

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-14734

GROUPE DANONE

(Exact name of registrant as specified in its charter)

Not Applicable
(Translation of registrant's
name into English)

**17, Boulevard Haussman
75009 Paris
France**

(Address of principal
executive offices)

France
(Jurisdiction of incorporation
or organization)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:

**American Depositary Shares, or ADSs,
each representing one-fifth of one Ordinary Share,
nominal value €0.50 per share**

Ordinary Shares, nominal value €0.50 per share

**Name of each exchange
on which registered:**

New York Stock Exchange

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

260,864,746 ordinary shares, nominal value € 0.50 per share at December 31, 2006

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Presentation of Information | 1 |
| Cautionary Statement Regarding Forward-Looking Statements | 1 |
| PART I | |
| Item 1. Identity of Directors, Senior Management and Advisors | 3 |
| Item 2. Offer Statistics and Expected Timetable | 3 |
| Item 3. Key Information | 3 |
| Item 4. Information on Groupe Danone | 11 |
| Item 4A. Unresolved Staff Comments | 34 |
| Item 5. Operating and Financial Review and Prospects | 35 |
| Item 6. Directors, Senior Management and Employees | 57 |
| Item 7. Major Shareholders and Related Party Transactions | 72 |
| Item 8. Financial Information | 76 |
| Item 9. The Offer and Listing | 78 |
| Item 10. Additional Information | 82 |
| Item 11. Quantitative and Qualitative Disclosures About Market Risk | 102 |
| Item 12. Description of Securities Other than Equity Securities | 104 |
| PART II | |
| Item 13. Defaults, Dividend Arrearages and Delinquencies | 105 |
| Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds | 105 |
| PART III | |
| Item 15. Controls and Procedures | 106 |
| Item 16. [Reserved] | 107 |
| Item 16A. Audit Committee Financial Expert | 107 |
| Item 16B. Code of Ethics | 107 |
| Item 16C. Principal Accountant Fees and Services | 107 |
| Item 16D. Exemptions from the Listing Standards for Audit Committees | 108 |
| Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers | 108 |
| Item 17. Financial Statements | 109 |
| Item 18. Financial Statements | 109 |
| Item 19. Exhibits | 109 |

PRESENTATION OF INFORMATION

In this annual report, the “Company” refers to Groupe Danone, and “Danone” or the “Group” refers to Groupe Danone and its consolidated subsidiaries and equity affiliates. All references herein to “U.S. dollars,” “dollars,” “cents” or “\$” are to the currency of the United States; references to “France” are to the Republic of France; and references to “euro” or “€” are to the currency of the European Union member states (including France) participating in the European Monetary Union.

The Company’s next general meeting of shareholders has been called for April 26, 2007.

Unless the context requires otherwise, all references herein to “markets” for particular products, or to market share, refer to markets for packaged products and exclude products which may be otherwise marketed or sold. Unless indicated otherwise, information relating to market share and position are based on volume sold. All references herein to “fresh dairy products” and the dairy products business or markets refer to processed dairy products and exclude milk, cream and butter. All references to “packaged water” refer to bottled water as well as water sold in large containers. The market share and volume data contained in this annual report have been compiled by the Company based in part upon statistics and other information obtained from several third-party sources. In addition, the Company utilizes its own surveys of competitors’ sales and customers’ purchases and inventory levels.

The Company maintains and publishes statistical information relating to its business in metric units, such as metric tons and thousands of liters. One metric ton equals 1,000 kilograms or 2,204 pounds, and one thousand liters equals approximately 264 gallons.

Various amounts and percentages in this annual report have been rounded and, accordingly, may not total 100%.

Since December 1990, the Company has sponsored an American Depositary Receipts, or ADRs, program in the United States with Citibank, N.A., as depositary. The American Depositary Shares, or ADSs, issued pursuant to such program have been registered with the Securities and Exchange Commission under a Registration Statement on Form F-6. Each such ADS represents one-fifth of one share. Since November 20, 1997, the ADSs have been listed on the New York Stock Exchange under the symbol “DA.” Groupe Danone has reached its current filing limit for ADRs. As a result, Citibank, N.A., as depositary, will no longer accept deposits of ordinary shares for the issuance of ADRs for Groupe Danone until further notice. The Groupe Danone ADR Program remains open for the cancellation of ADRs.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this annual report that are not historical facts, including, without limitation, certain statements made in the sections entitled “Item 3. Key Information—Risk Factors,” “Item 4. Information on Groupe Danone,” particularly the subsection “—Business Strategy,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk,” are statements of future expectations. Forward-looking statements (within the meaning of Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934, as amended) can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “is expected to,” “will,” “will continue,” “should,” “would,” “seeks” or “anticipates” or similar expressions or the negative thereof or other variations thereof, or comparable terminology, or by discussions of strategy, plans or intentions. Although the Company believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties. Risks that could cause actual results to differ materially from the results anticipated in the forward-looking statements include, among other things:

- the risks of actual or alleged contamination or deterioration of food products;

- risks and uncertainties attendant to doing business in numerous countries which may be exposed to, or may have recently experienced, economic or governmental instability;
- changes in economic trends and seasonality;
- pricing and availability of raw materials;
- changes in exchange rates, particularly the exchange rates of the euro to non-euro currencies;
- customers and market concentration;
- changes in laws and regulations;
- increasing levels of competition in France and other international prepared food and beverage markets; and
- general competitive and market factors on a global, regional and/or national basis.

Readers are urged to carefully review and consider the various disclosures made by the Company that attempt to advise interested parties of the factors affecting the Company's business, including the disclosures made under the captions "Item 3. Key Information—Risk Factors," "Item 4. Information on Groupe Danone," particularly the subsection "—Business Strategy," and "Item 5. Operating and Financial Review and Prospects" in this annual report, as well as in the Company's other periodic reports on Form 6-K submitted to the Securities and Exchange Commission. The Company does not intend, and does not assume any obligation, to update any industry information or forward-looking statements set forth in this annual report to reflect subsequent events or circumstances.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The Company publishes its consolidated financial statements in euro. Solely for the convenience of the reader, this annual report contains translations of certain euro amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or that the original amounts could have been, or could be, converted into U.S. dollars at the rates indicated or at any other rate. Unless otherwise stated, the translations of euro into U.S. dollars have been made at the rate of \$ 1.3197 per € 1.00, or € 0.7577 per \$ 1.00, the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on December 29, 2006. See “—Exchange Rate Information” below for information regarding the euro/ U.S. dollar exchange rates from 2002 to the present.

Unless otherwise indicated, the financial information contained in this annual report has been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, which differ in certain significant respects from United States generally accepted accounting principles (“U.S. GAAP”). See Note 2 to the Company’s audited consolidated financial statements for the years ended December 31, 2004, 2005 and 2006 (the “Consolidated Financial Statements”) included elsewhere in this annual report for a description of the principal differences between IFRS and U.S. GAAP, as they relate to the Group, and a reconciliation to U.S. GAAP of net income and stockholders’ equity.

The table below presents selected consolidated financial data for the Group for the three-year period ended December 31, 2006. Such data have been extracted or derived from the Consolidated Financial Statements of the Group, and are qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and the Notes thereto and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. The Consolidated Financial Statements have been audited by PricewaterhouseCoopers Audit, independent registered public accounting firm, as indicated in their report thereon, dated March 27, 2007, which also appears in this annual report.

| | Year ended December 31, | | | |
|--|---|---------|---------|--|
| | 2004 | 2005 | 2006 | 2006 ⁽¹⁾ |
| | (in millions of €, except per share data) | | | (in millions of \$, except per share data) |
| Amounts in accordance with IFRS: | | | | |
| Consolidated Income Statement Data | | | | |
| Net sales | €12,273 | €13,024 | €14,073 | \$18,572 |
| Trading operating income | 1,608 | 1,738 | 1,914 | 2,526 |
| Operating income | 1,559 | 1,706 | 1,874 | 2,473 |
| Net income from discontinued operations | 47 | 504 | 154 | 203 |
| Net income from continuing operations | 591 | 1,167 | 1,406 | 1,855 |
| Net income—attributable to the Group | 449 | 1,464 | 1,353 | 1,786 |
| Net income—attributable to minority interests | 189 | 207 | 207 | 273 |
| Earnings per share attributable to the Group ⁽²⁾ | 1.79 | 5.95 | 5.57 | 7.35 |
| Earnings per share from continuing operations attributable to the Group | 1.60 | 3.90 | 4.96 | 6.55 |
| Diluted earnings per share attributable to the Group ⁽²⁾ | 1.79 | 5.87 | 5.53 | 7.30 |
| Diluted earnings per share from continuing operations attributable to the Group ⁽²⁾ | 1.62 | 3.86 | 4.92 | 6.49 |
| Consolidated Balance Sheet Data | | | | |
| Current assets | € 5,427 | € 6,118 | € 6,154 | \$ 8,121 |
| Non-current assets | 10,652 | 10,607 | 10,702 | 14,123 |
| Total assets | 16,079 | 16,725 | 16,856 | 22,245 |
| Net debt ⁽³⁾ | 4,538 | 3,572 | 2,902 | 3,830 |
| Stockholders' equity attributable to the Group | 4,256 | 5,280 | 5,823 | 7,685 |
| Minority interests | 250 | 341 | 246 | 325 |
| Dividends per share ⁽²⁾ | 1.35 | 1.70 | 2.00 | 2.64 |
| Cash Flow Statement Data | | | | |
| Cash flow provided by operating activities, excluding changes in working capital | € 1,574 | € 1,716 | € 1,891 | \$ 2,496 |
| Cash flow provided by operating activities | 1,694 | 1,847 | 2,169 | 2,862 |
| Cash flow provided by (used in) investing activities | 214 | 312 | (501) | (661) |
| Cash flow used in financing activities | (1,872) | (2,102) | (1,553) | (2,049) |

(1) Translated solely for convenience into dollars at the Noon Buying Rate on December 29, 2006 of \$ 1.3197 per € 1.00.

(2) Earnings and dividends per share have been adjusted following the June 2004 two-for-one stock split. Basic earnings per share is based on an average number of shares of 250,671,990, 246,038,406 and 242,734,094 as of December 31, 2004, 2005 and 2006, respectively. Diluted earnings per share is based on the average number of shares outstanding during the year assuming full conversion of all common stock equivalents and convertible bonds and taking into account the related reduction in interest charges, net of tax. Such average number of shares was 257,530,982, 250,280,950 and 244,688,913 for the years ended December 31, 2004, 2005 and 2006, respectively. Dividends for 2006 will be submitted for the approval of the annual shareholders’ meeting on April 26, 2007.

(3) Net debt is defined as current and non-current financial liabilities less cash, cash equivalents and marketable securities. Danone’s management uses net debt as an internal liquidity indicator. Danone believes this information will be useful to investors since it is used as a performance measure by credit rating agencies. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Financial Condition” for a reconciliation of net debt to total debt.

The table below presents selected consolidated financial data for the Group for the five-year period ended December 31, 2006 in accordance with U.S. GAAP.

| | Year ended December 31, | | | | | |
|---|---|-------------|-------------|-------------|--------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 ⁽¹⁾ |
| | (in millions of €, except per share data) | | | | | |
| Approximate amounts in accordance with U.S. GAAP ⁽²⁾ : | | | | | | |
| Consolidated Income Statement Data | | | | | | |
| Net sales | €12,155 | €11,678 | €12,072 | €12,806 | €13,953 | \$18,414 |
| Operating income | 2,095 | 1,511 | 1,465 | 1,649 | 1,824 | 2,407 |
| Net income | 1,420 | 923 | 399 | 1,335 | 1,326 | 1,750 |
| <i>Of which net income from continuing operations</i> | <i>1,378</i> | <i>874</i> | <i>341</i> | <i>906</i> | <i>1,141</i> | <i>1,506</i> |
| <i>Of which net income from discontinued operations</i> | <i>42</i> | <i>49</i> | <i>58</i> | <i>429</i> | <i>185</i> | <i>244</i> |
| Earnings per share (basic) ⁽³⁾ | 5.38 | 3.63 | 1.59 | 5.43 | 5.46 | 7.21 |
| <i>Of which earnings per share from continuing operations</i> | <i>5.23</i> | <i>3.43</i> | <i>1.36</i> | <i>3.68</i> | <i>4.70</i> | <i>6.20</i> |
| <i>Of which earnings per share from discontinued operations</i> | <i>0.16</i> | <i>0.20</i> | <i>0.23</i> | <i>1.75</i> | <i>0.76</i> | <i>1.00</i> |
| Earnings per share (diluted) ⁽³⁾ | 5.22 | 3.54 | 1.57 | 5.35 | 5.42 | 7.15 |
| <i>Of which earnings per share from continuing operations</i> | <i>5.04</i> | <i>3.34</i> | <i>1.35</i> | <i>3.62</i> | <i>4.66</i> | <i>6.15</i> |
| <i>Of which earnings per share from discontinued operations</i> | <i>0.18</i> | <i>0.20</i> | <i>0.22</i> | <i>1.73</i> | <i>0.76</i> | <i>1.00</i> |
| Earnings per ADS (diluted) ⁽³⁾⁽⁴⁾ | 1.05 | 0.71 | 0.31 | 1.07 | 1.08 | 1.43 |
| <i>Of which earnings per ADS from continuing operations</i> | <i>1.01</i> | <i>0.67</i> | <i>0.27</i> | <i>0.72</i> | <i>0.93</i> | <i>1.23</i> |
| <i>Of which earnings per ADS from discontinued operations</i> | <i>0.04</i> | <i>0.04</i> | <i>0.04</i> | <i>0.35</i> | <i>0.15</i> | <i>0.20</i> |
| Consolidated Balance Sheet Data | | | | | | |
| Stockholders' equity attributable to the Group | 4,836 | 4,671 | 4,472 | 5,434 | 5,973 | 7,883 |
| Total assets | 15,260 | 14,355 | 13,285 | 13,993 | 14,753 | 19,470 |

(1) Translated solely for convenience into dollars at the Noon Buying Rate on December 29, 2006 of \$ 1.3197 per € 1.00.

(2) For a description of the reconciliation to U.S. GAAP, see Note 2 to the Consolidated Financial Statements.

(3) Earnings per share have been adjusted following the June 2004 two-for-one stock split. Basic earnings per share is based on an average number of shares of 263,700,262, 254,583,270, 250,671,990, 246,038,406 and 242,734,094 as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively. Diluted earnings per share and ADS are based on the average number of shares outstanding during the year assuming full conversion of all common stock equivalents and convertible bonds and taking into account the related reduction in interest charges, net of tax. Such average number of shares was 274,482,258, 263,196,496, 257,530,982, 250,280,950 and 244,688,913 for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, respectively.

(4) Earnings per American Depositary Share, or ADS (diluted), has been calculated by dividing Earnings per share (diluted) for the applicable period as set forth in the immediately preceding line in the table, by five to reflect the ratio of one-fifth of one share per ADS.

Exchange Rate Information

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in New York City for cable transfers for foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York expressed in U.S. dollars per € 1.00. These rates are provided solely for the convenience of the reader and are not the rates used by the Company in the preparation of its Consolidated Financial Statements included elsewhere in this annual report. For its general financial reporting, the Group uses the rate published by the Banque de France. No representation is made that euro could have been, or could be, converted into U.S. dollars at these rates or any other rate.

| | U.S. dollars per € 1.00 | | | |
|------------------------|---------------------------|--------------------------------|--------|--------|
| | Yearly/Period end rate | Average Rate ⁽¹⁾ | High | Low |
| Yearly amounts | | | | |
| 2002 | 1.05 | 0.95 | 1.05 | 0.86 |
| 2003 | 1.26 | 1.14 | 1.26 | 1.04 |
| 2004 | 1.35 | 1.25 | 1.36 | 1.18 |
| 2005 | 1.18 | 1.24 | 1.35 | 1.17 |
| 2006 | 1.32 | 1.27 | 1.33 | 1.19 |
| Monthly amounts | | | | |
| September 2006 | 1.27 | 1.27 | 1.28 | 1.26 |
| October 2006 | 1.28 | 1.26 | 1.28 | 1.25 |
| November 2006 | 1.33 | 1.29 | 1.33 | 1.27 |
| December 2006 | 1.32 | 1.32 | 1.33 | 1.31 |
| January 2007 | 1.30 | 1.30 | 1.33 | 1.29 |
| February 2007 | 1.32 | 1.31 | 1.32 | 1.29 |
| March 2007 | \$1.34 | \$1.32 | \$1.34 | \$1.31 |

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro-denominated prices of the shares and, as a result, will affect the market price of the ADSs in the United States. In addition, exchange rate fluctuations will affect the U.S. dollar equivalent of any cash dividends received by holders of ADSs.

For a discussion of the impact of exchange rate fluctuations on the Group's results of operations, see "Item 5. Operating and Financial Review and Prospects—Impact of Changes in Exchange Rates."

Risk Factors

In addition to the other information contained in this annual report, prospective investors should consider carefully the risks described below. The risks described below are not the only ones facing the Group. Additional risks not currently known to the Group or that the Group currently deems immaterial may also impair its business operations. The Group's business, financial condition or results of operations could be materially adversely affected by any of these risks.

The actual or alleged contamination or deterioration of the Group's products, or of similar products of other producers, could hurt the Group's reputation and its operating results and financial condition

The Group's business could be negatively affected by the actual or alleged contamination or deterioration of certain of its principal products, or of similar products sold by other producers. A substantial portion of the Group's products, such as fresh dairy products, must be maintained within certain temperatures to retain their flavor and nutritional value and avoid contamination or deterioration. Depending on the specific type of food product, a risk of contamination or deterioration exists at each stage of the production cycle, including the

purchase and delivery of food raw materials such as milk, the processing and packaging of food products, the stocking and delivery of finished products to distributors and food retailers, and the storage and shelving of finished products at the points of final sale. With respect to bottled water, the natural sources of Danone's supply may be subject to pollution. In addition, as part of its strategy of promoting products with a strong health component, the Group is developing more and more complex products made from organic materials, especially probiotics. In the event that certain of Danone's products are found, or are alleged, to have suffered contamination or deterioration, whether or not while such products were under Danone's control, the Group's net sales, results of operations and financial condition could be materially adversely affected. In addition, reports or allegations of inadequate product quality control with respect to certain products of other food manufacturers could negatively impact sales of the Group's products. The Group believes that it has put in place measures to limit the risk of contamination, in particular through regular audits of its sites, alliances with scientific organizations of international standing and the implementation of zero-tolerance quality assurance and food safety policies.

Instability in markets where the Group operates could harm its business

The Group's operations are subject to the risks and uncertainties attendant to doing business in numerous countries which may be exposed to, or may have recently experienced, economic or governmental instability, particularly in Latin America, Asia and the Middle East. Also, a number of countries in which the Group's operations are conducted have less developed and less stable legal environments, maintain controls on the repatriation of profits and invested capital, impose taxes and other payments and put in place restrictions, sometimes retroactively, on the activities of multinational companies. Management believes that it has taken and continues to take appropriate measures to minimize the risks arising from the Group's international operations. However, there can be no assurance that the financial results of the Group could not be materially affected by a downturn in economic or political conditions or by any regional crisis or significant regulatory change.

Seasonal consumption cycles and weather conditions may result in fluctuations in demand for some of the Group's products and impact results of operations

Some of the Group's product markets are affected by seasonal consumption cycles and weather conditions which can have a negative impact on the Group's interim and annual results. In particular, bottled water and beverages experience peak demand during the summer months. As a result, the Group's sales are generally higher during these months. Conversely, relatively cool summer temperatures, such as occurred in Europe in 2004, may result in substantially reduced sales of beverages, especially bottled water, and thus may have a material adverse effect on the Group's results of operations.

Price increases and shortages of food and packaging raw materials could adversely affect the Group's results of operations

The Group's results of operations may be affected by the availability and pricing of raw materials, principally materials needed to produce Danone's food and beverage products, mainly including milk, wheat, sugar and cocoa, and materials needed for packaging its products, mainly including PET and PVC plastics and light cardboard for cartons. Factors such as changes in the global or regional levels of supply and demand, weather conditions and government controls could substantially impact the price of food and packaging raw materials. A substantial increase in raw material prices (if not passed on to customers through price increases) or a continued interruption in supply could have a material adverse effect on the Group's financial condition and results of operations.

The Group's results of operations and financial condition could be harmed by changes in exchange rates

The Group publishes its Consolidated Financial Statements in euro. In addition, in 2006, approximately 48% of the Group's consolidated net sales and approximately 60% of its trading operating income were in euro. However, a substantial portion of the Group's assets, liabilities, sales, costs and earnings are denominated in

currencies other than the euro, particularly in the Chinese yuan, the U.S. dollar and U.S. dollar-influenced currencies, the British pound or the Polish zloty. As a result, the Group is exposed to fluctuations in the values of such currencies against the euro with respect to the translation into euro of amounts to be reflected in its Consolidated Financial Statements. These currency fluctuations, especially with respect to these principal non-euro currencies, can have a significant impact on the Group's results of operations. In particular, the appreciation of the euro relative to other currencies decreases the euro value of the contribution to the Group's consolidated results and financial condition of subsidiaries which maintain their financial accounts in such other currencies. In addition, to the extent the Group incurs expenses and effects sales in different currencies in cross-border transactions, fluctuations in exchange rates can also affect the profitability of such transactions. As a result of the Group's international strategy, the contribution by international activities to consolidated net sales, operating results and net income is expected to continue to increase over time.

The Group's dependence on key customers and increased market concentration could negatively affect the Group's ability to achieve its targeted margins and reduce its competitiveness

While the final consumers of Danone products are individual retail customers, Danone sells its products principally to major retail and grocery chains. The distribution market has become increasingly concentrated. In 2006, the Group's ten largest customers worldwide accounted in the aggregate for approximately 28% of the Group's consolidated net sales. Six of those customers are French companies and the Group's largest client, Carrefour, represented approximately 8% of the Group's consolidated net sales in 2006. Any increase in the Group's dependence on key customers or market concentration generally could negatively affect the margins and competitiveness of the Group.

The Group depends on a limited number of suppliers for certain products and services

In connection with its policy of optimizing its purchasing procedures, the Group centralizes the purchase of certain materials or sub-contracted services, such as the ferments used in the fresh dairy products activities or information technology services, from a limited number of suppliers. If these suppliers are not able to supply the Group with the quantities of materials the Group needs or if the suppliers are not able to provide services in the required time period, this could have a material adverse effect on the Group's financial condition and results of operations.

Changes in governmental regulations could harm the Group's business

As a producer of consumer foods and beverages, the Group's activities are subject to extensive regulation by national authorities and international organizations, including regulation with respect to the environment, hygiene, quality control and tax laws. The Group's activities may also be subject to all kinds of barriers or sanctions imposed by countries in order to limit international trade. The activities of the Group are also subject to increasingly restrictive regulation with regard to the protection of health and human safety, especially concerning assertions about the health benefits of products marketed by the Group. The Group's activities could be adversely affected by any significant changes in such regulation. While the Group believes that it has put in place appropriate measures to limit the risks associated with these activities through a policy of environmental management, including, in particular, the establishment of regular inspections (industrial, environmental and quality control) at all of its sites, the introduction of higher standards or more stringent regulations could necessitate additional investment and result in substantial costs for the Group.

The Group's dominant position in certain markets may lead to accusations of abuse of dominance or anti-competitive practices

In certain of its markets, the Group is the market leader. As a consequence, the Group may be accused of the abuse of a dominant position or the use of anti-competitive practices. Such allegations could affect the reputation of the Group, result in judicial proceedings and could have a material adverse effect on the Group's financial condition and results of operations.

The Group's results of operations and financial condition could be harmed by a failure of its information systems

The Group is increasingly dependent upon information technology network systems to obtain the numerical data which it uses as a basis for its operating management decisions. Any failure of these applications or communications networks may delay or taint certain decisions and result in financial losses.

The Group may not be able to adequately protect its intellectual property rights

Given the importance of brand recognition to its business, the Group has invested considerable effort in protecting its portfolio of intellectual property rights, including trademark registration, such as, for example, the trademarks *Danone*, *Evian* and *LU*. The Group also uses security measures to protect its patents, licenses and proprietary formulae. However, the Group cannot be certain that the steps it has taken will be sufficient to protect its intellectual property rights adequately or that third parties will not infringe upon or misappropriate its proprietary rights. Moreover, some of the countries in which the Group operates offer less protection for intellectual property rights than Europe or North America. If the Group is unable to protect its proprietary rights against infringement or misappropriation, its future financial results and its ability to develop its business could be harmed.

Labor disputes may cause work stoppages, strikes and disruptions

The Group has in the past implemented, and may in the future continue to implement, restructuring measures, including plant closings and headcount reductions, in order to lower production costs, improve efficiency of its facilities, exploit synergies and respond to the demands of a changing market. Restructurings could harm its employee relations and result in labor disputes, including work stoppages, strikes and disruptions, which in turn could have an adverse impact on the Group's business or financial results.

Competition may lead to a reduction of the Group's margins and a decline in profitability

The markets for each of Danone's main business lines are highly competitive markets in which large international groups and numerous local actors are present. In Western Europe and North America, the markets served by Danone tend to be relatively mature and competition for market share is therefore particularly intense. With respect to the Group's activities outside Western Europe and North America, certain international food and beverage groups also have important positions in certain product lines and in certain emerging markets and seek to expand such positions or enter new markets. In addition, certain retail and grocery chains have developed their own private labels and certain of Danone's customers also offer their own competing products. As a result, the Group must continually strive to strengthen the selling power and premium image of its brand names, differentiate its products and improve the efficiency and management of its operations in order to maintain or increase its profit margins. Failure to remain competitive would have a material adverse effect on the Group's operating results and financial condition.

The Group's sales may be affected by overall economic trends in its principal geographic markets

As a producer principally of consumer foods and beverages, the Group's results of operations may be affected by the overall economic trends of its principal geographic markets. In periods of economic slowdown, consumer purchase decisions may be affected by specific consumer behaviors, thus creating negative pressure on the Group's net sales.

The Group's strategy relies significantly on acquisitions, which involve risks

The Group's strategy is to become the leader in each of the markets in which it operates. Within the context of continued concentration in the food and beverage industry, this strategy involves the pursuit of external growth opportunities through acquisitions and alliances. These acquisitions and alliances could have a negative

impact on the Group's business if the Group is unsuccessful in the integration process or fails to achieve the synergies and savings it expects from these acquisitions. Furthermore, the relations with partners of the Group in certain entities are governed by documents or agreements that could allow certain decisions to be made with the agreement of such partners or without the agreement of the Group. Such restrictions could make it difficult for the Group to pursue its objectives through these entities. Finally, certain agreements signed with partners could subject the Group to put options, notably in the event of a change of control of the Group.

Item 4. Information on Groupe Danone

History and Development

Groupe Danone is a *société anonyme*, a form of limited liability company, organized under the laws of the Republic of France. It was incorporated on February 2, 1899. Under Groupe Danone's bylaws, revised in 1941, the Company's existence is to last 141 years, *i.e.*, until December 13, 2040, except in the event of earlier dissolution or extension. Its principal office is located at 17, Boulevard Haussmann, 75009 Paris, France, and its telephone number is (+33) 1.44.35.20.20. The Company's agent in the United States is The Dannon Company Inc., located at 120 White Plains Road, Tarrytown, New York 10591-5536, USA.

The Company is registered with the Register of Commerce and Companies of Paris (*Registre du Commerce et des Sociétés de Paris*) under number 552 032 534.

The Company's origins date back to 1966 when the French glass manufacturers, Glaces de Boussois and Verrerie Souchon Neuvesel, merged to form Boussois Souchon Neuvesel, or BSN. In 1967, BSN had sales of flat glass and glass containers of approximately € 150 million. In 1970, BSN began a program of diversification in the food industry and successively purchased Brasseries Kronenbourg, Société Européenne de Brasserie and Société Anonyme des Eaux Minérales d'Evian, which at the time were major customers of BSN for glass containers. As a result of these acquisitions, BSN became France's market leader in beer and bottled water, as well as infant food, which was at that time one of Evian's product lines. In 1973, BSN merged with Gervais Danone, a French dairy products and pasta group, thereby becoming France's largest food and beverage group with consolidated sales in 1973 of approximately € 1.4 billion, of which 52% consisted of food and beverage sales.

