth making. First of all, developed countries have the enormous good fortune to have near-universal access to drinking water, which is far from being the case in all parts of the world. In a number of countries, the natural water Danone provides is the only affordable option. Secondly, we're talking about two different things. If what you mean by bottled water is mineral water or spring water, then it is a rational choice for people who refuse to compromise on water, the one absolutely indispensable “food” for life. Mineral water offers reliable quality, consistently pleasant taste, and content that is set out in clear detail on the bottle. It's the right choice for vulnerable populations that can't afford risks, like babies, the sick and the aged. Don't misunderstand me: we have nothing against tap water. But when you're walking through a supermarket, sitting in a café, or standing in front of a vending machine, mineral water isn't competing against tap water: it's competing against other beverages. Those other drinks are usually sweet and always less natural than mineral water. They're also more expensive, and they have a much bigger environmental impact than bottled water. In a country like the UK, for example, when consumers cut back on mineral water it is generally in favor of sweet beverages. What we need to do first is revive their taste for water.

To return to Danone, how do you see prospects for 2009?

FR: Nobody would deny that the year ahead will be challenging, with difficulties ranging from high exchange-rate volatility and rising unemployment to softening consumer demand on emerging markets. We have no more certainties about how things will shape up in different contexts than anyone else. And we don't have any magic solutions, either. But wringing our hands won't get us anywhere. In this kind of situation, what counts is attitude, courage, and commitment. ↳





Developing countries are making a growing contribution to Danone's business, accounting for no less than 52% of water sales, for example. In 2008, capital expenditure totaling €706 million was in large part used to back geographical expansion and growth on emerging markets such as Brazil, Argentina, China and Indonesia.

52%
of sales are outside
Western Europe.

3rd place
Danone headquarters
placed 3rd for the
quality of working
conditions in the "Great
Place to Work" survey
of businesses with more
than 500 employees.

(Great Place to Work® survey,
France 2009).

↪ And your ability to steer your way on a slippery surface. You need to have quicker reflexes, be more attentive and ready to take the initiative. So we are approaching the year with realism, keeping a very close eye on the ball. With very clear priorities. The first of these is to ensure the highest possible level of efficiency in every area. In a downturn, there's even less room for the "almost right". Secondly, we are going to continue improving our margins, aiming for a 10% like-for-like increase in diluted earnings per share. Because that is how we can generate investment capacities and potential for future growth.

And growth?

FR: With consumer demand squeezed, we will be looking for growth wherever we can find it and accelerating it when we do. At the same time, we are not going to wear ourselves out trying to achieve growth in situations where it's unreliable or simply impossible. You have to choose your battles, and for us that clearly means going for higher market share. Now is the time to widen our lead on competitors and I'm convinced that Danone is well equipped to do that. We have the right culture for it, and our lean, decentralized organization gives the managers of our subsidiaries full responsibility—the most effective motivation. That agility, that freedom from unnecessary constraints, is an even more decisive competitive strength in our current environment.

What about product innovation? Will the strict new European regulations on health claims mean new obstacles or risks?

FR: We are obviously going to keep innovating. Setting the pace is part of what market leadership is all about, and I would be tempted to say that innovation comes naturally to us. Our R&D teams very certainly make it a key goal. But we'll be a little more focused and we'll pay more attention to prioritizing new product launches. As regards the new regulations on health claims coming into force in Europe, we believe that they are, on the contrary, a step in the right direction. Of course, there will be a need for some fine tuning to start with, as people in the industry learn exactly what authorities expect in the way of scientific documentation and what criteria they use to take decisions. There is likely to be quite a lot of to and fro over the first few months, but a mutual learning curve is inevitable in a new field like this. The ground rules will in any case become clearer, which will enable businesses that are genuinely investing in science and research to stand out from the crowd with clearly defined claims. In this area, Danone has more than a head start with our 1,200 R&D staff and 80 clinical studies published over recent years.

You recently announced plans for a fund to finance the development of what you call Danone's eco-system. Could you tell us what the plan involves and where the idea came from?

FR: The idea started with a simple observation—the fact that businesses and their immediate economic environment are increasingly interdependent. That has become painfully obvious with the current downturn, which has shown how even prosperous businesses can suddenly become vulnerable if their economic and social environment deteriorates. Which should remind us that it is in the interest of businesses themselves to look after that environment, what I have called by analogy their "eco-system". So that's the idea behind the fund.

We have already set up a number of structures to back local economic development in different parts of the world, but we believe that there is now a need to broaden that approach and place it on a more systematic, more lasting basis.

Entirely financed by Danone, the fund will be set up with an initial allocation of €100 million and topped up with the contribution of 1% of our net earnings each year. It will provide financing for worthwhile projects identified by our subsidiaries in the regions where we do business—for example, programs to develop the know-how of local suppliers, to help create related businesses such as micro-enterprises for food distribution, or to improve employability in communities near our factories. It won't be an emergency fund or a recapitalization fund, since its aim is instead to prevent crises before they happen. Nor will it be used to finance any plans to enhance the competitiveness of our sites. And of course it's not a solution to every problem. It is simply meant to reinforce the economic fabric that we are part of, which is founded on mutual dependence.

At Danone, we believe that is part of the purpose of a business. And something we can do to back our own development over time.

So, the final question—what do you expect Danone to be like five years from now?

FR: Before we do anything else, we need to focus on the present and steer our way safely through the rough waters ahead. But that also means that we have to be clear about where we want to go and look to the medium term. I don't think that Danone in 2012 or 2015 will necessarily be very different from what it is today. But I hope that it will be even better attuned to the aspirations of people everywhere, to their concerns for nature and health, and to the need for more attention to human beings. That's the hope that gets us out of bed in the morning. ●

Executive
Committee

Franck Riboud
53, French,
Chairman and CEO

Emmanuel Faber (see p. 93)
45, French,
Co-Chief Operating Officer

Bernard Hours (see p. 72)
52, French,
Co-Chief Operating Officer

Jordi Constans (see p. 20)
44, Spanish,
Executive Vice President
Fresh Dairy Products
Western Europe

Thomas Kunz (see p. 24)
51, Swiss,
Executive Vice President
Waters

Felix Martin Garcia
(see p. 20)
48, Spanish,
Executive Vice President
Fresh Dairy Products, Central
and Eastern Europe, Africa/
Middle East, Asia and Oceania

Flemming Morgan
(see p. 29)
53, British,
Executive Vice President
Medical Nutrition

Christian Neu (see p. 27)
52, German,
Executive Vice President
Baby Nutrition

Muriel Pénicaud (see p. 60)
53, French,
Executive Vice President
Human Resources

Pierre-André Térissi
(see p. 98)
42, French,
Executive Vice President
Finance

Sven Thormahlen
(see p. 43)
52, German,
Executive Vice President
Danone Research

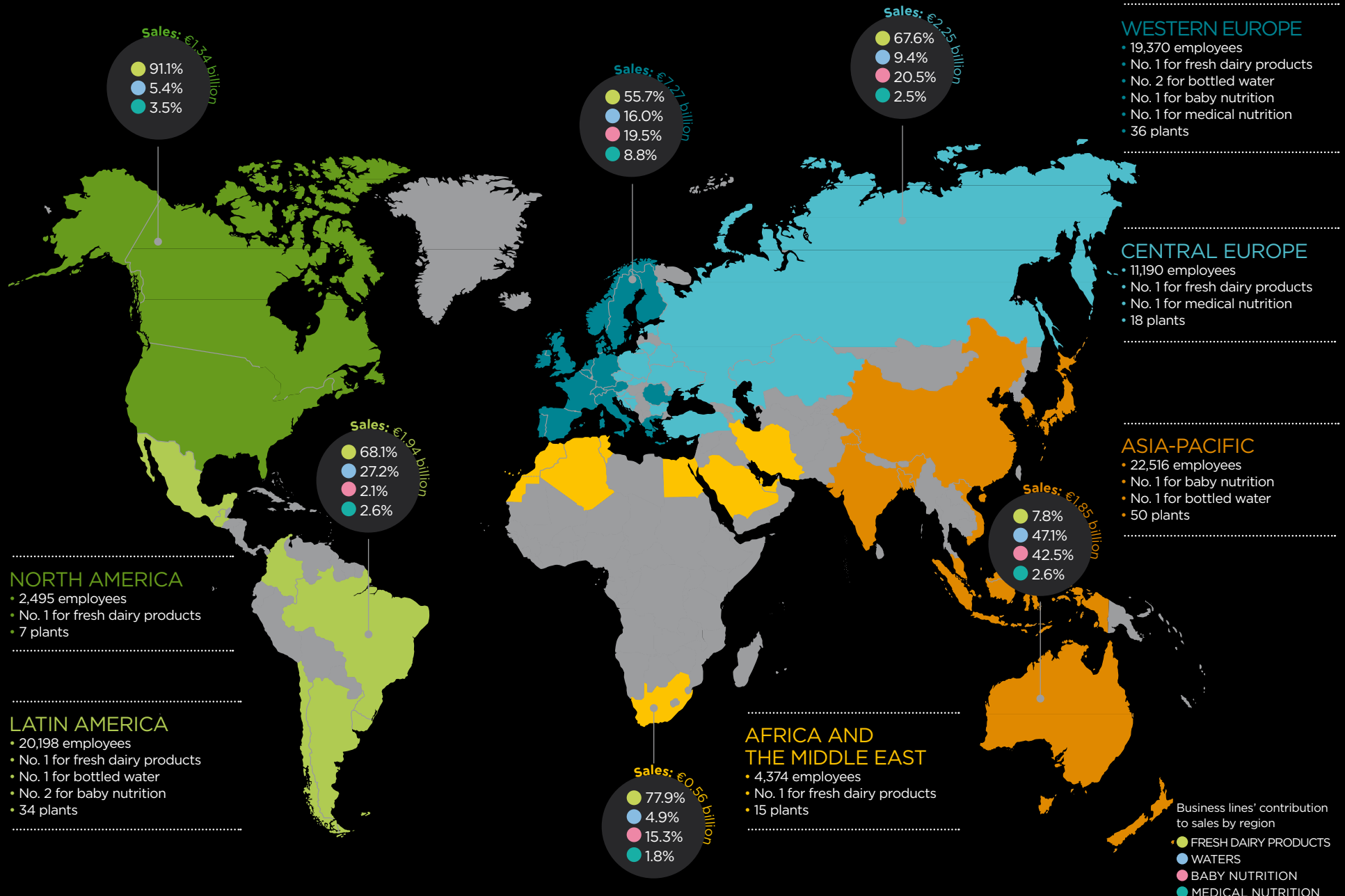
Dirk Van de Put (see p. 20)
48, Belgian,
Executive Vice President
Fresh Dairy Products and
Waters, Americas

DANONE— GLOBAL REACH

Over the past ten years, our concentration on health-focused business with global potential has gone hand in hand with rapid geographical expansion.

This expansion has combined two approaches to business development:

- Leveraging local brands with an established lead on their markets, with examples including Blédina in France, Cow & Gate in the UK, Villa del Sur in Argentina and Aqua in Indonesia;
- The launch of global concepts centered on health benefits with universal appeal, adapting brand names, recipes, flavors and prices to different countries. Activia thus stands for healthy transit and digestion, Actimel for natural defenses, Bonafont and Font Vella for elimination of toxins and waste, Aptamil for infant formula bolstering immunity, and Fortimel (medical nutrition) for the correction of malnutrition.



NORTH AMERICA

- 2,495 employees
- No. 1 for fresh dairy products
- 7 plants

LATIN AMERICA

- 20,198 employees
- No. 1 for fresh dairy products
- No. 1 for bottled water
- No. 2 for baby nutrition
- 34 plants

AFRICA AND THE MIDDLE EAST

- 4,374 employees
- No. 1 for fresh dairy products
- 15 plants

WESTERN EUROPE

- 19,370 employees
- No. 1 for fresh dairy products
- No. 2 for bottled water
- No. 1 for baby nutrition
- No. 1 for medical nutrition
- 36 plants

CENTRAL EUROPE

- 11,190 employees
- No. 1 for fresh dairy products
- No. 1 for medical nutrition
- 18 plants

ASIA-PACIFIC

- 22,516 employees
- No. 1 for baby nutrition
- No. 1 for bottled water
- 50 plants

GROWTH ON NEW MARKETS

North America

Business in the region, representing sales of €1.34 billion, was on an uneven track in 2008, with the economic crisis rapidly affecting the market in the US, where Danone holds top places with the Dannon brand and the Stonyfield Farm organic range. Canadian sales surged with the success of Activia.

Latin America

Rapid growth set sales at €1.94 billion. Argentina and Brazil were the main contributors to performance in the region, where Danone holds the top places for fresh dairy products and packaged water.

Africa and the Middle East

Sales totaled close to €0.6 billion, with the Fresh Dairy Products division gaining ground in Saudi Arabia and Egypt, where Danone is market leader, as well as in South Africa. The group also holds the number-one or number-two place for baby nutrition in Morocco, Tunisia, Algeria and Turkey.

Asia-Pacific

Sales in the area were up from €1.64 billion to €1.85 billion, a vigorous showing largely attributable to strong growth for the Baby Nutrition division, particularly in China, and the Waters division in Indonesia. Another highlight was the 40% rise in Fresh Dairy Products sales in Japan.

Central Europe

Sales in the region rose a strong 24% to near €2.3 billion. Growth was fastest in Russia and Poland, where both the Fresh Dairy Products and Baby Nutrition divisions turned in excellent performances.

Western Europe

Sales in the region totaled €7.27 billion against a backdrop of flagging consumer demand. The group's main markets are France and Spain, followed by Germany, Italy, the UK and the Benelux countries.

Highlights/

Danone met its 2008 targets, with 8.4% organic growth setting sales* at €15.22 billion and operating margin showing a like-for-like rise of 53 basis points to 14.91%. This reflects in particular successful integration of our two new worldwide divisions, Baby Nutrition and Medical Nutrition.

*All figures are at comparable scope of consolidation and constant exchange rates.

Activities in 2008

Fresh Dairy Products/

Growth for international brands

A highly satisfactory 7.7% rise in Fresh Dairy Product sales confirms the success of leading brands today, such as Activia, and the promise of future drivers like Danacol. Three brands—Activia, Actimel and Petit Gervais/Danonino— together contributed no less than €4.4 billion to the division's total 2008 sales of €8.7 billion.

Waters/

no. 1

Danone's Indonesian subsidiary Aqua is now the world's number one producer of packaged water by volume.

Our Volvic and Evian brands both rank among the top five worldwide for bottled water.

Baby Nutrition/



An exceptional year

Sales reached €2.8 billion following the merger of Numico and Blédina, placing Danone second worldwide for baby nutrition.

Medical Nutrition/

Bright promise for growth

Little affected by changes in the economic environment, Medical Nutrition posted steady growth, with 2008 sales at €900 million. Danone is now a market leader in most parts of Europe and its Nutrition brand is a reference for the sector.

Danone was on target with organic growth at 8.4% in 2008, setting sales for the year at €15.2 billion. The total gain included a 2.8% rise in volumes, with the remaining 5.6% reflecting improved pricing.

TWO KEY DEVELOPMENTS. The new year began with a total focus on health following integration of Numico's operations in two full-fledged divisions, Baby Nutrition and Medical Nutrition. Then came the worldwide slide into recession, which split the year into two distinct periods. The early months were brisk, continuing the trends of the previous year with sales showing an organic rise of over 11% in the first quarter, but pace then trailed off by stages as the financial crisis started to hit real economies, particularly in industrialized countries.

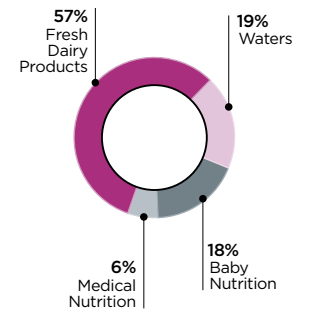
STRONG SHOWINGS FROM NEW DIVISIONS. Both the Baby Nutrition division—which combines what were previously the operations of Blédina and Numico in this area—and the Medical Nutrition division outdid targets in 2008. The former outpaced the market with a 17% rise in sales, and operating margin showed a like-for-like rise to reach a vigorous 17.51%. In Medical Nutrition, sales growth came in at 12.7% and operating margin at 22.15%. Together, the two divisions already account for 24% of consolidated sales, compared with 57% for Fresh Dairy Products and 19% for Waters.

NEW FRONTIERS. Looking at the geographical breakdown of business, a few countries continued to drive growth in 2008, among them Russia, China, Indonesia, Brazil and Mexico in the first half. This continues a clear trend that began to take shape at the beginning of the decade.

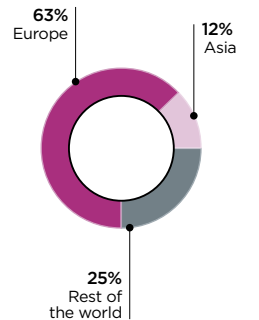
Today, new markets are taking their place alongside our traditional bases in France and Spain, with Argentina, Brazil, China, Poland, Russia and the US together accounting for 30% of sales.

GEOGRAPHICAL BALANCE. Main sources of momentum in 2008 were Asia, where sales were up 16.3%, and countries under the "rest of the world" heading, which collectively posted 13.2% growth. In Europe as a whole growth was only 5.1%, but it reached 16.6% in Eastern Europe, reflecting robust trends in Russia and Poland. Asia is an increasingly significant source of growth. The Baby Nutrition division already does nearly 30% of its business there, with its Dumex and SGM brands ranked first in Indonesia, Malaysia, China and Thailand. Also in Indonesia, the Waters subsidiary continued its impressive growth, widening an already big lead with over 50% of the market.

Sales by business line



Sales by region



no. 1

The world's top producer of fresh dairy products, no. 2 for packaged water and baby nutrition, and Europe's leading medical nutrition specialist.

In 2008, our new Baby Nutrition and Medical Nutrition divisions already accounted for 24% of Danone sales.



See: www.danone.com

Highlights/ Fresh Dairy Products



Growth/ momentum from innovation with top brands

Fresh Dairy Product sales came to €8.7 billion in 2008. Over half the total for **Europe** was in the division's main markets, which are France, Spain, Italy, Germany, the Benelux countries, the UK, Poland and Russia. In the **rest of the world**, the US, Canada, Mexico, Argentina and Brazil together accounted for more than a quarter . **Growth** in Fresh Dairy Product sales is driven by innovation and the extension to new countries of top Danone brands offering health benefits directly perceived by consumers. **Three brands**—Activia , Actimel and Danonino (Petit Gervais, Danimals)—together generated sales of €4.4 billion or more than half the division's total.

Communication/ New Web presence for Danacol

Italy has launched a unique Danacol campaign with a joint Danacol-MSN web site featuring an online game and a quiz highlighting the brand's benefits. In its first few weeks, the site drew 165,000 visitors, fueling a 14% increase in Italian sales for 2008.

24%

With sales up 24%, Danone Canada continues its rapid growth by optimizing its production and purchasing functions, and rolling out innovative marketing strategies for Activia and Silhouette. Actimel will launch nationwide in 2009 following an overwhelmingly successful test in Quebec in 2008.



South Africa/ Establishing a presence in townships

In May 2008, Danone took a 70% stake in Mayo, a company that for the past 50 years has developed a business model incorporating a unique distribution system for disadvantaged areas, particularly the townships. Mayo yogurt drinks have won a leading place on the market, opening new scope for Danone to reach consumers in varied income groups.

2,700

Responding to the needs of hotels and self-service restaurants, Danone Netherlands launched My Activia, a new product concept based on a 5-kg yogurt dispenser. Installed at the point of sale, the dispenser allows consumers to make their own Activia by adding the fresh fruit and cereals of their choice. A total of 2,700 machines will be installed in Europe by 2010.

Danone Egypt carves out new Middle East oasis

Only three years after its acquisition of OLait, a small family-owned dairy product company outside Cairo, Danone Egypt leads the fresh dairy product segment with 30% of the national market. Growth reflects the successful launches of three brands: Danone Core, a classic yogurt; Activia, a favorite with women; and Danette, which has opened up the dairy desserts segment. The subsidiary has also spurred growth with a more efficient distribution system to supply the 33,000-plus outlets selling Danone products.



Activia/ Intensely Creamy, intensely successful

In 2008 Danone UK launched Activia Intensely Creamy, an indulgent dairy dessert with all the benefits of Activia's unique culture, Bifidus ActiRegularis®, and only 3% fat. Available in different flavors, the product has been a hit with consumers and industry observers alike. Trade magazine *The Grocer* chose Activia Intensely Creamy as best 2008 launch in its Yogurts and Fresh Desserts category, recognizing an intensive media, Internet and point-of-sale campaign. And with *Nielsen Homescan* reporting a repurchase rate of 46.1%, Intensely Creamy looks set for continued success.

Brazil/ Activia now even more affordable

Activia is now sold in three versions in Brazil: a single-serving yogurt priced at €0.30, less than a cup of coffee; a yogurt drink sold in a large bottle; and an economy pack. In all, Activia rolled out 18 innovations ranging from new flavors to a product combining cereal with fermented milk. The brand attracted 14 million new Brazilian consumers, pushing sales volume up 45%.