Throughout the remainder of the 1970s and the 1980s, BSN focused on expansion in the food and beverage industry, primarily in Western Europe, after disposing of its flat glass business. This expansion included the acquisition of major breweries in Belgium, Spain and Italy; The Dannon Company, the leader in yogurt production in the United States; Générale Biscuit, a French holding company which owned LU and other major producers of biscuits in Europe; the biscuit subsidiaries of Nabisco, Inc. in France, Italy, the United Kingdom and Asia; and Galbani, Italy's leading cheese maker. As a result, with consolidated sales of € 7.4 billion in 1989, BSN became Europe's third largest diversified food group, ranking first in France, Italy and Spain.

Beginning in the early 1990s, BSN pursued a strategy of consolidating its main business lines, developing synergies in Western Europe and expanding into growing markets. Moreover, BSN paved the way for a strategy of development outside of Western Europe. As a result, BSN increased the scope of its operations and strengthened its portfolio of brands through a number of significant acquisitions and joint ventures. Within Western Europe, BSN acquired Volvic in France to strengthen its position in the bottled water sector. Outside Western Europe, BSN pursued an active acquisition strategy to expand internationally in the Asia-Pacific region, Latin America and Eastern Europe, as well as in selected markets like South Africa and the Middle East.

In 1994, BSN changed its name to Groupe Danone, adopting the name of the Group's best known international brand, with a view to consolidate its position as an international food and beverage group and to reinforce the marketing strength of the Danone brand name.

In 1997, the Group's management decided to focus on three core activities on a worldwide basis (fresh dairy products, beverages, and biscuits and cereal products). The Group has since completed several significant divestitures in grocery, pasta, ready-to-serve meals and confectionery activities, mainly in France, Belgium, Italy, Germany and Spain. In 1999 and 2003, the Group sold 56% and 44%, respectively, of the capital of BSN Glasspack, the holding company of its glass containers business, and, in 2000, the Group sold most of its European beer activities to different companies in the industry, including Scottish & Newcastle. In 2002, the Group sold Kro Beer Brands, which held the brands *Kronenbourg* and *1664*, among others; its Italian cheese and meat activities (Galbani); as well as its beer producing activities in China. In 2005, the Group sold its sauces

activities in the United Kingdom and in the United States and, in January 2006, its sauces activities in Asia. In addition, in 2005 the Group finalized its exit from the European beer activities, selling its interest in the Spanish company Mahou. These divestitures since 1997 represented net sales of approximately € 5.9 billion in the aggregate.

This strategy enabled Danone to concentrate its financial and human resources on product lines with strong commercial potential and in which the Group holds leading local positions as well as to pursue its expansion outside Western Europe through internal growth, strategic acquisitions and the creation of companies.

Since 1998, the Group has been organized around three core activities:

- fresh dairy products, including yogurts, dairy desserts and infant foods, representing approximately 56% of consolidated net sales in 2006;
- beverages, representing approximately 28% of consolidated net sales in 2006; and
- biscuits and cereal products, representing approximately 16% of consolidated net sales in 2006.

Key Events in 2006

The Group's revenue in 2006 amounted to € 14,073 million, an increase of 8.1% compared to 2005. At constant exchange rates and scope of consolidation, growth in revenue was 9.7%, one of the best performances ever for the Group, in particular in the fourth quarter. Trading operating margin, which increased for the twelfth consecutive year, by 25 basis points in 2006, reached 13.60%, compared to 13.35% in 2005, in spite of a large increase in the cost of transport and the price of certain raw materials, in particular, plastics.

In 2006, the Group again demonstrated its ability to innovate and extend the territory of its brands and products, both in terms of geographic extent and range of products. In its fresh dairy product segment, the Group (i) successfully launched the *Activia* product line in the United States and *Senja*, a 100% vegetable specialty soy product, in France and Spain, and (ii) penetrated the organic product market in Europe, with the launch of the *Les 2 Vaches des Fermiers du Bio* line in France and acquired an interest in the Irish company Glenisk. In its beverages business, the Group developed new formats for its products, launched a line of flavored products in France, Germany and the United Kingdom and continued the deployment of its functional beverages *V* and *Mizone*. In its biscuits and cereal products business, the Group continued its policy of expanding its brands with the launch of its *Mini Ourson* product, as well as the launch of new flavors in its savory product line *Tuc* and its *Mikado* product line.

Finally, as part of its strategy of maintaining profitable growth of its businesses, the Group completed sales and acquisitions of equity interests in 2006 (see "Item 5. Operating and Financial Review and Prospects—Overview" and Note 3 to the Consolidated Financial Statements). In particular, the Group:

- finalized its exit from the sauces business, disposing of its Asian interests in this segment, and
- continued its geographic expansion, in particular in Asia in the fresh dairy products segment (see "Item 4. Information on Groupe Danone—Products and Markets").

Business Overview

Danone is one of the world's leading food companies, with worldwide sales and operating income of approximately € 14.1 billion and € 1.9 billion, respectively, in 2006. By volume, Danone is the world's leading producer of fresh dairy products, the second largest producer of biscuits and cereal products and the second largest producer of packaged water. Danone's brands include national and international market leaders such as *Danone* (*Dannon* in the United States), the world's leading brand of fresh dairy products; *Evian*, the world's leading brand of bottled still water; *Volvic*, the Group's other major international brand of bottled still water; *LU*, Europe's leading biscuits brand; *Wahaha*, the leading Chinese brand of bottled water; and *Aqua*, the leading

brand of packaged water in Indonesia. In addition, the Group is also a leader in the infant food market in France through its subsidiary Blédina. Overall, approximately 80% of world sales were realized through leading positions in local markets.

The Group's strategy of international expansion, through both internal and external growth, has led to a significant increase in net sales outside Western Europe. These sales represented 50% of total net sales in 2006 compared to less than 15% in 1995.

The brand name *Danone* (*Dannon* in the United States) currently represents approximately 49% of the Group's net sales and experienced growth of close to 8% in 2006 at constant exchange rates and scope of consolidation. In addition to fresh dairy products, the brand has been extended to certain other products, such as bottled water in the United States and certain European countries as well as biscuits in certain countries in Asia. Four of the Group's brands (*Danone*, *LU*, *Evian* and *Wahaha*) represent approximately 70% of the Group's net sales. These four brands had a growth rate in net sales at constant exchange rates and scope of consolidation of more than 10% in 2006.

In addition, the Group has developed two probiotic dairy product lines known under the names *Actimel* on the one hand and *Activia* and *Bio* on the other, and a line of low-fat products, under the names *Taillefine*, *Vitalinea*, and *Ser*, as well as a "*fromage frais*" line designed for children known under the brands *Danonino*, *Danimals*, and *Petit Gervais*. These brands, which are progressively being extended to all countries in which the Group is present, represented 45% of the Group's growth in net sales in 2006.

Danone's main product for export is bottled water, mainly under the brand names *Evian* and *Volvic*. *Evian* was exported to approximately 150 countries in 2006 and has strong market shares in the United Kingdom, Germany and Japan. *Volvic* is the leading still mineral water brand in Germany and the leading imported water in Japan.

The Group also has a strategy of internal and external growth aimed at establishing a geographic balance between developed and emerging countries. In this context, the Group has identified new geographic regions ("*Nouvelles Frontières*") which constitute areas of growth: China, Indonesia, Mexico, Russia and the United States in fresh dairy products. These new geographic regions represented 28% of the Group's net sales in 2006.

Business Strategy

The Group's strategy relies upon (i) a concentration on three categories of products which have substantial elements of health and well-being, (ii) strong and grouped brand names, kept dynamic by sustained advertising campaigns, (iii) a balanced geographical distribution between developed countries and emerging countries and (iv) an ambitious strategy of innovation supported by an ever-growing knowledge of consumer expectations.

The continued internal growth of the Group in recent years is based upon the Group's ability to sell quality products satisfying demands of local markets by (i) improving the products sold by recently acquired companies, (ii) introducing products that are accessible to large numbers of consumers in emerging countries in order to develop mass consumption of packaged food products and ensure demand for the Group's brands for the future and (iii) taking advantage of the Group's marketing expertise to sell value-added products already sold in other countries, to accompany increases in purchasing power and developments in consumer trends. The Group believes that demographic trends and economic developments in Asia and Latin America will lead in the medium term, despite possible economic difficulties, to significant market expansion. The progressive improvement in the purchasing power of local populations, together with the development of a middle class, is expected to increase demand for bottled beverages and branded food products.

The Group will continue to follow a strategy whereby its three business lines will grow profitably as a model of development to guarantee the Group's values and specificity.

In 2007, Danone's objective is to achieve a growth rate of 6% to 8% at constant exchange rates and scope of consolidation by (i) having a portfolio of activities concentrated on dynamic health-oriented products, especially in fresh dairy products, (ii) advertising and promoting a selected number of major brands, (iii) having a significant presence in countries which present the best prospects for long-term growth, particularly China, Mexico and Indonesia, (iv) occupying strong leading positions in local markets in each business line and (v) offering promising innovations based on satisfaction of consumers.

Net sales growth at constant exchange rates and scope of consolidation is expected to continue to be a leading force for improving the Group's economic performance, due to the continuing leadership of products generating a favorable mix effect and the achievement by the Group of a critical size in several emerging markets. Concurrently, the Group will continue to promote numerous initiatives aimed at increasing its global efficiency and widespread appeal. In a difficult international economic climate and in the absence of a significant crisis, Danone's objectives for 2007 are to increase its trading operating income by between 7% and 10%, to improve consolidated trading operating margin at constant exchange rates and scope of consolidation by more than 20 basis points and to increase current net earnings per share by more than 10%.

The Group will continue its policy of making acquisitions in order to consolidate current positions and to hold leading local market positions in each of its business lines. With significant free cash flow (defined as cash flows provided by operating activities less capital expenditures net of disposals) and a level of net debt (defined as current and non-current financial liabilities less cash, cash equivalents and marketable securities excluding financial liabilities linked to options granted to minority stockholders) representing less than one year of cash flow provided by operating activities, excluding changes in net working capital, the Group possesses the necessary resources to sustain its growth.

Products and Markets

The tables below show, for each of the years 2004, 2005 and 2006, consolidated net sales and trading operating income by business line and principal geographic area.

Business Lines

| | Year ended December 31, | | | | | |
|---|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2004 | 2005 | | 2006 | | |
| | (millions of €, except percentages) | | | | | |
| Net Sales⁽¹⁾ | | | | | | |
| Fresh dairy products | 6,510 | 53.0% | 7,184 | 55.1% | 7,934 | 56.4% |
| Beverages ⁽²⁾ | 3,201 | 26.1% | 3,473 | 26.7% | 3,942 | 28.0% |
| Biscuits and cereal products ⁽³⁾ | 2,562 | 20.9% | 2,367 | 18.2% | 2,197 | 15.6% |
| Total | <u>12,273</u> | <u>100.0%</u> | <u>13,024</u> | <u>100.0%</u> | <u>14,073</u> | <u>100.0%</u> |
| Trading Operating Income⁽¹⁾ | | | | | | |
| Fresh dairy products | 917 | 57.0% | 1,019 | 58.6% | 1,109 | 58.0% |
| Beverages ⁽²⁾ | 493 | 30.7% | 474 | 27.3% | 504 | 26.3% |
| Biscuits and cereal products ⁽³⁾ | 278 | 17.3% | 343 | 19.7% | 301 | 15.7% |
| Unallocated income (expense) ⁽⁴⁾ | (80) | (5.0)% | (98) | (5.6)% | — | — |
| Total | <u>1,608</u> | <u>100.0%</u> | <u>1,738</u> | <u>100.0%</u> | <u>1,914</u> | <u>100.0%</u> |

(1) Net sales or trading operating income of Danone's subsidiaries after elimination of sales between companies belonging to the same division and elimination of intra-group sales. Intra-group sales consist of sales of products between companies that are in different divisions. Intra-group sales were € 22 million in 2006 (€ 20 million in 2005 and € 21 million in 2004).

(2) The beverages businesses in Italy, sold in January 2005, were only consolidated in 2004.

(3) In 2004, the biscuits businesses in the United Kingdom and Ireland, which were subsequently sold, were only consolidated during the first nine months of the year. In addition, the biscuits business in Latin America were only consolidated in 2004. The biscuits businesses in India were deconsolidated beginning July 1, 2006 (see Note 8 to the Consolidated Financial Statements).

(4) Unallocated income (expense) represents the balance of Group income (expenses) that have not been allocated to any specific operating division. In 2006, the Group established a system of analysis allowing it to allocate all of this income and expense to business lines.

Geographic Areas

| | Year ended December 31, | | | | | |
|---|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2004 | | 2005 | | 2006 | |
| | (millions of €, except percentages) | | | | | |
| Net Sales⁽¹⁾ | | | | | | |
| Europe ⁽²⁾ | 8,096 | 66.0% | 8,179 | 62.8% | 8,582 | 61.0% |
| Asia | 1,965 | 16.0% | 2,235 | 17.2% | 2,429 | 17.3% |
| Rest of the World | 2,212 | 18.0% | 2,610 | 20.0% | 3,062 | 21.7% |
| Total | <u>12,273</u> | <u>100.0%</u> | <u>13,024</u> | <u>100.0%</u> | <u>14,073</u> | <u>100.0%</u> |
| Trading Operating Income⁽¹⁾ | | | | | | |
| Europe | 1,209 | 75.2% | 1,266 | 72.8% | 1,295 | 67.7% |
| Asia | 259 | 16.1% | 256 | 14.7% | 244 | 12.7% |
| Rest of the World | 220 | 13.7% | 314 | 18.1% | 375 | 19.6% |
| Unallocated income (expense) ⁽³⁾ | (80) | (5.0)% | (98) | (5.6)% | — | — |
| Total | <u>1,608</u> | <u>100.0%</u> | <u>1,738</u> | <u>100.0%</u> | <u>1,914</u> | <u>100.0%</u> |

(1) Net sales or trading operating income of the Group's subsidiaries after elimination of sales between companies belonging to the same area and elimination of inter-region sales.

(2) France represented approximately 34% of net sales for Europe in 2006 (35.3% in 2005 and 36.8% in 2004).

(3) Unallocated income (expense) represents the balance of Group income (expenses) that have not been allocated to any specific operating division. In 2006, the Group established a system of analysis allowing it to allocate all of this income and expense to business lines.

Fresh Dairy Products

With net sales of fresh dairy products in 2006 of over € 7.9 billion, representing approximately 4.6 million tons, Danone is the leading producer of fresh dairy products worldwide, with approximately 20% of the world's market share and a weighted average market share of approximately 36% in the countries in which the Group is present, which is four times more than its closest competitor. Danone's principal products in this business line are yogurts and similar products which, together, accounted for close to 95% of Danone's total net sales of fresh dairy products in 2006, with the remainder represented by infant food sold principally in France under the *Blédina* brand.

Principal Markets. Sales in Europe accounted for 67% of net sales of fresh dairy products and sales in the Rest of the World accounted for 33%. Danone's principal markets for fresh dairy products in Europe are France, Spain, Germany, Italy and the Benelux countries, which together accounted for slightly more than 45% of Danone's sales of fresh dairy products in 2006. In the Rest of the World, the Group's principal markets are the United States, Mexico, Argentina and Brazil. This segment is undergoing a strategy of geographic expansion, with a goal of being established in five new countries per year between 2007 and 2011. This strategy is accompanied by a constant effort to make the main product lines in the segment accessible in terms of price and distribution.

In France, Danone is the market leader for fresh dairy products with over one-third of the total market. Danone markets yogurts and similar products and other fresh dairy products principally under the *Danone* brand name. The Group is also the market leader in France for infant food with its brand *Blédina*. After experiencing negative growth in 2004 and 2005 due primarily to difficult consumption conditions in France and competing retail and discount brands, sales for this segment in France experienced a slight positive growth in 2006.

In Spain, Danone has a 57.15% interest in Danone S.A., Spain's leading producer of fresh dairy products with a share of the Spanish market of approximately 46%. Danone is also the leading producer of yogurt in Italy, with a market share of approximately 25%.

In Germany, where Danone is the leader in a relatively fragmented market, sales in this segment grew by more than 11% in 2006. Danone also markets its products in Belgium and Portugal where it holds leading positions through locally established production subsidiaries and in The Netherlands, Denmark, Ireland, Austria, Switzerland, Finland, Sweden and Greece through marketing subsidiaries and franchises that sell Danone's product lines.

In the United Kingdom, Danone is the second largest player in the fresh dairy product market in the United Kingdom and the third in low-fat products, due in particular to the brand *Shape*.

In 2006, the Group created Stonyfield Europe, a company specializing in organic fresh dairy products. The first initiative of Stonyfield Europe was to take a 37% interest in Glenisk, the leader in Ireland in organic fresh dairy products.

In Eastern Europe, Danone is the leading producer of fresh dairy products in Poland, Hungary, the Czech Republic, Bulgaria, Romania and Turkey. In each of these countries, the *Danone* brand name has one of the highest levels of brand awareness in the food market. The Group holds a major position in Russia, a country where the Group's production capacity increased significantly in 2004 and 2005 and that is one of the Group's "*Nouvelles Frontières*" countries due to its potential for growth. In addition, the Group has a market presence in Croatia and the Baltic countries. The Group reinforced its presence in the Ukraine in 2006 with the acquisition of JSC Molochnyi Zavod "Rodich."

Danone is the leading producer of fresh dairy products in terms of both net sales and volumes in Latin America. Danone is in a leading market position in Mexico, Argentina and Brazil. In addition, the Group announced in February 2007 the formation of a joint venture with the Colombian company Alqueria to develop the fresh dairy products market in Colombia. In North America, the Group occupies the leading position in both Canada and the United States. The fresh dairy products business in the United States, which includes the Dannon Company and Stonyfield Farm, the leader in the market for organic products, is one of the "*Nouvelles Frontières*" countries due to its strong potential for growth. Sales in the United States in this segment experienced growth of over 11% in 2006 at constant exchange rates and scope of consolidation, due in particular to the successful launch of the *Activia* product line in January 2006.

In 2005 and 2006, the Group reinforced its presence in the North Africa/Middle East region, notably in Algeria where it gained control of Danone Djurdjura in 2006, in Egypt, where it acquired the company Olait (renamed Danone Dairy Egypt) in 2005, and in Saudi Arabia, where it gained control of the Al Safi Danone Company in 2005. Danone Djurdjura and the Al Safi Danone Company are the leaders in their respective markets. The Group also has minority interests in major producers of fresh dairy products in Morocco, Tunisia and Israel, which all have leading positions in their respective countries. In addition, the Group is present in South Africa, with a majority interest in Danone Clover.

The Group is currently actively extending its presence in the fresh dairy products market in the Asia-Pacific region. The Group has been present for several years in Australia through a license agreement and in Japan through the joint venture Calpis Ajinomoto Danone. The Group has recently established itself in China, India, Bangladesh and Thailand and reinforced its presence in Japan. In Japan, the Group holds a minority interest in Yakult, with which the Group entered into a partnership in the beginning of 2004 with the objective of further accelerating the growth of both companies in the functional food market and strengthening their market leadership in probiotics. In 2005 and 2006, this partnership led to the formation of joint ventures in India and Vietnam, with the goal of developing the local market in probiotics. In January 2007, the Group acquired all of the shares of the joint venture Calpis Ajinomoto Danone. The new entity, named Danone Japon, will maintain close cooperation with Ajinomoto, which will continue to be the sole distributor for fresh dairy products of Danone Japon, and with Calpis, which will continue to be the supplier for certain raw materials. In China, the Group, which holds a 20% interest in Shanghai Bright Dairy, concluded a joint venture agreement in late 2006 with China Mengniu Dairy Company Limited, for the development, production and distribution of fresh dairy products in China. The Group holds 49% of this joint venture, which benefits from Mengniu's leading position

on the Chinese market for fresh dairy products. In 2005, the Group opened a new research and development center in Shanghai with the purpose of accelerating its presence in the fresh dairy product market in Asia. In Bangladesh, the Group partnered with the Grameen group in 2006 to create Grameen Danone Foods Social Business. This initiative has the goal of offering healthy food to underprivileged populations suffering from nutritional deficiencies in Bangladesh and to contribute to the reduction of poverty by establishing a single business model of proximity. Finally, in January 2007, the Group announced the creation of a fresh dairy products company in Thailand, named Danone Dairy Thaïlande, and the formation of a strategic partnership with Dutch Mill Co.

Principal Brand Names. The Group has developed two lines of probiotic dairy products known under the names *Actimel* on the one hand and *Activia* and *Bio* on the other, a line of low-fat products, under the names *Taillefine*, *Vitalinea*, and *Ser*, and a line of “fromage frais” designed for children, known as *Danonino*, *Danimals* and *Petit Gervais*.

Driven by health consciousness and numerous scientific discoveries, the probiotic market is one of the most dynamic in the fresh dairy product segment. *Actimel*, a probiotic dairy product that helps to strengthen natural defenses, has been produced for over ten years and continues to exhibit strong growth in sales. Net sales at constant exchange rates and scope of consolidation increased by more than 12% in 2006, reaching over € 1 billion. The growth of *Actimel* represented nearly 9% of the Group’s growth in net sales in 2006. Furthermore, the strong rates of growth recorded in 2006 in Argentina, Russia and Romania confirm the potential of this type of product in emerging countries. Similarly, the line of probiotic products to facilitate intestinal digestion, marketed under the name *Activia*, experienced very strong growth during the last years. Its net sales at constant exchange rates and scope of consolidation increased by nearly 50% in 2006, reaching nearly € 1,279 million. The growth was especially strong in the United States, where the line was launched in January 2006, Germany, the United Kingdom, Mexico and Brazil. The product line is expected to be introduced in additional countries.

Petit Gervais aux Fruits, the “fromage frais” designed for children, is now consumed in 43 countries. The growth has been driven by a strategy of constant innovation and local adaptation (from one country to another the product line has different names: *Danonino*, *Danimals*, *Petits Gervais*). Its net sales at constant exchange rates and scope of consolidation increased by more than 4% in 2006, reaching nearly € 775 million. Furthermore, in 2004, *Petit Gervais aux Fruits* underwent an organoleptic renovation and nutritional adaptation. A series of studies was performed on children aged five to eight in the countries where this product is sold in order to identify consumer preferences. These studies were incorporated in the development of new flavors in each of these countries.

New Products. Danone is continuously involved in the introduction of new products while trying to develop, as quickly and widely as possible, a worldwide market for high-potential products. At the same time, Danone is continuously reviewing or relaunching some of its key existing products to better meet consumer demand in terms of recipes, formats or packaging. The dynamism of the segment is strongly linked to its capacity to deploy, extend and adapt global concepts very rapidly in numerous countries with its varied product lines.

In 2006, several launches confirmed the ability of this segment to innovate and adapt global concepts to the local market:

- In the United States, the Group successfully launched the *Activia* product line.
- In France and Spain, the Group launched *Senja*, a specialty soy product, 100% vegetable with no lactose or cholesterol.
- In Spain, the Group launched *Felices Suenos*, a bed-time yogurt for children, rich in calcium and made of lemon balm, a plant with calming effects.
- In Europe, the Group penetrated the market for organic products, in particular through the acquisition of an equity interest in the Irish company Glenisk and the launch in France of an organic product line under the name *Les 2 Vaches des Fermiers du Bio*.

In addition, in the beginning of 2007, the Group launched several products including *Danactive*, the local version of Actimel, throughout the United States and *Essensis*, a new line products to hydrate and nourish skin from the inside, in France, Italy, Spain and Belgium.

Market Trends. Overall, the market for fresh dairy products on a worldwide basis has grown steadily over the past several years. This market has grown continually in Western Europe, driven by the innovative and dynamic nature of health-oriented products. In the United States, the fresh dairy products market has increased over the past few years, making this product line one of the most dynamic in the country's food industry. Emerging markets have generally enjoyed favorable conditions, particularly in Argentina, Mexico and Brazil. Management believes that the introduction of new products, particularly health-oriented products, infant foods and drinkable versions, will allow Danone to continue to improve its market position. In addition, management believes that premiums often associated with innovative products will help raise the total value of the market for fresh dairy products.

Danone expects to see continued growth in demand for infant food in France, driven in part by trends toward increased consumption of convenience foods under the influence of new lifestyles and the success of new and innovative product lines that combine practicality and nutritional quality.

Beverages

Danone's beverage activities comprise natural water, "Aquadriks" (flavored natural water and tea beverages) and functional beverages. In 2006, net sales of beverages were € 3.9 billion, of which 37% were in Europe, 51% in Asia and 12% in the Rest of the World.

Danone is the second leading producer of packaged water in the world based on volume, with two of the five leading brands of bottled water in the world (*Evian* and *Volvic*) as well as the leading brand of packaged water in the world (*Aqua* in Indonesia). With approximately 19.5 billion liters of packaged water sold in 2006, Danone has a market share of approximately 10%. Danone is also the second-leading producer of packaged water in Europe, the leading producer of packaged water in Asia-Pacific and a major actor in Latin America.

Principal Markets and Brand Names. The Group maintains strong market shares in Western Europe, where there is a long tradition of consumption of still and sparkling bottled water. Danone's principal market for bottled water is France, where Danone has more than 21% of the national market in terms of volume, mainly through its *Evian*, *Volvic*, *Badoit*, *Salvetat* and *Arvie* brands. Danone is also the leading producer of bottled water in Spain, with over 21% of the Spanish market through its *Lanjarón*, *Font Vella* and *Fonter* brands. In the United Kingdom, where the still water market continues to experience strong growth, the Group has a leadership position with a market share of close to 28%, due to its *Evian* and *Volvic* brands. In Germany, the Group is the leader in the market for still water with a market share of approximately 21%. Furthermore, with the formation of The Danone Springs of Eden BV in 2003 with Eden Springs Ltd, the Group holds the number two position in the European HOD water market. In Denmark, the Group acquired in 2006 a 49% interest in Aqua d'Or, the leader in bottled still water in Denmark.

In Eastern Europe, Danone is the market leader in Poland, the largest market in the region, with its subsidiary Zywiec Zdroj and Polska Woda, a joint venture entered into in 2000 with the Italian group San Benedetto. Danone is present in Turkey through its subsidiary, Danone Hayat.

In North Africa and the Near and Middle East, the Group is present in Morocco, where it acquired in 2001, in collaboration with the Moroccan conglomerate ONA, a 30% interest in Sotherma, a leader in the bottled water market in Morocco. In addition, in 2006, the Group acquired the Algerian bottled water company Tessala, which has a bottling factory as well as the rights to use a spring of superior quality, rich in calcium and magnesium.

The Group is present in the United States in the premium bottled water market through its brand *Evian* which has been marketed by The Coca-Cola Company since July 2002. In 2005, the Group and The Coca-Cola

Company reached an agreement providing for the sale to The Coca-Cola Company of Danone's interest in CCDA Waters, a company formed in 2002 to sell the Group's bottled water products in the United States. After a strategic review of the prospects for the development of the local HOD market, the Group decided to disengage from this activity in the United States. In 2005, the Group sold the assets held by DS Water, LP to the Kelso investment fund.

In Canada, the Group occupies a strong position in the bottled water market, with its *Crystal Springs*, *Labrador*, *Naya* and *Evian* brand names. In 2006, the Group exited the HOD water market by selling its subsidiary Danone Waters of Canada.

In Latin America, Danone is the market leader in packaged water. The Group is the leader in the bottled water market in Mexico through its subsidiary Bonafont and holds a 50% interest in Aga Pureza, a major actor in the HOD water market. In 2004, the Group reinforced its presence in the large container water market in Mexico through the acquisition of Bonafont Garrafones y Servicios. Based on size, the Mexican bottled water market is one of the largest markets worldwide and the largest emerging market. The Group also has a leading position in the bottled water market in Argentina with the *Villa del Sur* and *Villavicencio* brands and is the market leader in Uruguay with the *Salus* brand.

In Asia, Danone is the clear leader in packaged water with a market share of approximately 20% in the region.

In China, the Group is the market leader with approximately 23% of the packaged water market where it sold approximately 3.6 billion liters in 2006, primarily under the *Wahaha* and *Robust* brands. The Group is also the market leader of dairy drinks in this country and is a major actor in the cola and ready-to-drink tea markets. In 2006, the Group reinforced its presence on the fruit juice market by acquiring a 22.18% interest in Hui Yuan Juice, the leader in China in fruit drinks with a market share of approximately 17%. In February 2007, the Group announced that in the context of the initial public offering of Hui Yuan Juice on the Hong Kong Stock Exchange, it would subscribe to the capital increase in order to maintain its percentage of ownership.

In Indonesia, the Group holds a 74% interest in Aqua, which is the clear leader in the country with more than 50% of the market. A significant part of its revenue is achieved through the sale of water in large containers. In 2006, the brand name *Aqua* had the leading position in the worldwide packaged water market with more than 5 billion liters of water sold.

In Japan, in September 2002, the Group entered an agreement with the Mitsubishi and Kirin Beverage Corp. group, one of the leaders in the Japanese beverage market, with the aim of accelerating growth of the *Volvic* brand in Japan and participating in the growth of the domestic segment of the market. The Group is the leader by value in the bottled water market in Japan and has a dominant position in the "premium" segment with its imported water brands *Volvic* and *Evian*.

New Products. Once again, innovations contributed significantly to growth in this segment, and the Group thus confirmed its ability to respond to the development of consumption trends.

In the natural water segment, the Group's objective is to make the health aspects of its products more visible to its consumers. In Mexico, the brand *Bonafont* focused its advertising on the elimination benefits of its spring water. Furthermore, with the goal of creating new consumption habits, new formats or packaging are introduced on a regular basis, such as the 50 cl *Evian* bottle launched in France in 2005, the 33 cl *Evian* bottle and the *Evian* mini-bar pack launched in France in 2006.

The "Aquadriks" segment (flavored water based on natural water and tea beverages), where sales have been particularly strong in recent years, expanded its range of product types and brands. In Mexico, the *Levite* brand, the flavored water launched in 2002, added a sugarless version in 2006. In France, Germany and the United Kingdom, the Group launched a line of sugarless flavored water in 2006. Due to its innovations, the Group holds approximately 50% of the flavored water market in France, notably the *Volvic* and *Taillefine* brands.

The functional beverage segment is another area of development for the Group. With the success of the *Ser* brand, which added new flavors in 2006, the Group is the leader in Argentina in diet beverages. In France, after a successful launch in 2005, the Group added new flavors and formats to the *Taillefine Fiz* line. This product line is now the second leading brand in the French diet beverage market. In addition, in 2006, the Group launched *Taillefine Thé* in France, where it occupies the second leading position in the tea beverage segment. In 2006, the Group also continued to deploy *V*, an energy drink containing vitamin B, as well as the *Vitalinea* line. In Asia, the Group continues to introduce *Mizone*, a functional beverage launched in Indonesia in 2005. The Group has also launched new products in this region, such as *Nutri-express* in China and *Just Juice Bubbles* in New Zealand.

Market Trends. Packaged water is one of the most dynamic segments of the world's food market due to consumption trends favoring safety and health. Despite already relatively high levels of per capita consumption, the European market, the largest in the world, continues to experience sustained growth. Outside Western Europe, the global trend in consumption of bottled water has shown a regular progression. Certain countries which already have a significant market, including China and Indonesia, are experiencing double-digit growth rates. The segment of water-based, slightly sweetened refreshment drinks is a growing market and flavored water is expected to represent a significant portion of the growth of the segment. Likewise, functional beverages are expected to be one of the areas of growth in the segment in the years to come.

Biscuits and Cereal Products

With net sales in 2006 of approximately € 2.2 billion, representing approximately 0.9 million metric tons, Danone is the world's second-leading producer of biscuits and cereal products. Danone's biscuit products include cookies, which represent more than half of the segment's net sales, as well as savory snacks, crispbreads and crackers, and packaged cakes. The segment retains a strong potential with, in certain regions, rates of growth higher than the average for other food segments.

Principal Markets and Brand Names. In 2006, sales in Europe accounted for 80% of biscuit and cereal products net sales and sales in Asia accounted for 20%.

Danone's main product lines are marketed under the *LU* brand name, which accounts for more than 50% of the segment's net sales and which has a dominant position in Western Europe. The *Danone* brand name is used in Asia, especially in China and Indonesia. The Group also has various local brands worldwide resulting from the business acquisitions carried out by the Group over the past 15 years.

In Western Europe, Danone is the market leader and has strong leading positions in France, the Benelux countries, Greece and Finland. In Italy and Spain, the Group is number two in the market. The Group is no longer present in the United Kingdom and Ireland following the disposal in 2004 of its biscuits businesses in these countries.

In Eastern Europe, Danone is the clear market leader with a strong position in Russia, Poland, Hungary, the Czech Republic and Slovakia.

In Latin America, in April 2004, the Group and the Arcor group signed an agreement aimed at merging their biscuits businesses in South America, thus forming the leading player in the market in that region. Bagley LatinoAmerica, the newly formed company to which the Group transferred the biscuits activities of Danone Argentine and Danone Brazil in January 2005, is 49% held by the Group.

In the Africa / Middle East region, the Group is present in Algeria, where in 2005 it created Danone Biscuits Algeria, in Tunisia through its 49% interest in Sotubi and in Morocco through its 50% interest in Bimo.

In the Asia-Pacific region, Danone is the market leader for biscuits and cereal products. One of the Group's objectives in this segment is to develop nutritional products that are affordable to everyone. In order to achieve

this objective, the Group is striving to develop product formats that are adapted to the budget of the average consumer. Danone has very strong positions in China and India, two of the top three largest biscuit and cereal product markets in the world in terms of volumes consumed. In the biscuits and cereal products segment, *Danone* is the leading brand in China and *Britannia* is the leading brand in India. Danone also has leading positions in Malaysia. In Indonesia, the Group continues to develop its activities in the biscuit market under the *Danone* brand name. In 2006, the Group discontinued its biscuits activities in New Zealand after the sale of Griffins Foods.

New Products. Danone's strategy for innovation tends to emphasize the nutritional qualities of biscuits, the establishment of additional eating times throughout the day and the promotion of affordable products in the segment, especially in the Asia-Pacific region. Furthermore, since 2004, the strategy for the segment in Europe mainly consisted of renewing certain existing products, with the goal of improving quality and taste in order to differentiate them from competing brands. This strategy depends mainly on enriching the cereal content of its products and reducing the amount of sugar and fat, as well as developing complete cereal products.

The breakfast product line ("*Petit Déjeuner*"), which continues to be deployed across Europe, experienced strong growth in 2006 while adding new versions. This line targets breakfast, a mealtime during which the consumption of biscuits remains minor. The biscuits of this line take advantage of the concept of "Long Lasting Energy" ("*Energie à Diffusion Progressive*") developed by Danone Research, which has been validated by international experts. The research and development teams of the Group have been able to show that certain complex sugars in cereals are digested slowly and over an optimal length of time release the necessary sugars for the healthy functioning of the body and brain. This nutritional advantage, the result of an original combination and formulation of the biscuit, including preparation and cooking, has been included in the *Prince Petit Déjeuner* line, targeted at the youth market, as well as the *LU Petit Déjeuner*, its equivalent for adults. Launched successfully in France, the line has also been developed in Belgium, Holland, Italy and Spain, and for the past few years has expanded into Hungary, Russia, Poland and the Czech Republic. In 2004 and 2005, the segment expanded its *Petit Déjeuner* line with the launch of its first low-fat cookie product and a product line rich in cereals (*Fruit & Fibres* and *Brut de Céréales*).

In 2006, the segment continued its policy of expanding its product lines, in particular with the launch of *Mini Ourson* as well as the launch of new flavors in the savory product line *Tuc* and in the *Mikado* product line.

Finally, since 2004, the segment has been reinforcing its strategy of offering nutritional products accessible to everyone. After the success of *Biskuat* in Indonesia, the segment launched *Ja Gai* in China, a nutritionally enriched product, primarily in calcium, at a price of € 0.15.

Nutrition and Health

The Group's strategy depends on the development of products with a strong nutrition and health component. The Group believes that nutrition plays an important formative role in health and well-being. This conviction has been reaffirmed year after year and inspired Danone's Food, Health and Nutrition Charter, which was published in March 2005. This charter reaffirms the five convictions and nine commitments of the Group in nutrition and health. The nine commitments include the application of research to nutrition and health, dialogue with scientists, sharing of knowledge with the scientific world and health professionals and informing consumers, primarily through nutritional labeling of products.

Research and Development

Danone's overall research and development objective is to contribute to the Group's profitable growth by:

- ensuring uncompromising food safety;
- contributing to the development of products to better respond to consumers' expectations in terms of health, nutritional value, taste or practicality; and
- designing innovative production processes in line with the Group's cost reduction policy.

In 2000, Danone significantly revised its research and development policy to transform it into a major competitive advantage of the Group. To increase efficiency, speed and communication within the Group, the research and development teams have been grouped together in one global multidisciplinary center, Danone Vitapole Daniel Carasso (recently renamed the Danone Research Center Daniel Carasso), incorporating the three main business lines, and research has been refocused on a limited number of strategic projects. This center, located in the Paris region, has been operational since mid-2002 and employs approximately 550 researchers, engineers and technicians, supported by 250 people throughout the world. Also, as part of its strategy aimed at further accelerating growth in the functional food and beverage market, in the beginning of 2004 the Group concluded an agreement with Yakult Honsha, the world leader in the market for probiotics. As part of this agreement, a liaison office was created between the Group and Yakult for facilitating joint projects, particularly in the areas of research and development. Finally, in 2005, the Group opened a new research center in Shanghai. The purpose of this center is to develop products that deliver the nutrition and health benefits needed locally and that are adapted to the tastes of Asian consumers, in particular, Chinese, Indonesians and Indians. It will thus allow the Group to introduce its leading brands and concepts by adapting them to local specificities, in terms of ingredients as well as texture and taste. The opening of this center reflects the Group's objective of developing its activities in Asia, and particularly to increase its position in the fresh dairy products market. The center complements the research and development activities of the Group in Asia, which already includes three entities: a center in Shanghai dedicated to the biscuits business and two centers dedicated to beverages for China.

In order to conduct basic research related to nutrition, flavor and food processing and preservation, Danone regularly collaborates with outside entities such as universities and specialized public research centers. The Group benefits from the expertise of external scientific committees on strategic themes, such as the committee of experts on probiotics or the Evian Center for Water. Furthermore, the Group maintains permanent relations with the scientific community in order to better understand nutrition issues and to stay informed of the latest developments in research. This permanent dialogue with scientists as well as the support of research constitute two of the commitments made by the Group in its Food, Health and Nutrition Charter.

Danone has also established an international prize to reward research in nutrition or major contributions to public health. Product development and improvement is the responsibility of the Group's research and development teams, which apply the results of both internal and outside research. Furthermore, the sixteen Danone Institutes worldwide contribute to public awareness regarding nutrition through their activities for the benefit of professionals in the field of nutrition and have launched several projects for researchers and practitioners. In 2005, the Group formed a partnership to last a minimum of four years with the Pasteur Institute in order to improve understanding of the mechanism of action of probiotics. In 2005, the Group also participated in the 18th International Congress of Nutrition in South Africa. Through its participation in this event, which takes place every four years, the Group reaffirmed its willingness to build a permanent relationship with the scientific community and to participate in the progress of science by developing initiatives in the fields of nutrition and health. Finally, in 2006, the Group participated in the fourth Probiotics Convention, which took place in Paris with the objective of studying the latest scientific advances in the area of probiotics with distinguished experts from around the world.

In 2006, Danone spent € 126 million (€ 123 million in 2005 and € 129 million in 2004) on research and development, representing close to 1% of total net sales.

Purchasing

The Group's principal raw material needs consist of (i) materials needed to produce Danone's food and beverage products, primarily including milk, fruits, flour, sugar, cocoa and fats or, collectively, food raw materials and (ii) materials needed for packaging its products, primarily plastics and cardboard or, collectively, packaging raw materials. Energy supplies represent a smaller portion of the Group's purchases. See "Item 3. Key Information—Risk Factors—Price increases and shortages of food and packaging raw materials could adversely affect the Group's results of operations."

Food Raw Materials. Milk represents the most important food raw material for the Group in terms of cost. In the countries where Danone requires milk for the production of its dairy products, the Company's operating subsidiaries generally enter into contracts with individual local milk producers or dairy cooperatives. In Europe, the price of milk is essentially fixed by the European Union or supported by various national governments through quotas and customs charges such that only a small portion of purchases is directly subject to fluctuations in the worldwide market. In 2006, milk prices remained relatively stable globally. Purchasing of other food raw materials, mainly fruit mixtures, sugar, cocoa, flour and vegetable oils, is managed through global or regional purchasing programs, allowing for synergies in terms of volumes and skills. Purchases of sugar, which underwent a strong price increase in Asia in 2006, and cocoa are closely monitored because the market structure for these products is highly concentrated, with a small number of intermediaries controlling a substantial portion of total supply.

Packaging Raw Materials. The Group also manages its purchases of packaging raw materials through global or regional programs in order to optimize shared knowledge and volume effects. Factors that influence the pricing of packaging materials include international and regional supply and demand, economic cycles, installed production capacities and oil prices. The price of PET and plastics, which are among the most significant packaging raw materials purchased by the Group, varied widely in Europe and Asia between 2004 and 2006, mainly due to the fluctuation in the price of oil. The other significant raw materials used for packaging (such as cardboard) did not experience significant change in prices at the Group level during the last few years.

Organizational Systems and Information Technology

In 2004, the Group established an information systems organization which allows the optimization and rationalization of information technology investments while taking advantage of global synergies.

Project Themis

For several years, the Group has been in the process of implementing an integrated information system (Themis) through an SAP framework. The years 2005 and 2006 were marked by significant deployments in the beverages segment, primarily in England, France and Spain, as well as in the fresh dairy products segment in Portugal, England, Ireland, Hungary and Mexico. In 2006, 64% of worldwide sales are from subsidiaries that have implemented Themis.

With the continued deployment of Themis, new projects are being studied in other operational areas, such as the management of warehouses and inventories or the management of industrial maintenance. These extensions are expected to be implemented in pilot sites in 2006 and 2007 (the United States for warehouse management, France and Germany for industrial maintenance) and will subsequently be deployed in the other subsidiaries of the Group. In addition, in 2006, functional extensions were completed for the processes of managing proximity orders and production planning, in particular, scheduling under production line constraints. These two significant extensions were successfully implemented in the context of the deployment of Themis in Mexico and will be implemented in future deployments, in particular in Russia.

Finally, after a pilot phase in three plants (Biscuits in the Czech Republic, Beverages in France and Fresh Dairy Products in Poland), the ISIS project of managing industrial performance has entered the deployment phase at various industrial sites of the Group, in particular in France, Russia, Poland and the United States.

Research and Development

In research and development, speed of conception and bringing a product to market as well as ensuring its launch are important factors of success. The establishment of the *Artemis* system allows research teams to accelerate the phases of conception and to ensure product launches, offering in one device all of the nutritional and food safety information related to the ingredients used by Danone, as well as a tool to aid in product

formulation. Its deployment began in 2005, continued in 2006 in the European subsidiaries in the fresh dairy products and biscuits segments and will continue in 2007 in North America, Mexico, Russia and in Southern Europe.

Supply Chain

For several years, the Group has been optimizing its purchases and supply chain, with the goal of improving upstream efficiency as well as collaboration with its suppliers. This effort was made concurrently with the formation of CPG Market in 2000 with Nestlé, Henkel and SAP. CPG Market was sold to Accenture at the end of 2004. It offers to suppliers and purchasers a range of technological solutions, such as electronic quotes and online bids (eSourcing) as well as a transactional platform for exchanging EDI messages for online transfer of documents, from ordering to invoicing (eSupply Chain). At the end of 2006, more than 270 supplier-purchaser links were established. This program will be extended in 2007 and 2008 to all of the Group's subsidiaries in Europe and North America, over 50 industrials sites.

Sales and Marketing

In sales and marketing, various projects achieved in 2005 allowed the Group to develop its knowledge in order to ensure improved performance for its customers, in particular:

- the creation of Internet sites allowing the sharing of information about the Group's products—www.danonefoodservice.com;
- the creation of a marketing database allowing collaborative work among the agencies, the creators of the product and the marketing teams; and
- the deployment of a business control system at points of sale in several major markets.

Intellectual Property

The Group owns rights to trademarks, brand names, models and copyrights throughout the world. The territorial extent of protection depends on the significance of the product concerned. The Group has established a chart of its intellectual property and regularly updates and revises its portfolio of products and corresponding rights for each of its subsidiaries in order to monitor the protection of its brand names.

The Group is also the owner of patents, licenses and proprietary recipes, as well as substantial know-how and technologies related to its products and the processes for their production, the packages used for its products and the design and exploitation of various processes and equipment used in its business.

Such trademarks, brand names, models, copyrights, licenses, patents, proprietary recipes and know-how, which are held by the Company and several entities throughout the Group, represent major assets for Danone. The Group is committed to taking appropriate legal steps to protect and exploit such intellectual and industrial property. See "Item 3. Key Information—Risk Factors—The Group may not be able to adequately protect its intellectual property rights."

Risk Management Policy

The Group maintains an active risk management policy to preserve the investment of shareholders and the interests of employees, consumers and the environment. The policy is based upon identification and control of risks in conjunction with a global policy of insuring goods and potential liabilities.

Since 2002, the Group has had in place a global risk identification policy (with a specific application called "Vestalis") that charts major operational risks and allows the classification of problems in terms of the risks' frequency of occurrence and their financial impact on the Group. Vestalis has been deployed or is in the process

of being deployed in 75 of the Group's subsidiaries, which represents approximately 92% of the Group's net sales in 2006. This chart allows the identification of risks and weaknesses in the entire process, to group or prioritize them by country or business segment and to define preventive and corrective actions, which may be local or global, as applicable.

The most significant risks are reviewed once a year by the management of the three business segments and a general review is performed by the Group's management and the Audit Committee.

The Group has a global insurance policy based on stringent technical evaluations using worldwide available insurance products based on their availability and local regulations. The insurance policy for risk is uniform for all of the subsidiaries over which the Company has direct or indirect operational control.

In addition, in order to optimize its insurance expenses and maintain a strong level of control over its risks, the Group self-insures through its reinsurance subsidiary Danone Ré, a company consolidated in the Group's financial statements. The self-insurance policy covers certain risks whose costs can be accurately estimated as the Group is aware of their frequency and their financial impact. Such risks relate essentially to (i) coverage for damage to goods, transport, operating losses and civil liability for the majority of the Group's companies and (ii) payments for disabilities, training and death for the French subsidiaries. These self-insurance programs are limited to accidents under € 7.5 million per accident. Moreover, "stop-loss" insurance protects Danone Ré against an increased frequency of accidents and loss. These self-insurance programs are managed by professional insurers and the provisions recorded in the financial statements are determined by independent actuaries.

Customers, Distribution and Marketing

Customers

While end consumers of Danone products are individual retail customers, the principal portion of Danone's sales are to major retail and grocery chains. The retail industry has become increasingly concentrated over the past several years. In many markets, the Group's three largest clients represent a significant portion of net sales. This concentration, particularly advanced in Europe, is expected to increase in North America and in emerging countries. In 2006, the Group's 10 largest customers worldwide, of which six are French retail groups, accounted in the aggregate for approximately 28% of total consolidated net sales. Danone's largest client alone, Carrefour, accounted for approximately 8% of consolidated net sales in 2006.

The Group has global partnership agreements with major retailers. These partnership agreements contain, in particular, provisions concerning geographic expansion policy, logistical collaboration or management of food safety. However, they typically exclude pricing terms, which remain within the responsibility of the Group's subsidiaries.

In recent years, certain European retail chains have rapidly expanded internationally. The Group has benefited from this expansion by using existing commercial relationships to introduce its products in certain international markets and therefore accelerate its own geographic expansion as well as the international development of its brands. In these new areas, most large retail chains seek to develop the marketing of brand name quality products as their means of growth and profitability.

Distribution

Although distribution policies vary among different countries due to local characteristics, the Group has two major distribution policies: on the one hand, the flow of products towards major retailers, and on the other hand, the flow designated for traditional market outlets.

In emerging countries, particularly in Asia and Latin America, a large portion of Danone's sales is made through traditional market outlets or through smaller distribution networks that are most often controlled by the

Group. A strong distribution structure is a competitive factor in those countries in which traditional businesses and independent supermarkets still represent a significant share of food sales. In Latin America, a significant amount of sales of fresh dairy products are made through local networks. In Argentina for example, the Group benefits from a distribution network which enables delivery to over 75,000 sales points through a fleet of 1,000 trucks. Similarly, in Indonesia, the beverages subsidiary Aqua has built a distribution network by signing agreements with 70 exclusive distributors, who account for 80% of deliveries. This amounts to a total of 10,000 trucks stamped with the *Aqua* name, circulating in Indonesia every day to supply 1.3 million points of sale.

In recent years, the Group has built leadership positions in the market for water in large containers in Latin America, Asia and, more recently, in Europe. This business requires a direct relationship with the consumers (for example, Home and Office Delivery (“HOD”) in Europe) or through franchised retail shops (for example, Robust in China).

The Group follows an active policy of streamlining its logistics flows in order to increase quality of service while reducing costs. This policy is based on an ongoing assessment of the Group’s organizational models, especially outsourcing its distribution in collaboration with specialized distributors.

The Group has undertaken several initiatives, working closely with its mass retailers to accelerate the development of its product categories, to optimize the flow of products and the inventory levels of its customers. These include efficient consumer response, or ECR, which, in addition to achieving stock management, automatic stock replenishments and just-in-time delivery, is used to coordinate stock levels between the stores, the client’s warehouses and Danone’s warehouses. ECR is also used to work with distributors to better manage consumer demand and expectations. Danone also works with its customers to develop marketing concepts to enhance its customers’ sales, such as joint promotions for specific events.

Marketing

The Group’s advertising and promotional policies constitutes a key element in the success of its overall strategy based on innovation, brand recognition and market leadership. The Group engages significant resources to ensure the success of its advertising and promotional strategy, and management expects advertising costs, in relation to net sales, to remain at least at the same level in the future.

For several years, the Group has been following a policy of resource optimization by focusing on a few brands in order to maximize efficiency. Accordingly, more and more products have been introduced under leading brand names such as *Danone* or *Taillefine/Vitalinea*, currently used for fresh dairy products, beverages and biscuits and cereal products. In addition, the fresh dairy products segment has developed four blockbuster product lines, the *Actimel*, *Activia*, *Danonino* and *Vitalinea* lines, which are progressively being marketed in all of the countries where the Group is present. Finally, each subsidiary annually conducts a segmentation study of its brand portfolio using internal methods in order to optimize the allocation of advertising budgets.

Danone’s operating companies in each business line and geographic market are responsible for developing their own advertising, promotional and sales strategies adapted to local consumer patterns. The Group maintains a decentralized marketing and sales structure in order to provide its operating companies with the proximity and flexibility necessary to respond and adapt to a broad and changing variety of market conditions. In order to ensure (i) coherence of retailing strategies within the Group, (ii) an optimal sharing of marketing know-how and (iii) an optimization of promotional costs, the Group has a director in charge of coordinating commercial retail strategies and initiatives as well as a policy of ensuring that strategic principles and initiatives extend across product lines and geographic areas.

The Group believes that direct marketing, which aims at creating direct contact with consumers, will continue to develop rapidly. This strategy, in France, is oriented around a centralized database, which contains approximately four million French households and which allows the Group to regularly communicate with its consumers through personalized mailing campaigns that are adapted to consumer profiles. In January 2006, this

marketing initiative was renewed with the launch of “*Danone et vous*.” This new communication method aims to supply consumers with more information, advice and transparency on their food products. This program includes, notably, an annual guide devoted to nutrition and health and a *Danone et vous* magazine focused on families with children, as well as a dedicated Internet site.

Food Safety and Quality Management

Food Safety

Food safety is a paramount consideration for Danone. Over the last several years, the Group has implemented a voluntary policy of risk identification and control. The implementation of this policy involves the Group’s Quality Department, the Food Safety Center (CSA), the Divisional Quality Departments and the subsidiaries. In 2004, the food safety policy was redefined in internal documents, called directives. These directives govern fundamental aspects of food safety, in particular, traceability, risk analysis, allergens and biosafety. Risk management is the responsibility of the CSA. In cooperation with the business segments, the CSA works on the identification and classification of risks according to their magnitude and frequency of occurrence. Risks are classified in four categories: microbiological, chemical, physical or allergenic. The goal is to control the risks in the Group as well as in suppliers. The Group strives to continually improve control over its supply chain by (i) gaining complete knowledge of the raw materials it purchases, (ii) rigorously monitoring the chain of distribution, (iii) developing a more efficient upstream tracing system and (iv) controlling the production processes (by defining and implementing rules relating to hygiene and production, methods based on international standards and control of critical points). For certain risks, such as pesticides and heavy metals, the Group has implemented monitoring programs, while for others, such as risks of allergies, the Group imposes preventive measures for all its subsidiaries that go beyond regulatory requirements. Danone’s policy also includes the implementation of rigorous procedures for crisis management, in particular, the creation of a dedicated crisis management center with connections to the subsidiaries’ centers, in order to guarantee consumer safety while maintaining the reputation of its brands. In addition, the Group uses tracing tools in order to enable the Group to identify for a given lot of products, the origin of raw materials used, the procedures followed, the controls carried out and the customers to whom the products were sold. Furthermore, the Group periodically evaluates the level of control over all the risks to which the Group’s businesses are exposed.

Beyond risks that are scientifically established, the Group remains particularly committed to keeping up-to-date on risks perceived by the consumer, such as genetically modified organisms and the risks of obesity. To this end, the Group has developed a network of privileged advisors, including consumer associations that discuss and attempt to clarify topics that are of common concern through various formal and informal forums.

Quality Management

The Group considers quality to be a managerial responsibility that is rooted in understanding consumers and customers as well as in the pursuit of performance. The Group has made quality a determining factor for all of its processes, businesses and activities. The quality management policy has three main components: (i) the identification, evaluation and control of food safety risks at each stage from the procurement of raw materials through the consumption of products, (ii) the improvement of all processes and (iii) monitoring the quality perceived by consumers. This quality policy is based on monitoring product performance through internal and consumer testing. In addition, external audits are performed to assess the manufacturing process and hygiene. In the water segment, for example, this process of verification goes from the original water supply all the way to the actual dispatch of the products for sale.

Quality management teams oversee quality systems and their implementation at each of Danone’s operating subsidiaries. They are specifically dedicated to: (i) the development of new products through organoleptic tests performed internally and by consumers, allowing a clear vision of the products on the market as well as how the Group responds to consumers’ needs; (ii) teaching skills to employees in quality control departments through

specific training programs allowing for experience sharing and transfer of best practices between different subsidiaries; and (iii) developing quality control systems in each subsidiary. The Group is accordingly engaged in a process of evolution of the certification of its industrial sites toward Danone's reference system, built on the ISO 22000 standard. This reference system will allow the Group to have a single instrument of quality management and will also facilitate the alignment of all of its action plans towards achieving the objectives defined by the Group.

Industrial Risk Management

The safety of the Group's industrial sites, its employees and people living at the sites' boundaries is a key priority for the industrial policy of the Group. The Group's critical industrial sites are relatively little exposed to major natural disasters (floods, earthquakes and cyclones). These risks are evaluated in advance of each major installation, and new industrial installations are designed with all applicable safety standards. However, the Group's international development makes it necessary for the Group to set up businesses in areas that are occasionally exposed to earthquakes (Japan, Indonesia, Turkey, Mexico and Algeria).

The Group's industrial activities do not intrinsically expose it to particular risks compared to other industries. The management of fire and explosion risk remains a major concern of the Group's three segments.