53

plants worldwide.

€8.7

billion sales.

31,200

employees.

Results held firm across all regions in 2008, with some big successes to be remembered. The Fresh Dairy Product division's three Executive Vice Presidents Felix Martin Garcia, Jordi Constans and Dirk Van de Put look back on the year.

What's the bottom line for 2008?

Felix Martin Garcia:

Given the overall context, our 2008 performance was satisfactory, with Russia, Japan and Egypt responding particularly well. As soon as sales showed signs of leveling off, we took action, working on pricing and neighborhood distribution outlets—which account for 43% of sales in the region*—and playing up our brands. It worked. Eastern Europe performed extremely well, with sales up 20%, and Africa and the Middle East posted 16% growth.

Jordi Constans:

Western European markets were very vigorous in the first quarter, and then there was a sudden turnaround. We focused on our strengths—the superior quality of our products and the reliability of our brands—and backed them up with advertising geared around consumer education. Because authoritative support is critical to our business, we took an innovative approach in this area. For example, sales benefited when our representatives began calling on healthcare professionals.

What were the biggest successes of 2008?

Felix Martin Garcia:

The performance of our start-ups! In Egypt we lead the market, though we've only been there for two years, and Russia turned in a remarkable performance. Overall, we're seeing very good results from our blockbusters—Activia in Japan, for example, and deployment of Danacol in Eastern Europe. And in a major internal achievement, we doubled the number of training hours per employee in 2008.

Jordi Constans:

We had several successful product launches that show our capacity for innovation and our skill at adapting to local tastes. These include Activia Intensely Creamy in the UK, My Activia for hotels and restaurants in the Netherlands, and an Activia yogurt drink in France and Belgium. Our flagship brands have proven their value and usefulness wherever they're sold, but we need to continue communicating their benefits to consumers.



Felix Martin Garcia, Executive Vice President, Fresh Dairy Products, Eastern and Central Europe, Africa/Middle East, Asia, and Oceania; Jordi Constans, Executive Vice President, Fresh Dairy Products, Western Europe; Dirk Van de Put, Executive Vice President, Fresh Dairy Products and Waters, Americas.

Dirk Van de Put:

In the Americas, we had two different years. The economic downturn hit some countries very early—the United States, for example, with Mexico on its heels—but others held their ground very well. Canada posted a record 24% rise, and Argentina and Brazil continued to drive our growth in Latin America.

Dirk Van de Put:

Activia has been a success in the Americas as well. Consumers see its benefits very clearly, and there are so many versions of the product that they can enjoy it every day without getting tired of it. The best example is Canada: regulations there allow only very broad health claims on television, so we've had to innovate. We're directing consumers to printed sources and the Internet for more information on the proven benefits of our products. And it's working.

.....
Top figures for 2008

70%
of the countries in the region saw a rise in our market share by late 2008.
Felix Martin Garcia

17%
We had the best results in countries where per capita consumption was lowest. In 2008, sales were up 5% in Italy, 17% in the UK, and 10% in the Netherlands.
Jordi Constans

50%
improvement in productivity for Activia in Brazil has strengthened our positions on the local market.
Dirk Van de Put

* Central and Eastern Europe, Africa/Middle East, Asia and Oceania



See:
www.danone.com

Russia/ Danone bolsters strengths

In 2008 we again strengthened our position in Russia, winning nearly 30% of the market for fresh dairy products and raising sales to a new record. This strong showing was powered by innovative local adaptations of our flagship products. Examples include Activia in a new larger size, peach-flavored Actimel, Danacol, and Dino Surprise, a Danonino product featuring collectible figurines with every 100-g serving. Taken together, these innovations accounted for 30% of the subsidiary's results. Keeping pace with this growth and despite signs that 2009 will be more testing, Danone Russia has added five new production lines to its Chekhov facility, raising annual capacity to 400,000 metric tons and making it one of the biggest and most efficient plants in the world.



Brazil/ Danoninho fortified with calcium and vitamins

Danone Brazil has fortified its version of Danoninho—a fromage frais product for children—with calcium and vitamins D and E to compensate for dietary deficiencies identified in a recent Danone study, the largest ever conducted on the nutritional needs of Brazilian children. Over 7.2 million youngsters now have access to a custom-formulated Danoninho for less than 1 real per serving, and adaptation to local needs has generated 8% growth for Danoninho Brazil.

Japan/ Bio boosts market share

Two years after taking full control of its Japanese subsidiary, Danone holds a 4.4% share of the fresh dairy products market in Japan, up from 2.7% in 2007. Credit for this strong showing—nearly 40% growth in a market with many competing brands—goes largely to Activia. Known as Bio in Japan, the brand accounts for two-thirds of the subsidiary's sales thanks to an expanded distribution network and successful adaptation to Japanese tastes, including a flavor with tomatoes, carrots, cabbage, pumpkin and 12 other vegetables. Danone Japan is promoting its products with a high-tech point-of-sale advertising campaign featuring commercials, medical information and customer testimonials broadcast via mini-televisions positioned along store aisles.



Markets/ Essensis discontinued

In 2008, Belgium discontinued production of Essensis yogurt, with Italy, France and Spain to follow in the first quarter of 2009. While the product's health benefits—backed by a number of scientific studies—are not in doubt and it made a satisfactory market start, the reduced purchasing power accompanying the worldwide economic downturn produced a sharp impact on sales. The group has thus decided to focus investments on top brands.

**Highlights/
Fresh Dairy Products**



Danacol/ Global promise

With sales nearing €200 million and growth topping 35%, Danacol is confirming its promise as one of the division's star products. Launched this year in Argentina, Poland, Austria and Slovenia, the brand is now sold in 12 countries, averaging 70% market share.

**Actimel, Activia/
Clinical studies**

Few if any food products have been the object of as many clinical studies as Actimel. Since 1994, a good 24 scientific publications and studies representing tens of millions of euros in research spending in ten countries have confirmed Actimel's beneficial impact on natural defenses for people of all ages (the most recent studies having considered three target groups—children, adults and seniors). In all, four clinical studies and four pre-clinical studies were conducted in 2008. Activia is the subject of similar studies concerning its benefits in terms of regularity.



Trends/ Neighborhood distribution model spreads to Europe

Distribution through small retailers—outside of hyper- and supermarkets—is critical to Danone's strategy of affordability and accessibility. The group is now present at over a million points of sale, and independent neighborhood vendors contribute 40% of its annual growth, accounting for 25% to 30% of Fresh Dairy Product and Water division sales. Danone supports this fast-growing worldwide network by providing retailers with refrigerators and other display cases compatible with our products—and not only in emerging countries.

As hypermarket traffic leveled off in 2008, Danone intensified coverage of small retailers in Europe's more mature markets. Delivery tricycles now supply over 1,000 bakeries and takeaway outlets in Paris; our products are being introduced by stages in 750 Spanish drugstores; and consumers can now find Danone dairy products at their local vegetable markets in Portugal and at butchers' shops in Argentina.

Colombia/ Danone opens first plant

Danone's new plant, located near Bogotá in the Cajicá region, is a perfect illustration of our three-pronged strategy for emerging countries: stay close to markets, keep a firm grip on costs and supply, and work closely with the local community and economy. Greater reliance on local suppliers enabled us to significantly reduce the cost of the 22,000-ton facility, inaugurated in February 2009.

**Highlights/
Waters**

Strategy/ Our Waters division has a clear focus on the benefits of natural waters. The Waters division continued moves to center business on top brands for natural waters, developing value-added products that are easy to enjoy and naturally thirst-quenching. Innovations highlight specific properties that include mineral content, natural purity and elimination of toxins and waste. In 2008, 47% of division sales totaling €2.9 billion were in Europe, 31% in Asia and 22% in the rest of the world (Americas, Africa and Middle East).



Continuing successes in Latin America

Mexico, Brazil, Argentina and Uruguay are home to a growth model that has made Danone number one for packaged water in Latin America. In Mexico, Bonafont holds the lead in bottled waters, and we also have strong positions in home-and-office deliveries in large jugs. In 2008, the acquisition of Icoara, the local spring and plant in Brazil, offered a base for the extension of the Bonafont concept to a new country with huge growth potential. Danone is also the leader for bottled water in Argentina, where our main brands are Villa del Sur and Villavicencio, and is number one in Uruguay, too, with the Salus brand.



Aqua/ 50% of the market

Aqua is Indonesia's number-one brand for packaged water, with a market share of 50%. Bulk containers account for a high proportion of its business. By volume, Aqua is the world's leading brand, with six billion liters sold annually.



Thomas Kunz, Executive Vice President Waters



2008/ bridging the gap

by Thomas Kunz, Executive Vice President, Waters

In 2008, there was a gap between emerging markets, with growth of nearly 15%, and mature markets in Western Europe, which held steady or lost ground. Our local brands in Mexico, Argentina, Indonesia and China thus posted outstanding growth, while Volvic and Evian ran into headwinds in the UK, Spain and France.

Bottled waters had to contend with increased competition from sweetened beverages and sodas, as well as reduced consumer purchasing power and questions about our environmental impact. We responded energetically with a communications campaign stressing the unique character and benefits of our waters, and also stepped up our environmental responsibility initiatives. We are now making bottles with 25% recycled PET, and Evian is moving toward carbon neutrality, working with the Ramsar Convention, its long-time partner, and IUCN (see page 85). Finally, we have taken steps to control costs and strengthen our health positioning, and we are expanding our product ranges and distribution networks, focusing particularly on increasing away-from-home consumption and more effective use of neighborhood sales channels. Against this backdrop, we are heading into 2009 with determination in the tough markets, and enthusiasm in emerging markets.

Villa del Sur adds fruit and market share

Villa del Sur Levité, a natural mineral water with natural fruit, moved into first place for flavored waters in 2008. Volumes were up 45% from the previous year, reflecting the appeal for the whole family of a range with a choice of grapefruit, apple and orange flavors for healthy enjoyment. Also in Argentina, Danone launched a new sugar-free, zero-calorie flavored water under the name Ser Vita Nutrientes, targeting women in particular.



Volvic/ a dash of fruit and no additives

Volvic Touche de fruit—natural Volvic mineral water with a dash of fruit and free of additives—was the main product innovation at Danone Eaux France in 2008. Reinventing the concept of flavored water, Volvic has overcome the two main obstacles to success: perceived artificiality and sugar content consumers consider too high. More natural, with a fruit tang that sets it apart, Volvic Touche de fruit has no artificial flavorings or preservatives, and reduced sugar. These qualities have already won it a place with 1.6 million French households, mostly made up of middle-aged people with no children, looking for a healthy alternative to unflavored still water. In 2009, Volvic will be maintaining its focus on natural appeal with the launch of Volvic Touche de fruit with apple and mint/green tea flavors on the French market. In Germany, the apple flavor launched in 2008 is a best-seller for the range.

Volvic and Evian lead the field in Germany

Volvic and Evian reinforced their top places on the German market for still water, with sales up 3% in 2008—a remarkable performance considering the generally lackluster market trends in Europe. The success of Volvic's range of flavored waters made an important contribution to this result. The continuing efforts of its sales force and increased point-of-sale advertising were reflected in a 26% rise in the presence of the two brands on retailers' shelves.

Ser 0% powder/ a winning concept

Mixed with water, powdered Ser yields a tasty, sugar-free drink enriched with nutrients that include calcium, magnesium and vitamins B9 and B12. It was launched on the Argentine market in May 2007, and has made quick progress, with two more flavors added to the range in 2008, raising the total to ten. With reduced packaging, Ser 0% powder is just half the price of bottled flavored water, costing only around €0.20 a liter. Another good reason for success.

Markets/ sale of Frucor

In keeping with its strategy of focusing beverage business on core mineral waters and spring-water products, in February 2009, Danone finalized the sale of subsidiary Frucor to Suntory Limited at a price of over €600 million. Frucor is a leader on the Australian and New Zealand markets for non-alcoholic beverages, with nearly all of its sales from flavored drinks, sodas and energy drinks.

Communication/ What do you know about the water you drink?

This question is the banner for a campaign in defense of mineral water launched by the industry association in France. The move is backed by an internet site (<http://leseauxmineralesnaturelles.com>) where consumers can check their knowledge. Example: Mineral water and tap water are equally pure. True or false? False! Mineral water is legally required to be pure from the start. Tap water, in contrast, starts out with pollutants in higher or lower concentration, requiring treatment to make it safe to drink. And tap water is nearly always chlorinated.

18 billion liters of packaged water sold in 2008, ranking Danone number two worldwide.







84 plants worldwide.

€2.9 billion sales in 2008.

33,000 employees worldwide.

Highlights/ Baby Nutrition

Strong performance/ Baby Nutrition sales rose 17% in 2008

The  **Baby Nutrition** division's business covers milk powder and formula for infants and more varied  offerings for toddlers aged from 18 to 36 months. With sales close to **€2.8 billion** in 2008, the division places second worldwide in the field. It is  **number one in Asia,**  where it does 28% of its business with the Dumex and SGM brands.

China/ Dumex gains market share despite melamine crisis



In September 2008, the melamine crisis struck the Chinese infant formula market—home to Dumex, Danone's Baby Nutrition brand. As leading local brands were withdrawn from store shelves, Dumex launched a vigorous communications campaign to maintain sales, reassuring parents quickly and effectively that Dumex formulas were not contaminated.

A press campaign and a television spot targeting the general public stressed the

quality and reliability of Dumex products, a message reinforced by flyers in store aisles and stickers on packaging. Finally, the brand reinforced its call center, and maintained daily Internet surveillance to quash false rumors. This well-coordinated response enabled Dumex to lift market share to 18% in December.

Investment in French plant

In 2008 Danone earmarked €22 million for a new production line in southwestern France, a move designed to improve efficiency and double production capacity for Blédichef prepared foods. The brand is currently working to reduce packaging by 25% with a dual purpose: cutting costs through pallet optimization, and reducing the environmental impact of Blédichef's transport operations. With annual capacity of 14,000 metric tons, the new line will supply several European countries.



Spain/ Blédichef gets a lift from Milupa

In Spain, the Baby Nutrition division has leveraged recognition for its Milupa brand to win a place for French brand Blédina's innovations. Blédichef Milupa hit the Spanish market with a new graphic identity and brand image in September 2008 and scored an immediate success, rapidly achieving a 14% rise in sales. In 2009, the division will expand the range and adapt it more specifically to local tastes.



2008/ Double challenge, double success in 2008 by Christian Neu, Executive Vice President, Baby Nutrition

In 2008 we had two jobs: completing the integration of Blédina and Numico, and achieving the group's ambitious growth target. We succeeded by a wide margin in both. Baby Nutrition posted 17% growth with very healthy margins, and we now have a unified division with employees working together as if they had always been on the same team.

Marketing and R&D synergies are already beginning to pay off. This is a remarkable achievement, given that most acquisitions disrupt organization and operations during the first year. Our teams have been very responsive, very positive. Which is very encouraging for our continuing efforts to win and consolidate market leadership wherever we do business, and in so doing further our mission: to help parents understand and meet the special nutritional needs of very young children, without forgetting that breast feeding is by far the best option for babies.

A healthy baby is a happy baby

Our Bebiko, Bebelac and Cow & Gate brands have been relaunched in some ten countries, including the United Kingdom, Ireland, Poland, Austria, Romania, Spain and Russia. Centered on a new Complete Care concept, the relaunches emphasized the importance of optimizing nutrition for infants and strengthening their immune defenses. A new Complete Care label was added to product packaging, and a broad media campaign promoted the concept with the slogan, "A healthy baby is a happy baby."

Numbers

No. 2
baby-food supplier worldwide following the merger of Numico's business with Blédina's.

67%
of sales in Europe, with main markets including France, the UK, Italy, Poland and Russia.

28%
of sales in the Asia-Pacific area.



Christian Neu, Executive Vice President, Baby Nutrition

20
plants worldwide serving the Baby Nutrition division.

€2.8 billion
sales in 2008.

11,100
employees worldwide in 2008.

**Highlights/
Baby Nutrition**



Turkey/Mega launch for Milupa organic fruit juices

In May 2008, the new Milupa range of organic fruit juices for infants, sold in 200-ml mini-cartons, hit the Turkish market with a launch campaign making full use of media and below-the-line communications including direct outreach via e-mail and messaging services, and mass distribution of samples to families and doctors. By the end of the year, Milupa had helped establish the infant beverage category in Turkey and held a 93% market share heading into 2009.

20%
Sales of immunity-building infant formulas were up 20% overall in 2008, with brands including Aptamil in the United Kingdom, Nutrilon in Russia, and Dumex in Asia. Growth was in double digits across all regions, driven by recognition of proven benefits for the infant immune system.



Blédina/ a faithful following

In France, Blédina's "petit pots" and "Idées de Maman" offerings increased market share by five percentage points in 2008, with sales up 12.5% in value—a strong performance grounded in the brand's continuing popularity.

Blédina's petit pot mini-jars—delivering "Blédina's full range of nutrition expertise for less than €1"—are a favorite with mothers, who appreciate the safety of its glass-and-metal packaging, the wide variety of recipes, and above all its pricing—the lowest in the savory foods category.

"Idées de Maman" products, packaged in a convenient plastic bowl, offer children a texture similar to that of food puréed by hand. Nine out of 10 mothers choose this range as the closest to home-made.

United Kingdom/ Cow & Gate launches new range of pastas and sauces for babies

Cow & Gate, the leading baby nutrition brand in the UK, has added five new sauces and three new pastas to its range of prepared baby foods. Originally launched in September 2008 as an Asda exclusive, the new range appeared in the Tesco, Sainsbury's and Boots retail networks in November.



France/ 51.7% market share

Blédina added two percentage points to its market share by value in 2008, breaking above the 50% barrier to end the year with a record 51.7%. The brand also took the lead in all follow-on formula and growing-up milk segments for the first time.

Communication/ Bebiko, a brand to treasure

Bebiko was named the Most Precious Polish Brand for 2008, an award staff members see as recognition for the best results on record. The ranking is based on the value of the brand (sales, growth, etc.), recognition and customer loyalty.

**Highlights/
Medical Nutrition**

Markets/ Danone, a new pace setter in Medical Nutrition

Medical Nutrition sales came to roughly €0.9 billion in 2008, making Danone the market leader in Europe. Less exposed to economic trends than other types of business, the division continued to post brisk growth, not only in Europe which accounts for 82% of sales, but also in Asia, accounting for 5% and the rest of the world, collectively accounting for 13%.

2008/ Strong performances, innovation and geographical expansion

by Flemming Morgan, Executive Vice President, Medical Nutrition

Business performance was exceptionally strong in 2008, with sales up 12.8% and margin rising by no less than 149 basis points like for like. All segments contributed to growth, with our international brands Nutricia, Fortimel, Neocate and Nutrini taking the lead. Our sales force successfully consolidated its bases through increased familiarity with patients and medical professionals, and we confirmed our lead in science and innovation, in particular through two major achievements.

The first was the launch of our compact formats for oral nutrition, representing a real scientific and technical breakthrough, and the second the encouraging initial findings of a study of our formula designed for Alzheimer's patients. Another result we can be proud of was the publication in *Lancet Neurology* of our clinical studies of a product for epileptic children, showing the recognition of the scientific community. Finally, we continued to expand outside Europe with moves into Colombia and Mexico, and recently started operations in markets including Brazil, China and the Middle East that are already among the main contributors to our earnings.

Early signs encouraging for Alzheimer's patients

While there is still a need for caution, a specially formulated drink derived from 10 years of research may show promise for Alzheimer's disease, with a first clinical study showing improvements in cognitive functions for some patients. These encouraging results were presented at an international medical conference held in Chicago in July 2008, and a second clinical study, now under way to confirm these results, could lead to useful developments in targeted medical nutrition.



Flemming Morgan, Executive Vice President, Medical Nutrition

no. 1

Danone is now the European leader for medical nutrition.

* At comparable scope of consolidation and constant exchange rates.



See: www.danone.com



Neocate/ the top milk alternative for allergic children

More than half a million children with allergies to cow's milk have grown up healthy with the help of Neocate, Medical Nutrition's flagship brand. A non-allergenic amino acid—used in place of milk and other dietary components that allergic children cannot tolerate—makes Neocate a safe, effective alternative recommended to parents by health professionals. Production is restricted to plants that do not process cow's milk to avoid any possible contamination. Research, constant innovation, and numerous clinical studies backing its health claims have generated annual growth of 25%. Now the world's leading brand, Neocate will celebrate its 25th anniversary in 2009.



Nutrition/ focus on the needs of seniors in Spain

With Spain's elderly suffering high rates of malnutrition, the nation's pharmacists and general practitioners are beginning to play a key role in improving patient diet. Better coordination between hospitals and outside practitioners can help all healthcare professionals become more closely attuned to the nutrition problems affecting this growing population. Nutricia is doing its part with a dedicated sales force helping elderly patients leaving hospitals continue treatment by local doctors at home.