In order to reinforce its risk management, the Group has put in place procedures to evaluate the level of safety at its industrial sites. These evaluations are made by independent auditors and enable operational units to define and implement customized prevention and protection policies. These procedures are based on international standards that most often go beyond local standards. Furthermore, they allow an exhaustive inventory of the various potential industrial risks and are also applicable to partnerships with the Group's most significant suppliers.

In 2006, 130 of these safety audits were conducted by independent entities, which assigned a rating from 1 to 5 for each audited site. The average rating for the sites was 4.19 in 2006, compared to 4.00 in 2005, 3.94 in 2004 and 1.74 in 1994, marking a strong improvement in safety conditions since the establishment of this preventative system. In addition, 54 sites had a rating of 5, authorizing them to obtain the RHP certificate (Highly Protected Risks).

Regulatory and Environmental Matters

Regulatory Matters

The Group's activities are subject to numerous laws and regulations, which are becoming more and more stringent and are constantly evolving. These laws and regulations relate principally to water, air, noise, the use of natural resources and waste. These activities are subject to obtaining authorizations and making filings under French legislation with respect to the protection of the environment and equivalent regulations in other countries. Packaging is subject to specific regulations, in particular European Directive 94/62, amended in 2004, relating to packaging and packaging waste, reduction at the source, reduction of the toxicity of hazardous substances and recycling and recovery. In addition, the Group's activities are subject to the European Directive of 2003 establishing an exchange system and quotas for greenhouse gas emissions, and, since 2005, the transpositions of the National Allocation Plans for quotas in the European Union. Four of the Group's 67 sites in the European Union are subject to quotas, while the other sites are below the minimum eligibility threshold.

The principal potential risks relating to the environment are (i) water pollution (essentially organic and biodegradable pollution), (ii) risks related to refrigerating installations (ammonia and other refrigerating liquids), and (iii) risks related to the storage of raw materials (flour and sugar silos) or products for the cleaning and disinfection of the Group's plants (acid or alkaline products), especially when these installations are located in inhabited areas. Nevertheless, the Group believes that, in light of its activities, its direct negative impact on the environment is limited.

Environmental Policy

The Group's environmental policy aims to respond to the growing concerns of many different parties, especially consumers, about the environmental impact of industrial sites and products. In 1996, the Company's management established the basic principles of the Group's commitment to environmental protection through the adoption of an environmental charter which applies to each of Danone's facilities and divisions (research and development, purchasing, marketing, production, logistics and headquarters) in all the countries where the Group operates. The charter aims to create a system of systematic accountability and protection of the environment at every step of production, from design to delivery of the final product, and encourages the participation of all employees. In addition, since 1991, the Group has had an environmental department to define and coordinate the application of its environmental policy in collaboration with a network of more than 70 correspondents throughout the world. This policy focuses on four principal areas: industrial activity, packaging, water conservation and agriculture issues.

Industrial Activity

The application of the Group's environmental policy in its facilities involves three areas: ensuring compliance with regulations, which is linked with control of environmental risks, reduction of water and energy consumption and of waste production through its "Green Plants" ("*usines sobres*") program and, finally, ISO 14001 certification of the Company's sites.

Regulatory Compliance and Risk Management

To ensure regulatory compliance and reinforce risk management, the Group implemented in 2000 a program for the audit of its production facilities by a specialized company. At the end of 2006, most of the facilities had been audited, with the exception of recently acquired facilities. The analysis covers multiple criteria such as operating licenses, water supplies, outflow, atmospheric emissions, storage of raw materials, refrigerating installations, energy, noise and environment, soil and waste management. The conclusions of the analysis lead to recommendations for the development of quantified and prioritized plans. Since 2006, the facilities have been audited and evaluated on the basis of a common reference, "Green," which was developed for Danone by a specialized firm and goes beyond regulatory requirements to incorporate the Group's own priorities. The Group believes that these audit results and the actions taken indicate that no major risks are present that would have a serious detrimental effect on the environment.

Decrease in the Consumption of Natural Resources

Since 1995, the Group's "Green Plants" program has aimed at reducing the consumption of water and energy and reducing the production of waste material. This program corresponds to the Group's desire to promote an economic and sustainable business model, limiting plants to using only the resources absolutely necessary for the plant's activities. Targets were fixed in September 2001 by the Group's executive committee for the reduction of the ratios for the consumption of water and energy between 2000 and 2010: 30% for the consumption of water and thermal energy and 20% for total energy (thermal and electric). These reductions constitute a significant response from the Group to the necessity of reducing the emission of gases causing the greenhouse effect. Between 2000 and 2006, the average ratios of the Group decreased by 19% for total water used per ton produced, 31% for thermal energy per ton produced and 26% for total energy per ton produced. Furthermore, in 2006, the rate of waste recycling was approximately 81%.

Environmental Management

The Group has implemented an environmental management program enabling it to ensure that all of its sites integrate environmental consciousness into plant activities. At December 31, 2006, 90 sites (industrial sites, corporate headquarters and research centers) had ISO 14001 certifications, amounting to approximately 48% of

the Group's sites. In the event of an environmental accident, there are procedures in place in each of the plants and sites to manage the situation and minimize the consequences of such an accident. A guide to the management of environmental emergencies was distributed to each plant at the beginning of 2001 and is updated annually.

Packaging

Management believes that environmental consciousness in the packaging of the Group's products can play a large role in the protection of the environment. Since 1992, Danone has been involved in "*Eco-Emballages*," an organization targeted at developing the collection and recycling of packaging in France. In 23 countries, Danone has actively participated in reducing packaging waste through "*Point Vert*"-type organizations. Danone also strives to reduce packaging waste at the source by slightly lightening its packaging materials. The Group has set a target of reducing the weight of its packaging by 10% over ten years. In 2006, 25 subsidiaries tracked the packaging/product weight ratio for their ten most significant products. Danone established a network of contact people who are dedicated to educate and train various interested parties in product development and marketing, in particular through the publication of a manual on ecological packaging and a tool to assess the impact of activities on the environment.

Protection of Water Resources

In 1998, the Group and in particular the beverages division joined the 1971 *Ramsar Convention on Wetlands* to implement awareness campaigns, training and information relating to the preservation and use of wetlands. The Ramsar Convention signed in 1971 consists of 138 countries that agreed to policies favoring wetlands, marshes, peatland and other natural water retention sites in the plains or highlands, which filter rainwater and supply the water tables. These zones are fundamental for the conservation of water and water quality. In 2002, following a Group initiative, the Danone–Evian Fund was created to support projects for the protection and sustainable management of water and water quality. The fund, which has a budget of € 1 million, is managed by the Ramsar Convention with the help of a local French not-for-profit organization for the defense of coastlines.

For example, the Evian spring has special protection. The recognized catchment area where Evian natural spring water begins covers over 34 square kilometers at an average altitude of 850 meters. Eighty-five percent of this pristine catchment area is covered by forests, natural meadows and marshes. Human presence is limited to a few villages and family farms principally making cheese. *Société des Eaux Minérales d'Evian* joined with the French government in 1992 to found the *Association pour la Protection de l'Impluvium des Eaux Minérales d'Evian* (APIEME). This organization seeks to protect the Evian natural spring water catchment area by expanding the sewer system, experimenting with more environmentally friendly farming practices and bringing livestock housing into regulatory compliance.

In 2004, the Group performed a complete inventory of the 78 springs that it uses, their risks and their level of protection. In 2005, the Group deployed a tool allowing it to more precisely identify the actions required to ensure the long-term preservation of these springs and their environment. In addition, the Group promotes sharing best practices among those responsible for the management of these springs.

Agriculture

Most of the Group's raw materials are agricultural products. In order to protect the environment without diminishing the quality of its products, the Group encourages farmers to adopt farming methods that are more environmentally friendly than traditional methods. The Group has also developed a business based on organic agriculture, through its U.S. subsidiary Stonyfield Farm and, since 2006, its subsidiary Stonyfield Europe. The Group implemented pilot operations for its cereal, dairy farm and fresh produce suppliers to develop methods for limiting the use of fertilizer and phyto-sanitary products to a strict minimum, without negatively affecting competitiveness of its operations.

The Group is progressively expanding this method through the farms that supply its plants. Since 2002, the Group has been participating with Nestlé and Unilever in a program called the “Sustainable Agriculture Initiative” (“SAI”). This initiative comprises sharing experiences in sustainable agriculture with other industrial businesses in cooperation with farmers and consumers, first in Europe and then throughout the world. Sustainable agriculture, as defined in SAI, is a broader concept than integrated agriculture, as it includes the consumption of natural resources (such as energy sources) and the economic and social impact of operations on local communities. In 2003, the SAI established sustainable agriculture practices for the production of cereal and milk in Europe. In 2004, all of the Group’s milk producers were audited according to internal standards regarding food quality, traceability and security. Since 2005, these audits have also covered environmental aspects.

Training and Employee Information

The Group attempts to increase the environmental awareness of its employees through various informational tools. Each year, approximately 15,000 employees attend environmental awareness sessions. In addition, a specific training program for the protection of the environment and plant assets is offered to all industrial engineers. Since 2000, an Intranet site has enabled the dissemination of information relating to the environment, the Group’s environmental policy and sharing experience. The environmental department also has tools for the dissemination of such information and in 2006 established a worldwide network of 72 environmental coordinators in Europe, South America and China.

Environmental Expense and Investment

Investments for the protection of the environment amounted to approximately € 25 million (approximately 3.6% of the Group’s total industrial investments) in 2006 of which 28% were for air (reduction of greenhouse gases, treatment of odors, smoke and noise), 24% were for water (water treatment, purification stations, economies of consumption), 21% were for waste (improving collection, storage, sorting) and 13% were for energy (economies of consumption, conversion to cleaner energy sources).

Expenses related to the environment amounted to approximately € 103 million in 2006. They included expenses of € 39 million for the management of water, energy and waste and taxes other than packaging charges. The latter amounted to € 64 million in 2006. In addition, the fines, penalties and damages paid to third parties in connection with environmental issues were less than € 0.2 million in 2006. No significant provision for risks or expenses related to the environment is included in the Consolidated Financial Statements as of December 31, 2006.

Competition

Competitors in Danone’s core businesses include other large international food and beverage groups, such as Nestlé, Kraft, PepsiCo. and The Coca-Cola Company, as well as smaller companies with focused markets or product lines and food retailing chains offering generic or private label products. The food and beverage sector is highly competitive due to the large number of national and international competitors. Management believes that Danone’s strategy to maintain and improve its profitability is based on the quality, convenience and innovative aspects of Danone’s products and the strong image associated with its brands in the important areas of health, nutrition and food safety. Management believes that success in this industry is achieved through strong local market positions, and therefore the Group seeks to be the market leader in each country where it operates. This strategy allows for a long-lasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability.

Because Danone’s markets in Western Europe tend to be relatively mature, competition for market share is particularly intense. Danone’s strategy, complemented by a strong advertising component focusing on certain brands, is to differentiate itself from its competitors by marketing innovative, value-added products that respond to a growing consumer demand for health-oriented/well-being food products. This effort is reinforced by significant advertising based on a portfolio of concentrated brands.

In North America, the food and beverage markets are relatively mature and competition is intense. In competition with other large food and beverage groups, Danone has based its strategy on its experience of the management of value-added, health-oriented products and its ability to market locally its diverse global product lines.

In the Rest of the World, essentially in emerging countries, competition in the Group's three business lines is high. This is due to the presence of local competitors who usually market products at very low prices, and also due to the efforts of international competitors to penetrate or increase their activities in these high potential markets. Danone's strategy consists of targeting these areas by marketing quality products that emphasize health and safety and are accessible to the greatest number of consumers.

Organizational Structure

The table below presents a list of the Company's principal operational subsidiaries by business line, including name, country of incorporation or residence and proportion of Danone's direct and indirect ownership interest at December 31, 2006.

| FRESH DAIRY PRODUCTS | | BEVERAGES | | BISCUITS AND CEREAL PRODUCTS | |
|---------------------------------|--|---|-----------------------------|--|---|
| EUROPE | UKRAINE | EUROPE | AFRICA AND THE MIDDLE EAST | EUROPE | AFRICA AND THE MIDDLE EAST |
| | Danone 100% | | | | |
| AUSTRIA | Rodich 100% | BELGIUM | ALGERIA | BELGIUM | ALGERIA |
| Danone Ges.mbh 100% | UNITED KINGDOM | Danone Waters Beverage Benelux 100% | Tessala 100% | LU Belgie 100% | Danone Biscuits 51% |
| BELGIUM | Danone Ltd 100% | DENMARK | MOROCCO | CZECH REPUBLIC | EGYPT |
| N.V. Danone S.A. 100% | | Aqua d'Or 49% | Sotherma 30% | Opavia LU 100% | Danone Mashreq 100% |
| BULGARIA | AMERICAS | FRANCE | ASIA | FINLAND | MOROCCO |
| Danone Serdika 100% | ARGENTINA | Evian (SAEME) 100% | AUSTRALIA | LU Suomi 100% | Bimo 50% |
| CZECH REPUBLIC | Danone Argentina S.A. 99.45% | Mont Roucoux 100% | Frucor Beverages 100% | FRANCE | TUNISIA |
| Danone a.s. 98.30% | BRAZIL | Seat 99.86% | CHINA | LU France 100% | Société Tunisienne de Biscuiterie 49% |
| DENMARK | Danone Ltda. 100% | Smda 100% | Aquarius 50% | GERMANY | ASIA |
| Danone A/S 100% | CANADA | Volvic (SEV) 100% | Wahaha group 51% | LU snack Foods 100% | CHINA |
| FINLAND | Danone Canada Delisle Inc. 100% | Drinkco 100% | Robust group 92% | Griesson De Beukelaer 40% ⁽³⁾ | Jiangmen Danone Biscuits 100% |
| Danone Finlande Oy 100% | MEXICO | GERMANY | Shenzhen Health Drinks 100% | GREECE | Shanghai Danone Biscuits Foods Co. Ltd 90% |
| FRANCE | Danone de Mexico 100% | POLAND | China Hui Yuan Juice 22.18% | Papadopoulos 60% | INDIA |
| Blédina 100% | UNITED STATES | Polska Woda 50% | INDONESIA | HUNGARY | Britannia Industries Ltd. 25.50% ⁽⁴⁾ |
| Danone 100% | The Dannon Co. 100% | Zywiec Zdroj 100% | Aqua 74% | Györi Keksz 100% | INDONESIA |
| GERMANY | Stonyfield Farm 83.99% | SPAIN | JAPAN | ITALY | Danone Biscuits Indonesia 100% |
| Danone GmbH 100% | AFRICA AND THE MIDDLE EAST | Aguas Font Vella y Lanjarón 78.46% | Kirin MC Danone Waters 25% | Saiwa 100% | MALAYSIA |
| GREECE | ALGERIA | Dasanbe Agua Mineral Natural 50% | NEW ZEALAND | POLAND | Danone Biscuits Manufacturing (M) Sdn Bhd 100% |
| Danone Grèce 100% | Danone Djurdjura 100% | SWITZERLAND | Frucor 100% | LU Polska 75% | Danone Snacks Manufacturing (M) Sdn Bhd 100% |
| HUNGARY | EGYPT | Evian Volvic Suisse 100% | | SPAIN | PAKISTAN |
| Danone Kft 100% | Danone Dairy Egypt 100% | THE NETHERLANDS | | LU Biscuits S.A. 100% | Continental Biscuits Ltd 49.49% |
| IRELAND | ISRAEL | The Danone Springs of Eden BV ⁽²⁾ 66.65% | | RUSSIA | |
| Danone Ltd 100% | Strauss Dairy 20% | TURKEY | | Bolshevik 76.42% | |
| Glenisk 35.72% | MOROCCO | Danone Hayat 100% | | Chock and Rolls 76.42% | |
| ITALY | Centrale Laitière 29.22% | UNITED KINGDOM | | THE NETHERLANDS | |
| Danone SpA 100% | SAUDI ARABIA | Danone Waters UK & Ireland 100% | | LU Nederland 100% | |
| POLAND | Al Safi Danone Company 50.10% | AMERICAS | | AMERICAS | |
| Danone Sp zoo 100% | SOUTH AFRICA | ARGENTINA | | ARGENTINA/BRAZIL | |
| PORTUGAL | Danone Clover 55% | Aguas Danone de Argentina 100% | | Bagley LatinoAmerica 49% | |
| Danone Portugal S.A. 55.17% | Clover Danone Beverages 39.46% | CANADA | | | |
| ROMANIA | TUNISIA | Danone Naya 100% | | | |
| Danone SRL 100% | Stial-Socoges 50% | MEXICO | | | |
| RUSSIA | ASIA-PACIFIC | Bonafont 100% | | | |
| Danone Industria 70% | BANGLADESH | Pureza Aga 50% | | | |
| Danone Volga 63.54% | Grameen Danone Foods 50% | UNITED STATES | | | |
| SLOVAKIA | INDIA | Great Brands of Europe 100% | | | |
| Danone Spol s.r.o. 100% | Yakult Danone India 50% | URUGUAY | | | |
| SLOVENIA | INDONESIA | Salus 58.46% | | | |
| Danone 100% | PT Danone Dairy Indonesia 70.30% | | | | |
| SPAIN | JAPAN | | | | |
| Danone S.A. 57.15% | Calpis Ajinomoto Danone ⁽¹⁾ 50% | | | | |
| Danone Canaries (Iltesa) 44.87% | Yakult Honsha 20.02% | | | | |
| SWEDEN | VIETNAM | | | | |
| Danone AB 100% | Yakult Vietnam 20% | | | | |
| THE NETHERLANDS | | | | | |
| Danone Nederland B.V. 100% | | | | | |
| TURKEY | | | | | |
| Danone Tikvesli 100% | | | | | |

⁽¹⁾ In January 2007, the Group acquired all of the shares of Calpis Ajinomoto Danone, which was renamed Danone Japon.

⁽²⁾ By virtue of an agreement among shareholders, the effective voting rights are 50%.

⁽³⁾ The Group is in the process of selling its interest in Griesson de Beukelaer.

⁽⁴⁾ Britannia Industries was deconsolidated beginning July 1, 2006 (see Note 8 to the Consolidated Financial Statements).

Property, Plants and Equipment

Danone operates production facilities located around the world in its principal markets. At December 31, 2006, Danone had 186 production sites, out of which approximately 43.5% were located in Europe (14.5% in France, 6.5% in Spain and 22.5% elsewhere in the European Union), 47% in the Asia-Pacific region (31% in China and 16% in New Zealand, India, Indonesia and elsewhere in southeastern and southwestern Asia) and 9.5% in the Rest of the World (3% in the United States and Canada and 4% in Argentina, Brazil, Mexico and countries in Central America and 2.5% in Africa and the Middle East). The table below sets forth the total number of Danone's facilities at December 31, 2006 and total production by main business line in 2006 for the fully consolidated companies.

| <u>Business Line</u> | <u>Number of Plants</u> | <u>Total Production (thousands of tons or millions of liters)</u> |
|------------------------------------|-----------------------------|---|
| Fresh dairy products | 45 | 4,675 |
| Beverages | 103 | 12,957 |
| Biscuits and cereal products | 38 | 634 |

The Group's general policy is to own its production facilities. Although the production facilities are numerous and widely dispersed, certain facilities are particularly important centers of production. In 2006, the Group's five largest fresh dairy products facilities were located in Argentina, Mexico, Saudi Arabia, the United States and Brazil, and accounted for approximately 29% of the Group's production for fresh dairy products. The Group's two largest sources of bottled water, both located in France, accounted for 24% of the Group's total production capacity for packaged water in 2006, and the two most important sources of production of water in large containers, both located in Indonesia, accounted for close to 14% of the Group's total water production capacity. The Group's five largest biscuit and cereal product facilities are located in Belgium, France, Indonesia and Italy and accounted for approximately 34% of the Group's total production capacity for biscuits and cereal products in 2006.

The Group's central management conducts periodic reviews of its production sites to consider possibilities for improving efficiency, quality, protection of the environment and safety. On the basis of such reviews, management establishes plans for the expansion, specialization, upgrading and modernization or closing of specific sites.

Item 4A. Unresolved Staff Comments

Not applicable

Item 5. Operating and Financial Review and Prospects

The following discussion is based upon, and should be read in conjunction with, the Consolidated Financial Statements and the Notes thereto, included elsewhere in this annual report. The figures referred to in the following discussion are, unless otherwise noted, determined in accordance with IFRS.

U.S. GAAP Reconciliation

The Consolidated Financial Statements of Groupe Danone have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, or IFRS. The application of these principles gives rise to certain differences compared with U.S. generally accepted accounting principles, or U.S. GAAP. The application of U.S. GAAP would result in a decrease in 2006 consolidated net income of € 27 million (€ 129 million in 2005 and € 50 million in 2004) to € 1,326 million, a decrease in net sales of € 120 million (€ 143 million in 2005 and € 143 million in 2004) to € 13,953 million and an increase in stockholders' equity of € 150 million (€ 154 million at December 31, 2005 and € 216 million at December 31, 2004) to € 5,973 million at December 31, 2006. See Note 2 to the Consolidated Financial Statements for a discussion of the material differences between IFRS as applied by the Group in its Consolidated Financial Statements and U.S. GAAP.

Effects of Changes in the Scope of Consolidation and Exchange Rates

Variations in the scope of consolidation, such as acquisitions and divestitures, may increase or decrease the Group's consolidated sales and results of operations in comparison to prior years and thus make it difficult to discern the performance of its underlying business. Similarly, as a global business operating in numerous currencies, changes in exchange rates of the euro, which is the Group's reporting currency, may result in an increase or decrease in the consolidated sales and results of operations as reported in the Consolidated Financial Statements. In order to enable investors to follow the year-to-year changes in the Group's operations, as required by the French securities regulator, the Group has provided details of the impact on its net sales and operating income of changes in the scope of consolidation and in exchange rates and have isolated the changes related solely to the underlying business.

The Group calculates the impact of currency variances by converting the figures from the previous year as reported in their local currencies by the companies within the scope of consolidation using the exchange rates for the current year. For further detail on the impacts of these currency variations, see the discussion below in “—Overview—Exchange Rates.”

The Group calculates the impact of changes in the scope of consolidation for the current year by taking into account the changes in the scope of consolidation that occurred in the current year and assuming these changes had occurred in the prior year for the same period. In order to calculate the effect of changes in the scope of consolidation with respect to acquired entities, the Group uses financial information provided by such entities for periods prior to their acquisition. For details on the principal changes in the scope of consolidation in 2004, 2005 and 2006, see “—Overview—Changes in Scope of Consolidation.”

Critical Accounting Policies

For a complete description of the Group's significant accounting policies, please see Notes 1 and 2 to the Consolidated Financial Statements. The Group's critical accounting policies are those that have meaningful impact on the reporting of its financial condition and results and require significant management judgment and estimates. These policies include the Group's accounting for (a) asset impairment, (b) put options granted to minority stockholders, (c) trade and consumer promotion activities and (d) income taxes and deferred taxes.

Asset Impairment. Evaluating the impairment of long-lived assets, including goodwill, indefinite-lived brands and investments in affiliates, involves management judgment in estimating the fair values and future cash

flows related to these assets. The predictability of future cash flows involves considerable management judgment and is notably based upon assumptions on expected future operating performance. In 2006, the Group recorded provisions and impairment charges of € 170 million, of which € 130 million related to its interests in the HOD water business in Europe and € 40 million related to goodwill in Robust (Beverages in China). In 2005, the Group recorded impairment charges of € 104 million, including € 53 million in relation to the goodwill of Danone Waters of Canada (HOD water in Canada) and € 51 million in relation to Bakoma (Fresh Dairy Products in Poland). In 2004, the Group recorded provision and impairment charges of € 608 million relating to the Group's activities in the HOD water business in the United States and in Europe. See Notes 5 and 7 to the Consolidated Financial Statements for a more detailed description of impairment charges.

Put Options Granted to Minority Stockholders. The Group is committed to acquiring the minority shareholdings owned by third parties in some of the less than 100% owned subsidiaries, should these third parties wish to exercise their put options. The exercise prices of these put options, which are reflected as financial liabilities in the consolidated balance sheet, are usually based on the profitability and the financial position of the entity as of the exercise date. Evaluating the exercise price of these put options requires management judgment in estimating the future profitability and financial performance of the related subsidiaries. See Note 2 to the Consolidated Financial Statements for a more detailed description of these put options.

Trade and Customer/Consumer Promotion Activities. Danone offers various sales incentive programs to customers and consumers. The amount and timing of expense recognition for these trade and consumer activities involve significant management judgment based on estimated participation and performance levels. Actual expenses may differ if the levels of participation and performance vary from these estimates. However, the vast majority of the Group's incentive programs do not exceed one year and therefore do not require highly uncertain long-term estimates.

Income Taxes and Deferred Taxes. Determining income tax expense and establishing reserves involves management judgment as to the ultimate resolution of any tax issues, and the number of years with open tax audits varies depending on the tax jurisdiction. Historically, the Group's assessments in respect of the ultimate resolution of tax issues have been reasonably accurate. While it is often difficult to predict the final outcome or timing of resolution of any particular tax matter, the Group expects the resolution of current open tax issues not to be dissimilar from the historical trend. In addition, in certain countries where it operates, the Group has tax losses that can be carried forward. They mainly result from the tax deductibility of goodwill and operating losses in certain countries as well as from the loss incurred in 2005 on the disposal of the HOD water activities in the United States. Determining the amount of these tax losses that the Group will be able to use in the future and the corresponding deferred tax assets to be recognized in the consolidated financial statements, requires management judgment, especially in estimating the future performance of the subsidiaries and the tax groups that generated those tax losses.

Overview

Refocusing Strategy

In line with the Group's strategy of focusing on its three core business lines, between 1997 and 2006, the Group sold nearly all of its grocery activities, its glass containers business, its cheese and cured meat activities (Galbani), its beer activities in Europe and its sauce activities.

At the same time, the Group has continued to strengthen its position in its strategic segments while following a policy of increasing the profitability of its businesses. In this context, between 2002 and 2006, the Group concluded various partnerships and sold certain of its equity interests:

- In 2002, the Group entered into a cooperation agreement with The Coca-Cola Company for the distribution of the Group's bottled water products in North America. In 2005, a new agreement was signed providing for an increase of approximately 20% in expenditures for advertising and promoting *Evian* products, as well as the sale to The Coca-Cola Company of Danone's interest in CCDA Waters, a

company formed in 2002 to sell the Group's bottled water products in the United States (notably the *Dannon Water* and *Sparkletts* brands).

- In 2003 and 2004, the Group significantly reinforced its presence in Japan, with the acquisition of an additional equity interest in Yakult, the leader in probiotics, in which the Group now holds an equity interest of 20%, and with the conclusion of a partnership with Yakult particularly focused on the development of joint research and development projects and of probiotic products. This partnership resulted in the formation of two joint ventures in 2005 and 2006, in India and Vietnam, with the aim of developing the local market in probiotics.
- In April 2004, the Group and ARCOR, the leader in the Argentinean food industry, signed an agreement aimed at merging their biscuits businesses in South America in 2005, thus forming the leading player in the market in that region. The newly formed entity, Bagley LatinoAmerica, is 49% owned by Groupe Danone and 51% owned by the ARCOR group, which has assumed operational management as of January 2005.
- In 2005, the Group sold its sauces businesses in the United Kingdom and in the United States and announced the sale, effective January 2006, of its sauces businesses in Asia.
- In 2005, the Group sold its minority interest in the Spanish company Mahou, finalizing its exit from the beer business.
- In 2006, the Group concluded a joint venture agreement with China Mengniu Dairy Company Limited, for the development, production and distribution of fresh dairy products in China. The Group holds 49% of this joint venture, which benefits from Mengniu's leading position on the Chinese market for fresh dairy products.

Acquisitions and Investments

As part of the Group's development strategy, Danone is continuously considering potential acquisitions. Danone may acquire an initial equity interest of less than 100% in a target company, including, as the case may be, a minority interest, and concurrently enter into agreements with other shareholders allowing Danone to increase its interest over time to obtain effective control, a majority interest or sole ownership.

Financial investments were € 575 million in 2006, compared to € 636 million in 2005 and € 98 million in 2004. The principal financial investments in 2006 related to:

- the acquisition of an additional 3.22% interest in Danone Asia, a holding company that holds the Group's interests in the Asia-Pacific region. Following this acquisition, the Group holds 100% of Danone Asia;
- the acquisition of an additional interest in Danone Djurdjura (Fresh Dairy Products in Algeria), raising the Group's holdings from 51% to 100%. This company, which was previously accounted for by the equity method, has been fully consolidated beginning in the second semester of 2006;
- the acquisition of an additional interest in Danone Romania (Fresh Dairy Products in Romania), raising the Group's holdings from 65% to 100%;
- the acquisition of a 22.18% interest in Hui Yuan Juice Holdings Co (Beverages in China), which is accounted for by the equity method;
- the acquisition of 100% of the company Rodich (Fresh Dairy Products in the Ukraine), which is fully consolidated;
- the acquisition of a 49% interest in the Danish company Aqua d'Or (Beverages in Denmark), which is accounted for by the equity method;
- the acquisition of an additional 10.3% interest in Shanghai Bright Dairy (Fresh Dairy Products in China), which is non-consolidated; and

- the acquisition of an additional 3.8% interest in Wimm Bill Dann (Fresh Dairy Products in Russia), which is non-consolidated.

Financial investments in 2005 were principally related to the acquisition of the interest held by the Suntory group in DS Waters, LP (which was sold to the Kelso investment fund in November 2005), the acquisition of an additional interest in Danone Asia, raising the Group's interest from 93.56% to 96.78%, the acquisition of an additional 29% interest in Sotubi (Biscuits in Tunisia) and the acquisition of the Egyptian fresh dairy products company Olait (renamed Danone Dairy Egypt).

Financial investments in 2004 were principally related to the acquisition of an additional interest in Zywiec Zdroj (Beverages in Poland), bringing the Group's holdings from 88% to 100%, the acquisition of assets of Chock & Rolls (Biscuits in Russia) and the acquisition of an interest in Bonafont Garrafones y Servicios (HOD Water in Mexico).

In addition, the Company and its subsidiaries concluded various agreements providing for the repurchase by the Group of interests held by third parties in certain companies in the event these third parties wish to sell their interests (see Notes 5 and 25 to the Consolidated Financial Statements). No significant financial investment is currently considered probable regarding these options, with the exception of the potential partial exercise of the option relating to Danone Russia.

Finally, repurchases of the Company's shares made through the programs authorized by the general shareholders' meetings for the years 2003 to 2005 represented expenditures of € 731 million in 2006, compared to € 685 million in 2005 and € 226 million in 2004. The Group anticipates that it will actively complete share repurchases in 2007.

Capital Investments. Capital investments amounted to € 692 million in 2006, compared to € 607 million in 2005 and € 520 million in 2004 (representing, respectively, 4.9%, 4.7% and 4.2% of consolidated net sales). The steady increase in investment since 2004 reflects the need for production capacity required for the strong growth in the Group's revenues. In 2006, approximately 38% of capital investments were investments in capacity in the "*Nouvelles Frontières*" countries, those with strong growth in net sales (Russia, Mexico, China, Indonesia and the United States in the fresh dairy products segment), notably:

- an increase in production capacity in the United States to ensure the development of the *Activia* (launched in January 2006) and *Danactive* (launched in January 2007) product lines; and
- an increase in production capacity for the fresh dairy products and beverages activities in Latin America, which have experienced very strong growth.

Investments in 2006 also include the construction of a new biscuit production plant in Algeria and increased production capacity for the *Volvic aromatisé* product line in France.

Amounts expended during 2005 included primarily investments in capacity in the "*Nouvelles Frontières*" countries.

In 2004, capital investments included (i) investments in capacity in Europe to meet the growth in sales of *Actimel* and (ii) investments in capacity in the "*Nouvelles Frontières*" countries. One of the main investments for 2004 related to a production plant for fresh dairy products in Tchekov, Russia.

The main capital investments currently underway are related to increasing capacity in the "*Nouvelles Frontières*" countries as well as increasing European capacity for the *Actimel*, *Danacol* and *Essensis* product lines.

As in 2006, the Group anticipates the continuation in 2007 of its investment efforts in the "*Nouvelles Frontières*" countries. The Group anticipates that its capital investments should represent between 4.5% and 5% of its net sales in 2007.

Changes in Scope of Consolidation

Changes in the scope of consolidation are described in Note 3 to the Consolidated Financial Statements. The principal acquisitions in 2006 included:

- the acquisition of an additional 3.22% interest in Danone Asia, a holding company that holds the Group's interests in the Asia-Pacific region. Following this acquisition, the Group holds 100% of Danone Asia;
- the acquisition of an additional interest in Danone Djurdjura (Fresh Dairy Products in Algeria), raising the Group's holdings from 51% to 100%. This company, which was previously accounted for by the equity method, has been fully consolidated beginning in the second semester of 2006;
- the acquisition of an additional interest in Danone Romania (Fresh Dairy Products in Romania), raising the Group's holdings from 65% to 100%;
- the acquisition of a 22.18% interest in Hui Yuan Juice Holdings Co (Beverages in China), which is accounted for by the equity method;
- the acquisition of 100% of the company Rodich (Fresh Dairy Products in the Ukraine), which is fully consolidated; and
- the acquisition of a 49% interest in the Danish company Aqua d'Or (Beverages in Denmark), which is accounted for by the equity method.

The main acquisitions in 2005 concerned the purchase of an additional 3.22% interest in Danone Asia as well as the acquisition of an additional 29% interest in Sotubi (Biscuits in Tunisia), raising the Group's holdings in this company from 20% to 49%.

The acquisitions in 2004 were essentially related to the acquisition of an additional interest in Zywiec Zdroj (Beverages in Poland), the acquisition of the assets of Chock and Rolls (Biscuits in Russia) and the acquisition of an interest in Bonafont Garrafontes y Servicios (HOD Water in Mexico).

The principal divestments in 2006 included:

- Sauces in Asia: The sale of these activities in January 2006 generated a capital gain of approximately € 154 million (before minority interests). As the Group has completely exited its sauces activities, this capital gain is reflected in the item "Net income from discontinued operations" in the consolidated income statement.
- Griffins (Biscuits in New Zealand): The sale of this company, finalized in May 2006, generated a non-taxable capital gain of € 43 million, which is reflected in the item "Other operating (expense) income" in the consolidated income statement.
- Danone Waters of Canada (HOD Water in Canada): The sale of this company in June 2006 generated a net loss of approximately € 11 million. This loss before tax, in an amount of € 38 million, is reflected in the item "Other operating (expense) income" in the consolidated income statement.
- Bakoma (Fresh Dairy Products in Poland): The sale of the minority interest held by the Group in this company was finalized in December 2006 and generated a capital gain of approximately € 6 million. This gain is reflected in the item "Net income (loss) of affiliates" in the consolidated income statement.

The principal divestments in 2005 were related to beverages activities in Italy, minority interests held by the Group in biscuits activities in Colombia, fresh dairy products business in Greece, beer activities in Spain, packaged water in the United States and sauces activities held by the Group in the United Kingdom and the United States.

The principal divestments in 2004 were related to the sale in July of subsidiaries in the biscuits segment in the United Kingdom (Jacob's) and in Ireland (Irish Biscuits).

Exchange Rates

A significant part of the Group's assets is located outside France and is denominated in currencies other than the euro. In 2006, 48% of the Group's net sales were booked in euro and the remaining 52% were in other currencies, primarily the Chinese yuan, the U.S. dollar, the British pound and the Mexican peso. In addition, approximately 40% of the Group's trading operating income was denominated in currencies other than the euro. As a result, foreign exchange rate fluctuations against the euro could have a significant effect on the Group's income statement. These fluctuations also have an effect on the value on the Group's consolidated balance sheet of assets and liabilities recorded in currencies other than the euro.

Seasonality

Seasonal consumption cycles affect certain of Danone's product markets, which can have an impact on Danone's quarterly and annual results. In particular, the demand for water is at its peak during the second and third quarters of the year, and demand for biscuits is generally strongest during the fourth quarter of each year. As a result, Danone typically records its lowest quarterly net sales during the first quarter of each year. In addition, rainy summers, such as those in Europe in 2004, may negatively impact sales of packaged water and, as a result, total net sales. Conversely, warmer temperatures, such as those experienced in Europe in the summer of 2003, can stimulate demand and thus favorably impact net sales.

Other Factors

Inflation has not had a material impact on the Group's consolidated results of operations in the last three years, since the rate of inflation in the Group's principal markets during such period has, on an overall basis, been relatively low. Other factors affecting Danone's business activities and results of operations include raw material prices, fluctuations in exchange rates, competition, economic conditions and consumer spending power in countries where the Group operates, fluctuations in interest rates, nutritional trends and certain government actions. For more information on how these particular factors may affect Danone's business and results of operations, see "Item 3. Key Information—Risk Factors."

Valuation of Assets

The Group performs a review of long-lived assets (including goodwill) for impairment at least once a year. As described in Notes 1.4 and 1.5 to the Consolidated Financial Statements, this review consists of comparing the recoverable value of the assets to their net carrying value. The recoverable value corresponds to the higher of value in use and market value. In 2006, the Group recorded non-current charges of € 130 million related to its interests in the HOD water business in Europe and € 40 million in relation to goodwill in Robust (Beverages in China).

In 2005, as a result of this review, the Group recorded a non-current charge of € 53 million relating to its investment in the HOD water business in Canada and a non-current charge of € 51 million relating to its minority interest in Bakoma (Fresh Dairy Products in Poland).

In 2004, the Group recorded a non-current charge of € 608 million relating to investments in the HOD water business in the United States and in Europe. This non-current charge consisted of (i) a depreciation of the carrying value of the Group's investment in DS Waters LP and a provision for the put option granted to Suntory Ltd, for a total amount of € 455 million and (ii) a depreciation in the carrying value of the Group's investment in The Danone Springs of Eden BV in the amount of € 153 million.

See Notes 5 and 7 to the Consolidated Financial Statements for a more detailed description of impairment charges.

Recent Events

In January 2007, the Group announced the formation of a fresh dairy products company in Thailand, named Danone Dairy Thaïlande, and the formation of a strategic partnership with Dutch Mill Co.

In January 2007, the Group acquired all of the shares of the joint venture Calpis Ajinomoto Danone, which was renamed Danone Japon.

In February 2007, the Group announced the formation of a joint venture with the Colombian company Alqueria to develop, produce and distribute fresh dairy products in Colombia.

In February 2007, the Group announced that in the context of the initial public offering of Hui Yuan Juice on the Hong Kong Stock Exchange, it would subscribe to the capital increase in order to maintain its percentage of ownership.

Consolidated Results of Operations

The tables below present (i) the principal components of the consolidated income statement in euro and as a percentage of net sales and (ii) the Group's net sales, trading operating income and trading operating margin by main business line and geographic area for each of the years ended December 31, 2004, 2005 and 2006. The information below should be read in conjunction with the Consolidated Financial Statements and the Notes thereto, included elsewhere in this annual report.

| | Year ended December 31, | | | | | |
|---|-------------------------------------|--------|---------|--------|---------|--------|
| | 2004 | | 2005 | | 2006 | |
| | (millions of €, except percentages) | | | | | |
| Net sales ⁽¹⁾ | 12,273 | 100.0% | 13,024 | 100.0% | 14,073 | 100.0% |
| Cost of goods sold | (6,223) | 50.7% | (6,644) | 51.0% | (7,214) | 51.3% |
| Selling expenses | (3,108) | 25.3% | (3,331) | 25.6% | (3,605) | 25.6% |
| General and administrative expenses | (976) | 8.0% | (1,017) | 7.8% | (1,047) | 7.4% |
| Research and development expenses | (129) | 1.0% | (123) | 1.0% | (126) | 0.9% |
| Other (expense) income | (229) | 1.9% | (171) | 1.3% | (167) | 1.2% |
| Trading operating income | 1,608 | 13.1% | 1,738 | 13.3% | 1,914 | 13.6% |
| Other operating (expense) income | (49) | 0.4% | (32) | 0.2% | (40) | 0.3% |
| Operating income | 1,559 | 12.7% | 1,706 | 13.1% | 1,874 | 13.3% |
| Cost of net debt | (94) | 0.8% | (101) | 0.8% | (37) | 0.3% |
| Other financial (expense) income | 104 | 0.9% | (9) | — | (31) | 0.2% |
| Income before income tax | 1,569 | 12.8% | 1,596 | 12.3% | 1,806 | 12.8% |
| Income taxes | (428) | 3.5% | (473) | 3.7% | (360) | 2.6% |
| Income from consolidated companies | 1,141 | 9.3% | 1,123 | 8.6% | 1,446 | 10.2% |
| Net income (loss) of affiliates | (550) | 4.5% | 44 | 0.3% | (40) | 0.2% |
| Net income from continuing operations | 591 | 4.8% | 1,167 | 8.9% | 1,406 | 10.0% |
| Net income from discontinued operations | 47 | 0.4% | 504 | 3.9% | 154 | 1.1% |
| Net income | 638 | 5.2% | 1,671 | 12.8% | 1,560 | 11.1% |
| Attributable to the Group | 449 | 3.7% | 1,464 | 11.2% | 1,353 | 9.6% |
| Attributable to minority interests | 189 | 1.5% | 207 | 1.6% | 207 | 1.5% |

(1) Net sales are stated net of rebates and discounts, as well as trade support actions that are generally invoiced by customers.

| | Net Sales | | | Trading Operating Income | | | Trading Operating Margin ⁽¹⁾ | | |
|---|-------------------------------------|--------|--------|-----------------------------|-------|-------|--|--------|--------|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| | (millions of €, except percentages) | | | | | | | | |
| By Business Line | | | | | | | | | |
| Fresh dairy products | 6,510 | 7,184 | 7,934 | 917 | 1,019 | 1,109 | 14.1% | 14.2% | 14.0% |
| Beverages | 3,201 | 3,473 | 3,942 | 493 | 474 | 504 | 15.4% | 13.7% | 12.8% |
| Biscuits and cereal products | 2,562 | 2,367 | 2,197 | 278 | 343 | 301 | 10.9% | 14.5% | 13.7% |
| Unallocated expenses | — | — | — | (80) | (98) | — | — | — | — |
| Total | 12,273 | 13,024 | 14,073 | 1,608 | 1,738 | 1,914 | 13.10% | 13.35% | 13.60% |
| By Geographic Area | | | | | | | | | |
| Europe ⁽²⁾ | 8,096 | 8,179 | 8,582 | 1,209 | 1,266 | 1,295 | 14.9% | 15.5% | 15.1% |
| Asia | 1,965 | 2,235 | 2,429 | 259 | 256 | 244 | 13.2% | 11.5% | 10.0% |
| Rest of the World | 2,212 | 2,610 | 3,062 | 220 | 314 | 375 | 10.0% | 12.0% | 12.2% |
| Unallocated expenses ⁽³⁾ | — | — | — | (80) | (98) | — | — | — | — |
| Total | 12,273 | 13,024 | 14,073 | 1,608 | 1,738 | 1,914 | 13.10% | 13.35% | 13.60% |

(1) Trading operating income as a percentage of net sales.

(2) France represented approximately 34% of the net sales of Europe in 2006 (35.3% in 2005 and 36.8% in 2004).

(3) Unallocated income (expense) represents the balance of Group income (expenses) that have not been allocated to any specific operating division. In 2006, the Group established a system of analysis allowing it to allocate all of this income and expense to business lines.

Results of Operations for the Years Ended December 31, 2005 and 2006

Net Sales. Net sales for the Group increased by 8.1% from € 13,024 million in 2005 to € 14,073 million in 2006. This increase in net sales resulted from a 9.7% increase in net sales at constant exchange rates and scope of consolidation, partially offset by a net negative effect (-1.4%) of changes in the scope of consolidation of the Group's operations and currency exchange rates (-0.2%). The 9.7% increase in net sales at constant exchange rates and scope of consolidation achieved in 2006 resulted from an increase in sales volumes (approximately 7.1%) and an increase in price per unit of goods sold (2.6%).

The effect of changes in the scope of consolidation primarily resulted from the deconsolidation of the biscuits activities in India as of July 1, 2006 (see Note 8 to the Consolidated Financial Statements) and from the sale of the biscuits activities in New Zealand in June 2006.

Geographically, growth in net sales in 2006 was driven by the Rest of the World and by Asia, which achieved growth rates of 17.3% and 8.7%, respectively, at constant exchange rates and scope of consolidation. Growth in Europe, which is a more mature market, was 4.9% at constant exchange rates and scope of consolidation.

Cost of Goods Sold. Cost of goods sold corresponds to production costs, including costs of raw materials (food and packaging), labor costs and depreciation of production machinery. In absolute terms, the cost of goods sold increased by 8.6% from € 6,644 million in 2005 to € 7,214 million in 2006. As a percentage of net sales, cost of goods sold increased from 51.0% in 2005 to 51.3% in 2006, representing an increase of approximately 30 basis points. This increase was mainly due to the increase in cost of certain raw materials, particularly plastics and sugar in Asia. These unfavorable factors were partially compensated by the Group's policy of optimizing its use of ingredients and packaging, rationalizing raw materials flows in collaboration with suppliers and increasing productivity.

Selling Expenses. Selling expenses correspond to advertising and promotional expenses, distribution costs and costs relating to the sales force. In absolute terms, selling expenses increased from € 3,331 million in 2005 to € 3,605 million in 2006, representing 25.6% of net sales in 2005 and 2006. This stability resulted from the

Group's policy of optimizing its advertising and promotional campaigns and reinforcing the accessibility of the Group's products in terms of price, especially in emerging countries. In 2006, marketing expenses remained stable as a percentage of net sales.

General and Administrative Expenses. General and administrative expenses increased slightly in 2006 to € 1,047 million from € 1,017 million in 2005, representing 7.4% of net sales in 2006 compared to 7.8% in 2005. This slight decrease in percentage of net sales was mainly due to the Group's active policy over the last several years of reducing structural costs.

Research and Development Expenses. Research and development expenses, which represent approximately 1% of net sales, increased slightly in 2006, to € 126 million from € 123 million in 2005.

Other Income and Expense. Other expense amounted to € 167 million in 2006 compared to € 171 million in 2005. Other expense is composed of the following items:

| | Year ended December 31, | |
|---|-------------------------|------|
| | 2005 | 2006 |
| | (€ in millions) | |
| Employee profit sharing | 116 | 121 |
| Stock options granted to employees of the Group | 23 | 14 |
| Other | 32 | 32 |
| Total | 171 | 167 |

The item "Other" includes mainly restructuring costs and the gain or loss on the sale of assets.

Trading Operating Income. Trading operating income increased by € 176 million, from € 1,738 million in 2005 to € 1,914 million in 2006.

Trading operating margin increased by 25 basis points, from 13.35% in 2005 to 13.60% in 2006. This increase, supported by innovations in added value, increases in productivity and optimization of fixed costs, occurred in spite of significant increases in raw materials costs, mainly plastics, and the negative impact of changes in the mix of countries.

The Group's trading operating income and margin under IFRS are calculated before certain items such as capital gains and losses on disposals of consolidated activities and impairment charges in relation to long-lived assets of subsidiaries. For a discussion of the differences in presentation between IFRS and U.S. GAAP, see Note 2 to the Consolidated Financial Statements.

Other Operating (Expense) Income. In 2006, other operating expense totaled € 40 million, consisting essentially of the € 38 million loss related to the sale of Danone Waters of Canada (HOD Water in Canada) as well as the € 40 million impairment charge relating to the goodwill of Robust (Beverages in China), partially offset by the € 43 million gain realized on the sale of Griffins (Biscuits in New Zealand).

In 2005, other operating expense totaled € 32 million, consisting essentially of the € 53 million impairment charge on the Group's HOD water activities in Canada, partially offset by the € 19 million gain related to the sale of Italaquae.

Operating Income. Operating income increased by € 168 million, from € 1,706 million in 2005 to € 1,874 million in 2006. Operating margin increased by 20 basis points, from 13.1% in 2005 to 13.3% in 2006.

Cost of Net Debt. Cost of net debt decreased from € 101 million in 2005 to € 37 million in 2006. Cost of net debt is composed of the following items:

| | Year ended December 31, | |
|------------------------|-------------------------|-------|
| | 2005 | 2006 |
| | (€ in millions) | |
| Interest expense | (189) | (219) |
| Interest income | 88 | 182 |
| Cost of net debt | (101) | (37) |

In 2006, the increase in interest expense resulted mainly from the higher interest expense on financial liabilities denominated in foreign currencies that are entered into to hedge certain foreign investments. The increase in interest income resulted mainly from an increase in the average amount of cash equivalents.

Other Financial Income and Expenses. Other financial expenses amounted to € 31 million in 2006 compared to € 9 million in 2005. The increase in financial expenses results primarily from the decrease in interest received on the loan made to the investment funds in connection with the sale of Galbani, the loan having been repaid in May 2006.

Income Taxes. The Group's income taxes decreased from € 473 million in 2005 to € 360 million in 2006. The effective tax rate decreased from 29.6% in 2005 to 19.9% in 2006, due to the application of specific tax rates to capital gains and losses and impairment charges as well as the recognition of a deferred tax asset in 2006 for the full amount of the tax losses generated by the sale of the HOD water activities in the United States (see Note 24 to the Consolidated Financial Statements). After adjusting for non-current items, the effective tax rate was 28.1% in 2006 compared to 29.1% in 2005. See Note 24 to the Consolidated Financial Statements for a reconciliation of the French tax rate and the Group's effective tax rate.

Net Income of Affiliates. Net income of affiliates is detailed as follows:

| | Year ended December 31, | |
|-----------------------------------|-------------------------|-------|
| | 2005 | 2006 |
| | (€ in millions) | |
| Group's share in net income | 69 | 62 |
| Impairment charge | (51) | (130) |
| Gain on disposal and others | 26 | 28 |
| Total | 44 | (40) |

For 2006, the item "Impairment charge" includes impairment charges related to the Group's interest in The Danone Springs of Eden BV (HOD Water in Europe). The item "Gain on disposal and others" includes the capital gain from the sale of the minority interest in Bakoma (Fresh Dairy Products in Poland).

For 2005, the item "Impairment charge" includes the loss in value of the minority interest in Bakoma. The item "Gain on disposal and other" includes primarily (i) the net capital loss of € 313 million from the disposal of the HOD water activities in the United States, (ii) the net capital gain of € 292 million from the disposal of Mahou (Beer in Spain) and (iii) the net capital gain of € 22 million from the disposal of Galletas Noël (Biscuits in Colombia).

Net Income from Discontinued Operations. For 2006, this item includes the gain on the sale of the sauces activities in Asia. For 2005, this item includes net income from the sauces activities and the capital gain of € 473 million from the disposal of the sauces activities in the United Kingdom and the United States.

Net Income Attributable to the Group. In 2006, net income attributable to the Group amounted to € 1,353 million compared to € 1,464 million in 2005. The reconciliation of Group share in net income to Group share in current net income is presented in the table below:

| | Year ended December 31, | |
|---|-------------------------|-------|
| | 2005 | 2006 |
| | (€ in millions) | |
| Net income attributable to the Group | 1,464 | 1,353 |
| Non-current net income from continuing operations | 71 | (11) |
| Net income from discontinued operations | (504) | (148) |
| Current net income attributable to the Group from continuing operations | 1,031 | 1,194 |

Non-current net income from continuing operations primarily consists of elements reflected in the item “Other operating (expense) income” (see above) and impairment charges and gains and losses from disposals relating to entities accounted for under the equity method (see above), as well as the effect of the recognition of deferred tax assets for the full amount of the tax losses generated by the HOD water activities in the United States.

Net Income per Share. The diluted net income per share attributable to the Group decreased from € 5.87 in 2005 to € 5.53 in 2006. Excluding non-current items recorded in 2005 and 2006, diluted net income per share attributable to the Group would have increased by approximately 17.9%, from € 4.14 in 2005 to € 4.88 in 2006.

Net Sales, Trading Operating Income and Trading Operating Margin by Main Business Line

Fresh Dairy Products. Net sales of fresh dairy products increased from € 7,184 million in 2005 to € 7,934 million in 2006, a 10.4% increase. At constant exchange rates and scope of consolidation, net sales increased by 9.2%. This internal growth, which was mainly driven by four blockbuster product lines (*Actimel*, *Activia*, *Danonino* and *Vitalinea*), was reinforced by positive effects of changes in the scope of consolidation, primarily related to the consolidation of Al Safi Danone Company (Saudi Arabia) and Danone Djurdjura (Algeria), companies in which the Group obtained control in July 2005 and July 2006, respectively. Variations in exchange rates had a slightly negative impact on growth of net sales in 2006, in the amount of 0.1%. Sales of yogurt and similar products, which represent close to 95% of the segment’s sales, showed an increase in net sales of close to 11% in 2006.

The 2006 performance once again reflects the segment’s ability to innovate and expand the scope of its brands and key products, whether geographically or through the introduction of new products. The probiotic line *Activia* continued to show growth rates in sales of close to 50% at constant exchange rates and scope of consolidation and represented net sales of € 1,279 million. Similarly, sales of *Actimel* recorded growth of 12% at constant exchange rates and scope of consolidation and represented net sales of more than € 1 billion in 2006.

Trading operating income improved from € 1,019 million in 2005 to € 1,109 million in 2006, and trading operating margin decreased from 14.2% to 14.0%. If corporate expenses had been reallocated to the business segments in 2005, trading operating income would have been € 965 million in 2005 and trading operating margin would have increased from 13.4% in 2005 to 14.0% in 2006. This increase of 68 basis points, which is primarily due to the stability in the price of milk and favorable market conditions for the other raw materials, demonstrates the continued success of innovation and the higher margin blockbusters.

Beverages. Net sales of beverages increased from € 3,473 million in 2005 to € 3,942 million in 2006, an increase of 13.5%. At constant exchange rates and scope of consolidation, net sales of beverages increased 14.8% in 2006. This increase was partially offset by a 1.1% negative impact from changes in the scope of consolidation.

Trading operating income for beverages increased by more than 6% from € 474 million in 2005 to € 504 million in 2006 and trading operating margin decreased from 13.7% in 2005 to 12.8% in 2006. If corporate

expenses had been reallocated to the business segments in 2005, trading operating income would have been € 448 million in 2005 and trading operating margin would have decreased from 12.9% in 2005 to 12.8% in 2006. The decrease in trading operating margin resulted primarily from (i) negative effects related to the increase in the price of plastics and sugar, particularly in Asia, and (ii) stronger growth in countries with lower margins, particularly in China in the fourth quarter of 2006.

Biscuits and Cereal Products. Net sales of biscuits and cereal products decreased from € 2,367 million in 2005 to € 2,197 million in 2006, a decrease of 7.1%. This decrease is primarily due to a negative impact from changes in the scope of consolidation of 9.9% related to the disposal of Griffins (New Zealand) and the deconsolidation of the Indian company Britannia Industries (see Note 8 to the Consolidated Financial Statements). At constant exchange rates and scope of consolidation, net sales of biscuits and cereal products increased by 3.1% in 2006. This increase was mainly driven by Europe.

Trading operating income for biscuits and cereal products decreased from € 343 million in 2005 to € 301 million in 2006. Trading operating margin decreased from 14.5% in 2005 to 13.7% in 2006. If corporate expenses had been reallocated to the business segments in 2005, trading operating income would have been € 325 million in 2005 and trading operating margin would have remained stable at 13.7%. This stability primarily results from the neutral impact of the cost of raw materials and strong productivity, which compensated for an unfavorable geographic mix.

Net Sales, Trading Operating Income and Trading Operating Margin by Geographic Area

Europe. Net sales in Europe increased from € 8,179 million in 2005 to € 8,582 million in 2006, an increase of 4.9%. At constant exchange rates and scope of consolidation, net sales increased by 5.1%, despite a slight increase in France, which represented € 2,916 million, or 34% of the region. The growth in Europe was primarily driven by the strong performances of Russia, Spain and Germany.