Nutricia looks east

Surging markets in the Far East account for only 10% of the division's sales—below the group average—and continue to offer strong growth opportunities. Leveraging favorable social and demographic trends and the strong presence of Danone's other divisions, Medical Nutrition is planning moves into several Asian markets and is also exploring eastern European and Middle Eastern markets with high growth potential.

R&D/ Ketocal pioneers epilepsy treatment

Epilepsy strikes nearly one person in a hundred at some point in life, and young children are disproportionately susceptible to it. For patients with intractable epilepsy, seizures can cause brain lesions with lifelong consequences—



high stakes for scientists in Danone's Medical Nutrition division seeking a dietary treatment for the disease.

Medical professionals now recognize that diet can be life-changing for patients with epilepsy that resists medical treatment. Ketocal, the first food designed specifically for epilepsy sufferers, has proven its effectiveness in patients, offering an additional treatment option to doctors and care providers.

Innovation/ Fortimel Compact improves patient quality of life

Disease-related malnutrition is a growing healthcare problem that now costs developed countries far more than those associated with obesity. Nutritional supplements can make a significant contribution to balancing a patient's diet, increasing muscle strength, facilitating daily activities, and reducing medical complications—yet nearly half of all patients are unable to consume supplements in the quantities prescribed by their doctors.

In 2008, Nutricia offered a solution: Fortimel Compact, a specially formulated drink that packs the calories and nutrition of a 200 mL bottle into a 125 mL bottle. Combining higher nutritional density with less volume, Fortimel Compact puts vulnerable patients on a stronger footing—yet another breakthrough by Nutricia scientists in Medical Nutrition's continuing drive to help patients manage their illnesses.



Brands/ Nutricia adopts global identity

In 2008, Nutricia adopted a new visual identity to raise its international profile and awareness of both its values and health positioning with a more consistent global image. Nutricia Advanced Medical Nutrition is now the umbrella brand: its logo places a target alongside the Nutricia name, evoking the precision of the brand's research and its highly specific response to each illness. Products are labeled in white and purple to set Nutricia apart from its competitors.

3
Medical Nutrition plants worldwide.

€0.9 billion
sales in 2008.

3,500
employees worldwide in 2008.



See:
www.danone.com



Who understands what you want and what you need?

Business careers with a big difference

Danone creates products that nourish consumers at every stage of their lives – from baby foods to yogurts and mineral water, all the way through to specialist brands in medical nutrition. And we're equally adept at meeting the changing needs of our own people, too. Whether you are a fresh graduate or a professional with years of experience behind you, we'll be always there with the opportunities and challenges you need to keep developing. Find out more by visiting www.danonepeople.com



Building better people™



Though our scientists are skilled in other areas, studying good bacteria is the heart of their work at Danone Research. The products of the future will come from a thorough understanding of the role of pre- and probiotics* in human health.

The hunt for (good) bacteria



Alice Dautry currently serves as Managing Director of the Pasteur Institute, where she has worked since 1977 and continues to head a laboratory. A cellular biologist, she is also in charge of a research unit associated with CNRS, France's national research institute. Throughout her career, she has combined research with teaching, research assessment, and scientific consulting, and has authored numerous publications. Her current research focuses on immune-system receptors and intracellular bacteria infections. Since 2004, Danone has renewed its historic partnership with the Pasteur Institute to study probiotic bacteria.





Evan Abrahamse, a Dutch biochemist at Danone Research, has been studying the gastrointestinal system for ten years. He is the driving force behind new technology for **intestinal simulation**, a unique research tool for specialized nutrition products that enables Danone to study the action of probiotics and other bacteria at various points along the gastrointestinal tract of both adults and children.

“A detailed understanding of intestinal metabolism is critical to identifying the nutritional ingredients with the greatest health benefits.”



Jan Knol, a native of the Netherlands, has a Ph.D. in microbiology and is the leading expert on the subject at Danone Research, where he serves as scientific officer of the Microbiota and Gut Biology team. His primary research areas include the study of interactions between bacteria and the human body, and the impact of nutrition on these interactions.

“We’re starting to understand how bacteria influence health. And this is only the beginning!”

Gregor Reid is a doctor of microbiology and immunology, and head of the Canadian Research and Development Centre for Probiotics. He has worked with Danone Fresh Dairy Products for nearly a decade. Danone Research has now teamed up with him to found a research chair in probiotics in Canada that will significantly reinforce Danone's links to academic circles in North America. A world expert in probiotics, Dr. Reid is convinced that bacteria can make an important contribution to health. His research includes studies on the use of a lactobacillus to prevent female urogenital infections, and he also helped found a community kitchen in Tanzania to produce probiotic yogurts for people infected with HIV.

"No medical product on the market can match bacteria for range of effectiveness."



For Danone Research, 2008 opened new horizons as we began to integrate our new Baby Nutrition and Medical Nutrition businesses, both highly reliant on R&D capacities. By the same token, it raised new challenges—linking up with new research teams, overhauling our organization, and redefining our priorities, while at the same time reaffirming an ambition that is unique in the food industry.

The promise of a food business focused exclusively on health naturally hinges on a higher standard for scientific credibility, making quality research essential. With that in mind, in the past few months our scientists have worked to set up organizational structures that match Danone's new scope and favor the development of synergies. Other priorities included reinforcing the scientific standing of our products and enhancing transparency and dialog with scientific institutions, public authorities and consumers.

A UNIQUE RESEARCH MODEL SERVING SCIENCE AND INNOVATION

An international pacesetter in infant and medical nutrition, Numico was acquired by Danone at the end of 2007. It brought with it widely respected research capacities, with a culture and dedication to professional standards similar to those of our existing teams, but also complementing their expertise with new know-how. A first step in the integration process was naturally to bring our two structures closer together to favor synergies, while

preserving the internal dynamics and expertise of each.

In 2008 Danone Research, the organization heading up all our group's research resources around the world, thus underwent a major overhaul and is now structured around two main centers—the Daniel Carasso Research Center in Palaiseau near Paris, and another in Wageningen in the Netherlands, the hub of the "Food Valley" food

upstream fundamental research from new product development, Danone Research unites the two, combining the long-term vision essential to breakthrough innovation with the near-term creativity needed to bring a steady flow of new products to market each year.

To ensure that our R&D teams are familiar with product-specific challenges, they are based primarily within our four divisions—

Danone Research now draws on the skills and expertise of over 1,200 employees around the world.

and nutrition cluster. Including offshoots on several continents, Danone Research now draws on the complementary skills and expertise of over 1,200 employees around the world.

The research and development model adopted by Danone continues to set us apart from the rest of the agrifood sector. Whereas the general practice is to separate

Fresh Dairy Products, Waters, Baby Nutrition and Medical Nutrition. But a number of researchers also play a cross-functional role, supporting multiple divisions or even all four, in key areas that include managing clinical studies; researching prebiotics¹ and probiotics² and their interaction with intestinal flora; immunology; defining a comprehensive approach to nutrition; and studying consumer

Health governance/
changes
in 2008

Responsibility
A year after adopting our 100% health focus and integrating new divisions into the group, Danone has to live up to additional responsibilities. Any business dealing with nutrition for the aged and sick, for infants, for pregnant women and for nursing mothers must be very aware of their vulnerability. More than ever before, the quality of Danone products must be absolutely irreplaceable.

Science
Danone researchers are now addressing major public health issues such as Alzheimer's disease. Science thus has a much more important place in our group, both as a business driver and a focus for investment.

The medical community
Ties to the medical community—previously a matter of opportunity with more or less relevance in different countries—are now critical. By stages, all of our subsidiaries will be sending representatives to visit hospital personnel and other medical practitioners, including specialists in pediatrics and geriatrics, to introduce them to select Danone products and explain their scientific properties.



The Danone business that is most closely linked to health and research—thus helping to inspire the other three—is unquestionably Medical Nutrition, shown here in an Italian hospital.

↳ behavior and preference. Whether within individual divisions or in cross-functional units, our research teams bring together a broad range of nationalities and personal profiles, as well as a wide variety of research areas and complementary specializations.

In Fresh Dairy Products, Water and Baby Nutrition, divisional research teams are structured by type of health benefit. Each benefit is associated with one or more of the group's leading brands—Activia for digestive health and Danacol for cardiovascular health, for example, with others targeting the immune system, weight control, hydration and other aspects of health. And each of these teams combines the range of expertise required for its particular field.

At local level, R&D teams within individual subsidiaries have a dual mission, adapting group products to local consumer preferences for product characteristics such as flavors, textures, volumes, and packaging, while at the same time developing products that target their own specific markets.

The Medical Nutrition R&D division is the only exception to this general structure, reflecting specific requirements relating to clinical studies and the regulatory environment. This unit also takes a different approach to sales channels, since most medical nutrition products are prescribed by doctors and are covered or reimbursed by national health insurance systems.

MAKING A SOLID CASE

Danone's mission, defined as bringing health through food to as many people as possible, means that we must be able to measure our products' contributions to good health. Reflecting this, in 2008 we became even more committed to performing the clinical studies required to back the health benefits of our products. Our goal is to produce scientific evidence for claims that apply to all consumers—the improved regularity associated with Activia, for example—as well as for those concerning particular groups such as children, adults with high cholesterol, or the aged.

Another priority task for Danone Research throughout the year was



Brazil. Danoninho is fortified with calcium and vitamins D and E to fight dietary deficiencies identified by a Danone study of Brazilian children.

The right
formula

In 15 different countries, we have adapted the formula for our Danonino range to fight dietary deficiencies identified by local medical practitioners. A new version launched last September in Brazil is a prime example. Gluten-free and fortified with vitamins A, B9 and D, along with calcium, iron, zinc and other nutrients, *Banana de la Selva* (jungle banana) Danoninho is perfectly tailored to the needs of children aged six months to six years.

the preparation of documentation required under the European Union's "Regulation on the use of nutrition and health claims for foods", which was adopted in December 2006 and will be applied to all our products by the end of the current year. Designed to ensure that any food-related claims are clear, reliable and scientifically substantiated, this regulation requires authorization for every claim before it can be used in labeling or advertising. To comply, in 2008 Danone Research submitted to the European Food Safety Agency several sets of scientific documentation setting out the evidence concerning the health benefits of our leading brands.

already been launched in Mexico, Spain and France to find out more about the advantages of mineral water in eliminating toxins and the connection between hydration and physical performance. The Waters division has also launched campaigns to raise public awareness and understanding of the scientific basis for the significant differences between mineral water, spring water, filtered water and tap water. While all have their uses, we at Danone are convinced that natural mineral water offers unique benefits, and we thus do everything we can to preserve the purity of the springs that supply it.

Numico's advanced knowledge of the components of breast milk is an important contribution to Danone Research.

This process naturally concerns Fresh Dairy Products most, but more recently the Waters division has also been involved, setting up two research units—one dedicated to hydration and the other to digestion and the elimination of toxins and waste. Two clinical studies have

Turning to Baby Nutrition, Danone had already acquired considerable expertise in baby foods with its Blédina brand, but Numico has clearly made an important contribution to our research capacities in this area, in particular through its advanced knowledge of the

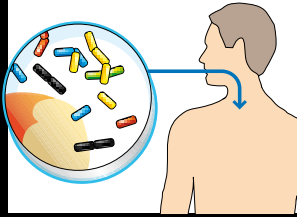
↳ see page 4

Good bacteria: How probiotics work

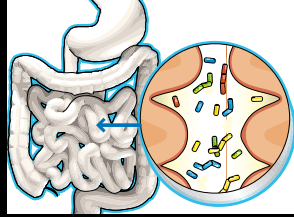
Bacteria—good and bad—are the oldest form of life on Earth, and no other life forms could exist without them. In the human body, they form an indispensable ecosystem of their own: the intestinal flora. Some of these bacteria are beneficial for human health, and they are called probiotic bacteria.

The human body

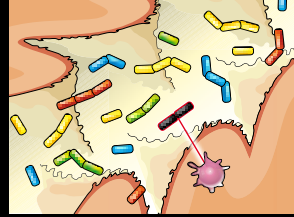
The intestine contains 70% of the body's immune cells. These cells are responsible for fighting off attackers, such as bad bacteria, viruses, and harmful fungi.



Though some microorganisms are harmful to humans, the majority are not.



Everything we eat passes through the digestive tract, which breaks down food and absorbs nutrients.



An immune cell prepares to defend the body by neutralizing an attacker.

Intestinal flora

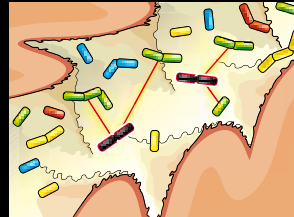
Though everyone's flora are unique, they play the same role for all of us. Residing in the digestive tract, intestinal flora help the body fight off hostile microorganisms and digest foods that cannot be broken down by the stomach or the small intestine.



An entire population of tiny living creatures—more than a thousand different species of bacteria—live inside the intestine.



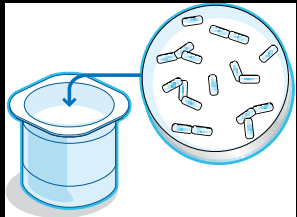
The bacteria in our intestinal flora help the body digest fiber that cannot be processed in the upper portion of the digestive tract.



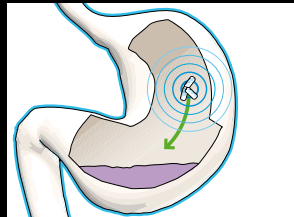
The bacteria in our intestinal flora help protect the body from attackers.

Probiotics

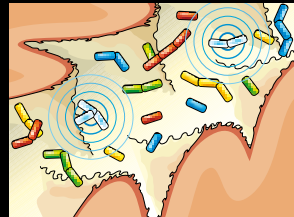
Probiotics are living microorganisms that benefit human health when consumed in sufficient quantities. These active ingredients spring into action when they reach the intestine.



Probiotics were first discovered in yogurt.



Probiotics travel through the entire digestive system, reaching the intestine alive. It is here that they begin to have an effect.



Probiotics fight disease-causing microorganisms and help educate the immune system.

INTERVIEW

DANONE HAS TAKEN UP THE CHALLENGE OF COMBINING FUNDAMENTAL AND APPLIED RESEARCH, AND ALLOWING FOR FRICTION AND DIALOG BETWEEN THEM.

Sven Thormahlen, Executive Vice President, Danone Research



How would you sum up 2008 for Danone Research?

Sven Thormahlen: It was a very eventful year, with the integration of research teams from Numico providing a lot of opportunities to meet people and exchange information and viewpoints. When our teams from Palaiseau in France and Wageningen in the Netherlands first met up, people were a bit wary, with everyone wondering how they would get along. As it turned out, we quickly found we had a lot in common. Science is like music and sport: it's universal, and it brings people together. We shared a lot of the same concerns and we had a lot to learn from each other. Now, a year on, we have set up an international organization with twin centers to get the best from the findings, the methods and the roots of each. From the start, we had highly complementary skills and knowledge; now that we've teamed up, we make a pretty formidable combination.

What synergies have been achieved around Danone's four main divisions?

ST: Danone's research model is one of a kind. In most cases you find a barrier between research and product development, but here they are integrated into a single organization. Danone has taken up the challenge of combining pure and applied research, and allowing for

friction and dialog between them. Scientific research is naturally for the long term, whereas development is about bringing out new products over the year ahead. But when you bring the two together, you force them to interact. Danone is now organized into four divisions with Research and Development teams working in tandem—and it's been a success.

How does Danone Research share its approach to science?

ST: We realized last year that we hadn't been doing enough to let others know about what we were doing and we needed more transparency. For too long, we'd taken it for granted that publishing our results in scientific journals for specialists was enough. But however important these may be, they don't reach opinion leaders, journalists or, even less, consumers. So we decided to find ways to share our findings with a broader audience. For example, with seminars designed for journalists as well as scientists. We also started to develop educational programs within the group so that all Danone staff members have a basic idea of the science behind the health benefits we claim for our products.

We have to show the outside world that our scientific approach is relevant and there are good reasons for what we do. That's the only way to gain wide recognition for the validity of our research and findings.

What about the prospects for Danone Research in 2009?

ST: In 2009, we'll be extending synergies between our research teams in France and in the Netherlands. And bringing out the first results in terms of product innovation, particularly in baby nutrition. At the same time, Nutricia's teams will be moving ahead with a second clinical study to confirm the benefits of certain nutrients in slowing the development of Alzheimer's disease. It's a complex question, and caution is the watchword, but the first results available to the scientific community are encouraging. Finally, we will continue to work on the documentation that we've submitted to the European Food Safety Agency* on the health claims we make for our products. It's a new procedure for everyone involved, and while it will make the ground rules clearer, it will probably need some fine-tuning, like a lot of things that are new. In any case, Danone is in a better position to meet this challenge than anyone else.

*For more information, visit www.efsa.europa.eu



The Daniel Carasso Research Center (far left), located south of Paris in Palaiseau, France, employs a staff of 500. Together with their colleagues at the Wageningen Research Center in the Netherlands, they form the heart of Danone R&D.

The Arch of Microorganisms exhibit (left), held in November 2008 at the Grand Palais in Paris, introduced the public to the benefits of bacteria and the intestinal flora for human health.

↳ components of breast milk. While we continue to promote awareness of the unique benefits of breast feeding, our Baby Nutrition division also does all it can to help parents understand the special needs of children in the first years of life. Nutritional products developed by Danone Research are designed for every stage of a child's development through age three. They complement rather than replace breast milk, except in cases where the mother is unable to breastfeed or her milk is nutritionally deficient, as may happen as a result of sickness, or, particularly in poor countries, malnutrition or under-nutrition.

More broadly, dietary deficiencies are a primary focus for research and development of products for children. In each case, the aim is to offer solutions targeting specific deficiencies, bearing in mind that they vary from country to country and are in no way restricted to under-developed regions.

Medical Nutrition is naturally the business most directly connected to research, and findings in this area can be a source of inspiration

to our three other divisions. Operations are currently divided into two segments, the first centered on products for the sick and the aged who have dietary problems because of difficulties in chewing, swallowing or digesting, and the second focusing on products that either make medical treatment more effective or counter its negative side effects.

The outlook for both areas is extremely promising. While it is impossible to know where the science will lead, the research community is increasingly aware of the critical role of diet in a comprehensive medical treatment plan that benefits the whole patient. This is borne out by a large number of clinical studies and the growing use of sophisticated products such as Diasip for diabetics, Ketocal for epileptics, and Neocate for infants allergic to cow's milk.

A recent illustration is the extensive clinical study of a beverage developed by Nutricia, the group's medical nutrition brand, with a combination of nutrients designed to improve the cognitive functions of Alzheimer sufferers

and slow the development of the disease. Published in 2008 and officially announced at an international Alzheimer's conference in Chicago, early results from this multicenter study are encouraging, and a second clinical study has begun. If preliminary results are confirmed, this highly specialized product, available only by prescription, could be brought to market.

HARNESSING DANONE'S COMMITMENT TO SCIENCE

Our focus on health supposes not only credible research capacities and rigorous commitment to scientific standards, but also continuing dialog with stakeholders, not least public authorities and regulatory bodies. Danone thus made an active contribution to the preparation of the EU Regulation on the use of nutrition and health claims for foods. In keeping with this, in 2008 we continued our program for systematic nutritional labeling, now applied to 90% of Danone products worldwide.

Links to the broader scientific community are no less important to us. Danone has an active part-

Sharing scientific progress with the general public, including proof of a product's benefits and impact on health.

nership with the Pasteur Institute in France—a historic relationship we renewed five years ago in connection with research into probiotic bacteria—and we have opened channels to Washington University in St Louis, Missouri, to research interactions between the human genome and intestinal bacteria. Finally, Danone researchers publish their findings in a variety of leading scientific journals with distinguished editorial committees and make presentations at leading symposia.

Danone is equally committed to sharing knowledge with the general public, thereby enabling the consumers—who are directly concerned by scientific progress—to make their own judgments about a product's benefits and impact on their health. Which raises some complex issues. While nutrition science has a long history, it is not widely taught, taking up no more than a few hours

in the entire course of a doctor's studies in a number of countries. Laymen can easily be confused by the often contradictory and more or less well founded theories in circulation.

Systematic nutritional labeling is one solution, but Danone has also launched several broader initiatives. Working with the Pasteur Institute and INRA, France's national institute for agronomic research, we have produced a fun-to-watch educational DVD on the immune system. In 2008 we organized the Arch of Microorganisms, an exhibition at the Grand Palais in Paris designed to introduce the general public to the beneficial impact of bacteria and intestinal flora on health. And Danone has launched HAL3-Science2share, an internet portal providing open access to the science generated by Danone Research. Sharing our expertise through outreach efforts like these

brings us full circle: just as Pasteur Institute researcher and Nobel Prize laureate Elie Metchnikoff inspired Danone yogurt inventor Isaac Carasso in 1919, Carasso's heritage lives on today in the enthusiasm and expertise of Danone researchers. ●

1. **Prebiotics** (literally, "before life") are ingredients in food that nourish good bacteria known as probiotics, stimulating their growth or activity.
2. **Probiotics** ("for life") are good bacteria that reach the large intestine (or colon) alive and regenerate our intestinal flora.
3. **HAL** stands for Hyper Articles on Line.

See: www.danone.com



A question of culture

Danone employs 80,143 people worldwide, with about half working at production sites like our Ateyashi plant in Japan. In 2009 our in-house opinion poll, Danone People Survey, will ask each and every one to express views on their management, their company, and the group.



Bonafont's Icoara plant in Brazil. Building on the success of its health revolution—*La revolución saludable*—in Mexico, Bonafont has expanded into Brazil. In 2008, the brand acquired the Icoara spring and bottling plant near São Paulo.



Our Poços de Caldas plant in Brazil won two awards in Danone's 2008 dairy plant challenge, a group-wide competition that recognizes quality, safety and dedication in our FDP plants.



Our Atebashi plant in Japan (top) is located 70 km north of Tokyo and produces 50,000 metric tons of dairy products a year. Four of its six production lines are dedicated exclusively to Activia, sold as Bio in parts of Asia.

Our Amon plant in France (bottom) bottles natural Evian mineral water. In 2008 Amphion employees participated in The Experts, a new training program (see page 59).

“What would you do if you could change the rules?” “Is there any reason to stop exploring?” “How can a multinational corporation think like a small business?” Choosing questions over pronouncements, Danone’s new international recruiting campaign targets students and young professionals with the slogan “Something Special Inside.”

What makes Danone special—the quality that makes all the difference—is not always tangible. It’s a state of mind, a willingness to ask questions instead of settling for answers, a way of looking at the world—in a word, a culture. A culture that our people are proud to share. A culture that gives Danone a competitive edge. A culture that our HR division cultivates as one of its main missions. But what, then, is Danone culture? Seven key words provide some insight.



R&D: a model for successful integration

R&D, which now has twice as many Ph.D’s on staff, was one of the first business functions to integrate Danone teams and personnel from the former Numico. As part of the transition, new cross-functional platforms were set up to support the group’s four divisions, with key positions assigned on the basis of skill profile. Remote teams were also assembled, enabling researchers in Palaiseau, France to work with colleagues at the primary R&D center for the Baby Nutrition and Medical Nutrition divisions in Wageningen in the Netherlands. Responsiveness to employee aspirations and special expertise has encouraged teamwork and favorable perceptions of a successful integration process.

ENGAGEMENT

Every other year since 1999, employees throughout the group and its subsidiaries have participated in an internal survey of their opinions on a wide range of issues. Originally limited to our 8,000 managers, it has been extended by stages to cover Danone’s 80,000 employees worldwide and is conducted by Towers Perrin, a specialized research firm. Containing more than 100 questions, the survey covers a wide range of subjects and measures a number of key indicators. Chief among these is collective engagement—a quality that could be defined as a willingness to work wholeheartedly for the company. A feeling of pride in belonging to Danone, combined with a deep commitment to our values, strategy and management style.

Among the dozens of major consumer-goods companies surveyed by Towers Perrin, the average overall score for engagement is 77%. By contrast, Danone scores over 82% group-wide, and some of our subsidiaries rate even higher—which helps to explain their responsiveness, their resilience in tough times, and their ability to consistently outperform their markets. French subsidiary Blédina, which took the top score for engagement, is a prime example. Faced with a slack economy and a mature market with the world’s highest per-capita consumption of baby food, the brand’s employees have energized the baby food segment, increasing market share year after year. Thanks to their engagement, Blédina remains the market leader for baby nutrition, with a 23-point lead over its nearest competitor.

PRAGMATISM

At Danone, pragmatism is a watchword. In our culture there are no intangible dogmas: we believe that all of our practices and principles, no matter how well entrenched, can and should be challenged in the interest of adapting to change. Our approach to brand management is one of many cases in point. In a host of countries, the group has left historically strong local brands intact, without attempting to force them into conformity or sacrifice them to Danone’s flagship brands. In Argentina, for example, La Serenissima has retained its identity as the brand preferred by Argentines for generations.

But surely the most telling illustration of Danone pragmatism was our smooth, rapid integration of the two new divisions acquired in late 2007 with Numico.



In 2008 Danone launched a new international employer branding campaign entitled Something Special Inside. This turns the spotlight on our group’s unique culture, using a variety of visuals to highlight our dual commitment to business success and social progress, our health positioning, our openness, and our emphasis on employee initiative.

Most of our previous acquisitions had involved small-to medium-sized national companies, making the Numico transaction — involving 13,000 employees and more than 60 subsidiaries in 36 countries — the largest truly international merger we had ever handled. From the outset, the integration team had a clear goal: safeguarding the internal dynamics of each business and their most powerful driver, employee motivation. Although combining two businesses inevitably requires change and adaptation, our guiding principle was to minimize moves that would disrupt our teams unnecessarily, even if this resulted in a few quirks.

One of the biggest challenges was preserving the resources that had made Numico successful. To that end, we kept our integration team small and short-lived, limiting it to a handful of people and dissolving it after only six months. We also paid particular attention to identifying talent, training the new arrivals, and forming cross-functional working groups that brought old and new employees together. Finally, we emphasized mobility between Numico and Danone’s existing business lines, with some 60 management transfers between old and new divisions in only one year.

We integrated Numico into the group quickly and smoothly, with one clear goal: safeguarding the internal dynamics of each business and employee motivation— their most powerful driver.

Keeping the focus on our people has clearly paid off. There were fewer than 10 departures of staff we would have liked to keep in the group in the wake of the acquisition, and surveys of the newly integrated teams show that a large majority of the employees interviewed see the move as having both strategic and professional benefits. And the outstanding performance of the Medical Nutrition and Baby Nutrition divisions in 2008 is proof that, in contrast to most acquisitions, our integration of Numico has not diminished team motivation.



The Danone World Cup brings over 11,000 of our employees together in a celebration of sharing and sportsmanship. In 2008 Miami, Florida hosted the worldwide final, which featured 800 players representing 76 teams from 45 countries.

Danone World Cup

Far from being a gimmick, the biennial Danone World Cup is an institution that genuinely reflects our unique culture. In fact, internal opinion surveys show that our employees consider it the initiative that best embodies group values. A soccer tournament with a twist, it is open only to players employed by the group—and with over 11,000 direct participants plus a host of organizers and fans, it is the business world's largest in-house sporting event. Actual

athletic performance is only a pretext, since for many participants the Danone World Cup is virtually the only time they play soccer. The real goal is to give our people a chance to meet informally and have fun together, since many have little opportunity to connect with colleagues working in other locations. Former Numico employees have rallied enthusiastically behind the event, turning out in large numbers. As in most international tournaments, teams compete at the national level,

and the most successful then move on to the worldwide final. Last year 800 players representing 76 teams from 45 countries faced off in Miami, Florida. Though some feared the event would be canceled amid the first signs of the economic crisis in summer 2008, the Executive Committee chose to go through with the tournament—and attend it—in the belief that the motivation and pride inspired by the Danone World Cup are even more essential in tough economic times.

AGILITY

In addition to pragmatism, Danone's management style is geared around speed, agility, and informality. While especially effective in volatile, chaotic markets, these traits are also well suited to consumer goods, a fast-changing sector driven by innovation, new patterns of consumption, and sudden reversals in local economies. And because speed and agility are often incompatible with a highly structured, formal hierarchy, Danone has consciously chosen a "short circuit" model—a networking attitude that encourages employees to share best practices from country to country and division to division, not through formal channels, but in direct encounters between co-workers.

Supporting this model is Who's Who, a simple information management tool that allows our employees to rapidly identify the colleague most likely to have found a solution for the problem at hand, searching a worldwide database in a matter of seconds. "Our Who's Who is like Web 2.0—it's a management 2.0, structured around collaborative sites that put the focus back on the individual," explains one manager. This virtual networking space, soon to be upgraded with new technology, has a physical counterpart in our Marketplaces program, which brings together managers from around the world several times a year, allowing participants to "buy" and "sell" best practices.

Internal networking tools have recently been supplemented by Learning Expeditions, a new source of innovation launched by our HR, R&D and Quality functions with events in Stockholm, London, San Francisco and other venues. These bring Danone employees into contact with highly innovative companies in other fields, not only to identify transferable best practices, but also to draw inspiration from radically different attitudes and points of view.

SAFETY

Although the food business is not particularly dangerous, keeping our people safe is nonetheless one of Danone's priorities—a fundamental of our business. We practice this principle through Wise, a customized program launched in 2004. As is often the case at Danone, however, Wise is more than a program: it's a state of mind, a management training tool that makes safety second nature for all of our employees, all the time.

Over 95% of industrial accidents are caused by people, not mechanical failure. As one Wise proponent



Wise is a state of mind. In Argentina, our Longchamps plant is on *El camino de la seguridad*—the Road to Safety. Each area of the plant is symbolized by a cutout that takes one step forward for every day with no accidents (see page 59).

In 2008 we expanded our Wise safety program to include the group's suppliers and subcontractors—a major advance.

notes, "A safety belt doesn't help if you don't put it on." Workplace behavior is thus assessed by regular audits—no fewer than 341 over the past two years. The effort has paid off: between 2006 and 2008, our accident rate (defined as the number of workplace accidents resulting in at least one day of sick leave per million hours worked) dropped from 7.4 to 5.2, a 41% improvement.

But even this level is too high for Danone's Executive Committee. In 2008 Wise was expanded, providing training to our employees in Asia for the first time. China, Japan, Thailand, Malaysia, and Indonesia now have their own audit teams, and in 2009 every one of our business units will have conducted its first or second audit, even in regions where national regulations are less stringent.

In the last major development of 2008, we extended the Wise program to our suppliers and subcontractors, ↗

↳ offering audits, action plans, and deployment of models appropriate to our logistics and transport partners, especially in Latin America and Asia, where traffic can be dangerous. In addition, some Danone companies in the Americas have adopted road safety programs for their own personnel, including measures such as flexible schedules that help keep employees off the road during rush hour.

To underscore the strategic importance of these gains, Danone's Executive Committee will reward the most effective local programs, especially when they give employees more authority and make them more responsible to each other. The goal is to encourage everyone to internalize good attitudes and practices, rather than simply follow instructions. "As so often happens at Danone," says one representative of the program, "the goal is to foster initiative and responsibility in every individual, not impose a top-down process."

Sometimes health at the workplace is a matter of life and death. Danone Clover is taking active steps to fight South Africa's HIV epidemic by offering anonymous screening and care to its employees.

HEALTH

These safety initiatives are part of a broader program called Danone Way Fundamentals. Launched in 2007, it requires each subsidiary to evaluate its own performance—again cultivating responsibility—and undertake necessary improvements in 16 fundamental areas, including human relations, stakeholder relationships, safety and, over the past few months, health.

In 2008, three subsidiaries in Germany, Ukraine and Belgium performed particularly well, with highly original health-oriented initiatives. Danone Belgium's Feel Good at Danone program promotes well-being in the office by encouraging employees to devise their own action plans, including a volunteer day with local NGOs, workplace health presentations by nutritionists, and ride sharing. Similarly, Health at Work programs have sprung up at several subsidiaries, which are living out the group's health-oriented mission by organizing in-house sessions on nutrition, installing gyms, offering workplace massages, and providing organic fruit and vegetables for their employees.

Finally, in regions with pressing health issues, Danone is fighting disease on the front lines. In South Africa, Danone Clover is working with an independent health-care organization to offer anonymous HIV screening and care to its employees, viewing action against this national epidemic as a natural part of its responsibility as an employer. Similarly, in Indonesia, Aqua provides medical coverage to all of its employees, a benefit that exceeds its legal obligations.

TRAINING

Danone's training programs help every employee improve job performance and advance over the medium term by acquiring new technical, professional, and managerial skills. Training events help each employee grow along with our business, providing opportunities to network, exchange best practices, and share the group's mission, culture and values. Which makes it natural for us to continue investing in training, even in an economic downturn.

In the United States, for example, training time for non-managers is up 68%, rising from 19 to 32 hours per person per year on average. For Central and Eastern Europe, Asia, Africa and the Middle East combined, we doubled annual training time, which rose to 24 hours per FDP employee in 2008. And in Mexico, specialized training for minimally qualified sales personnel slashed turnover from 100% in 2007 to 30% in 2008.

We have also expanded our Danone Campus program, which provides cross-functional training to up to 300 employees at a time, mixing employees from different teams to share skills, best practices, and group values. Last year's calendar included seven Campus events uniting team leaders from all levels: three Asia sessions in China, Japan and Indonesia; three for the Americas held in Brazil, Argentina and the US; and one in Egypt. In another 2008 highlight, a seminar in Central and Eastern Europe brought together 630 employees from 10 group functions and 16 countries in the region.

Customized training programs developed by our business units were also recognized as an important source of best practices and a valuable tool for fostering human development and commitment to group goals. Our Chinese subsidiary Robust provides an excellent example. Over 2,000 sales personnel, from veterans to new recruits, participated in a total of nearly 20 different customized modules ranging from simulation training to sport- and game-based teambuilding exercises. As a result, Robust's sales force is more cohesive and more highly motivated, proud of its brands and ready to face any challenge. ↳



Drink 1, Give 10. For every 1 liter purchased, Volvic provides 10 liters of potable water to people who need it, working with UNICEF to dig and maintain wells in sub-Saharan Niger.

Danone Supporting Life

Have you heard about Volvic's international Drink 1, Give 10 campaign? Through this program, originally launched in Germany, Volvic works with UNICEF to dig and maintain wells in communities with no access to safe drinking water, providing local residents with 10 liters of water for every 1 liter sold in the developed world. In 2008 a total of 388 wells supplied potable water to 200,000 people daily. At Danone, we encourage initiatives like this as an expression of our dual commitment to business success and social progress. To that end, in 2008 we created the Danone Supporting Life label to recognize social outreach projects that deliver triple rewards—benefiting the communities and environments where we operate, enhancing brand image and performance, and fostering employee commitment and involvement. Grounded in group values, these triple-win projects also help identify talent within our workforce. Tangible benefits make such projects

sustainable in an economic downturn, and there is no temptation to cut their budgets, as might be the case with purely charitable programs. By late 2008, we had identified around 120 candidates among initiatives from 70 Danone subsidiaries around the world. Today about 10 have earned the Danone Supporting Life label, with some 20 more soon to follow. Our goal is to develop 60 of these triple-win projects between now and 2011. The Caring for Our Children program, launched by our fresh dairy products subsidiary in South Africa, is one of the programs qualified as a triple win. In partnership with CHOC, a local NGO, Danone Clover supports treatment of children with cancer by funding the construction of nearby housing for their parents. Employees have raised money by participating in a desert race, climbing Mount Kilimanjaro, and selling bandanas—and for every yogurt sold, Danone Clover makes a donation to the program. In 2008, employees raised a total of R270,000, and

proceeds from yogurt sales reached R1.5 million. Over the five-year life of the program, Danone Clover has contributed R7.3 million in construction expenses, building five new houses and helping some 25,000 children. Inspiration for the name "Danone Supporting Life" came from an initiative launched by our Baby Nutrition division, which teamed up with the international NGO SOS Children's Villages after the 2004 tsunami in Southeast Asia. A fund-raising campaign collected €1.1 million, used primarily to build a village for orphaned children in Indonesia. With the active support of Danone employees, the partnership with SOS Children's Villages has been extended to China, the Netherlands, Spain, Australia and Vietnam. Today, Belgium-based Nutricia is sponsoring a village in Togo, while our Swiss subsidiary Milupa supports an SOS village in Morocco and provides funding for education and anti-malnutrition programs with a contribution of one Swiss franc for every product purchased.

milupa

Sehe ich aus, als bräuchte ich
mehr Vitamine und Eisen?

Maria, 9 Monate alt

Milupa Milumil –
Für eine gesunde Entwicklung

- ✓ mit allen wichtigen Nährstoffen
- ✓ unterstützt Babys Abwehrkräfte durch patentierte Prebiotics
- ✓ ist so besonders gut bekömmlich



→ In response to criticism of bottled water, Danone Eaux France launched The Experts to inform all 2,700 of its employees, from corporate headquarters to factory floor, about the unique properties of mineral waters. This promising new training program is a perfect example of resilience in action, enhancing professional and technical skills and rallying our people to the group mission.

Training events help each employee grow along with our business, providing opportunities to network, exchange best practices, and share the group's mission, culture and values.

INCENTIVES

Variable compensation for managers has been hotly debated in the past few years, in part because it is thought to encourage excessive financialization, motivating business leaders and their employees to focus solely on financial results. Danone's compensation system is designed specifically to avoid this problem by motivating managers to put their energies into other forms of success.

Since 2008, variable compensation for our top 1,000 leaders (general managers, management committee members, and certain managers) has been divided into thirds. One third is based on their success in reaching social and human resource targets in areas such as the environmental and social impact of our operations, and on their ability to develop, promote and train their employees. Another third is based on specific management goals, and only one third is tied to financial targets such as sales, margin and cash flow. In addition, since 2005 the number of stock options distributed to each top manager has been reduced under a special system that rewards them not only for short-term results, but for their performance over a three-year period. ●



Making safety a priority

In Danone plants, managers encourage all employees to appropriate our workplace safety policies and to suggest improvements—a practice that is especially common among line supervisors, who cultivate responsibility and initiative in their teams. Employees in Argentina have responded with a variety of new initiatives.

At the Longchamps dairy plant, our 260 employees have taken an active role, suggesting ways to improve efficiency through the Dueños program, also known as Danowners. Management evaluates each suggestion carefully, and an in-house bulletin board recognizes the author of each successful initiative, displaying names, photographs, and before-and-after scenarios. Over the past two years, the plant's efficiency rate has risen from 65% to 75%, and the number of suggestions has soared from 40 to 260 (see photo, page 55). Longchamps also gets high marks from our Wise safety audits, and employees have teamed up with local schools to increase children's awareness of safety at school and work, explaining how the plant works and how each employee contributes to safe operation.

At the Chacosmús plant, where Villa del Sur water is produced, managers have taken the Wise program one step further. After setting up a fire safety program complete with drills and first-aid instruction for all employees, they launched a road safety program in response to an alarming statistic: every day in Argentina, 22 people are killed in automobile accidents. It is just one more way to make safety a reflex, on and off the job (see photo above).

@ See:
www.danone.com

INTERVIEW

WHEN YOU INVEST IN EMPLOYEES, THEIR DEDICATION AND INITIATIVE INCREASE TENFOLD.

Muriel Pénicaud, Executive Vice President, Human Resources

Your HR strategy shows that even in tight economic times Danone still invests in its people. What is the thinking behind that?

Muriel Pénicaud: An economic crisis is precisely the time to invest in people—it's a very powerful strategic option. It should set us clearly apart from our competitors and put us in a stronger position when we come out of this testing period. We're convinced that our business can't grow unless our people do. When you invest in employees, their dedication and initiative increase tenfold, and they become an integral part of transforming your business.

By investing in training, team-building, safety and well-being in the workplace, leadership at all levels, and dissemination of corporate goals and culture, you're not wasting your money—on the contrary. Our long-standing focus on career development for our teams is part of our dual commitment to business success and social progress. When times are hard, we want to use everything we've got. We need to be able to count on all 80,000 of our employees, from line operators to senior executives, for their ideas, their initiative and their enthusiasm. We've got to get everybody on board. That's the only way to cultivate openness, idea-sharing, and team spirit.

In 2008, the group mapped out an ambitious strategy for the next few years, with the goal of making Danone a "Great Place to Grow." What commitments has the group made to its 80,000 employees?

MP: In addition to our continuing work on fundamentals like workplace safety and health coverage, we're making three powerful tools available to employees: People Growth, New Ways of Working, and Danone Supporting Life.

People Growth reflects Danone's aim to become the undisputed standard setter for employee development and opportunity by 2011. The core of our program is what we call a development contract—a commitment by both parties to grow with and for each other. We'll identify short- and long-term development goals and open up a wide range of new options. This new approach will be conveyed to our employees by 15,000 team leaders, which means anyone who heads a team, even if he or she isn't a manager.

New Ways of Working, our second strategic tool, will use Web 2.0 technologies to accelerate our decision-making processes, making the group more agile and responsive. These new tools—such as blogs, video chat, and wiki—will make Danone an even more attractive employer by encouraging idea-sharing and upending the traditional organizational chart.

There's no top-down hierarchy in a virtual community! Employees are already working together through collaborative intranets like our Social Innovation Network (SIN), which is dedicated to social innovation projects, and Genius, where our flagship brands can share best practices.

Finally, our new HR policy relies on a third tool to encourage engagement and responsibility and build strong relationships: the Danone Supporting Life label, which favors social innovation projects as an extension of our dual commitment to business success and social progress. This program supports Danone's unique culture by promoting projects with a triple win: stronger brand image and financial performance, benefits for local communities, and motivation for our employees. One well-established example is Volvic's Drink 1, Give 10 campaign in partnership with UNICEF. For every liter of water purchased, the company provides 10 liters of well water to a community with no access to safe drinking water (see box page 57).