Trading operating income for Europe increased from € 1,266 million in 2005 to € 1,295 million in 2006 and trading operating margin decreased from 15.5% in 2005 to 15.1% in 2006. If corporate expenses had been reallocated to the business segments in 2005, trading operating income would have been € 1,204 million in 2005 and trading operating margin would have increased from 14.7% in 2005 to 15.1% in 2006.

Asia. Net sales in Asia increased from € 2,235 million in 2005 to € 2,429 million in 2006, an increase of 8.7%. At constant exchange rates and scope of consolidation, net sales increased by 20.6% in 2006, with a large contribution from China.

Trading operating income for Asia decreased from € 256 million in 2005 to € 244 million in 2006 and trading operating margin decreased from 11.5% in 2005 to 10.0% in 2006. If corporate expenses had been reallocated to the business segments in 2005, trading operating income would have been € 239 million in 2005 and trading operating margin would have decreased from 10.7% in 2005 to 10.0% in 2006. This decrease is primarily due to the negative impact of the increase in the price of plastics and sugar.

Rest of the World. Net sales in this region, which primarily includes the activities of the Group in the Americas and South Africa, increased from € 2,610 million in 2005 to € 3,062 million in 2006, an increase of 17.3%. At constant exchange rates and scope of consolidation, net sales increased by 16% in 2006, with high levels of growth in every country in the region.

Trading operating income for the Rest of the World increased from € 314 million in 2005 to € 375 million in 2006 and trading operating margin increased from 12% in 2005 to 12.2% in 2006. If corporate expenses had been reallocated to the business segments in 2005, trading operating income would have been € 295 million in 2005 and trading operating margin would have increased from 11.3% in 2005 to 12.2% in 2006, due to the growth of the business in the entire region.

Results of Operations for the Years Ended December 31, 2004 and 2005

Net Sales. Net sales for the Group increased by 6.1% from € 12,273 million in 2004 to € 13,024 million in 2005. This increase in net sales resulted from a 6.7% increase in net sales at constant exchange rates and scope of consolidation and a positive impact of currency exchange rates (1.6%), partially offset by a net negative effect (-2.2%) of changes in the scope of consolidation of the Group's operations. The 6.7% increase in net sales at constant exchange rates and scope of consolidation achieved in 2005 resulted from an increase in sales volumes (5.2%) and an increase in price per unit of goods sold (1.5%).

The effect of changes in the scope of consolidation primarily resulted from the sale in 2004 of the Group's biscuits activities in the United Kingdom (Jacob's) and in Ireland (Irish Biscuits), by the deconsolidation of the biscuits activities in Latin America as of January 1, 2005 and by the sale of the bottled water activities in Italy in January 2005. These negative effects were partially offset by the first-time consolidation of Al Safi Danone Company, after the Group obtained control of this company on July 1, 2005. The currency conversion effect was mainly due to the depreciation of the euro against the U.S. dollar and currencies related to it, particularly the Chinese yuan.

Geographically, at constant exchange rates and scope of consolidation, growth in net sales in 2005 was driven by Asia and the Rest of the World, which achieved growth rates of 12.9% and 15.6%, respectively. Growth in Europe, which is a more mature market, was 2.8% at constant exchange rates and scope of consolidation.

Cost of Goods Sold. Cost of goods sold corresponds to production costs, including costs of raw materials (food and packaging), labor costs and depreciation of production machinery. In absolute terms, the cost of goods sold increased by 6.8% from € 6,223 million in 2004 to € 6,644 million in 2005. As a percentage of net sales, cost of goods sold increased from 50.7% in 2004 to 51.0% in 2005, representing an approximately 30 basis point increase. This increase was mainly due to the increase in cost of certain raw materials, particularly plastics. These unfavorable factors were partially compensated by the Group's policy of optimizing its use of ingredients and packaging, rationalizing raw materials flows in collaboration with suppliers and increasing productivity.

Selling Expenses. Selling expenses correspond to advertising and promotional expenses, distribution costs and costs relating to the sales force. In absolute terms, selling expenses increased from € 3,108 million in 2004 to € 3,331 million in 2005, representing 25.3% and 25.6% of net sales, respectively. This increase in percentage of net sales resulted mainly from a significant increase in distribution costs following the increase in oil prices. This was partially offset by the Group's policy of optimizing its advertising and promotional campaigns and reinforcing the accessibility of the Group's products in terms of price, especially in emerging countries. In 2005, marketing expenses remained stable as a percentage of net sales.

General and Administrative Expenses. General and administrative expenses increased slightly in 2005 to € 1,017 million from € 976 million in 2004, representing 7.8% of net sales in 2005 compared to 8.0% in 2004. This slight decrease in percentage of net sales was mainly due to the Group's active policy over the last several years of reducing structural costs.

Research and Development Expenses. Research and development expenses, which represent approximately 1% of net sales, decreased slightly in 2005, to € 123 million from € 129 million in 2004.

Other Income and Expense. Other expense amounted to € 171 million in 2005 compared to € 229 million in 2004. Other expense is composed of the following items:

| | Year ended December 31, | |
|---|-------------------------|------|
| | 2004 | 2005 |
| | (€ in millions) | |
| Employee profit sharing | 115 | 116 |
| Stock options granted to employees of the Group | 28 | 23 |
| Other | 86 | 32 |
| Total | 229 | 171 |

The item “Other” includes mainly restructuring costs and the gain or loss on the sale of assets.

Trading Operating Income. Trading operating income increased by € 130 million, from € 1,608 million in 2004 to € 1,738 million in 2005.

Trading operating margin increased by 25 basis points, from 13.10% in 2004 to 13.35% in 2005. This increase, which included approximately 51 basis points from the Group’s operating performance and approximately 44 basis points from changes in the scope of consolidation, occurred in spite of significant increases in transport costs and raw materials costs, mainly plastics, and the negative impact of changes in the mix of countries.

The Group’s trading operating income and margin under IFRS are calculated before certain items such as capital gains and losses on disposals of consolidated activities and impairment charges in relation to long-lived assets of subsidiaries. For a discussion of the differences in presentation between IFRS and U.S. GAAP, see Note 2 to the Consolidated Financial Statements.

Other Operating (Expense) Income. In 2005, other operating expense totaled € 32 million, consisting essentially of the € 53 million impairment charge on the Group’s HOD water activities in Canada, partially offset by the € 19 million gain related to the sale of Italaquae (Beverages in Italy).

In 2004, other operating expense totaled € 49 million, consisting essentially of the capital loss on the disposal of the Group’s biscuits subsidiaries in the United Kingdom (Jacob’s) and Ireland (Irish Biscuits).

Operating Income. Operating income increased by € 147 million, from € 1,559 million in 2004 to € 1,706 million in 2005. Operating margin increased by 40 basis points, from 12.7% in 2004 to 13.1% in 2005.

Cost of Net Debt. Cost of net debt increased from € 94 million in 2004 to € 101 million in 2005. Cost of net debt is composed of the following items:

| | Year ended December 31, | |
|------------------------|-------------------------|-------|
| | 2004 | 2005 |
| | (€ in millions) | |
| Interest expense | (149) | (189) |
| Interest income | 55 | 88 |
| Cost of net debt | (94) | (101) |

In 2005, the increase in interest expense resulted mainly from the € 13 million charge related to the early redemption of convertible bonds and an increase in the average cost of debt. The increase in interest income resulted mainly from an increase in the average amount of cash equivalents.

Other Financial Income and Expenses. Other financial expenses amounted to € 9 million in 2005. In 2004, other financial income amounted to € 104 million and included primarily capital gains on the sale of

non-consolidated investments for € 47 million and an earn-out received on the disposal of BSN Glasspack in the amount of € 71 million.

Income Taxes. The Group's income taxes increased from € 428 million in 2004 to € 473 million in 2005. The effective tax rate increased from 27.3% in 2004 to 29.6% in 2005, due to the application of specific tax rates to capital gains and losses and impairment charges. See Note 24 to the Consolidated Financial Statements for a reconciliation of the French tax rate and the Group's effective tax rate.

Net Income of Affiliates. Net income of affiliates is detailed as follows:

| | Year ended December 31, | |
|-----------------------------|-------------------------|------|
| | 2004 | 2005 |
| | (€ in millions) | |
| Group's share in net income | 58 | 69 |
| Impairment charge | (608) | (51) |
| Gain on disposal | — | 26 |
| Total | (550) | 44 |

In 2005, the item "Impairment charge" includes impairment charges related to the minority interest in Bakoma (Fresh Dairy Products in Poland). The item "Gain on disposal" includes primarily (i) the net capital loss of € 313 million from the disposal of the HOD water activities in the United States, (ii) the net capital gain of € 292 million from the disposal of Mahou (Beer in Spain) and (iii) the net capital gain of € 22 million from the disposal of Galletas Noël (Biscuits in Colombia).

In 2004, the item "Impairment charge" includes provision and impairment charges related to the Group's investments in DS Waters LP and The Danone Springs of Eden BV.

Net Income from Discontinued Operations. This item includes net income from the sauces activities and the capital gain of € 473 million from the disposal of the sauces activities in the United Kingdom and the United States.

Net Income Attributable to the Group. In 2005, net income attributable to the Group amounted to € 1,464 million compared to € 449 million in 2004. The reconciliation of Group share in net income to Group share in current net income is presented in the table below:

| | Year ended December 31, | |
|---|-------------------------|-------|
| | 2004 | 2005 |
| | (€ in millions) | |
| Net income attributable to the Group | 449 | 1,464 |
| Non-current net income from continuing operations | 508 | 71 |
| Net income from discontinued operations | (47) | (504) |
| Current net income attributable to the Group from continuing operations | 910 | 1,031 |

Non-current net income from continuing operations primarily consists of elements reflected in the item "Other operating (expense) income," as well as impairment charges and gains and losses from disposals relating to entities accounted for under the equity method (see above).

Net Income per Share. The diluted net income per share attributable to the Group increased significantly from € 1.79 in 2004 to € 5.87 in 2005. Excluding non-current items recorded in 2004 and 2005, net income per share attributable to the Group would have increased by approximately 16%, from € 3.57 in 2004 to € 4.14 in 2005.

Net Sales, Trading Operating Income and Trading Operating Margin by Main Business Line

Fresh Dairy Products. Net sales of fresh dairy products increased from € 6,510 million in 2004 to € 7,184 million in 2005, a 10.4% increase. At constant exchange rates and scope of consolidation, net sales increased by 7%. This internal growth was reinforced by positive effects of changes in the scope of consolidation, primarily related to the consolidation of Al Safi Danone Company (Saudi Arabia), of which the Group obtained control in July 2005. Variations in exchange rates also had a positive impact on growth of net sales, in the amount of 2.3%. Sales of yogurt and similar products, which represent close to 95% of the segment's sales, showed an increase in net sales of 11% in 2005.

The 2005 results once again reflect the segment's ability to innovate and expand the scope of its brands and key products, whether geographically or through the introduction of new products. The probiotic line *Activia* continued to show growth rates in sales of close to 36% at constant exchange rates and scope of consolidation and represented net sales of approximately € 845 million. Similarly, sales of *Actimel* recorded growth of close to 20% at constant exchange rates and scope of consolidation and represented net sales of approximately € 890 million in 2005. Sales of the low-fat product line *Taillefine/Vitalinea*, which totaled approximately € 900 million in 2005, had a growth rate of approximately 2% at constant exchange rates and scope of consolidation.

Trading operating income improved 11.1% from € 917 million in 2004 to € 1,019 million in 2005, and trading operating margin increased from 14.1% to 14.2%. In addition to the negative effect related to the increase in the cost of plastics and transport, trading operating margin was impacted by the difficulties encountered in markets with higher margins, such as France, as well as strong growth in countries with lower margins.

Beverages. Net sales of beverages increased from € 3,201 million in 2004 to € 3,473 million in 2005, an increase of 8.5%. At constant exchange rates and scope of consolidation, net sales of beverages increased by 10% in 2005. This increase was partially offset by a 2.6% negative impact from changes in the scope of consolidation related in particular to the disposal of the bottled water activities in Italy. Innovation was again a key factor in the growth of this segment, in particular with the launch of new flavored and functional beverages, such as *Taillefine Fiz* in France and *Smakolyk* in Poland.

Trading operating income for beverages decreased by approximately 4% from € 493 million in 2004 to € 474 million in 2005 and trading operating margin decreased from 15.4% in 2004 to 13.7% in 2005. The decrease in trading operating margin resulted primarily from (i) negative effects related to the increase in the cost of transport and the cost of raw materials, in particular plastics, and (ii) stronger growth in countries with lower margins. On the other hand, the disposal of the water activities in Italy had a positive impact on trading operating margin.

Biscuits and Cereal Products. Net sales of biscuits and cereal products decreased from € 2,562 million in 2004 to € 2,367 million in 2005, a decrease of 7.6%. This decrease is primarily due to a negative impact from changes in the scope of consolidation of 10.1% related to the disposal of the biscuits activities in the United Kingdom and Ireland, as well as the deconsolidation of the biscuits activities in Latin America. At constant exchange rates and scope of consolidation, net sales of biscuits and cereal products increased 1.5% in 2005. In 2005, this increase was again driven by Asia (particularly India and Indonesia). In Europe, sales decreased slightly, due to strong competitive pressure from local actors.

Trading operating income for biscuits and cereal products increased from € 278 million in 2004 to € 343 million in 2005. Trading operating margin increased significantly, from 10.9% in 2004 to 14.5% in 2005. This increase reflects the Group's efforts to improve profitability in the biscuits segment. Margin was also positively impacted by changes in the scope of consolidation, notably the disposal of Jacobs and Irish Biscuits in 2004 and the deconsolidation of the activities in Latin America as of January 1, 2005.

Net Sales, Trading Operating Income and Trading Operating Margin by Geographic Area

Europe. Net sales in Europe increased from € 8,096 million in 2004 to € 8,179 million in 2005, an increase of 1.0%. At constant exchange rates and scope of consolidation, net sales increased by 2.8%, despite a slight decrease in France, which represented € 2,833 million, or 35.3% of the region. The growth in Europe was primarily driven by the strong performances of Russia, Turkey, the United Kingdom and Germany.

Trading operating income for Europe increased from € 1,209 million in 2004 to € 1,266 million in 2005 and trading operating margin increased from 14.9% in 2004 to 15.5% in 2005. This increase was mainly the result of an improvement in operational performance as well as changes in the scope of consolidation (disposals of the water businesses in Italy as well as the biscuits businesses in the United Kingdom and Ireland). It was partially offset by the increase in the price of certain raw materials, particularly plastics, as well as a decrease in profitability in France.

Asia. Net sales in Asia increased from € 1,965 million in 2004 to € 2,235 million in 2005, an increase of 13.8%. At constant exchange rates and scope of consolidation, net sales increased by 12.9% in 2005, with a large contribution from Indonesia and China.

Trading operating income for Asia decreased from € 259 million in 2004 to € 256 million in 2005 and trading operating margin decreased from 13.2% in 2004 to 11.5% in 2005, principally due to the large negative impact of the increase in the cost of transport and the price of plastics.

Rest of the World. Net sales in this region, which primarily includes the activities of the Group in the Americas and South Africa, increased from € 2,212 million in 2004 to € 2,610 million in 2005, an increase of 18%. At constant exchange rates and scope of consolidation, net sales increased by 15.6% in 2005, with high levels of growth in every country in the region.

Trading operating income for the Rest of the World increased from € 220 million in 2004 to € 314 million in 2005 and trading operating margin increased from 10.0% in 2004 to 12.0% in 2005, due to the growth of the business and the deconsolidation of the biscuits activities in Latin America.

Liquidity and Capital Resources

Net Debt

Danone's consolidated net debt is defined as current and non-current financial liabilities less cash, cash equivalents and marketable securities. Danone's management uses net debt and total equity as an internal liquidity indicator. Danone believes this information will be useful to investors since it is used as a performance measure by credit rating agencies. A table of changes in net debt with a reconciliation of net debt to total debt is provided below.

| | At December 31, | | | | | |
|--|-------------------------|------------------------|--------------------------------|----------------------------|--------------|-------------------------|
| | At December 31, 2005 | Change for the year | Transfer to current portion | Translation adjustments | Other | At December 31, 2006 |
| | | | (€ in millions) | | | |
| Cash and cash equivalents | 576 | 115 | — | (36) | — | 655 |
| Marketable securities | 2,413 | 201 | — | (11) | (39) | 2,564 |
| <i>Total cash and cash equivalents</i> | <i>2,989</i> | <i>316</i> | <i>—</i> | <i>(47)</i> | <i>(39)</i> | <i>3,219</i> |
| Current financial liabilities | 869 | (235) | 23 | (13) | (228) | 416 |
| Non-current financial liabilities | 5,692 | 28 | (23) | (12) | 20 | 5,705 |
| <i>Total financial liabilities</i> | <i>6,561</i> | <i>(207)</i> | <i>—</i> | <i>(25)</i> | <i>(208)</i> | <i>6,121</i> |
| Net debt | 3,572 | (523) | — | 22 | (169) | 2,902 |

Other changes in net debt correspond primarily to changes in financial liabilities related to the put options granted to minority stockholders (see note 16 to the Consolidated Financial Statements).

Cash, Cash Equivalents and Marketable Securities

Marketable securities, which are treated as trading securities, include mainly negotiable debt instruments (€ 1,292 million at December 31, 2006, € 670 million at December 31, 2005 and € 765 million at December 31, 2004) and money market funds (€ 1,272 million at December 31, 2006, € 1,743 million at December 31, 2005 and € 1,435 million at December 31, 2004).

Marketable securities are usually purchased from major financial institutions.

Financial Debt

Financial debt is composed of the following:

| | At December 31, | | |
|--|-----------------|--------------|--------------|
| | 2004 | 2005 | 2006 |
| | (€ in millions) | | |
| Convertible bonds | 605 | 70 | — |
| Bank loans, other debt and employee profit-sharing debt | 3,456 | 3,465 | 3,617 |
| Financial liabilities linked to options granted to minority stockholders | 2,440 | 2,626 | 2,504 |
| Financial liabilities linked to securitized receivables | 703 | 400 | — |
| Total debt | 7,204 | 6,561 | 6,121 |
| Including short-term portion | 527 | 869 | 416 |
| Including long-term portion | 6,677 | 5,692 | 5,705 |

The line item “Bank loans, other debt and employee profit-sharing debt” mainly comprises (i) Euro Medium-Term Notes (EMTN) denominated in euro or in foreign currencies, which were issued as part of the annual program established by the Company and its subsidiary Danone Finance to issue EMTNs in a principal amount of up to € 7 billion, and (ii) treasury notes in a principal amount of up to € 2.5 billion.

The line item “Financial liabilities linked to options granted to minority stockholders” corresponds to the exercise price of the put options granted to minority stockholders in certain consolidated companies. The main commitment relates to Danone Spain for € 2,020 million. The majority of these options are exercisable at any time and no significant financial investment is currently considered probable regarding these options, with the exception of the potential partial exercise of the option relating to Danone Russia.

The decrease in financial debt between December 31, 2005 and December 31, 2006 resulted primarily from the early redemption of the balance of the convertible bonds as well as the expiration in June 2006 of the receivables securitization program.

Consolidated Cash Flows

The Group believes that the liquidity from its operations, cash, cash equivalents and marketable securities and the amounts available through its credit lines will be sufficient to finance its operating expenses, capital investment needs, debt service and dividend payments.

The table below presents information related to the consolidated cash flows for the years ended December 31, 2004, 2005 and 2006.

| | Year ended December 31, | | |
|---|-------------------------|-------|-------|
| | 2004 | 2005 | 2006 |
| | (€ in millions) | | |
| Cash flows provided by operating activities | 1,694 | 1,847 | 2,169 |
| Capital expenditures | (520) | (607) | (692) |
| Proceeds from the sale of fixed assets ⁽¹⁾ | 30 | 63 | 39 |
| Free cash flow ⁽²⁾ | 1,204 | 1,303 | 1,516 |
| Purchase of businesses and other investments, net of cash and cash equivalents acquired | (98) | (636) | (575) |
| Proceeds from the sale of businesses and other financial investments, net of cash and cash equivalents disposed of ⁽¹⁾ | 620 | 1,596 | 391 |
| (Increase) decrease in long-term loans and other assets | 130 | (134) | 336 |
| Changes in cash and cash equivalents of discontinued operations | 52 | 30 | — |
| Dividends | (456) | (489) | (610) |
| Purchases of treasury stock (net of disposals) | (213) | (558) | (587) |
| Increase in capital and additional paid-in capital | 38 | 61 | 52 |
| Net financing surplus (requirements) ⁽³⁾ | 1,277 | 1,173 | 523 |

- (1) The sum of these two line items corresponds to the line item "Proceeds from the sale of businesses and other investments net of cash and cash equivalents disposed of" in the statements of cash flows presented on page F-6.
- (2) Free cash flow equals cash flows from operating activities minus capital expenditures net of disposals. Groupe Danone management uses free cash flow as an internal liquidity indicator. Groupe Danone believes this information will be useful to investors since it is used as a performance measure by credit rating agencies. Free cash flow does not represent the residual cash flow available for discretionary expenditures, as other commitments have not been deducted. Free cash flow is a non-IFRS measure and should not be considered a substitute for IFRS measures of cash flow from operating, investing, and financing activities.
- (3) Net financing surplus (requirements) is an internal indicator that reflects changes in cash and cash equivalents, net of changes in current and non-current financial liabilities. The Group believes this measure to be useful to investors as it reflects changes in the Group's financial structure, including its liquidity and solvency. Net financing surplus (requirements) is a non-IFRS measure and should not be considered a substitute for IFRS measures of cash flow from operating, investing, and financing activities. Net financing surplus (requirements) can also be derived from the statements of cash flows as follows:

| | Year ended December 31, | | |
|--|-------------------------|-------|-------|
| | 2004 | 2005 | 2006 |
| | (€ in millions) | | |
| Cash flows provided by operating activities | 1,694 | 1,847 | 2,169 |
| Cash flows provided by investing activities | 214 | 312 | (501) |
| Increase in capital and additional paid-in capital | 38 | 61 | 52 |
| Purchases of treasury stock (net of disposals) | (213) | (558) | (587) |
| Dividends | (456) | (489) | (610) |
| Net financing surplus (requirements) | 1,277 | 1,173 | 523 |

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities reflects the difference between cash generated by operating activities, excluding changes in net working capital and net changes in current working capital. In general, cash flow is lower in the first half of any given year compared to the second half of that year because of higher working capital needs in the beginning of the year due to (i) increased production in preparation for reduced plant activity and temporary plant closures during the summer vacation months, (ii) the build-up of beverages inventory for stronger consumption in the summer and (iii) outstanding accounts receivable from sales realized in May and June as a result of seasonal variations.

The increase in cash flows provided by operating activities resulted from (i) a 10.2% increase in cash provided by operating activities before net changes in working capital, which increased from € 1,716 million in

2005 to € 1,891 million in 2006 and (ii) the optimization of net changes in working capital, which amounted to € 278 million in 2006 compared to € 131 million in 2005.

Capital Expenditures. Capital expenditures amounted to € 692 million in 2006 compared to € 607 million in 2005 and € 520 million in 2004, representing 4.9%, 4.7% and 4.2% of net sales, respectively. See “—Overview—Acquisitions and Investments.” Disposals of industrial assets amounted to € 39 million in 2006, compared to € 63 million in 2005 and € 30 million in 2004.

Financial Investments. Financial investments totaled € 575 million in 2006 compared to € 636 million in 2005 and € 98 million in 2004. For additional information on the Group’s acquisitions and divestitures, see above “—Overview—Acquisitions and Investments” and “—Recent Events.”

Proceeds from the sale of assets amounted to € 391 million in 2006 compared to € 1,596 million in 2005 and € 620 million in 2004. In 2006, proceeds from the sale of assets primarily related to the disposals of the sauces business in Asia (approximately € 180 million), the HOD water business in Canada (approximately € 47 million) and the biscuits business in New Zealand (approximately € 138 million).

Share Repurchase. In 2006, the Company repurchased 7,073,266 of its own shares, for a total amount of € 731 million compared to 9,125,430 shares for a total amount of € 685 million in 2005 and 3,396,387 shares, for a total amount of € 226 million in 2004. In addition, the income received upon the exercise of share purchase options by employees amounted to € 144 million in 2006 compared to € 127 million in 2005 and € 13 million in 2004.

Other Financing

At December 31, 2006, the Group’s non-consolidated investments included investments in listed companies with a market value of € 757 million, as is reflected in the balance sheet. These non-consolidated investments mainly consist of investments in Wimm Bill Dann, ONA, Shanghai Bright Dairy and Britannia Industries (see Note 8 to the Consolidated Financial Statements).

Marketable securities include mainly negotiable debt instruments and money market funds with major financial institutions, with respect to which the Group’s exposure is limited. In addition, other financial assets include marketable securities in the amount of € 84 million held as security for the Group’s damage and healthcare provisions.

The Group’s pension fund had a market value of € 339 million at December 31, 2006, of which approximately 26% was invested in equity securities, pursuant to the policy adopted by the managers of these funds. See Note 17 to the Consolidated Financial Statements.

Financial Condition

Danone’s consolidated net debt (defined as current and non-current financial liabilities less cash, cash equivalents and marketable securities) decreased to € 2,902 million at December 31, 2006 compared to € 3,572 million at December 31, 2005 and € 4,538 million at December 31, 2004, corresponding to ratios of net debt to total equity of 47.8% in 2006 (6.6% excluding financial liabilities related to the put options granted to minority stockholders), 63.5% in 2005 (16.8% excluding financial liabilities related to the put options granted to minority stockholders) and 100.7% in 2004 (46.6% excluding financial liabilities related to the put options granted to minority stockholders). The Group’s management uses the net debt to total equity ratio as an internal liquidity indicator. The Group believes this information will be useful to investors since it is used as a performance measure by credit rating agencies.

The Company’s long-term debt is rated A1 stable by Moody’s and A+ stable by Standard & Poor’s, and its commercial paper is rated A-1 by Standard & Poor’s. The Group’s financial objective includes the use of debt financing to lower the average cost of capital, while maintaining reasonable levels of indebtedness to protect its financial flexibility.

Danone maintains (at the parent company level and at the level of its finance subsidiaries, in particular Alfabanque, a wholly-owned subsidiary of the Company approved by the *Comité des Etablissements de Crédit et des Entreprises d'Investissement* and subject to all regulations applicable to credit institutions) credit lines with banks and other financial institutions to ensure the availability on an as-needed basis of medium-term credit lines. At December 31, 2006, Danone had credit lines totaling € 2,800 million (€ 2,875 million at December 31, 2005 and € 3,050 million at December 31, 2004). Operating subsidiaries had credit lines of € 294 million at December 31, 2006. Moreover, at December 31, 2006, the Group had cash and cash equivalents and marketable securities of € 3,219 million (compared to € 2,989 million at December 31, 2005 and € 2,666 million at December 31, 2004) to meet working capital needs and to take advantage of expansion opportunities.

Off-balance Sheet Arrangements and Aggregate Contractual Obligations

Aggregate Contractual Obligations

The following table sets forth the contractual obligations of the Group at December 31, 2006:

| | Payment due by period | | | | | | 2012 and after |
|---|-----------------------|------|-------|------|------|------|----------------------|
| | Total | 2007 | 2008 | 2009 | 2010 | 2011 | |
| | (€ in millions) | | | | | | |
| Financial liabilities ⁽¹⁾⁽²⁾ | 6,328 | 517 | 1,610 | 225 | 143 | 128 | 3,705 ⁽³⁾ |
| Capital lease commitments | 19 | 3 | 2 | 2 | 2 | 2 | 8 |
| Operating lease commitments | 295 | 97 | 61 | 44 | 24 | 20 | 49 |
| Commitments to purchase goods, services and investments | 652 | 512 | 58 | 44 | 23 | 12 | 3 |
| Commitments related to financial investments | 47 | 47 | — | — | — | — | — |

(1) Excluding financial liabilities linked to capital leases.

(2) Including financial interest.

(3) Consists primarily of the financial liabilities related to options granted to minority stockholders, which can be exercised at any time. The options granted to the minority shareholders of Danone Spain were granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be automatically renewed for successive 5-year periods.

Other Commitments

| | Amount of obligation by date of expiration | | | | | | 2012 and after |
|---------------------------------|--|------|------|-------|-------|------|----------------|
| | Total | 2007 | 2008 | 2009 | 2010 | 2011 | |
| | (€ in millions) | | | | | | |
| Commitments granted | | | | | | | |
| Guarantees and pledges given | 98 | 78 | 1 | — | 1 | — | 18 |
| Other commitments given | 99 | 57 | 8 | 9 | 4 | 3 | 18 |
| Commitments received | | | | | | | |
| Credit lines | 3,094 | 539 | — | 1,152 | 1,400 | — | 3 |
| Guarantees and pledges received | 61 | 52 | 1 | — | — | — | 8 |
| Other commitments received | 61 | 56 | 2 | 1 | — | — | 2 |

In connection with the formation of The Danone Springs of Eden BV, the Group granted a put option and was granted a call option on the 33.1% interest in the company it does not already own, directly or indirectly. These options can be unconditionally exercised in 2008 and, when certain conditions are met, before 2008. The exercise price of these options depends on the valuation of the company taking into account its economic performance and its results. At December 31, 2006, taking into account the performance of the company during the year 2006, the obligation of the Group in relation to these options was reviewed and assessed at approximately € 120 million (€ 150 million at December 31, 2005).

In addition, the Group granted a put option to its Indian partner in Britannia Industries (see Note 8 to the Consolidated Financial Statements).

Finally the Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business. Liabilities are accrued for when a loss is probable and can be reasonably estimated.

Impact of Changes in Exchange Rates

The Group publishes its consolidated financial statements in euro. In 2006, approximately 48% of the Group's net sales and 60% of its trading operating income were realized in euro. However, a substantial portion of the Group's assets, liabilities, sales and earnings are denominated in currencies other than the euro, particularly the Chinese yuan, the U.S. dollar and U.S. dollar-influenced currencies, the British pound or the Polish zloty. As a result, the Group is exposed to fluctuations in the values of such currencies against the euro with respect to the translation into euro of amounts to be reflected in its consolidated financial statements. In particular, the appreciation of the euro in relation to other currencies decreases the euro value of the contribution to the Group's consolidated results and to the financial condition of the Group's subsidiaries that maintain their financial accounts in such other currencies.

Both the sales and operating expenses of the Group's subsidiaries are denominated principally in the currencies of their home countries, except for imports, exports and financial transactions, which are generally hedged. As a result, the Group believes that its exposure to currency fluctuations has been, and will continue to be, limited locally. As a result of the Group's strategy of geographic expansion, however, the proportion of the Group's consolidated net sales, operating income and net income represented by international operations is expected to continue to increase.

For the purpose of preparing its consolidated financial statements, the Group uses the exchange rate applicable at the end of the year for the conversion of balance sheets (except if high local inflation rates call for a different method) and the average exchange rate for the year (calculated by averaging the applicable rate at the end of each month during the year) for conversion of income statements and cash flow changes.

In accordance with the Group's accounting policies, differences resulting from translation into euro of the financial statements of foreign subsidiaries are accounted for under stockholders' equity until such time as the foreign investments to which such differences relate are sold or liquidated. See "Item 3: Key Information—Risk Factors—The Group's results of operations and financial condition could be harmed by changes in exchange rates."

In 2006, approximately 52% of the Group's net sales (49% in 2005) and 40% of the Group's trading operating income (40% in 2005) were outside the euro zone and therefore subject to exchange rate risk.

| | 2005 | | 2006 | |
|---|------------------------|----------------------------|------------------------|----------------------------|
| | In millions of euro | As a % of Group figures | In millions of euro | As a % of Group figures |
| Net sales: | | | | |
| of subsidiaries located in euro zone | 6,642 | 51% | 6,755 | 48% |
| of subsidiaries located outside euro zone | 6,382 | 49% | 7,318 | 52% |
| Group total net sales | <u>13,024</u> | <u>100%</u> | <u>14,073</u> | <u>100%</u> |
| Trading operating income: | | | | |
| of subsidiaries located in euro zone | 1,043 | 60% | 1,148 | 60% |
| of subsidiaries located outside euro zone | 695 | 40% | 766 | 40% |
| Group total trading operating income | <u>1,738</u> | <u>100%</u> | <u>1,914</u> | <u>100%</u> |

Item 6. Directors, Senior Management and Employees

Directors and Senior Management

In accordance with French law governing a *société anonyme*, a form of limited liability company, the Company's activities are managed by its board of directors, or *conseil d'administration*, and by its Chairman and Chief Executive Officer, who has full executive authority to manage the activities of the Company, subject to the prior authorization of the board of directors or of the Company's shareholders for certain decisions specified by law or by the charter of the board of directors.

Under French company law, the board of directors may elect one person to assume the position of Chairman and Chief Executive Officer or split these functions between two different persons (either the Chairman of the Board or another natural person bearing the title of Chief Executive Officer or *Directeur Général*). The Company's bylaws were modified at the extraordinary shareholders' meeting of April 25, 2002 to provide for such a choice. According to the Company's bylaws, the choice is made by the board of directors deciding with a majority of all its members. On April 25, 2002, the board of directors decided not to split these two functions, which are currently performed by the same person.

French law and the Company's bylaws permit the board of directors to delegate general or specific powers to up to five people (*Directeurs Généraux Délégués* or Assistant Managing Directors). The Chief Executive Officer proposes the appointment of the *Directeurs Généraux Délégués* or Assistant Managing Directors to the board of directors and the board of directors determines their specific management powers and responsibilities. Under French law, an Assistant Managing Director, like the Chief Executive Officer, has broad powers to represent and bind the Company in dealings with third parties. An Assistant Managing Director may be removed by the board of directors at any time upon proposal by the Chief Executive Officer. An Assistant Managing Director may be held individually responsible for his/her actions if they are deemed contrary to the Company's interests.

Pursuant to the Company's bylaws, in addition to the appointment of *Directeurs Généraux Délégués*, the board of directors can appoint one or more Vice-Chairmen. The Vice-Chairman's seat comprises no particular powers other than chairing board meetings and general meetings if either the Chairman or the director temporarily acting for the latter, in compliance with law, is absent.

In consideration for their services on the board, directors are entitled to receive *jetons de présence* ("directors' fees"). The total annual amount of *jetons de présence* is fixed at the shareholders' meeting, but the board determines their allocation among the directors. In addition, remuneration may be granted to directors on a case-by-case basis for special assignments. Subject to one exception below, a director may not vote for his or her own remuneration. If he or she does vote, the decision is void. The board may also authorize the reimbursement of travel and accommodation expenses as well as other expenses incurred by directors in the corporate interest. The Chairman of the Board, Chief Executive Officer and Assistant Managing Directors are entitled to receive remuneration or other amounts in addition to *jetons de présence* under certain circumstances. Any additional remuneration is determined by the board of directors and therefore, in this case only, the Chairman of the Board, Chief Executive Officer and Assistant Managing Directors may vote on resolutions concerning their remuneration.

Board of Directors

Under French law, the board of directors prepares and presents yearly financial statements to the shareholders and calls the shareholders' meeting. In addition, the board of directors determines the direction of the Company's activities and oversees the implementation of its decisions.

Meetings of the board of directors, which are held as often as required by the corporate interest, are normally convened and presided over by the Chairman. According to French company law, if the board of

directors has not met for over two months, at least one-third of the members of the board may request that the Chairman convene the board regarding matters listed in the agenda for the meeting. A quorum is at least one-half of the members of the board, and decisions are taken by a vote of the majority of the members present, deemed to be present, or represented by other members of the board of directors. The Company's bylaws permit that certain decisions be taken by the board of directors by means of a conference call or video communication. A director may give a proxy to another director by any written or electronic means, but a director cannot represent more than one other member at any particular meeting. Members of the board of directors represented by another member at meetings do not count for purposes of determining the existence of a quorum. A director may not vote for an arrangement or contract in which he or she is interested. If he or she does vote, the decision will be void.

Under French law, the board of directors must give prior authorization for any security, pledge or guarantee granted by the Company to secure obligations of third parties. This authorization is generally granted for a period of one year. If the security, pledge or guarantee has not been previously authorized by the board of directors, it shall have no effect with regard to the Company.

Pursuant to French law and the Company's bylaws, the board of directors may consist of 3 to 18 directors. The Company's bylaws provide that each director is elected by the shareholders at an ordinary general meeting of shareholders for a three-year term and is eligible for reelection upon expiration of such term. The shareholders' meeting of April 11, 2003 passed a resolution increasing the aggregate amount of directors' fees to € 500,000. Pursuant to the Group's code of business conduct (*Principes de Conduite des Affaires du Groupe*), directors who are also members of the executive committee do not receive directors' fees. In 2006, directors were paid a total of approximately € 278,000 in directors' fees for their attendance at board meetings. A director who attended all five meetings of the board of directors in 2006 received € 20,000 in director's fees, with a fixed portion of € 10,000 per year and a variable portion of € 2,000 per meeting attended. In addition, the members of the three committees of the board of directors received compensation of € 4,000 per meeting. The compensation of the chairmen of these committees is double these amounts. Each director must own at least 2,000 shares of the Company throughout his term of office. In 2006, the board of directors of the Company held five meetings and the attendance rate was approximately 85%.

The Company's bylaws provide for the retirement age of the directors. Directors cannot be appointed if they are over 70 years old. The term of such director will automatically terminate at the end of the ordinary general meeting of shareholders held in the year during which the director has reached the age of 70. However, according to the Company's bylaws, the general shareholders' meeting may resolve that this age limit shall not apply to one or more directors who remain in office or may be re-appointed, provided the number of directors concerned by this provision does not exceed one-quarter of the directors in office.

In addition, according to the Company's bylaws, the Chairman of the Board, the Chief Executive Officer (if applicable) and Assistant Managing Directors may not be more than 65 years old.

The French Commercial Code (*Code de Commerce*) strictly forbids loans by the Company to its directors. In addition, no Group company may provide loans to directors or guarantee any director's obligations. This prohibition also applies to specified executive officers, Assistant Managing Directors, permanent representatives of companies on the board of directors, spouses or heirs of such persons, and other intermediaries.

The French Commercial Code and the Company's bylaws require any director, the Chief Executive Officer, any Assistant Managing Directors and any of the Company's shareholders holding voting rights greater than 10%, or if a shareholder company, the company controlling it, that are considering, either directly or indirectly, personally or through an intermediary, entering into an agreement with the Company, to inform the Company's board of directors as well as its auditors before the transaction is consummated. French law also requires such an agreement to be authorized by the board of directors, and the director in question or person concerned may not vote on the issue. French law further requires such an agreement to be submitted to an ordinary general meeting of shareholders for approval once entered into, upon presentation of a special report from the Company's auditors. Any agreement entered into in violation of these requirements may be declared void by the Commercial

Court at the request of the Company or of any shareholder, if such agreement is contrary to the interests of the Company. However, French law also states that such agreements, if they are entered into in the ordinary course of business and with terms and conditions which are not out of the ordinary, are not subject to the prior authorization of the board of directors. Nevertheless, such agreements must be disclosed by the interested party to the Chairman of the board of directors unless they are not significant for any party in terms of purpose or financial impact. The list and purpose of such agreements must be communicated by the Chairman of the board to the board of directors and to the statutory auditors.

Under French law, directors are liable for violations of French legal or regulatory requirements applicable to *sociétés anonymes*, violation of the bylaws or mismanagement. A director may be held liable for such actions both individually and jointly with other directors.

The following table sets forth the names and ages of the directors of the Company, their principal occupation or employment, the dates of their initial election as directors and the years of expiration of their terms:

| <u>Name</u> | <u>Age</u> | <u>Principal Occupation or Employment</u> | <u>Director Since</u> | <u>Term Expires</u> |
|--|------------|---|-----------------------|---------------------|
| Franck Riboud | 51 | Chairman and Chief Executive Officer (“ <i>Président Directeur Général</i> ”) of Groupe Danone. Director of L’Oreal SA, Renault, ONA; Member of Supervisory Board of Accor. | 1992 | 2010 ⁽¹⁾ |
| Jacques Vincent | 61 | Vice-Chairman, <i>Directeur Général Délégué</i> of Groupe Danone. Chairman of the Board of Directors of Ecole Normale Supérieure de Lyon; Director of Syngenta. | 1997 | 2008 |
| Bruno Bonnell ⁽²⁾ | 48 | Chairman and Chief Executive Officer of the Board of Directors of Infogrames Entertainment; Member of the Supervisory Board of Pathe, Eurazeo. | 2002 | 2008 |
| Michel David-Weill | 74 | President of Supervisory Board of Eurazeo; Member of Supervisory Board of Publicis Groupe. | 1970 | 2008 |
| Emmanuel Faber | 43 | Executive Vice-President—Asia-Pacific of Groupe Danone. Director of Ryanair Holdings Plc; Member of the Supervisory Board of Legris Industries. | 2002 | 2010 ⁽¹⁾ |
| Richard Goblet d’Alviella ⁽²⁾ | 58 | Chief Executive Officer (“ <i>Administrateur Délégué</i> ”) of Sofina S.A.; Director of Delhaize Groupe, Suez, Suez-Tractebel, Caledonia Investements, Finasucre SA, Glaces de Moustier sur Sambre, Henex S.A., Société de Participations Industrielles SA; Member of the Supervisory Board of Eurazeo. | 2003 | 2009 |
| Naomasa Tsuritani ⁽³⁾ | 63 | Senior Managing Director of Yakult Honsha, Co Ltd. | 2007 | 2008 |
| Bernard Hours | 50 | Executive Vice-President—Fresh Dairy Products of Groupe Danone. Director of Colombus Café, Flam’s. | 2005 | 2008 |
| Christian Laubie ⁽²⁾ | 68 | Member of the <i>Haut Conseil du Commissariat aux Comptes</i> . | 1985 | 2009 |
| Jean Laurent ⁽²⁾ | 62 | Chairman of the Board of Directors of Calyon S.A., Institut Europlace de Finance; Director of M6; Member of the Supervisory Board of Eurazeo. | 2005 | 2009 |
| Hakan Mogren ⁽²⁾ | 62 | Deputy Chairman of AstraZeneca Plc; Vice-Chairman of Gambro AB; Board Member of Remy Cointreau, Investor AB. | 2003 | 2009 |

| <u>Name</u> | <u>Age</u> | <u>Principal Occupation or Employment</u> | <u>Director Since</u> | <u>Term Expires</u> |
|--|------------|---|-----------------------|---------------------|
| Jacques Nahmias ⁽²⁾ | 59 | Chairman and Chief Executive Officer of Pétrofrance Chimie SA, Terminales Portuaires S. L., Vice-Chairman of Mercury Oil & Shipping Corporation, Petrofrance Inc. | 1981 | 2008 |
| Benoît Potier ⁽²⁾ | 49 | Chairman and Chief Executive Officer of Air Liquide SA; Chairman and Chief Executive Officer of Air Liquide International; Member of the Supervisory Board of Michelin. | 2003 | 2009 |

(1) Subject to the approval of the shareholders' meeting of April 26, 2007.

(2) Independent director as determined by the board of directors.

(3) Naomasa Tsuritani was co-opted by the board of directors on February 14, 2007 to replace the resigned director Hirokatsu Hirano for the remainder of his term, *i.e.*, until the shareholders' meeting called to approve the financial statements for the year 2007.

The Company's board also includes three honorary directors who serve in an advisory role: Daniel Carasso (Honorary Chairman), Yves Boël and Jean-Claude Haas.

The Company has implemented a charter, which outlines the rights and responsibilities of directors and the principles governing the conduct of its executive officers. These guidelines were adopted at the directors' meeting held on April 25, 2002. In 2003, further to the recommendations of the Nomination Committee and following the Bouton Report, a report issued in France to promote better corporate governance practices for listed companies, the board of directors evaluated its operating practices and decided to modify the charter of the board of directors. Following its evaluation in 2006, a new charter was adopted by the board of directors at its meeting on December 15, 2006.

The board of directors applied the recommendations of the Bouton Report to evaluate the independence of the directors according to criteria that are different from those adopted by the New York Stock Exchange. However, the board of directors decided to progressively implement the recommendation of the Bouton Report relating to directors who have served as such for over 12 years and provide for the development of the board accordingly. The board of directors also noted that the roles as directors that Mr. Goblet d'Alviella occupies in two companies in which Mr. Franck Riboud was also a director until June 2006 did not affect his independence. As a result of these decisions, the board reviewed the position of each of its directors and qualified seven of the thirteen directors as independent. The Company believes that seven of the thirteen directors are also independent under the independence criteria adopted by the New York Stock Exchange.

Significant Differences from NYSE Corporate Governance Requirements

Although Groupe Danone, as a foreign private issuer, is exempt from most of the corporate governance requirements of the New York Stock Exchange applicable to U.S. companies, Groupe Danone currently complies with substantially all such corporate governance requirements except that Groupe Danone's non-management directors do not currently meet without management and Groupe Danone's Nomination and Compensation Committee is not composed wholly of independent directors.

Executive Committee

Under the authority of Mr. Franck Riboud, the executive officers comprising the executive committee ensure the operational management of the Group. The executive officers implement the strategy defined by the board of directors, approve the budgets, coordinate the planning and execution of the missions of each of the subsidiaries and business lines and, depending on the results achieved, determine action plans to be implemented. The executive officers meet in committee at least once a month.

The following table sets forth the names and ages of the executive officers of the Company and their current positions with the Company:

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Executive Officer Since</u> |
|-------------------------------------|------------|--|--------------------------------|
| Franck Riboud | 51 | Chairman and Chief Executive Officer (<i>Président Directeur Général</i>) | 1996 |
| Jacques Vincent | 61 | Vice-Chairman and <i>Directeur Général Délégué</i> | 1996 |
| Georges Casala | 65 | Executive Vice-President—Biscuits and Cereal Products | 2000 |
| Emmanuel Faber | 43 | Executive Vice-President—Asia-Pacific | 2000 |
| Antoine Giscard d'Estaing | 46 | Executive Vice-President—Finance, Strategy and Information Systems (Chief Financial Officer) | 2005 |
| Bernard Hours | 50 | Executive Vice-President—Fresh Dairy Products | 2001 |
| Philippe Loïc Jacob | 42 | Secretary General | 2005 |
| Thomas Kunz | 49 | Executive Vice-President—Beverages | 2004 |
| Franck Mougin | 49 | Executive Vice-President—Human Resources | 2002 |
| Sven Thormahlen | 50 | Executive Vice-President—Research and Development | 2005 |

Franck Riboud, 51, has been Chairman and Chief Executive Officer (*Président Directeur Général*) since 1996. Mr. Riboud joined the Group in 1981 and has held several positions, including General Manager of Evian in 1990 and General Manager of Corporate Business Development in 1994 when he was responsible particularly for the internationalization of the Group. Prior to being appointed to his current position, he was Vice-President and General Manager and Member of the board of directors from 1994. Mr. Riboud holds a degree in engineering from *Ecole Polytechnique* in Lausanne.

Jacques Vincent, 61, was appointed Vice-Chairman and *Directeur Général Délégué* in 1998. Prior to this, he was Vice-President—Fresh Dairy Products. Having spent most of his career with the Group, he occupied various positions as general manager of certain of its subsidiaries in France, Germany, Italy and the United States in the water and dairy businesses. Mr. Vincent holds a Master of Science degree from Stanford University, an engineering degree from the *Ecole Centrale de Paris* and a degree in economics.

Georges Casala, 65, is Executive Vice-President—Biscuits and Cereal Products Worldwide. He began his career in General Foods and joined Danone in 1973. Since then, he has held such positions as President and Chief Executive Office of the Dannon Company in the United States from 1982 to 1989, Vice-President of Danone France since 1989 and Executive Vice-President—Northern Europe since 1995. Mr. Casala is a graduate of the *Ecole Supérieure de Commerce de Paris* and holds a degree in economics.

Emmanuel Faber, 43, is Executive Vice-President—Asia-Pacific. He joined the Group in 1997 as Director of Development and Strategy, held the position of Executive Vice-President—Finance, Strategy and Information Systems from 2000 to 2005 and has held his current position since 2005. He began his career as a consultant with Bain & Co. then worked for Banque Baring Brothers in 1988. Subsequently, he became financial director and head of strategy of the Legris Industries Group in 1993 and later a member of the board of directors in 1994 and Managing Director of the Group in 1997. Mr. Faber is a graduate of the *Ecole des Hautes Etudes Commerciales* (HEC).

Antoine Giscard d'Estaing, 46, is Executive Vice-President—Finance, Strategy and Information Systems (Chief Financial Officer). He began his career as a finance inspector in the French civil service. He then joined Lyonnaise des Eaux, where he held a number of positions within the Finance Department and at subsidiary Elyo.

From October 1995 to May 1999, Mr. Giscard d'Estaing served as Senior Vice President, Finance for Lyonnaise des Eaux, which merged with Suez to become Suez Lyonnaise des Eaux in 1997. In June 1999, he joined Schneider Electric as Executive Vice-President, Finance and Control and a member of the Executive Committee. Antoine Giscard d'Estaing is a member of the Board of the French stock market authority, *Autorité des Marchés Financiers* (AMF). He is a graduate of the *Ecole des Hautes Etudes Commerciales* (HEC) and the *Ecole Nationale d'Administration* (ENA).

Bernard Hours, 50, is Executive Vice-President—Fresh Dairy Products Worldwide. He joined the Group in 1987 following a career at Unilever. Since then, he held various positions within the Group, including several marketing positions at Kronenbourg, Evian and Danone France. He was also General Manager of subsidiaries in the fresh dairy products division (Hungary and Germany) and in the biscuits division (France). Mr. Hours is a graduate of the *Ecole des Hautes Etudes Commerciales*.

Philippe Loïc Jacob, 42, is Secretary General of Groupe Danone (covering the Legal Department, Public Affairs Department, Quality Department and Risk Management Department). He started his career in 1986 in various marketing positions for Evian and for Brasseries Kronenbourg. In 1993 he was appointed Director of Acquisitions within the Corporate M&A Department. In 1996 he moved to Argentina as General Manager of Villa del Sur before being appointed General Manager of the Mercosur Water Business. In 2000 he was appointed Director of Strategy and Acquisitions for the Water Worldwide Business Unit. Philippe-Loïc Jacob is a French and Canadian citizen and holds a diploma from the Lyon School of Management (EM Lyon).

Thomas Kunz, 49, is Executive Vice-President—Beverages. He joined the Group in 1990 as Marketing Director of Gervais Danone AG, Germany. In 1995, he was appointed General Manager of Danone de Mexico, and in 1998, he was appointed General Manager of Bagley, Argentina. In 1999, he was appointed General Manager of the Dairy North America business. Mr. Kunz graduated from the Saint Gall University in Switzerland with a degree in economics.

Franck Mougin, 49, is Executive Vice-President—Human Resources. He has spent his entire career working in human resources, for several industrial groups. Mr. Mougin began his career with CGEE-Alsthom in 1981, before joining the Luchaire group. In 1983, he joined Matra Electronique as Human Resources Manager. From 1989 to 1995, he held the position of Human Resources Manager with Fruehauf France, and then with the Fruehauf-Trailor Group. Since 1995, he held successive positions as Human Resources Manager for Placoplatre, and then for the British Plaster Board Group (BPB) in London. Mr. Mougin holds a Master's degree in social law.

Dr. Sven Thormahlen, 50, is Executive Vice-President—Research and Development. He received his doctorate in organic synthetic chemistry from the University of Hamburg and held different positions in the research and development organizations of leading healthcare and consumer goods companies. He has worked in Germany, in the United States and in France. His experience covers product research, product development, clinical studies and quality assurance.

Directors' and Executive Officers' Compensation

In 2006, the aggregate amount of compensation paid by Danone to its executive officers and directors as a group (19 persons in all) for services in all capacities was € 11.4 million, including € 11.1 million to executive officers of which € 6 million was variable compensation. The aggregate amount paid by Danone for pension, retirement or similar benefits for the same executive officers and directors as a group in respect of the 2006 fiscal year was € 0.6 million.

Executive officers' compensation amounts include a fixed element and a variable element representing between 40% and 60% of total compensation. The variable element is based on economic, social and individual objectives. For all executive officers, the variable element is based on economic objectives, to which is added a qualitative evaluation of the strategy developed over the course of the year. For the Chairman and Vice-

Chairman, the variable economic element is calculated with reference to Group objectives, in terms of net sales, trading operating margin, free cash flow and current net earnings per share, as communicated to the financial markets. For executive officers who manage a business line, the variable economic element is based on objectives set in the budget of the business line in terms of net sales, trading operating income, free cash flow and trading operating margin. For the other executive officers, the variable economic element is calculated based on the Group's objectives set in the budget in terms of trading operating margin, current net earnings per share and operating costs. The compensation of the Chairman and Vice-Chairman are determined by the board of directors on the basis of recommendations made by the Nomination and Compensation Committee. The compensation policy for the other members of the executive committee is presented annually to the Nomination and Compensation Committee.

In 2005 and 2006, the aggregate amount of compensation for services awarded to the directors was:

| Name | Compensation and Other Benefits ⁽¹⁾ | |
|---------------------------|--|-----------|
| | 2005 | 2006 |
| | (in euro) | |
| Franck Riboud | 2,485,540 | 2,579,100 |
| Jacques Vincent | 1,544,620 | 1,592,980 |
| Bruno Bonnell | 20,000 | 16,000 |
| Michel David-Weill | 32,000 | 24,000 |
| Emmanuel Faber | 966,058 | 998,084 |
| Richard Goblet d'Alviella | 54,000 | 44,000 |
| Hirokatsu Hirano | 20,000 | 16,000 |
| Bernard Hours | 941,408 | 1,364,170 |
| Christian Laubie | 54,000 | 44,000 |
| Jean Laurent | 20,000 | 24,000 |
| Hakan Mogren | 16,000 | 22,000 |
| Jacques Nahmias | 22,000 | 20,000 |
| Benoît Potier | 66,000 | 68,000 |

(1) Compensation includes gross salary, bonuses, indemnities and directors' fees granted by the Company and its subsidiaries for the financial period. In 2006, the variable portion of compensation was € 1,583,560 for Franck Riboud, € 828,360 for Jacques Vincent, € 508,464 for Emmanuel Faber and € 809,550 for Bernard Hours. In addition, benefits in kind were granted to each director member of the executive committee in the amount of € 4,620.

Employees at Groupe Danone benefit from the Groupe Danone standard employment contracts. However, while Franck Riboud and Jacques Vincent hold their positions as *Président Directeur Général* and *Directeur Général Délégué*, respectively, their service contracts with the Company are suspended. In the event that either of these two individuals no longer holds his position, his service contract with the Company will be reinstated, (i) taking into account the length of his terms as *Président Directeur Général* or *Directeur Général Délégué*, respectively, for purposes of seniority and benefits, (ii) at a position comparable to that currently held in the executive committee and (iii) at an annual level of compensation no less than the average for all the members of the executive committee during the twelve months prior to such reinstatement. Emmanuel Faber and Bernard Hours continue to benefit from their service contracts without interruption. In addition, if Messrs. Riboud and Vincent are removed from their current positions in certain specific circumstances, they will be entitled to a severance payment of two times the compensation (including bonus compensation and benefits) received during the preceding twelve months. A similar provision also applies to Mr. Faber and all members of the executive committee who hold a service contract under French law.

Senior managers of the Group who were under the French pension system at December 31, 2003 benefit from a defined benefit pension plan. This plan pays a pension based on years of service and the amount of the last salaries, under the condition that the employee is still with the Group at the time of retirement. The pension is paid after deducting pensions paid by other mandatory plans and may reach a maximum of 65% of the last salary. In the event of retirement before the age of 55 or in the event of death before retirement, the employee loses all

benefits under this plan. This pension plan was closed to new participants on December 31, 2003. The amount provisioned for this plan represents the obligation of the Group at December 31, 2006 for the payment of annuities calculated on the basis of life expectancies based on mortality tables.