One strong sign of Danone's commitment to employee development is the new "ethical bonus" for executives. How does it work?

MP: Bonuses are subject to a rule of three thirds that we implemented in 2008 and have now extended



Muriel Pénicaud: "The group's mission motivates everyone, everywhere, and our dual focus on business success and social progress inspires commitment. It makes work meaningful for everyone."

to all of our Baby Nutrition and Medical Nutrition top managers for 2009. From now on, one-third of a top manager's variable compensation will be based on achieving social and employee-related goals, with the other two-thirds linked to financial performance and specific business drivers. This is extremely important, both psychologically and operationally. The group's top 1,000 managers now have a clear responsibility to help their team members grow. We've identified easily measurable criteria, such as the number of training hours their employees receive, performance on Danone Way Fundamentals* audits, workplace safety statistics, and CO₂ reduction. If the executives don't achieve their minimum targets, they will need to launch an action plan for significant, measurable improvement in the year ahead.

How do you keep Danone's culture of engagement alive?

MP: As a result of strategic acquisitions and disposals, Danone has a significant number of new employees—and yet our values are thriving, our mission is widely shared, our culture has a very strong presence, and there's no shortage of engagement. The alchemy of that is hard to explain! First of all, the group has a mission that motivates everyone, everywhere, and our dual commitment to business success and social progress inspires deep engagement. These are powerful levers for engagement, because they make work meaningful for everyone.

We also support and share our values through major events like the Danone World Cup for our employees, and the Danone Nations Cup for children around the world. Finally, when we recruit, we're careful to choose candidates with attitudes that match our culture.

They need to be both engaged and open, willing to take responsibility and able to act on their own, without waiting for direction from other people. Finally, the culture of relationship-building and initiative in our subsidiaries, our respect for local cultures and for the individual, and our informal management style make for very strong bonds. So I really do believe that Danone has "Something Special Inside."

*Danone Way Fundamentals is a tool that allows each of our business units to evaluate its own success in implementing 16 principles of sustainable development.

Danone for all?

PORTUGAL
Bruna Da Silva,
age 3, Lisbon



JAPAN
Akira Kano, age 23,
and Ichiro Ikeda, age 22,
Tokyo



Danone
for all?

Danone for all?

BRAZIL

Cristiano Dos Santos,
age 21, São Paulo



Danone for all?

RUSSIA

Ksenia Ivanov, 10 months,
and her mother in Moscow



Every day, 700 million people around the world enjoy at least one brand produced by Danone. And from Kazakhstan to Indonesia, from Algeria to Chile, nearly two billion consumers now have access to Danone products.

That's an enormous number, but it leaves a lot of people out. Viewed more positively, it leaves huge potential for continued progress towards our goal of bringing health through food to as many people as possible—theoretically, a target population of six billion! While we may not reach all of them, Danone's teams are working towards this goal, step by step, extending our geographical reach and aiming for affordability at all income levels.

THE FACT THAT OUR PRODUCTS ARE AVAILABLE IN OVER 120 COUNTRIES OWES A GREAT DEAL TO THE PRESENCE OF EVIAN MINERAL WATER IN ALL THE WORLD'S LEADING HOTELS

That is a testament to the strength of the brand and its appeal, although hotel sales are limited to a relatively small number of travelers. Yet even if you count only the countries where we have, or plan to have, a structured subsidiary and production facilities, Danone is present on every continent and in more than 50 countries.

These countries are home to just under two billion people with access to Danone brands, and who are thus potential consumers of our dairy products, our bottled water, our baby food, or our medical nutrition products. But only some of them are regular customers. To address this challenge, our strategy of broadening our consumer base combines expansion into new countries with consolidation of existing businesses to win more regular customers.

IN THE 1990S, DANONE SET OUT TO EXPAND AND DIVERSIFY ITS GEOGRAPHICAL PRESENCE

In the middle of the 1990s, when we did 80% of our business in Western Europe, we opted to focus on a limited number of business lines. Until 1996, we were present on nearly a dozen markets, including not only yogurt and mineral water but also pasta, confectionery, biscuits, ready-to-serve meals and even beer. Clearly, not all could achieve an international presence simultaneously.

We thus decided to shed most of these businesses and focus on those with the greatest growth potential and greatest consistency with Danone's focus on health.

This sharper focus freed the financial—and above all human—resources needed for rapid expansion into new countries in Asia, Africa, Eastern Europe and Latin America. In less than ten years, the contribution of emerging markets to consolidated sales rose from nil to over 40%, while that of Europe as a whole eased to under 50%.

In recent years, Danone has expanded steadily, moving into three or four new countries each year. Thailand, Colombia, Chile, Ukraine and Kazakhstan are among the most recent additions, soon to be joined by South Korea. While current economic conditions are unfavorable for major investments, this strategy is not in question, and expansion into new countries will continue, albeit subject to stricter ranking of priorities and no doubt more slowly.

The success of such expansion obviously hinges on the availability of appropriate resources. Whether through an acquisition or a greenfield venture, moving into a new country always involves some form of financial investment. But even more important are



↳ people with the right experience and know-how—people familiar with our group and its businesses, and able to build, combining entrepreneurial spirit and imagination, tenacity and flexibility, enthusiasm and adaptability. Because for Danone, winning new markets also means the capacity to question some of our existing models, including production.

To take just one example, from 1998 to 2008 our Fresh Dairy Products built a number of large, technology-intensive plants producing up to 400,000 metric tons of yogurt and related products a year. This is well suited to mature markets with well-organized transport, distribution and milk-collection systems, but it is much less effective in countries with fledgling markets. In such countries, a large plant would mean a risk of lasting overcapacity, while a smaller version of the same unit would still be too costly and productivity not optimal. So our production teams, inspired by our innovative 3,000-metric-ton micro-unit in Bangladesh, designed new types of plant that are not only smaller but also more modular, more adaptable, and less automated—without compromising our rigorous food safety standards. This will be the model for a number of future units, one example being South Korea, where work on a new-generation plant with creative environmental-protection features got under way in 2008.

HELPING TO FEED MORE MEN, WOMEN AND CHILDREN IN THE COUNTRIES WHERE WE OPERATE ALSO MEANS EXPANDING OUR CONSUMER BASE

In France, Argentina and Spain, nearly everyone is—or has been, or will be—a Danone customer. The same does not apply in countries where our product categories are not well established—as in the US, where per-capita consumption of yogurt is just over 5 kilos a year, compared with more than 30 in France and Spain. Things are different again in emerging markets, where the challenge is not only that faced in the US—to change dietary habits with the adoption of healthier foods—but also to offer products at prices people can afford.

TO MEET THE CHALLENGE OF CHANGING DAILY DIETARY HABITS, DANONE HAS TACKLED THE ISSUE FROM SEVERAL DIRECTIONS

We rely on marketing and advertising, of course, but also on continuing dialog with the scientific community and local health authorities. Another essential strategy involves adapting products and concepts to the tastes and needs of each region and country.

Over recent years, our growth has been driven largely by the success of a few major concepts with global scope, such as Activia and Danonino in dairy products and Aptamil in baby nutrition. But a glo-

Egypt. In 2005, Danone bought a subsidiary of the Olait group close to Cairo, making plain yogurt with fruit and dairy desserts. With an annual production capacity of approximately 25,000 metric tons and its own distribution fleet, the business has upgraded operations to group standards and now markets products under the Danone brand. In 2008, Danone Egypt took a top 30% share of its national market.



bal concept need not be uniform. While all Activia lines throughout the world use the same active culture (Bifidus ActiRegularis®), offer the same health benefits in terms of regularity, and rely on the same advertising strategy, they vary significantly from one country to the next. Thus our Russian subsidiary offers Activia kefir (a traditional fermented milk beverage) and our Bio brand caters to local tastes by offering flavors and formulations in Japan that might seem surprising or downright odd in other regions of the world—cucumber, for example. This compares with the smooth upmarket version available in Britain, appropriately named Intensely Creamy.

THE SAME POLICY OF ADAPTING TO LOCAL MARKETS APPLIES TO DANONINO, KNOWN AS PETIT GERVAIS AUX FRUITS IN FRANCE AND RASTISHKA IN RUSSIA

In each case, the aim is to offer a product adapted to local tastes that helps children grow up healthy—all

around the world. For Danino, this is less a matter of taste and texture than of nutritional content to meet needs in different countries: in Argentina, for example, children need more iron in their diets, while Polish children need more vitamin D. Danone creates and adapts recipes to compensate for these deficiencies, generally identified through consultations with local scientific and medical communities. In Brazil, for example, this involved conducting ad hoc clinical studies in cooperation with several regional universities.

The principle is the same in all cases—winning consumer trust by ensuring that our products meet clearly identified needs and are attuned to local culture. This also requires sensitivity to social differences such as the number of working women, a demographic that affects the type of baby food we offer. Where mothers are likely to work outside the home, the focus is on ready-to-serve baby meals contributing to a balanced diet, whereas in other countries we offer freeze-dried products that mothers can cook at home.

Aptamil

reported sales of €1 billion in 2008. The company makes infant milks adapted to different stages of development and sold under several brands around the world—always with its hallmark polar bear cub. Aptamil's success is built on products offering **proven benefits for infant immune systems** and enjoying a high reputation with healthcare professionals.

Products matching universal needs

Malnutrition: Fortimel puts new scientific progress to work for patients suffering from malnutrition with a concentrated formula that facilitates absorption.

Elimination of toxins and waste: This positioning has spelled success for water brands Bonafont in Mexico and Brazil, Villa del Sur in Argentina, and Font Vella in Spain.

Cholesterol: posting sales growth of 40%, Danacol is well set to win its place as a headline brand.

INTERVIEW

WHEN DANONE MOVES INTO A NEW COUNTRY, WE WANT CONSUMERS TO SEE A REAL DIFFERENCE IN PRODUCT QUALITY—BEFORE AND AFTER.

Bernard Hours, Co-Chief Operating Officer in charge of Danone's four operational business lines



Danone has set itself the mission of bringing health through food to as many people as possible. What are the practical consequences?

Bernard Hours: To start with, it means that we still have a good number of countries to discover. Danone built itself up in Western Europe and the region still accounts for nearly half of our sales. But over the past ten years our growth has been associated with very rapid geographical expansion—a process we have to accelerate further to keep step with the pace of change around the world. A key feature of those changes, with or without the current economic crisis, is that growth is stronger in emerging markets than in mature markets. We have a lot of work to do in new countries to fulfill our mission, which could hardly be more relevant to the needs of this century. It sets a course not just for the next couple of years but for the next two or three decades.

How is Danone's growth potential related to its focus on health?

BH: Health has become a prime concern, with people living longer and what is globally a high birth rate. It makes a lot of sense to be in new countries with relevant baby food and dairy products. And the same applies to medical nutrition in mature markets. Health is now

very much in the public arena, and spending on health is rising faster than spending on food in most countries. Which means that bringing health through food is more than ever an effective route for differentiation. Danone's growth is in the service of its mission, which is attuned to people's needs and expectations in the broad sense.

What strengths can Danone draw on to achieve that mission?

BH: First of all, our products and our unrivalled know-how in the production of healthy foods. The products on offer through our four divisions provide effective responses, backed by scientific evidence, to world health issues that include children's growth and development, dietary deficiencies in old age and access to drinking water. Another key strength is our capacity to involve stakeholders including staff, suppliers and the scientific community—our eco-system if you like—in a process of sustainable growth. Growth that shows respect for people, for the natural resources we use, for the environment and for society as a whole.

Danone is present worldwide, in countries from Colombia to Kazakhstan. How do you adapt to such varied environments?

BH: We have what you can call the Danone model. And two

things that go with it—humility and imagination. Humility, because we know that food is all about culture and that makes each market unique. While our products are designed to meet defined nutritional requirements, they also have to fit in with local habits and tastes. And imagination, because in each country we have to invent solutions for affordable products that can be made readily available through local retail networks. That means we have to think not only about developing new products, but also about ways to continue our geographical expansion on emerging markets with new solutions for production and distribution to put affordable products in local shops. And to reach the three billion people living on less than three dollars a day, Danone will also be stepping up support for social business enterprise, among other things through danone.communities.

@ See: www.danone.com



Products on sale in an Italian pharmacy. Looking to local social and demographic trends, and the leverage available with the extensive geographical reach of other group businesses, the Medical Nutrition division is preparing moves into several Asian countries and exploring high-potential markets in Eastern Europe and the Middle East.

➔ REACHING AS MANY PEOPLE AS POSSIBLE MEANS OFFERING THE RIGHT PRODUCTS IN THE RIGHT PLACE—WHEREVER CONSUMERS DO THEIR SHOPPING

A good 66% of Danone sales are in supermarkets and superstores, a vital component of distribution networks in mature markets: this is where most households buy their food. But such stores also offer unique potential for interacting with consumers, a point of special interest for Danone as we look for new ways to strengthen our relationship and create new opportunities for contact. In 2008, teams from our Fresh Dairy Products division provided a glimpse of the future of retailing by creating a special area dedicated to Danone products in one of France's largest superstores, located in Vélizy on the outskirts of Paris. The area combines a relaxed atmosphere

with consumer-friendly design to showcase our full range of dairy products. Most important of all, dietitians are on hand every day to explain the health benefits of our brands, encourage tasting and provide general nutritional advice.

AT THE SAME TIME, OUR MASSIVE PUSH INTO EMERGING MARKETS HAS SIGNIFICANTLY INCREASED THE IMPORTANCE OF SMALL RETAILERS, WHICH NOW ACCOUNT FOR 26% OF TOTAL SALES

In Eastern Europe, Asia, Africa, and Latin America, where traditional retailing remains the rule, we have adapted to establish a presence in millions of small shops, stalls and stands—in Indonesia alone, there are nearly two million small shops ➔

→ selling bottled water. Initiatives in these markets include supplying refrigerators to neighborhood stores, an effective way to win attention for our products and ensure that they remain fresh and in perfect condition. In 2008, an additional 20,000 refrigerators were installed in Egypt, Colombia and Kazakhstan, raising the total number to 130,000 worldwide.

Not that our interest in neighborhood shops is limited to emerging markets. Local outlets have an important place on mature markets, too, where big shopping centers are marking time. In 2008, we began distributing fresh dairy products through greengrocers in Portugal, drugstores in Spain, and bakeries and takeaway outlets in France. Away-from-home eating in hotels, gas stations, fast-food outlets and other locations is another high-growth area for Danone, today accounting for nearly 6% of total sales. In response to this trend, last year we began selling a drinkable version of Activia yogurt at service stations in France, Belgium, Luxembourg and Spain. Another promising innovation, initiated by our Dutch subsidiary, is My Activia, a refrigerated distributor enabling hotel guests to customize their breakfast yogurt by adding the fresh fruit and cereals of their choice.

MOVING INTO NEW COUNTRIES WITH HEALTH-ORIENTED PRODUCTS, ADAPTING TO LOCAL CONDITIONS, AND CREATING THE BROADEST POSSIBLE DISTRIBUTION NETWORKS ALL PLAY AN ESSENTIAL ROLE IN EXPANDING OUR CUSTOMER BASE

But in many countries reaching as many people as possible is first of all a question of affordability. While a large majority of people in developed countries can afford to buy one or more Danone products every day, the percentages are much smaller in the developing world. In such countries, people in the lowest income groups far outnumber their middle- and upper-income counterparts.

Two strategies are possible. The first is to find every possible way to reduce the price of our products, or to round out existing ranges with new products that are affordable for the less favored groups. This involves a different approach that we are now putting to work not only in countries such as Brazil and Indonesia, but also in Poland and other parts of the European Union where household incomes are squeezed. Product adaptation may involve lower-cost packaging, larger sizes that cost less per kilo, single-serving products at low unit cost, or increased use of pouches. We've also developed recipes specifically designed for affordability: Activia Kefir, for example, is perfectly suited to Russian consumer tastes and is also the most affordable product in the range. Innovation may also be more radical, as in the case of Ser in Argentina, which now sells its flavored waters in a powdered version for half the price.

Aqua, Indonesia
Aqua is emblematic of Danone's approach to emerging markets, with the adventure launched at the beginning of the decade leading on to a top place for packaged water in the Asia-Pacific area. Aqua is number one in Indonesia with over 50% of the market, and first worldwide by volume with annual sales topping 6 billion liters.



FIRST ADOPTED IN INDONESIA AT THE START OF THE DECADE, THIS STRATEGY IS NOW DEPLOYED IN A LARGE NUMBER OF COUNTRIES

It works well, allowing our subsidiaries to bring lower-income groups into their customer base. But it cannot offer products for people who have to live on three euros or less a day—people who make up nearly half of the total world population and have the most urgent need for healthy foods. To meet our goal of bringing health through food to as many people as possible, we need to create completely new models that complement our existing operations.

An example is our pilot project in Bangladesh, launched two years ago in partnership with Grameen Bank, the micro-finance specialist, and its founder, Nobel Peace laureate Muhammad Yunus. Through this project, Danone is learning how to make yogurts with 30% of the recommended daily intake of five essential nutrients and sell them at a unit price of just 5 to 8 euro-cents. It's a huge challenge for our production, sales and marketing teams, especially

as Bangladesh has borne the full brunt of the food-market crisis.

When milk prices doubled, the modest Danone-Grameen joint venture had to overhaul its entire business process to remain viable while continuing to offer its products at under 8 to 10 Bangladeshi taka. Sales headed down in spring 2008, but the local team, supported by group R&D resources and Danone managers in Asia, successfully turned the trend around. Shoktidoi, the brand developed especially for Bangladeshi consumers, has staged a spectacular recovery, opening near-term prospects for a second plant to be constructed with financing from danone.communities.

PILOT INITIATIVES OF THIS KIND HAVE A GROUP-WIDE IMPACT

This extends well beyond their share of sales—amounting only to a few tens of thousands of euros annually—by encouraging us to take a more compre- →

Grameen Danone Foods

The Bangladeshi joint venture set up to make nutritionally enriched yogurt affordable for even the poorest was faced with a doubling of milk prices in 2008. Danone stepped in to provide support, adapting containers and recipes to keep costs low and introducing new lines to win more customers—and business has been growing again since last autumn.



In Senegal, Laiterie du Berger collects milk from 600 Peul herders scattered on the edge of the desert, providing them with a lasting outlet for their production and more regular incomes.



In Cambodia, the not-for-profit association 1001 Fontaines pour Demain provides water for local village people without other access to drinkable water, and exposed to epidemics spread by swamp water.

→ hensive approach to emerging and low-income markets. One important aspect has been the creation of a dedicated R&D team charged with developing health-centered products tailored to the needs of the least favored groups. Its activities include studying nutritional needs in a number of countries, and researching new types of yogurt and analogous products that could well be made from vegetable proteins in countries with little potential for dairy farming. We've named this team Frontiers, highlighting its pioneering role in our continuing progress towards the goal of bringing health through food to as many people as possible. ●

Two new social business ventures to bring health through food to as many people as possible

Following Grameen Danone Foods in Bangladesh, the danone.communities fund is investing in two new social business enterprises: 1001 Fontaines, which provides drinking water for people in rural areas of Cambodia, and Laiterie du Berger, collecting milk from Peul herders in Senegal.

In Cambodia, the fund has invested in a business set up by 1001 Fontaines, an association co-founded by sustainability advocate François Jacquenoud. It supplies drinking water to rural inhabitants for the equivalent of around one euro-cent per liter. Many isolated villages have no access to clean water and regularly suffer from sanitary crises due to the consumption of swamp water. The association has developed a cheap, environment-friendly method to treat water using solar energy. Once treated, it is bottled and distributed. The target is to supply 60,000 to 80,000 people with 40 plants opened between now and 2010, made possible by training for local teams.

In Senegal, the fund is supporting Laiterie du Berger, a small business set up by Bagoré Bathily, a young Senegalese veterinary. This is based on a mutualist organization for the collection of milk from 600 Peul herders, enabling them to earn a living from their cattle. It also offers an alternative to imported powdered milk, supplying local people with fresh Senegalese milk and quality products such as yogurts and cream made from it.

In addition to its financial support, Danone sends staff members to help these businesses with indispensable technical expertise. With these micro-enterprises, Danone is learning to understand innovative business models and new approaches to nutrition matching the needs of new markets.

@ Details and videos on these projects and others: www.danonecommunities.com

Volvic mineral water springs from the Chaîne des Puys, a mountain range in the heart of France's Volcanic Nature Park in Auvergne. Protected from development, industry, and intensive farming, this extraordinary region stretches over 3800 hectares—nearly 10,000 acres—of forest and grassland. For thousands of years, its volcanic rock has acted as a unique natural filtration system.

Nature, our path to the future

What lies at the heart of Danone quality? Science, of course, and know-how—but above all, natural ingredients. Pure mineral water, milk, dairy cultures, vegetables, fruits and grains are treasures that a food company has a duty to preserve.

The Puy de Pariou (below) is one of the peaks in the Chaîne des Puys. Rising to a height of 1210 m, it overlooks the Volvic catchment area.

A project in the Volvic catchment area (photos at right) has won funding from Life+, the European Union's new fund for the environment. Support from the French Ministry for the Environment and EU Directorate General for the Environment testifies to the credibility of the brand's commitment to sustainable development.



Protecting our resources, maintaining their quality, and keeping them safe are central to corporate responsibility in our industry, as are sustainability and renewability. And because Danone is committed to bringing health through food to as many people as possible, protecting nature is even more important for us. Quite simply, it is vital. Healthy food is impossible without healthy ingredients, and providing food for large numbers of people is impossible without renewing our natural resources. In the long term, our group cannot grow without reducing its environmental footprint.

Which means Danone is doubly committed to protecting the planet, as Franck Riboud stresses at every opportunity. Speaking in Korea at the launch of the Danone Fund for Nature last October, he said: "For the past 40 years we've maintained that, while business leaders are clearly responsible for (...) short-term performance, but we must never forget our duties to society and to future generations. And this is even more true today. We are now in the midst of a crisis of transition, but we also know that there is an urgent need for us to find ways to manage the planet's resources over the long term." In short, environmental awareness is fundamental to Danone's culture. And our commitment has not gone unnoticed: for the past eight years we have been a component of the Dow Jones Sustainability Index (see box, page 89).

**[AN ENDURING ALLIANCE
WITH NATURE]**

Our longstanding concern for nature now joins a groundswell of feeling in society at large. Together global warming, pollution, soil depletion, and over-intensive farming practices have created a growing sense that the planet is nearing its limits. As NGOs, scientists and the media sound the alarm, the governments of developed countries have stepped in with new laws promoting sustainable agriculture, providing incentives for sorting recyclable waste, experimenting with a carbon tax in Europe, and organizing high-level environmental talks such as France's Grenelle forum. Consumers are also increasingly sensitive to environmental issues. As early as 2004, an Ipsos survey showed the importance of ethical criteria in the purchasing decisions of European consumers. While price was still the first pre-purchase consideration with a score of 81%, manufacturing conditions—and in particular environmental impact—rated 45%, only slightly lower than brand, with 46%. Tesco, Wal-Mart, and other big retailers have helped raise awareness through advertising and information campaigns, such as receipts calculating the carbon impact of the consumer's purchases. But the goal



Trees cover more than 50% of the Volvic catchment area, where water filters into the ground through highly permeable volcanic soils known as scoriae. To ensure the spring's long-term renewability, Danone Eaux France never takes more water than it naturally produces.

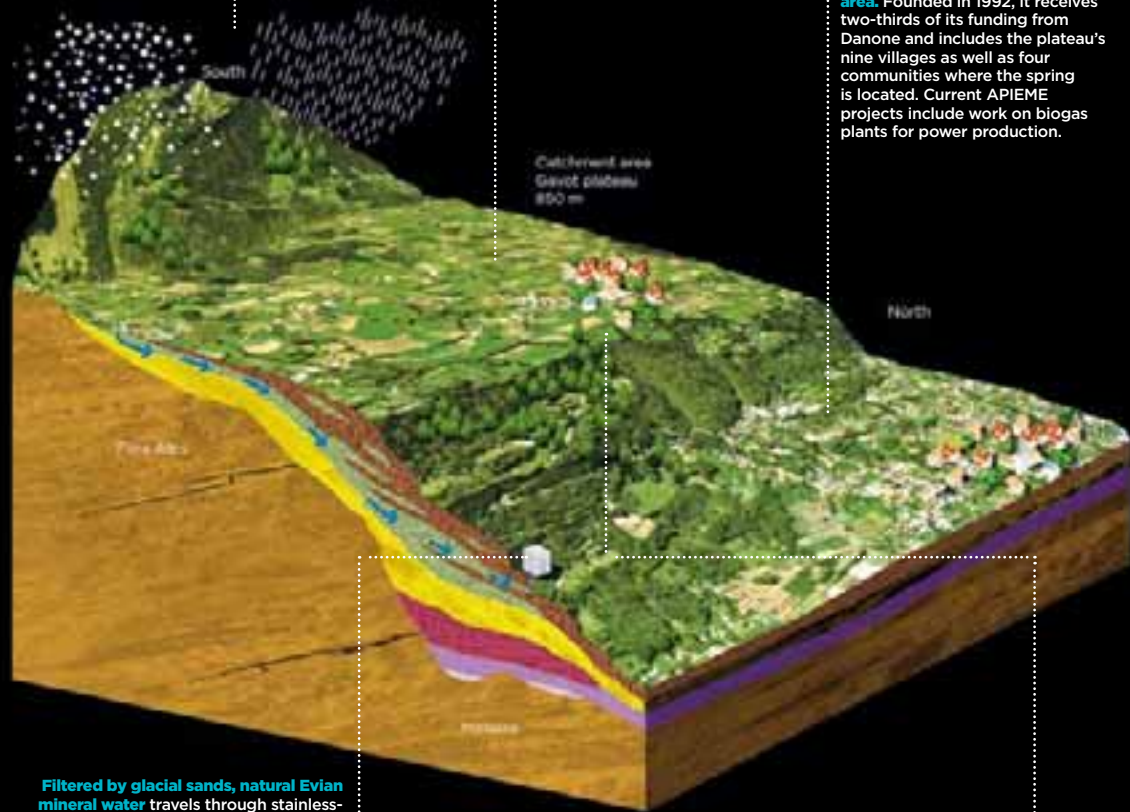
Evian: from source to resource

The catchment area for Evian mineral water stretches across the Gavot plateau, south of the city of Evian-les-Bains in the French Alps.

Water and snow follow a 15-year underground path, passing through layers of sand and glacial sediment before finally returning to the surface at the Cachat spring.

Sculpted by the movement of glaciers during the Quaternary period, the catchment area stretches across 35 sq. km. Some 70 wetland areas cover 10% of the plateau, renewing nearly 30% of its water recharge.

APIEME is an association of local stakeholders dedicated to protecting the Evian catchment area. Founded in 1992, it receives two-thirds of its funding from Danone and includes the plateau's nine villages as well as four communities where the spring is located. Current APIEME projects include work on biogas plants for power production.



Filtered by glacial sands, natural Evian mineral water travels through stainless-steel pipes to the Amphion bottling plant. Danone is always careful to collect less water than the spring naturally produces each year.

The plateau is home to nine villages with some 5,000 residents. Protecting the site also means working with local farmers, whose primary activity is operating traditional dairy farms. Milk is used to make the region's prized Reblochon and Abondance cheeses.

- Upper moraine
- Mineral aquifer of river alluvial and deltaic sand
- Lower moraine
- Glaciolacustrine clay
- Basis sand and gravel resting on old moraine
- Antequaternary rocky substrate
- Path of mineral water (15 years from catchment area to Cachat spring)

Schematic drawing not to scale.

↳ for business is *better* production, not less production. This is the philosophy that Danone practices, listening to consumers and working with our partners—farmers, suppliers, and associations—to take effective action. When it comes to the environment, everything is connected and everything interacts, from raw materials to production, from packaging to transport.

At Danone, this is nothing new. Antoine Riboud first articulated our commitment to environmental responsibility in 1972, in a speech to the French employers' federation. "The responsibility of a business doesn't stop at the factory gates or the office door," he said. "By consuming energy and raw materials, business changes the face of our planet. The public will never let us forget our responsibilities in this industrial society." He went on to define Danone's dual commitment to business success and social progress. "Growth should never be an end in itself, but a means to enhance quality of life (...). The earth's energy resources may be limited, but humanity's are not."

BY THE EARLY SEVENTIES, DANONE HAD ALREADY LAUNCHED INNOVATIVE RECYCLING AND PACKAGING-REDUCTION PROGRAMS. Working through the Enterprise and Environment organization, Antoine Riboud brought packaging stakeholders together to set up a glass collection system. In 1992 the first Eco-Emballage collection and recycling network began operating, and by 2008 Danone was actively involved in collection and recycling in no fewer than 27 countries. In 1996, the group drew up its Charter for the Environment, a commitment to more environment-friendly business at every step from product design through to package recycling. And in 2000, Danone announced ambitious, measurable goals for 2010, pledging to reduce energy consumption by 20%, water consumption by 30%, and packaging weight by 10%. We achieved all of them by 2008—two years ahead of schedule.

CLEAR TARGETS, POWERFUL INCENTIVES

In 2008, Danone set new goals for protecting biodiversity and the environment: these include a 30% reduction in carbon emissions by 2011. To underscore these commitments and motivate managers, we have overhauled our bonus structures to factor in carbon and other environmental targets. Since 2007, environmental responsibility has accounted for a third of the variable component of compensation paid to Danone's top 1,000 managers around the world.

A 30% REDUCTION IN OUR CARBON FOOTPRINT BY 2011 IS AN AMBITIOUS GOAL INVOLVING SEVERAL STEPS. First of all, we need to be able to measure the total impact of our operations accurately—no simple task.

Wetlands advocacy at Evian

Since 1998, Evian has been a party to the Ramsar International Convention to protect the world's wetlands. Originally signed in 1971, this intergovernmental treaty now counts 156 member countries committed to safeguarding mangrove forests, marshes, rice paddies, ponds and other wetlands around the globe.

Part land and part water, such zones are home to numerous plant and animal species, from shrimp and crabs to rarer species like the lemon shark. Wetlands trap carbon naturally, absorbing greenhouse gases and combating global warming. Yet until recently their benefits were poorly understood, with the result that wetlands have not been used effectively, and some have even been drained. Which is why the Ramsar Convention classifies them as protected sites.

The catchment area for Evian is an exceptionally valuable wetland that gives the mineral water its unique properties. And Evian's skill at protecting it makes the brand a natural partner for Ramsar. Their 10-year collaboration has included a number of major initiatives, and the unusually sheltered nature of the Evian catchment area recently prompted the Convention to grant it international recognition. Defended by Apieme, an association of local stakeholders, the water has retained the purity and consistent composition that have been its hallmark since 1789.

Finally, in 2008 the group joined up with Ramsar and IUCN to create the Danone Fund for Nature. Supplemented by annual contributions from Danone, the Fund will finance initiatives to consolidate ecosystems that absorb carbon naturally. With the Fund's support, Evian will finance restoration of a mangrove forest, becoming the first Danone brand to offset its emissions.

*The International Union for Conservation of Nature (IUCN) is the world's oldest and largest global environmental network. It counts more than 1,000 government and NGO member organizations, and nearly 11,000 volunteer scientists in 160 countries.

Then we must make quantifiable reductions in emissions and environmental impact. Finally, we must offset the impact we cannot eliminate through appropriate mechanisms with expert approval.

With accurate measurement identified as the first step in our action plan, we have developed a software tool, Danfootprint, to assess the environmental impact of each product over its entire lifecycle. Approved by

Danone chooses rail transport over trucks whenever possible. In all, two-thirds of Danone Eaux France's shipments—including the Evian, Volvic and Badoit brands—travel by train or barge.

↳ Carbon Trust¹ and ADEME² and deployed in our Water and Fresh Dairy Products divisions in 2008, Danfootprint is already being used to measure CO₂ emissions, and will soon be assessing each subsidiary's total water consumption and impact on biodiversity. All our subsidiaries now track carbon indicators and each has appointed a carbon master—an expert charged with measurement and development of a targeted action plan. We now quantify the carbon footprint of nearly 2,000 of our products and one-half of our companies. The Baby Nutrition and Medical Nutrition divisions will be deploying Danfootprint in 2009.

REDUCING IMPACT WHEREVER WE CAN

Once we have measured our impact, the challenge is to reduce it. To do that, we need to take action in four key areas. Three of these are under our direct control: transport, which consumes energy; packaging, which consumes raw materials and requires recycling; and actual production, which consumes energy and water and generates waste. The fourth is farming, which provides our raw materials; although it has the greatest impact, we can influence it only indirectly.

Transport has always accounted for a significant share of the environmental footprint of any industrial or agricultural product. Danone's policy is clear: keeping production as close to the consumer as possible. For Fresh Dairy Products, that is a matter of common sense, since their short shelf life rules out long supply routes. For water—apart from our export brands, Evian and Volvic—everything we produce in a given country is consumed locally, with transport remaining within national borders. We also choose rail transport over trucks whenever possible. Danone Eaux France, which produces Evian, Volvic, and Badoit, is France's biggest user of rail freight services for consumer goods, as well as the top French exporter of sea-going containers, and the leading user of river containers on the Rhône-Saône corridor. In all, two-thirds of Danone Eaux France's shipments travel by train or barge.

In addition, 2008 brought an expansion of the Marco Polo program. Sponsored by the European Union and coordinated by Volvic, Marco Polo provides incentives to replace all-truck transport with all-rail transport for shipments from France to Germany. The result has been a 43% reduction in CO₂ emissions and annual savings of 700,000 liters of diesel fuel—the equivalent of cutting transport distances by 8,781,000 km or 312 times the earth's circumference. Where road transport is unavoidable—as it is in some countries—we have optimized our logistics by using cleaner trucks and eliminating empty trips. Next step: green trucks.

Packaging, the second lever for reducing environmental impact, is probably the most visible. Although this sensitive issue remains one of the group's top environmental priorities, it is important to remember that packaging accounts for only 18% of Danone's total footprint. And while it is mainly perceived as a source of waste, packaging plays a vital role in allowing transport of products, keeping food safe, and providing a vector for nutrition and regulatory information.

BALANCING THESE COMPETING DEMANDS IS A CHALLENGE, BUT WE HAVE MADE STEADY AND INCREASING EFFORTS TO REDUCE THE IMPACT OF OUR PACKAGING OVER MANY YEARS. In the past decade, for example, Danone Eaux France has cut the weight of plastic in its bottles by 20%, and our Water division has launched a new packaging-reduction initiative, recycling polyethylene terephthalate (PET) from used bottles and incorporating it into new ones. Public authorities had long opposed this idea, but the French Food Safety Agency has now given its approval, enabling us to make bottles with 25% recycled PET, a proportion that is likely to rise over the next few years.

Danone also deploys local programs wherever we do business. In Glasgow, for example, Volvic has teamed up with a local NGO in an experiment to promote recycling with bottle-collection containers in the colors of the Volvic brand. By creating jobs, the program benefits the local community—and simultaneously enhances brand image in a country where consumers care deeply about the environment. Bonafont, Danone's leading brand in Mexico, has launched a creative new project, also in partnership with a local NGO. Used bottles are purchased at above-market rates and recycled: the price difference is donated to a center providing education for disadvantaged children.

1. Carbon Trust is an independent public-interest company based in the UK and dedicated to helping businesses and the public reduce carbon emissions.

2. Ademe—the French Environment and Energy Management Agency—advises French companies and government entities on environment—and energy-related issues.



Danone Fund for Nature defends mangrove forests. Protected under the Ramsar Convention, wetlands cover only 6% of the world's land area but trap 20% of carbon and account for 25% of food production (fishing, farming and hunting).

THE THIRD LEVER FOR REDUCING ENVIRONMENTAL IMPACT IS INDUSTRIAL PRODUCTION. WHILE THIS IS THE MOST OBVIOUS FACTOR, IT IS NOT NECESSARILY THE MOST IMPORTANT, since it accounts for only 10% of Danone's environmental footprint. Nonetheless, cutting water and energy consumption remains a group priority.

In 2008, we continued existing programs and also experimented with new initiatives for progress towards environmentally-neutral operation. One new program treats wastewater naturally by landscaping production sites with plants that have regenerative powers, such as certain species of reed. Other facilities, including the La Salvetat mineral-water site in France, are experimenting with renewable energies.

Wherever Danone does business, we deploy our Global Risk Evaluation for the ENvironment program (GREEN), which assesses water consumption, waste volume, noise pollution and other impacts, and helps reduce them. We also encourage compliance with the high standards prescribed by our Danone Way environmental program—for example, by applying European asbestos legislation to all of our sites, even in countries with less rigorous requirements.

Water Protection Schools

In 2007, Evian launched its Water Protection Schools, a creative new partnership that sends Danone employees to Argentina, Nepal and Thailand, where they help local populations protect wetlands in partnership with WWF and other NGOs. The goal is to share the expertise Evian has gained in protecting its own site, and to help people in the host countries develop food-producing activities—like fishing, hunting and farming—that preserve local ecosystems.

Danone employee Marion Cardon spent three months in Thailand as part of a Water Protection Schools initiative. "I feel very fortunate to have been part of a project like this," she says. "It's extremely energizing, and it's given me an even greater sense of responsibility."

See: www.danone.com

Looking ahead, Danone has already begun implementing a unique process that will compensate for the emissions we cannot reduce.

→ **FARMING, THE FOURTH AND FINAL LEVER FOR REDUCING OUR ENVIRONMENTAL FOOTPRINT, HAS THE BIGGEST IMPACT OF ALL.** Although it accounts for 54% of our footprint, it is the area where we have the least direct control. The challenge is thus to encourage our partners to adopt sustainable, integrated farming practices in every possible way. Every day, our Fresh Dairy Products division works with thousands of dairy farmers, helping them improve product quality by following a set of environment-friendly specifications. These include limited pesticide use, humane treatment of livestock, hygiene guidelines for milking parlors, and responsible waste disposal. In Baby Nutrition, European regulations imposing strict controls on baby food content have led our French subsidiary Blédina to build up a network of local agricultural suppliers meeting reliable standards. All sign a charter that requires them to farm on land away from all sources of pollution, analyze soil to ensure low nitrate content, and keep crops free of pesticide residue and traces of heavy metals. Producers of apples, quinces, carrots, pears and potatoes in southwestern France are regularly audited for compliance.

In 2008, we stepped up the pace of quality, safety and environmental audits, with inspectors visiting farms to analyze their operations and—where appropriate—suggest improvements under the Danone Quality Safety and Environment (DQSE) program.

We have also set up a Sustainable Sourcing department to identify environmentally responsible suppliers and encourage our subsidiaries to work with them. And two innovative purchasing programs show Danone's commitment to combining good agricultural practices with benefits for the local community and the consumer: our flax-feed program, dubbed Linus, and our gum arabic program for Activia.

Launched in 2006 by Danone France alongside Bleu Blanc Cœur, an association promoting traditional agricultural products, the Linus program builds on our partnerships with farmers in Normandy to encourage the use of flax as a natural fortifier for cow feed. These cows produce milk that is naturally rich in omega-3 fatty acids—a nutritional benefit for consumers—and generate an average of 10% less methane gas—a benefit for the environment, since methane emissions are among the main environmental impacts of livestock.

The Jockey brand was the first to benefit from the program, and today Linus covers 30% of the milk produced for Danone in France. The program has now been deployed in Spain and the United States.

In a similar spirit, Activia has changed the original formulations for its dairy drinks and fromage frais to include gum arabic—a natural ingredient that prolongs the life of Bifidus ActiRegularis®, the beneficial culture contained in Activia. And because the gum arabic is harvested in the Sahel in partnership with SOS Sahel, the program also contributes to development, creating jobs and helping to preserve the biodiversity that is critical to the region's future.

REDUCE, RESTORE, RENEW

Even when Danone achieves its 2011 goal of reducing emissions by 30%, we will still not be carbon neutral. Inevitably, any industrial operation has an impact on the environment. Anticipating this, we have already begun implementing a process that will compensate for the emissions we cannot reduce.



Blédina France's agricultural charter defines criteria for suppliers, among them the isolation of farmed areas from all sources of pollution. Producers of apples, pears, quinces, potatoes and carrots in France's southwest are regularly inspected for compliance.

ONE IMPORTANT PART OF OUR COMMITMENT IS THE DANONE FUND FOR NATURE, SET UP IN OCTOBER 2008 WITH THE RAMSAR CONVENTION AND THE INTERNATIONAL UNION FOR CONSERVATION OF WATER (IUCN). Financed by Danone, recognized by the scientific community, and guided by the technical expertise of active Ramsar and IUCN members, the fund will finance initiatives that stimulate, restore, or renew ecosystems with an unusually high capacity to absorb carbon, such as wetlands.

Although they represent only 6% of the world's land area, wetlands fix 20% of its carbon, making these threatened ecosystems a particularly efficient part of the global environment. The Fund's first initiative in 2009 will be to restore large areas of mangrove forest in Senegal under the leadership of Evian, the world's number-one mineral water brand. The large quantities of carbon trapped by the restored forests, combined with an ambitious carbon reduction program, will enable Evian to achieve a balanced carbon budget as early as 2011.

In the future, Danone will broaden the scope of the Fund for Nature, adding agricultural initiatives to offset emissions associated with our fresh dairy products division. By simultaneously reducing emissions and fixing carbon we will close the circle—and do our part to meet one of the planet's greatest challenges. ●

Actimel bottles recycled in France and Belgium

Following the Waters division's lead, Fresh Dairy Products has stepped up efforts to reduce and recycle packaging. The Actimel bottle has shed a third of its weight since launch, and is now being recycled in France and Belgium—a step forward that would have been impossible only a few years ago. Danone is also harnessing the power of innovation, studying biomaterials made from agricultural waste and working alongside suppliers to test new materials that are lighter than plastic.

@ See: www.danone.com

The Dow Jones Sustainability Index (DJSI)

is one of three leading indexes tracking companies meeting sustainability criteria. (The two others are ASPI, the Advanced Sustainable Performance Indices, and FTSE4Good.) The DJSI is a basis for Socially Responsible Investment (SRI) funds, which invest in companies chosen for their social responsibility, respect for the environment and governance as well as for their financial performance. In 2008, the index manager awarded our group a score of 76%, up five points from the previous year. Although SRI funds currently represent only 0.1% of financial investment worldwide, since the early 2000s they have attracted increasing interest and now account for 11% of investment-fund assets in the United States. In the last two years, SRI assets rose 18%, reaching \$2.7 trillion in 2007.

¡Ya no lo
dejo!



2 Litros x 15 días
y siéntete ligero.

COMÉ BIEN Y HAZ EJERCICIO

Sound governance is not only essential to efficient management, but also a source of strength in troubled times.

GOVERNANCE

For Danone this defines the way forward, calling for ever closer ties to stakeholders in pursuit of our mission of bringing health through food to as many people as possible.

With the integration of our new Baby Nutrition and Medical Nutrition divisions, Danone is a business fully focused on food as a vector for health, making good corporate governance all the more important.

The current economic crisis has shaken confidence in many apparently sound business and financial organizations, bringing fresh attention to bear on the issues of corporate governance in civil society and the public at large. Demands for strict ethical standards and transparency, with governance practices open to independent scrutiny, are more pressing than ever. Aware of these needs, Danone has made every effort to apply appropriate rules and processes throughout our group ever since the mid-1990s. With the full support of the Board of Directors (see following page), these efforts have led to the development of a framework and tools for sound governance to ensure effective risk management and full regulatory compliance in all our businesses. Operating under the overall supervision of the group's Risk, Control and Audit Department, our enterprise risk-management and internal-control teams ensure adequate management standards, compliance with our Business Conduct Policies, and application of good practices throughout Danone around the world. This contributes to the reliability of our financial information, which is prepared in accordance with the recommendations of the AMF, France's financial market authority, using a system of self-assessment that enables staff at subsidiaries to measure the quality of their own practices and keep step with progress. These practices are also monitored by Internal Audit teams that carry out regular on-site engagements—50 in 2008—to check, validate or correct processes as needed. Throughout the past year, a priority of these Risk, Control and Audit units was to share these good governance practices with the subsidiaries of our new Baby Nutrition and Medical Nutrition divisions.

More broadly, the integration of these divisions, making Danone a business entirely focused on health through food, has added to the importance of good corporate governance for the group. Our mission of bringing health through food to as many people as possible—which includes babies and elderly people, two

particularly vulnerable groups—means that we are directly concerned with fundamental, often sensitive, public-health issues that are important to society as a whole. In dealing with these challenges, we continue to take a proactive approach that has proven its worth, favoring dialog and attention to all stakeholders in the search for convergence and paths for shared progress (see the interview with Emmanuel Faber on the next page).

Another main concern for corporate governance in 2008 was social innovation. The launch of our danone.communities project, based on the combination of a standard investment fund (sicav) and a venture-capital fund (FCPR) led us to adopt an ad hoc governance structure (for more about danone.communities, see page 77). Since April 2007, the investment fund has been headed by a Board of Directors, most of whose members are from outside the group. Separately, a Social Innovation Committee brings together staff members from our various businesses and independent personalities recognized for their expertise in socially responsible investment, particularly in developing countries. The Committee reviews investment proposals, which it may then pass on to the management of the venture-capital fund. Meeting once a month, its role is to identify projects within the scope of Danone as a business operation and those that combine the innovative character and societal promise making them suitable for danone.communities. The Committee thus acts as decision maker and leader of social initiatives relying both on Danone's mission of bringing health through food to as many people as possible and on our conception of a dual economic and social function for business. It works in close cooperation with the Social Responsibility Committee of the Board of Directors, which also reviews all proposals for investment through danone.communities (see pages 94-95).

INTERVIEW

AT DANONE, OUR BUSINESS LINES, MISSION AND POSITION AS A GLOBAL PLAYER THAT IS ALSO A LISTED COMPANY PLACE US AT THE CONVERGENCE OF THE INTERESTS OF ALL STAKEHOLDERS.

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



What was the main thrust of corporate governance at Danone in 2008?

EF: Our 100% focus on health puts heavy demands on governance, since the credibility and health benefits of our products are now absolutely critical. Which makes it essential to reinforce the processes underpinning credibility and ensure that quality management is fully integrated, every step of the way—from product design to consumer feedback.

What is the defining feature of Danone's approach to governance?

EF: In a word: dialog. Dialog among stakeholders is increasingly essential in the world now taking shape, and the way we've built up Danone's business makes it all the more critical for us. And dialog made good progress over the year, reaching deeper and enabling us to develop solutions that hold promise for the future—which in turn consolidates our capacity to fulfill our mission over the longer term. With the acquisition of Numico, we now produce food for the health of babies and very young children, and we have made concrete efforts to ensure we can meet the challenges. This includes working for a consensus on the application of the World Health Organization's code published in 1981 and developing channels for dialog.

On this point, I am convinced of the need to provide added support

for breastfeeding and then ensure that young children have access to varied, complementary foods for a quality diet. And I hope that international organizations will take up our proposals for multi-partite consultations on these issues to find solutions for the problems that have been around for decades.

You mentioned "the world now taking shape." Was that a reference to the financial and economic crisis of 2008?

EF: The crisis means that we are now even more committed to dialog with all our stakeholders. Because one of its consequences has been to create distrust of business, particularly big businesses, in the general public and in civil society. The financial crisis has shaken confidence in the organizations driving economic life. But people shouldn't equate the economy with finance. It is precisely because finance took over control of the economy that we are now seeing these painful and partly structural readjustments around the world. An economy is about living together, and finance is only a tool for that, not an end in itself. We have to remember that a business only exists because it creates value for society, and thus value for people. Creating value for shareholders is both a necessary consequence and a necessary condition of that. And in 2008 we showed them that we have the capacity to adjust and attune

our business to new conditions. But the difficulties prevailing on global markets are also a reminder of the need to ensure that our products remain affordable and accessible and thus create value for all our consumers.

Did you adopt any new procedures or other tools in 2008?

EF: We have had the tools to ensure good corporate governance for quite some time. In 2008, we took commitment to social innovation—a core component of our mission—a step further. We are very aware of the issues facing societies today, which include the environment, work with low-income groups in poor countries, and our ambitions in terms of health, which have now taken on even greater force for Danone. Such issues call on us to invent new ways of working and new ways of relating to society. So we are looking very closely at our organizations and processes in the field. That is coordinated by our Social Innovation Committee, made up of Danone managers backed by experts from civil society. At Board level, governance is supervised by our Social Responsibility Committee. I am convinced that social innovation is not a utopian vision, but an urgent necessity.

Activities of the Board of Directors

Danone's Board of Directors counts 13 members, seven of them independent, and it has three specialized committees—the Audit Committee, the Social Responsibility Committee and the Nomination and Compensation Committee.

The Board met eight times in 2008, with meetings lasting 1 hour and 45 minutes on average and attendance averaging 79%. Recurrent subjects for review included business developments, finances, treasury, guarantees and endorsements, the adoption of financial statements, financial communications, acquisitions and divestments, Danone share prices, reports from the three Board Committees, annual business plans and budgets, and the annual contribution to danone.communities.

The Board reviewed in particular the following topics: finalization of the acquisition of Numico and related refinancing; the sale of Frucor beverage operations in Australia and New Zealand; authorization of regulated agreements involving group managers; proposals for action plans in response to economic conditions; and corporate government issues, including the decision to adopt the Afep-Medef Code of Corporate Governance.

Following the self-assessment conducted in 2007, the Board had amended internal regulations at its meeting on July 30 that year. In the second half of 2008, it conducted a new self-assessment and Directors will review the results in the course of 2009. Finally, in September 2008, Directors attended the seminar in Evian, an annual forum for Danone managers from subsidiaries around the world, to gain a deeper understanding of company management.

Audit Committee. The missions of the Audit Committee were defined at meetings of the Board of Directors in December 2006 and July 2007. The Committee is charged with reviewing statutory and consolidated financial statements before their adoption by the Board of Directors. It also coordinates the selection of statutory auditors and reviews audit plans. It verifies the existence and effective implementation of internal-control and risk management procedures, reviews the Chairman's internal control report, and validates and monitors internal audit plans. For the past year, it has also been charged with answering questions from the Social Responsibility Committee concerning principles of business conduct and ethics. It is kept regularly informed of the environmental, social and social business risks of which the latter committee is apprized. In 2008, the Audit Committee met six times to consider, among other things, changes in the scope of consolidation, relating in particular to the integration of Numico, progress on internal control procedures, approval of audit plans, and procedures for the assessment and monitoring of financial and other risks.

Social Responsibility Committee. Set up on December 15, 2006, the Committee has a set of internal regulations defining its mission and organizing its operation. It is in particular charged with considering the main environmental risks and opportunities for

the group and reviewing its social policies. It also considers reporting, assessment and control procedures to ensure the reliability of the non-financial information the group supplies. It reviews non-financial information published by the group, in particular relating to environmental and social business matters. 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 social business 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 social business investments and the group's other activities. In 2008, the Committee met three times, considering in particular social business policies and related projects under way. It thus issued a favorable opinion concerning the compliance of proposed investments in IOOI Fontaines and Laiterie du Berger with the danone.communities governance charter.

Nomination and Compensation Committee. The Nomination and Compensation Committee counts three members, two of them independent. Its tasks include submission of proposals for the appointment of Directors to the Board, preparatory work for the Board's consideration of governance issues, assessments of the Board of Directors and other Committees, and proposals for the calculation of the various components of corporate officers' compensation, for distribution of directors' fees, and for any other measures it may favor concerning the group's compensation policies.

In 2008, the Committee met four times, considering in particular the salaries and benefits for corporate officers and members of the Executive Committee. It also reviewed Afep-Medef recommendations and the group's compliance, as well as all the fixed and variable components of compensation for the four corporate officers (*mandataires sociaux*) and all members of the Executive Committee.

Executive officers' compensation. Executive officers' compensation policies are founded on principles applying to all general managers and over one thousand managers around the world. The variable economic portion of compensation of the Chairman and Chief Executive Officer, Franck Riboud, the Vice Chairman of the Board of Directors and Co-Chief Operating Officer, Jacques Vincent, and the two Co-Chief Operating Officers, Emmanuel Faber and Bernard Hours, is computed with reference to group objectives in terms of sales, trading operating margin, and underlying earnings per share, announced to financial markets. It also takes into account the group's social business aims and an assessment of strategy deployed over the year. Compensation paid to members of the Board of Directors and Executive Committee in respect of the 2008 financial year totaled €17.9 million. In 2008, the four members of the Board of Directors who are also executive officers received the following compensation: Franck Riboud, Chairman and Chief Executive Officer, €4,063,028; Jacques Vincent, Vice Chairman of the Board of Directors and Co-Chief Operating Officer, €2,353,678; Emmanuel Faber, Co-Chief Operating Officer, €1,641,210; Bernard Hours, Co-Chief Operating Officer, €1,806,610.

The Board of Directors has 13 members⁽¹⁾

Each Director must own at least 4,000 registered shares. Terms of office are set by Company by-laws at three years and are renewable.

Franck Riboud,
53, Chairman and Chief
Executive Officer

Jacques Vincent,
63, Vice Chairman of
the Board and Co-Chief
Operating Officer, Danone

Emmanuel Faber,
45, Co-Chief Operating
Officer, Danone

Bernard Hours,
52, Co-Chief Operating
Officer, Danone

Bruno Bonnell⁽²⁾,
50, Chairman,
Robopolis SAS

Michel David-Weill,
76, Chairman of Supervisory
Board, Eurazeo

Richard Goblet d'Alviella⁽²⁾,
60, Vice Chairman and
Deputy Director,
Sofina SA

Christian Laubie⁽²⁾,
70, member, Haut Conseil
du commissariat aux comptes

Jean Laurent⁽²⁾,
64, Chairman of
Finance Innovation
competitiveness cluster

Hakan Mogren⁽²⁾,
64, Deputy Chairman,
Astra Zeneca

Jacques Alexandre Nahmias⁽²⁾,
61, Chairman & CEO,
Pétrofrance SA

Benoît Potier⁽²⁾,
51, Chairman & CEO,
Air Liquide

Naomasa Tsuritani
65, Senior Managing
Director, Yakult Honsha
Co. Ltd.

Board Committees

Audit Committee:
Benoît Potier⁽²⁾, Chairman,
Richard Goblet d'Alviella⁽²⁾,
Christian Laubie⁽²⁾

Nomination and
Compensation Committee:
Michel David-Weill,
Chairman, **Jean Laurent**⁽²⁾,
Hakan Mogren⁽²⁾

Social Responsibility
Committee:
Jean Laurent⁽²⁾, Chairman,
Bruno Bonnell⁽²⁾,
Emmanuel Faber

1. At the General Meeting on April 23, 2009, shareholders will be asked to approve the appointment of *Guytane Saucier* as new board member.

2. Independent Director

Danone Research

Des partenariats mondiaux à la pointe de la recherche.



Paris, France

Recherches conjointes sur les effets des probiotiques sur la santé.

Washington University
School of medicine,
in St. Louis, U.S.A.

Projet de recherche évaluant l'interaction des probiotiques avec la flore bactérienne intestinale.



La recherche scientifique au service de la santé par la nutrition

100 ans d'expérience

Isaac Carasso, fondateur de Danone, développa ses premiers yoghourts en s'inspirant des recherches de l'Institut Pasteur. Un siècle plus tard, fidèles à nos racines, nous poursuivons dans cette voie par la recherche et l'innovation.



Des partenariats scientifiques mondiaux

Les 1200 collaborateurs de Danone Research travaillent en partenariat avec la communauté scientifique et les universités du monde entier afin de rester à la pointe de la recherche et de la connaissance. Ainsi, plus de 200 collaborations scientifiques sont menées sur le plan international.

Des bénéfices santé cliniquement démontrés

Danone Research accorde une place prépondérante aux études cliniques dans ses investigations scientifiques. Ainsi, en 2008, nous menons plus de 50 études cliniques pour garantir les bénéfices de nos produits tels qu'Actimel et Activia.



DANONE RESEARCH

Recherche et Innovation sur www.danone.com

08 Key figures

Danone's results for 2008 again illustrate the strength of our business model. Organic sales growth—at constant scope of consolidation and constant exchange rates—reached a healthy 8.4% and trading operating margin rose 53 basis points to 14.91%. Per-share diluted net income on current business (excluding minority interests) showed a 15.1% increase from the pro forma figure for 2007.

8.4%

Organic growth in Danone's consolidated sales for 2008.
Of this, approximately 2.8% was attributable to volume increases and 5.6% to improved pricing.

INTERVIEW

WE HAVE CONSOLIDATED THE STRUCTURE OF OUR DEBT AND BALANCE SHEET.

Pierre-André Térissé, Executive Vice President, Finance



What were the main business developments in 2008?

Pierre-André Térissé:

What obviously stands out is the completely exceptional economic environment. The current crisis marks the end of the growth model of the previous ten years and the beginning of far-reaching adjustments. In this context, we had to take a fresh look at a good number of management parameters. In the end, the commitment and cohesion of the new management team enabled us to turn in good results, meeting our targets and laying the foundations for the future.

Looking at developments within the group, the successful integration of Numico was clearly an achievement, and we can also be very happy with the very strong growth in our new businesses. On the purely financial side, refinancing operations in the course of the year and the sale of our Frucor subsidiary helped to put our balance sheet on a more even keel. Not only have we improved debt ratios, but we now have a sounder debt structure and greater room for maneuver. Finally, our investors' seminar in November was the occasion for us to highlight drivers for continued growth and reinforce dialog to build investor trust.

You announced growth in a range of 8 to 10% for 2008. And that's what happened.

What is your forecast for this year?

P-A T: Given the extent of the economic downturn, we are not aiming to equal last year's performance. Growth will remain robust in some sectors, including baby nutrition, medical nutrition and water on emerging markets, but others are likely to suffer from the global slowdown. We are nonetheless aiming for an overall increase in sales and continuing improvements in operating margin. We should get some added leverage for this with the easing in raw material prices.

At the end of 2008 you made a €1 billion bond issue. What were the reasons?

P-A T: We wanted to further consolidate our financial bases, beyond our needs for 2008 and 2009. The issue was a big success, demonstrating investors' continuing appetite for bonds with quality signatures like ours, despite the difficult conditions now prevailing on market.

What geographical areas do you think have most potential?

P-A T: In tough economic times, the food sector is in a better defensive position than most. While predictions are risky in the

circumstances, we are expecting conditions to remain difficult in developed countries, whereas they should vary significantly in emerging markets. Some will be facing severe monetary pressures, putting strains on their economies. But Asian markets should be more resilient and open up fresh scope for growth in 2009.

What will be the priorities for the finance department in current conditions?

P-A T: Our people had their work cut out for them last year, especially at crisis moments, such as on October 3 and 4 when the international financial system seemed on the brink of collapse. Not that we were ever at any risk of not meeting our financing needs, but we had to keep a very close eye on developments and be very creative. And that is the way we will have to go on operating to deal with the consequences of the current period of transition.

@ See: www.danone.com

2008/ A 53 basis-point rise in operating margin

Trading operating margin on current business came in at 14.91% in 2008, showing a rise of 164 basis points, or 53 bp at constant scope of consolidation and exchange rates. In Baby Nutrition and Medical Nutrition, rises in operating margins were up 230* and 149* basis points, respectively, reflecting cost synergies linked to the integration of Numico following the merger plus productivity gains. Operating margin for the Waters division, in contrast, slipped as a result of a rise in costs and lower cover for fixed costs. The Fresh Dairy Products division reported a rise attributable in particular to improved operating performance. Promotion charges were up 20 basis points from 2007, a rise mainly attributable to the Fresh Dairy Product and Baby Nutrition divisions.

Results

- Sales **up 8.4%** full year in 2008, **+9.6%** in the first half and **+7.1%** in the second half
- Diluted current net income per share attributable to the Group: **+15.1%** in 2008**
- 2009 EPS target (net): **+10%** like-for-like*

* Like-for-like, i.e., at constant scope of consolidation and exchange rates
** Compared with pro forma 2007 financial statements

2008 financial highlights

	2007	2008
Net sales (€ m)	12,776	15,220
Trading operating income (€ m)	1,696	2,270
Trading operating margin	13.27%	14.91%
Current net income (attributable to the Group) (€ m)	1,185	1,313
Underlying diluted EPS (attributable to the Group) (€)	2.47	2.74
Free cash flow (€ m)	984	1,183

Sales by business line in € millions



Financial highlights in € millions

Income Statement data	2007	2008	Change 2007/2008
Net sales	12,776	15,220	19.1%
Organic growth ⁽¹⁾	+ 9.7%	+ 8.4%	-
Trading operating income	1,696	2,270	33.9%
Trading operating margin	13.27%	14.91%	53 bp ⁽¹⁾
Current net income (attributable to the Group)	1,185	1,313	-
Net income (attributable to the Group)	4,180	1,313	-

Cash flow data

Cash flow provided by operations	1,430	1,699	-
Capital expenditure	(726)	(706)	-
Purchases of businesses and other investments ⁽²⁾	(12,100)	(259)	-
Free cash flow ⁽³⁾	984	1,183	20%

Financial position

Net debt	11,261	11,055	-
Stockholders' equity (including minority interests)	9,100	8,700	-
Debt/equity ratio	123.7%	127.1%	-

Current per-share data (€)

Underlying diluted EPS (attributable to the Group)	2.47	2.74	15.1% ⁽⁴⁾
Dividend per share	1.1	1.2⁽⁵⁾	9.1%

Market

No. of shares at Dec.31 ('000)	512,851,460	513,802,144	-
Share price at Dec.31 (€)	61.40	43.18	-
Market capitalization at Dec. 31 (€ millions)	31,500	22,200	-

Personnel

Total employees at Dec.31	76,044	80,143	-
Europe	30,428	30,560	-
Outside Europe	45,616	49,583	-

(1) Like-for-like, i.e., at constant scope of consolidation and exchange rates.

(2) Net of cash acquired.

(3) Cash flow from operations less change in working capital requirement less capital expenditure net of disposals.

(4) Relative to pro forma current net income per share.

(5) To be submitted to the Annual General Meeting of shareholders on April 23, 2009.

Net sales in € millions

By business line	2007	2008	Increase on like-for-like basis
Fresh Dairy Products ⁽⁶⁾	8,299	8,697	+7.7%
Waters	3,535	2,874	+1.9%
Baby Nutrition ⁽⁶⁾⁽⁷⁾	809	2,795	+17.0%
Medical Nutrition ⁽⁷⁾	133	854	+12.7%
GROUP TOTAL	12,776	15,220	+8.4%

(6) After reclassification of Blédina sales in Baby Nutrition.

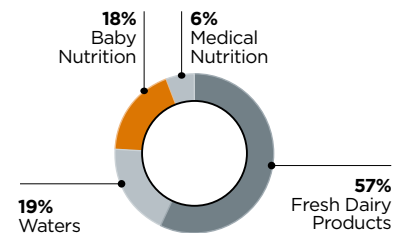
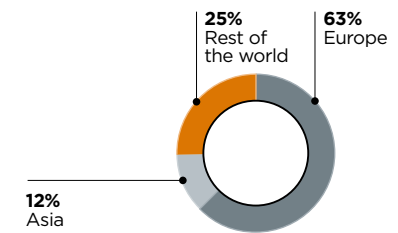
(7) In 2007 the Baby Nutrition and Medical Nutrition lines included two months of business at Numico, acquired on October 31, 2007.

By region	2007	2008	Increase on like-for-like basis
Europe	7,670	9,524	+5.1%
Asia	1,643	1,854	+16.3%
Rest of the world	3,463	3,842	+13.2%
GROUP TOTAL	12,776	15,220	+8.4%

Operating income in € millions

Trading operating income by business line	2007	2008
Fresh Dairy Products	1,133	1,224
Waters	480	368
Baby Nutrition	74	489
Medical Nutrition	7	189
Other items	2	-
GROUP TOTAL	1,696	2,270

Trading operating income by region	2007	2008
Europe	1,107	1,496
Asia	177	313
Rest of the world	412	461
GROUP TOTAL	1,696	2,270

Sales by business line**Sales by region**

Trading operating margin

In 2008, operating margin stood at 14.91%, 164 basis points above 2007. At constant scope of consolidation and exchange rates, group margin was up by 53 basis points.

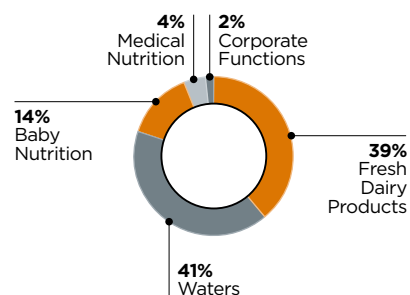
Trading operating margin by business line	2007	2008	Change on like-for-like basis
Fresh Dairy Products	13.7%	14.1%	+49 bp
Waters	13.6%	12.8%	-153 bp
Baby Nutrition	9.1%	17.5%	+230 bp
Medical Nutrition	5.3%	22.1%	+149 bp
GROUP TOTAL	13.3%	14.9%	+53 bp

Trading operating margin by region	2007	2008	Change on like-for-like basis
Europe	14.4%	15.7%	+57 bp
Asia	10.8%	16.9%	+166 bp
Rest of the world	11.9%	12.0%	+1 bp
GROUP TOTAL	13.3%	14.9%	+53 bp

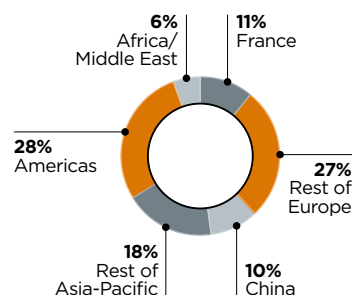
Workforce

At December 31, 2008, Danone had 80,143 employees, including 30,560 in Europe, 22,693 in the Americas and 26,890 in the rest of the world.

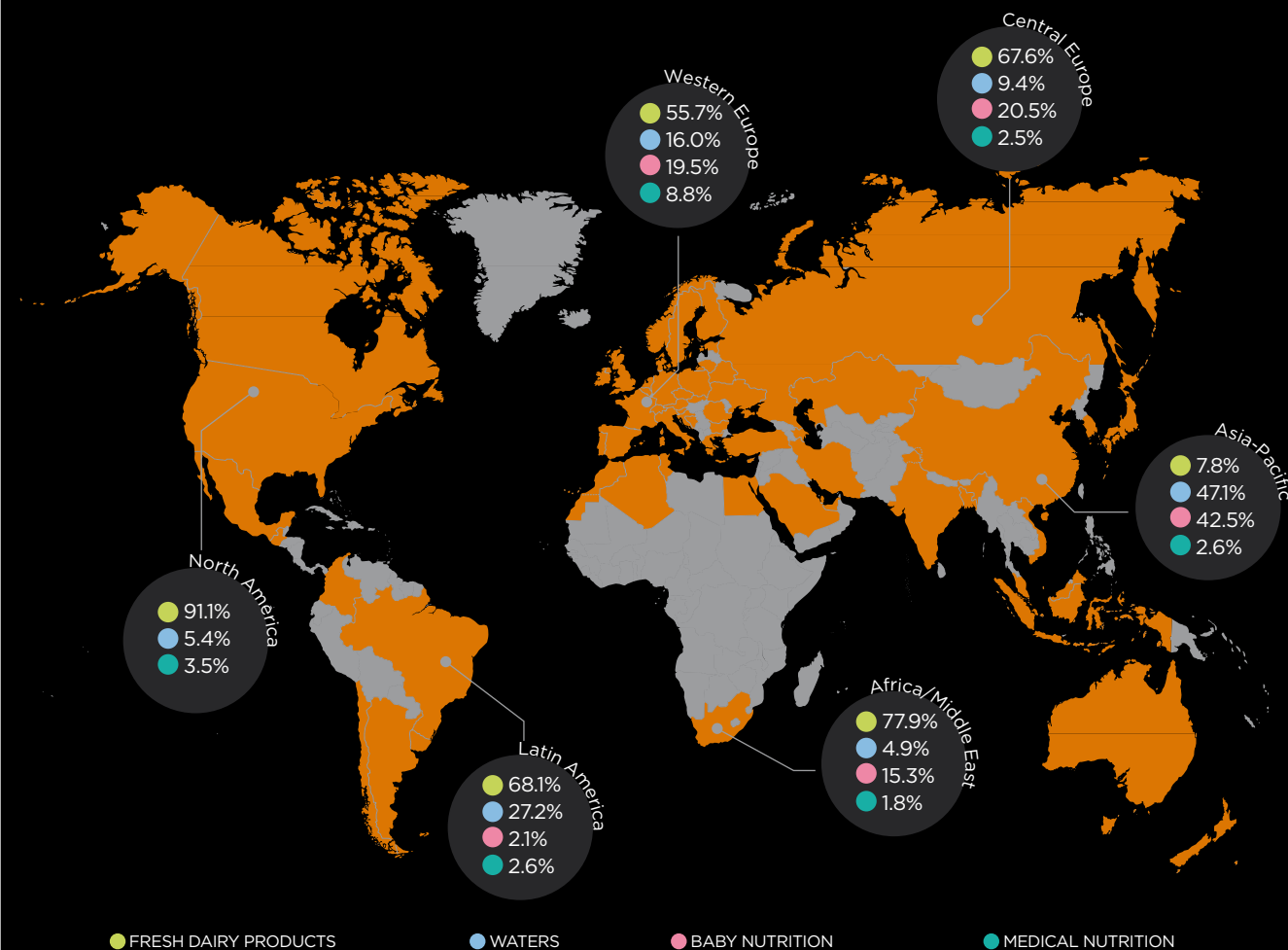
Employees by business line



Employees by region



Sales by region and by business line (% worldwide)



Sales by region and by business line (% worldwide) in € millions

	Fresh Dairy Products	Waters	Baby Nutrition	Medical Nutrition	2008 TOTAL
Western Europe	4,051	1,161	1,417	641	7,270
Central Europe	1,523	212	462	57	2,254
Asia-Pacific	144	874	789	47	1,854
North America	1,217	72	-	47	1,336
Latin America	1,323	528	41	51	1,943
Africa/Middle East	439	27	86	11	563
TOTAL	8,697	2,874	2,795	854	15,220

2008 results in € millions

	2007 published	2007 pro forma	2008
Trading operating income	1,696	2,108	2,270
Other operating income and expense	(150)	0	(83)
Operating income	1,546	2,108	2,187
Cost of net debt	(175)	(424)	(439)
Other financial income and expense	(2)	(46)	(145)
Income tax	(410)	(453)	(443)
Net income of companies included in consolidated accounts	959	1,185	1,160
Net income of equity-accounted affiliates	87	111	62
Net income of operations discontinued, sold or in the process of being sold	3,292	0	269
Net income	4,338	1,296	1,491
Minority interests	158	153	178
Attributable to the Group	4,180	1,143	1,313
-Net non-operating income of operations discontinued, sold or in the process of being sold	(3,110)	-	(269)
-Net non-operating income from continuing operations	115	-	269
Current net income attributable to the Group	1,185	1,143	1,313
Diluted current net income attributable to the Group (EPS in euros)	2.47	2.38	2.74

The cost of net debt reflects the full-year impact of financing for the Numico acquisition combined with a rise in the average cost of debt.

The current effective tax rate was 23.5% in 2008 compared with 27% in 2007. The decline was mainly attributable to changes in the scope of consolidation combined with lower rates in the countries where Danone operates and a favorable balance across these countries.

Net income from discontinued operations representing business sold or in the process of being sold and amounting to €269 million, mainly consists of the additional payment received in connection with the group's sale of its interest in the joint venture General Biscuit Glico France.

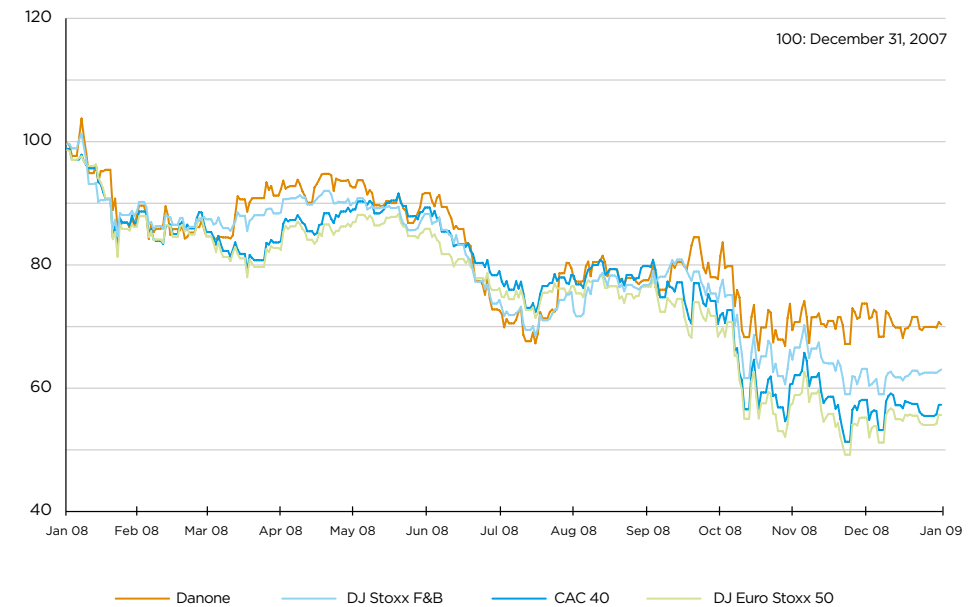
The non-current net result reflects, among other things, an impairment charge for Danone's unconsolidated interest in Wimm-Bill-Dann and other non-recurring charges.

Current net income attributable to the group rose 15% from the 2007 figure to stand at €1,313 million, while current net income per share after dilution was up 15.1%* to €2.74.*

+15.1%

Relative to pro forma current net income per share after dilution (attributable to the group)

* Based on diluted net earnings on ordinary business, pro forma.

Main stockmarket indices from December 31, 2007 to December 31, 2008

Almost throughout the year, Danone shares did better than the Paris market's CAC 40 index and the Dow Jones Euro Stoxx 50, performing in line with the highly diversified Dow Jones Stoxx Food and Beverage index. More narrowly, it proved more resilient than a number of indexes after the eruption of the financial crisis in September.

This trend continued into the closing months of the year, with the announcement of third-quarter results in October and the investors' seminar in November helping Danone shares to deliver better returns than indexes.

Key market data at Dec. 31	2005	2006	2007 ⁽¹⁾	2008
<i>in € millions</i>				
Market capitalization at Dec. 31	23,252	30,000	31,500	22,200
<i>in €</i>				
Closing price for the year	88.25	114.80	61.40	43.18
High for the year	96.30	121.10	64.17	64.00
Low for the year	67.80	85.20	51.30	38.60
<i>thousands of shares</i>				
Average number of shares traded daily	1,427	1,212	3,076	3,265

(1) After two for one split on June 1, 2007.

Dividend per share

	2005	2006	2007	2008
<i>thousands of shares</i>				
Number of shares	264,235	260,865	512,851	513,802
<i>in €</i>				
Net dividend per share	1.70	2.0	1.10	1.20⁽¹⁾

(1) Subject to the approval of the Annual General Meeting on April 23, 2009.

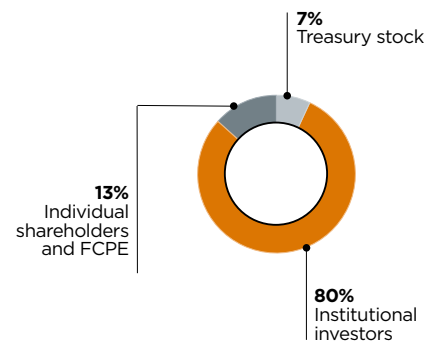
Dividend

Danone is to ask shareholders at their General Meeting on April 23, 2009 to approve distribution of a dividend of €1.20 per share, payable in cash or shares, in respect of the 2008 financial year. The issue price of the new shares will be set at 90% of the average opening price on the Euronext market over the 20 trading days preceding Wednesday, April 22, less the amount of the dividend. The ex-dividend date is Thursday, April 30.

The period during which shareholders may opt to receive either cash or shares runs from Thursday, April 30 to Monday, May 18, 2009. Shareholders who do not exercise this option within the stated period will receive the whole amount of the dividend due to them in cash. The dividend will be payable from May 27, 2009.

Identifiable holders of bearer shares

At December 31, 2008	% capital
Institutional investors	
France	31%
UK	8%
Germany	4%
Benelux	4%
Rest of Europe	6%
USA	22%
Rest of the world	5%
Individual shareholders and FCPE "Fonds groupe Danone"	13%
Treasury stock	7%
TOTAL	100%

**Danone share key data**

NUMBER OF SHARES AT FEB. 11, 2009: 513,802,144

NOMINAL VALUE: €0.25 per share (at Feb. 11, 2009)

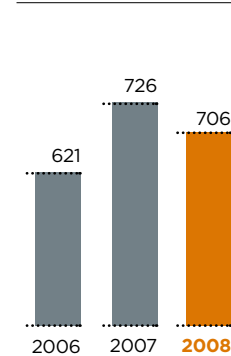
STOCK EXCHANGE LISTINGS: NYSE Euronext Paris, the SWX Swiss Exchange, and traded as American Depository Shares/Receipts (ADS/ADR) on the US market (1 share = 5 ADS).

Main shareholders at Dec. 31, 2008

	% of voting rights
Eurazeo	5.2%
Caisse des Dépôts et Consignations	4.0%
Predica	1.4%
FCPE "Fonds groupe Danone"	3.1%
Groupe Sofina et Henex (ex-Glaces de Moustier)	3.2%
Individuals	83.1%

Free cash flow

Free cash flow totalled €1,183 million in 2008 (7.8% of sales), up from €984 million in the preceding year.

Capital expenditure (in € millions)

Capital expenditure totalled €706 million or 4.6% of consolidated sales in 2008. Investments were held at a healthy level during the year to back geographical expansion in emerging markets, but eased in the closing quarter to allow for the slowing growth observed in some countries. Of the total for the year, 40% was invested in countries with high growth potential (Argentina, Brazil, Canada, China, Indonesia and the US), while 3% was allocated to countries where we have only recently begun operating, in particular South Korea.

Outlays in 2007 concerned primarily investments to raise capacity in countries where the group was already present, notably Russia, China, Argentina, Mexico, Indonesia and the United States, and fresh dairy product operations in countries where we had only recently begun operating, in particular Egypt, Colombia and Chile.

€1.20

dividend distributed to shareholders in respect of 2008*.

*proposed to the General Meeting of shareholders on April 23, 2009.

+20%

2008 change in free cash flow.

2008 SOCIAL AND ENVIRONMENTAL INDICATORS

Environmental indicators

A selection of key indicators* for Fresh Dairy Products, Waters and Blédina in Danone's 2008 sustainable development report* was reviewed in an investigation report by KPMG Audit.

* All indicators, the investigation report by KPMG Audit, and 2007 figures at comparable structure are available in the Sustainability Report downloadable from www.danone.com ("Sustainable development"/"Experts' Corner").

	Fresh Dairy Products, Waters, Baby Nutrition, Medical Nutrition	Fresh Dairy Products, Waters, Blédina
Production ('000 metric tons)	22,459	21,944
Production sites⁽¹⁾		
Total number	162	140
Cover rate	91% ⁽¹⁾	89%
Total number of sites certified compliant with ISO 14001	91	82
Thermal energy consumption ('000 MWh)	2,439	1,831
Electricity consumption ('000 MWh)	1,744	1,565
Total energy consumption ('000 MWh)	4,183	3,396
Total amount of waste generated ('000 metric tons) ⁽²⁾	229	159
Total amount of waste eliminated through specific waste management path ⁽²⁾ ('000 metric tons) ⁽²⁾	188	123
Proportion of waste eliminated through specific waste management path ⁽²⁾	82%	77%
Total water consumption ('000 cubic meters) ⁽³⁾	37,576	34,531
Waste-water COD (chemical oxygen demand) in '000 metric tons ⁽⁴⁾	4,305	4,183
Significant emission incidents (chemical and hydrocarbons)	2	2
Emissions of greenhouse gases (CO ₂ , CH ₄ , N ₂ O, CFC, etc.) in metric kilotons CO ₂ equivalent	564	406
SO _x (sulfur oxide emissions) in metric tons SO ₂ equivalent	3,324	1,693
NO _x (nitrogen oxide emissions) in metric tons NO ₂ equivalent	1,349	938
Gases depleting the ozone layer (in kilograms CFC equivalent)	600	558

(1) For some business units, these figures may also include logistics, notably when distribution is adjacent to a production plant.

(2) Excluding sludge from waste-water plants.

(3) Water consumed by plants, excluding water put into bottles and containers.

(4) Based on 91% of sites representing more than 99% of total group COD.

(5) 91% of sites representing 99% of sales.

Social indicators

	2008	Cover ⁽¹⁾
Total employees at Dec. 31	80,143	100%
Net rise in employment	+3,800	100%
Europe	+274	100%
Asia	+984	100%
Rest of the world	+2,542	100%
Employees by region		
Europe	38%	100%
Asia	28%	100%
Rest of the world	34%	100%
Total salaried employees at Dec. 31		
Managers	16%	100%
Other	84%	100%
Male managers	57%	100%
Female managers	43%	100%
Other employees, male	76%	100%
Other employees, female	24%	100%
Permanent employees at Dec. 31 (by age)		
< age 18	0.04%	100%
18 to 24	1%	100%
25 to 34	43%	100%
35 to 44	30%	100%
45 to 54	13%	100%
> age 55	3%	100%
Average employees for the year		
Permanent	83%	100%
Non-permanent	17%	100%
Turnover of permanent employees as % of total workforce	22%	96.0%
% of business units whose employees are covered by a company or multi-sector collective agreement	77%	92.3%
% of business units with employee representatives ⁽²⁾	85%	92.3%
Number of labor disputes with work stoppages	49	95.4%
Number of workplace accidents with stoppages	897	95.4%
Number of fatal accidents ⁽³⁾	11	95.4%
Frequency of workplace accidents	5.2	95.4%
% of employees insured for major risks (death/incapacity)	99%	95.4%
% of business units with profit-sharing agreements ⁽⁴⁾	40%	95.4%
Number of employees receiving training during the year	70,458	98.7%
Managers	10,492	98.7%
Non-managers	59,966	98.7%
Average number of training hours in the year	25	98.7%
Managers	37	98.7%
Non-managers	22	98.7%

(1) To reflect disparities in the scope of consolidation and their impact on reporting, a cover rate is calculated for each social indicator: this is based on the total number of Danone salaried employees at year-end 2008 (80,143 people).

(2) Elected or designated by a trade union.

(3) Eleven fatal accidents in 2008 concerned six Danone employees and five sub-contractors in the Fresh Dairy Products, Waters and Blédina segments. Most were road accidents. The detailed monthly report provided by subsidiaries (introduced in 2008) enables us to provide greater detail on our safety data this year.

(4) Excluding Baby Nutrition and Medical Nutrition, this figure was 52%.

FOR MORE INFORMATION:



Registration Document
Downloadable at
www.finance.danone.com



Sustainability Report
Downloadable at www.danone.com, under Sustainable Development, then Expert's Corner.



For more pictures, information and films taking you to the heart of Danone, visit: www.danone.com



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For 90 years,
Danone's business has been your health.



In 1919, Isaac Carasso developed the first Danone yogurt and sold it in pharmacies in Barcelona. Ninety years on, the same passion drives the men and women at Danone whose daily efforts are devoted to making food our best ally for healthy living.

1919



2009