At December 31, 2006, the total amount of the Group's pension obligations for directors was € 38 million.

Committees of the Board of Directors

The board of directors has established three committees: the Audit Committee, the Nomination and Compensation Committee and the Social Responsibility Committee, as described below. The administrative organization of the Audit Committee and the Nomination and Compensation Committee differs from that required of U.S. companies listed on the New York Stock Exchange.

Audit Committee

In its meeting on December 15, 2006, the board of directors gave the Audit Committee a new charter which outlines its responsibilities.

The Audit Committee is responsible for:

- reviewing and commenting on the Company's statutory and consolidated financial statements prior to their approval by the board of directors and in particular, (i) ensuring that management has ensured the reliability and integrity of the Company's accounting policies, (ii) reviewing the accounting treatment of complex or unusual transactions, (iii) reviewing the scope of consolidation, (iv) verifying that the internal control procedures are sufficient to assure the quality of financial information and (v) reviewing the principal financial information documents of the Group;
- conducting the selection process for the independent auditors of the Company, making all proposals for their appointment, renewal and compensation, reviewing their audit plan as well as reviewing specific projects that may be assigned to them, and ensuring their independence; and
- ensuring the existence of the internal control and risk management procedures established by the Company, reviewing the report of the Chairman of the board of directors on internal control, approving the internal audit plan, following its execution and ensuring the level of quality and adequacy of resources allocated to internal controls.

In 2006, the Audit Committee met six times and in particular examined:

- the procedures put in place for the valuation of long-term assets, in particular, those related to the HOD water activities in Europe,
- the status of the work on internal control procedures required to comply with the Sarbanes-Oxley Act of 2002,
- the procedures for risk assessment,
- the approval of internal and external audit plans, and
- the pre-approval policy for services of the independent auditors (excluding audit work),

The written minutes of the Audit Committee meetings were circulated to the directors and commented on during the meetings of the board of directors.

As of February 28, 2007, the members of the Audit Committee were Benoît Potier (Chairman), Richard Goblet d'Alviella and Christian Laubie, who are all independent.

Mr. Christian Laubie is the “financial expert” of the Audit Committee, due to his knowledge of accounting principles, procedures of internal control and the roles of the Audit Committee. Mr. Laubie was the Chief Financial Officer of Danone from 1980 to 2000, and he participates in the organization that regulates statutory audit professionals in France.

Nomination and Compensation Committee

In 2005, the board of directors decided to merge the Compensation Committee and the Nomination Committee into a single committee called the Nomination and Compensation Committee.

In its meeting on December 15, 2006, the board of directors gave the Nomination and Compensation Committee a new charter which outlines its responsibilities.

The Nomination and Compensation Committee is responsible for:

- making proposals to the board of directors for nominations of directors;
- preparing the review by the board of directors of questions relating to management of the Company;
- conducting an evaluation of the board of directors and the Audit Committee, upon request;
- proposing criteria for the compensation of the executive officers of the Company;
- making proposals related to the grant of share purchase options or shares free of charge to the executive officers and directors;
- proposing the allocation of attendance fees among directors; and
- more generally, making recommendations related to the Group’s compensation policy upon the request of the board of directors.

In 2006, the committee met once and in particular reviewed in detail all of the compensation programs and benefits for the members of the Executive Committee. After the adoption of its charter by the board of directors in December 2006, the committee met for the first time on January 23, 2007.

As of February 28, 2007, the members of the Nomination and Compensation Committee were Mr. Michel David-Weill (Chairman), Mr. Jean Laurent (independent director) and Mr. Hakan Mogren (independent director).

Social Responsibility Committee

In its meeting on December 15, 2006, the board of directors decided to create a third governance body, the Social Responsibility Committee. In its meeting on February 14, 2007, the board of directors gave this committee a charter which outlines its responsibilities and procedures.

The Social Responsibility Committee is responsible for:

- reviewing the principal risks and opportunities for the Group in environmental matters in relation to its objectives and activities and with respect to market trends and developing practices in the industry;
- reviewing the social policies of the Group, its objectives and the results obtained;
- reviewing reporting, evaluation and control systems in order to allow the Group to produce reliable information in non-financial matters;
- reviewing the non-financial information published by the Group, in particular relating to social and environmental matters;
- reviewing once a year the ratings received by the Company and its subsidiaries by non-financial rating agencies; and

- ensuring the application of the ethical codes established by the Group.

In addition, in the field of socially responsible investments, the committee is responsible for:

- evaluating the impact of these actions for the Company and the Group;
- reviewing the application of the rules established by the Group concerning investments and social programs in areas related to the Group's activities; and
- ensuring that the Company's interests are preserved, in particular preventing any conflict of interest between these activities and the rest of the activities of the Group.

As of February 28, 2007, the members of the Social Responsibility Committee are Mr. Jean Laurent (Chairman and independent director), Mr. Bruno Bonnell (independent director) and Mr. Emmanuel Faber.

Share Ownership

As of December 31, 2006, the total number of shares owned by the Company's directors and executive officers as a group (19 persons) was 177,780 or 0.07% of the outstanding shares of the Company, not including 13,975,995 shares held by Eurazeo, in which Mr. Michel David-Weill, a director of the Company, has direct and/or indirect interests. None of the Company's directors or executive officers owns more than 1% of the Company's outstanding shares.

Options

As of December 31, 2006, a total of 6,719,034 options to purchase existing shares was outstanding, of which 1,718,401 were held by the executive officers. During 2006, the grants and exercise of options by directors were as follows:

| | Options Granted ⁽¹⁾ | | | Options Exercised | |
|------------------------|--------------------------------|-----------------|----------------|-------------------|----------------|
| | Number of Options | Expiration Date | Exercise Price | Number of Options | Exercise Price |
| Board Directors | | | | | |
| Franck Riboud | 100,000 | 04/26/2014 | €99.48 | 60,000 | €58.09 |
| | | | | 65,000 | €73.57 |
| | | | | 28,000 | €69.40 |
| Jacques Vincent | 66,500 | 04/26/2014 | €99.48 | 60,000 | €73.57 |
| | | | | 60,000 | €69.40 |
| Emmanuel Faber | 26,500 | 04/26/2014 | €99.48 | 60,000 | €73.57 |
| | | | | 26,500 | €69.40 |
| Bernard Hours | 26,500 | 04/26/2014 | €99.48 | 4,000 | €61.98 |
| | | | | 3,200 | €58.09 |
| | | | | 12,000 | €51.53 |

(1) Option Plan of April 22, 2005.

These options were granted by the board of directors pursuant to employee stock option plans adopted at general shareholders' meetings. Pursuant to each option plan, the board was authorized to issue options exercisable in the aggregate for up to 1.0% of the Company's outstanding share capital at the date of issuance (plan adopted in May 1997), up to four million shares at the date of issuance (plans adopted in May 1999, May 2001 and April 2003) or up to three million shares at the date of issuance (plan adopted in April 2005), including all options already outstanding under the current and previous plans. Since March 1999, the exercise price for the options should be at least equal to the average price quoted for the shares on Euronext Paris during a period of 20 business days prior to the date of granting by the board. The options may only be exercised two or four years after their grant, unless an exception is available.

In 2006, a total of 151,500 options to purchase existing shares issued under the April 22, 2005 plan were granted at a weighted average exercise price of € 99.48 to the ten employees of the Group, excluding directors,

who received the largest number of options, of which 132,500 were granted to six members of the Company's executive committee.

During the same period, a total of 335,700 options were exercised at a weighted average exercise price of € 63.26 by the ten employees of the Group, excluding directors, who subscribed or purchased the largest number of shares, of which 50,000 options were exercised by two members of the executive committee.

The following table sets out certain information relating to the various option plans as of December 31, 2006. Numbers have been restated to give effect to the 2-for-1 stock splits effected by the Company in June 2000 and June 2004.

| Options Plan | Options Issuable | Date of Board Meeting Granting Options | Options Granted | Expiration Date | Exercise Price of Options per Ordinary Share | Number of Options Cancelled at December 31, 2006 | Number of Options Exercised at December 31, 2006 | Number of Exercisable Options | Of which: Options Exercisable by Members of the Executive Committee | Of which: Number of Members of the Executive Committee who can Exercise the Options |
|----------------|--------------------------|--|-------------------|-----------------|--|--|--|-------------------------------|---|---|
| May 14, 1997 | 3,098,340 ⁽¹⁾ | 09/09/1997 | 640,000 | 09/09/2005 | € 33.38 | 103,600 | 536,400 | — | — | |
| | | 01/28/1998 | 160,000 | 01/28/2006 | € 38.99 | — | 160,000 | — | — | |
| | | 03/18/1998 | 778,000 | 03/18/2006 | € 44.25 | 73,200 | 704,800 | — | — | |
| | | 05/19/1998 | 10,000 | 05/19/2006 | € 51.07 | 6,000 | 4,000 | — | — | |
| | | 09/15/1998 | 274,000 | 09/15/2006 | € 58.08 | 28,000 | 246,000 | — | — | |
| | | 01/26/1999 | 279,200 | 01/26/2007 | € 55.75 | 30,000 | 201,165 | 48,035 | — | |
| | | 03/17/1999 | 160,800 | 03/17/2007 | € 56.75 | 20,000 | 122,800 | 18,000 | — | |
| | | 05/19/1999 | 378,040 | 05/19/2007 | € 61.98 | 41,200 | 239,615 | 97,225 | — | |
| | | | 2,680,040 | | | 302,000 | 2,214,780 | 163,260 | — | 0 |
| May 19, 1999 | 4,000,000 ⁽²⁾ | 06/15/1999 | 414,000 | 06/15/2007 | € 64.19 | 49,800 | 263,267 | 100,933 | — | |
| | | 09/14/1999 | 39,400 | 09/14/2007 | € 60.15 | — | 34,200 | 5,200 | — | |
| | | 01/26/2000 | 666,680 | 01/26/2008 | € 58.09 | 17,600 | 531,080 | 118,000 | — | |
| | | 03/15/2000 | 449,600 | 03/15/2008 | € 51.53 | 44,000 | 316,880 | 88,720 | 15,600 | |
| | | 05/22/2000 | 83,200 | 05/22/2008 | € 63.50 | 41,600 | 27,199 | 14,401 | — | |
| | | 09/13/2000 | 241,400 | 09/13/2008 | € 77.91 | 40,000 | 109,100 | 92,300 | — | |
| | | 10/17/2000 | 4,800 | 10/17/2008 | € 76.90 | — | 2,400 | 2,400 | — | |
| | | 03/14/2001 | 1,488,500 | 03/14/2009 | € 73.57 | 236,400 | 711,569 | 540,531 | 75,000 | |
| | | | 3,387,580 | | | 429,400 | 1,995,695 | 962,485 | 90,600 | 2 |
| May 29, 2001 | 4,000,000 ⁽³⁾ | 10/08/2001 | 311,300 | 10/08/2009 | € 70.81 | 44,500 | 127,180 | 139,620 | — | |
| | | 04/25/2002 | 1,313,600 | 04/25/2010 | € 69.40 | 91,100 | 560,195 | 662,305 | 130,700 | |
| | | 10/17/2002 | 234,600 | 10/17/2010 | € 60.76 | 36,000 | 112,682 | 85,918 | 18,000 | |
| | | 04/11/2003 | 1,843,650 | 04/11/2011 | € 59.07 | 206,500 | 484,876 | 1,152,274 | 364,300 | |
| | | | 3,703,150 | | | 378,100 | 1,284,933 | 2,040,117 | 513,000 | 9 |
| April 11, 2003 | 4,000,000 ⁽⁴⁾ | 10/15/2003 | 61,200 | 10/15/2011 | € 65.79 | 17,200 | 17,600 | 26,400 | — | |
| | | 04/15/2004 | 1,875,680 | 04/15/2012 | € 67.41 | 206,400 | 231,711 | 1,437,569 | 431,300 | |
| | | 10/13/2004 | 44,300 | 10/13/2012 | € 64.05 | 4,000 | 1,600 | 38,700 | 20,000 | |
| | | 04/22/2005 | 1,137,728 | 04/22/2013 | € 75.11 | 74,300 | 4,000 | 1,059,428 | 297,501 | |
| | | | 3,118,908 | | | 301,900 | 254,911 | 2,562,097 | 748,801 | 9 |
| April 22, 2005 | 3,000,000 | 08/08/2005 ⁽⁵⁾ | 14,000 | 08/08/2013 | € 82.57 | — | — | 14,000 | 14,000 | |
| | | 10/18/2005 | 12,800 | 10/18/2013 | € 90.15 | 800 | — | 12,000 | — | |
| | | 04/27/2006 | 965,025 | 04/26/2014 | € 99.48 | 16,850 | — | 948,175 | 352,000 | |
| | | 10/16/2006 | 17,000 | 10/15/2014 | € 111.08 | 100 | — | 16,900 | — | |
| | | | 1,008,825 | | | 17,750 | — | 991,075 | 366,000 | 10 |
| Total | | | 13,898,503 | | | 1,429,150 | 5,750,319 | 6,719,034 | 1,718,401 | |

(1) Of a total of 3,098,340 options issuable under the May 1997 Option Plan, 418,300 options were not granted and ceased to be issuable on May 19, 1999.

(2) Of a total of 4,000,000 options issuable under the May 1999 Option Plan, 612,420 options were not granted and ceased to be issuable on May 29, 2001.

(3) Of a total of 4,000,000 options issuable under the May 2001 Option Plan, 296,850 options were not granted and ceased to be issuable on April 11, 2003.

(4) Of a total of 4,000,000 options issuable under the April 2003 Option Plan, 881,092 options were not granted and ceased to be issuable on April 22, 2005.

(5) On July 20, 2005, the board of directors authorized the grant of 14,000 options and this grant was made by delegation on August 5, 2005.

Employees

At December 31, 2006, Danone had a total of 88,124 employees worldwide. The table below shows the total number of employees at year-end and the percentage of such employees by geographic area and business line at December 31, 2006, 2005 and 2004.

| | 2004 | 2005 | 2006 |
|--|--------|--------|--------|
| Total number of employees | 89,449 | 88,184 | 88,124 |
| <i>By Geographic Area:</i> | | | |
| France | 13.8% | 13.7% | 13.3% |
| Rest of Europe | 23.6% | 22.9% | 23.5% |
| China | 27.2% | 26.8% | 23.6% |
| Rest of Asia-Pacific | 18.7% | 19.8% | 15.0% |
| North and South America | 16.3% | 13.8% | 20.3% |
| Africa and Middle East | 0.4% | 3.0% | 4.3% |
| Total | 100.0% | 100.0% | 100.0% |
| <i>By Business Line:</i> | | | |
| Fresh dairy products | 26.7% | 30.0% | 32.6% |
| Beverages | 43.7% | 44.4% | 49.1% |
| Biscuits and cereal products | 24.4% | 21.3% | 16.7% |
| Other food businesses ⁽¹⁾ | 2.8% | 2.6% | — |
| Corporate functions | 2.4% | 1.7% | 1.6% |
| Total | 100.0% | 100.0% | 100.0% |

(1) Corresponds to the employees of Amoy Foods Ltd and Shanghai Amoy Foods, sold in January 2006.

Employee Profit Sharing

The Company's employees benefit from a triennial profit sharing plan, renewed in 2006, based on the Group's results. In addition, the subsidiaries generally have in place profit sharing plans for their employees based on their own results. In 2006, recorded charges relating to profit sharing plans amounted to € 121 million (€ 116 million in 2005 and € 115 million in 2004).

Group Performance Units

In 2005, the Group put in place a new system of variable compensation, in the form of Group Danone Performance Units ("GPU"), for which members of the executive committee and certain managers are eligible, totaling approximately 1,000 people worldwide.

The value of the GPUs, which can vary between € 0 and € 30, is calculated over a sliding period of three years based on the Group's performance measured based on objectives communicated to the financial markets. Each year, the board of directors of the Company, considering the recommendations of the Nomination and Compensation Committee, sets the performance objectives for the next year and evaluates the achievement of the previous year's objective for each GPU plan. In the event of a successful tender offer for shares of the Company, the performance objectives of the GPU plans will be considered to have been met and the GPUs will be paid in the month following the completion of the offer.

This three-year variable compensation program, based on performance objectives announced to the financial markets, increases the unity and commitment of managers with the objective of strengthening the Group's positions in its markets and improving its operational performance.

General Policy

Danone's corporate culture is based on two goals: economic and social. As a result, the Group's human resources policy is founded on two principles: a full and complete involvement in operating decisions and the determination to meet demanding social commitments. The *Direction du Développement Durable et de la Responsabilité Sociale* (Management of Sustainable Development and Social Responsibility) coordinates and implements the sustainable development policy, in connection with the various functional departments of the Group and its subsidiaries.

Operational decisions are effected by a human resources organization that is simple and close to the needs of the business. Human resources are organized by division and rely on group-wide structures in key areas such as compensation, organization and know-how, integration of acquisitions, recruitment and senior management. As a result, to attract talent from all over the world, the Group has developed an institutional communication campaign presented on the Internet by the website "danonepeople.com." The development of human resources is ensured by training and quality management, for example, through tools such as "360°" personal assessments and coaching. Furthermore, human resources promotes the Group's international development through (i) a global recruitment policy, (ii) encouraging the movement of managers around the world through a dedicated team that manages the administrative, financial and personal aspects of transfers and rotations and (iii) the integration of newly acquired companies.

Social Policy

The Group's core principles are based on International Labor Organization conventions relating to the prohibition of child labor, forced labor, discriminatory practices, safety and working conditions, working hours, the application of national laws to the minimum wage, freedom of association and expression of employees and the right to collective bargaining. These principles are minimum requirements to be met by all Group companies, related companies, partners and suppliers. The implementation of a human resource and social policy is only valid insofar as the basic requirements are fulfilled by the employees of the Group and its partners.

Safety and Working Conditions. Group policies regarding safety and working conditions apply to all employees, including temporary staff, interns and apprentices, who are all included in statistics, and to all Group companies, whether recently acquired or not.

Welfare. The Group has developed a welfare policy in accordance with the economic situation of the environment in which the subsidiaries operate. Welfare takes into account the fundamental needs for social protection of employees and their families. It covers areas as diverse as pensions, workplace accidents, access to medical care and insurance for business travel.

Wages. The Group's objective is to be attractive in the countries in which it is present. Wages are a key factor in the Group's human resource policies which offer the continued acquisition of skills and career opportunities. The Group's objective is to better attract and motivate employees, and the Group seeks to be competitive with comparable leading international companies in each country where it operates. Each subsidiary is encouraged to develop a formal compensation policy and to communicate it to managers and management committees.

In 2001, the Group introduced a worldwide classification system for all managers, enabling them to identify their precise ranking and related responsibilities. The individual contribution of each manager is evaluated in an annual interview or Development and Performance Review (RDP).

In 2006, the Group's personnel expenses, including social expenses, amounted to € 1,807 million compared with € 1,793 million in 2005 and € 1,729 million in 2004. In addition, € 121 million was paid to the employees of the Group in 2006 as part of the incentive and profit sharing schemes, compared with € 116 million in 2005 and € 115 million in 2004.

Dialogue with Unions. The topics most often covered in collective bargaining agreements as negotiated with unions or workers' representatives are compensation, work hours and conditions and work safety. Since 1996, the Group's Information and Consultation Committee has met once a year and is composed of Group union members and permanent national unions on the one hand and Danone human resources and operational managers on the other. It also has observer members from the International Union of Food Workers (IUF). Regular dialogue has existed since 1985 with the IUF, which has led to the implementation of six common programs since 1988 relating to equal opportunities in the workplace, the availability of economic and social information, the recognition of union rights and informing representatives of the personnel in the event of a modification of the business which may affect jobs and working conditions and the restructuring of the biscuits segment, programs that have been concluded since 1988 by six agreements which were revised in 2005 to facilitate worldwide application. These agreements are widely distributed within the Group's subsidiaries and published in 20 languages in order to be more easily understood and put in place.

Training. More than ten years ago, the Company put in place a series of training programs in areas such as purchasing, marketing, human resources and financing that are run by professionals from various companies within the Group with the assistance of outside specialists, in the form of educational partnerships with universities.

Leading Social and Environmental Responsibility. In conducting business, the "Danone Way" is both a business conduct policy and a tool designed to assist the Group's subsidiaries in addressing a number of areas, such as social policy, environmental, food safety and nutrition issues. These guidelines reflect the perspectives and particular concerns of key categories of stakeholders such as employees, consumers and clients, suppliers, stockholders, the community in general and the environment. Management has assigned specific objectives to the "Danone Way": to spread, share and enrich the values and culture of the Group in each country where it operates, to allow subsidiaries to perform self-evaluations with respect to observable and measurable criteria and to have available at the Group level a collection of effective practices.

For each stakeholder, each of the subsidiaries' teams performs self-evaluations on the basis of a set of practices as defined by the Group. Working groups bringing together individuals from different backgrounds are asked to contribute to the evaluation process. At the end of the process, the results are approved and endorsed by executives of each responsible subsidiary. Thus, the "Danone Way" has enabled each subsidiary to identify strong and weak points in different areas. It has also allowed them to prioritize and implement plans for improvement.

For example, in the context of its social policies, evaluation of management and of the Group's human resource policy is based on 26 criteria set out in several themes: compliance with the law, respect for individuals, progress for organizations and employees, implementing values, and open communication with employees and their representatives, conditions for social dialogue and respect for rules of ethics.

The "Danone Way" was first introduced in 2000, tested in 2001 in approximately 10 subsidiaries and is being deployed worldwide. As of today, 94% of the Group's subsidiaries have implemented the "Danone Way" and independent reviews have been carried out in 31 subsidiaries by PricewaterhouseCoopers and Mazars to validate their self-evaluations. The audit results show that there are no significant anomalies in the self-evaluations with respect to the procedures defined by the Group. These results are the subject of a report that covers the published consolidated results, which is available on the Internet site of the Group under the heading "Sustainable Development."

The results of the self-evaluations show high-level practices in areas relating to employees, shareholders, customers and suppliers. The results in areas relating to the environment and local communities are weaker because they are less directly related to the business and correspond to less established practices in certain countries where the Group operates. The implementation of the "Danone Way" shows its effectiveness in maintaining and promoting the Groupe Danone culture in a context of strong geographic expansion. Over 750 improvement measures are underway in all subsidiaries covering all areas.

Local economic impact on emerging economies. The Group has set up operations in many emerging countries, with local production to meet domestic demand. The subsidiaries in developing countries benefit from training programs, technology transfer and modern industrial equipment. Knowledge transfer is facilitated by the Danone Research Center, which works in collaboration with local teams. The effort is aimed at products, quality control and production processes.

The Group's activities in a country bring work to numerous local producers and suppliers of goods and services, with which the Group seeks to form long-term relationships to ensure supplies that meet its standards in quantity and quality. In addition, the Group's industrial activities cause suppliers of specialized equipment (packaging machines, etc.) to establish a permanent presence in the countries where the Group operates and facilitate the formation of teams that work, for example, with milk producers on the feeding of livestock, cultivation methods, etc.

Corporate citizenship. Involvement in the community is both a necessity and a founding principle of the Group's corporate culture. Generally speaking, the Group is involved in offering support for public bodies, NGOs and local non-profit associations and communities.

Publications. Between 1998 and 2005, the Group had published a Social and Environmental Responsibility Report, which presented the social and environmental impacts of the Group's activities. In 2006, the Group decided to combine the Social and Environmental Responsibility Report with the Business Report. In addition, the information corresponding to the reporting for Sustainable Development (Global Reporting Initiative, launched in 1997 in conjunction with CERES and the United Nations Environment Program) as well as the indicators required by law under the *Nouvelles Régulations Economiques* (NRE) are available on the Internet site of the Group, under the heading Sustainable Development.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth certain information with respect to the beneficial share ownership and voting rights of principal shareholders, as of December 31, 2006.

| Name | Number of Shares Beneficially Owned | Percentage of Shares Owned | Number of Voting Rights | Percentage of Voting Rights ⁽¹⁾ |
|---|--|----------------------------------|----------------------------|--|
| Eurazeo | 13,975,995 | 5.4% | 23,692,481 | 9.1% |
| Caisse des Dépôts et Consignations | 9,297,592 | 3.6% | 9,297,592 | 3.6% |
| Sofina and Glaces de Moustier | 5,200,000 | 2.0% | 6,700,000 | 2.5% |
| Predica | 4,570,106 | 1.7% | 4,570,106 | 1.7% |
| FCPE “GROUPE DANONE” | 3,885,071 | 1.5% | 7,311,794 | 2.9% |
| Public | 203,480,811 | 78.0% | 209,378,669 | 80.2% |
| The Company and its subsidiaries ⁽²⁾ | 20,455,171 | 7.8% | — | — |
| Total | 260,864,746 | 100.00% | 260,950,642 | 100.00% |

(1) Double voting rights have been granted for each share fully subscribed, paid for, and beneficially owned by the same individual or entity for at least two years. This percentage excludes the shares held by the Company and its subsidiaries, which have no right to vote.

(2) Including 2,882,060 shares (i.e., 1.1% of the capital) held by the Spanish subsidiary of the Company, Danone S.A.

To the best of the Company’s knowledge only Eurazeo holds more than 5% of the share capital of the Company and to the best of the Company’s knowledge there are no shareholders’ agreements. However, certain financial institutions, mutual funds, may manage funds that collectively hold more than 5% of the capital of the Company. There is no clause in the Company’s bylaws giving preferential rights for the acquisition or sale of shares. Furthermore, at December 31, 2006, existing pledges on shares of the Company in registered form on the books of the Company (*nominatif pur*) and in registered form on the books of a financial intermediary (*nominatif administré*), respectively, amounted to 788 shares held by two shareholders and 38,716 shares held by eleven shareholders.

As of December 31, 2006, pursuant to authorizations granted by the general shareholders’ meeting of April 27, 2006 or prior authorizations, the Group owned, directly and through its Spanish subsidiary, Danone SA, 20,455,171 shares of Groupe Danone, representing 7.8% of its share capital.

For a description of the Company’s share repurchase program, see “Item 10. Additional Information—Purchase by the Company of its Own Shares.”

Significant Changes

Shareholdings

On April 4, 2006, Eurazeo reported having exceeded 5% of the Company’s voting rights on that date and that it held 5.1% of the capital and 8.71% of the Company’s voting rights. On February 9, 2007, Eurazeo reported that it held 5.36% of the share capital and 8.4% of the Company’s voting rights.

To the Company’s knowledge, there were no other significant shareholding changes during the past three years.

On December 31, 2006, the Company conducted a survey of its nominative shares, which revealed the following distribution of the Company's shareholders:

| | |
|--|------|
| Institutional investors | |
| – France | 27% |
| – United States | 17% |
| – United Kingdom | 10% |
| – Other | 18% |
| Individual shareholders | 11% |
| Shareholders represented at the Board of Directors | 7% |
| Treasury shares and FCPE "GROUPE DANONE" | 10% |
| Total | 100% |

At December 31, 2006, the Company estimates that there were approximately 1,000 institutional investors and approximately 200,000 individual shareholders.

Stock purchase plans

Stock options are granted annually to the Company's senior management.

The general meeting of shareholders, by successive authorizations, authorized the board of directors to grant, once or multiple times, over a maximum period of 26 months, options to subscribe for or purchase shares of the Company subject to a limit of 1% of the Company's share capital for the 1997 plan, a limit of four million shares for the May 1999, May 2001 and April 2003 plans (after taking into account the two-for-one stock split on June 15, 2004) and a limit of three million shares for the April 2005 plan.

Pursuant to these authorizations, the board of directors granted to the Company's senior management stock options to acquire a total of 13,898,503 shares. At December 31, 2006, 6,719,034 of these options could still be exercised by their beneficiaries. In addition, the board of directors had authority to grant 1,991,175 stock purchase options at December 31, 2006 under the April 2005 plan. See "Item 6. Directors, Senior Management and Employees—Directors and Senior Management—Options."

The duration of these plans is eight years. The exercise price for the options must amount to at least the average price for the 20 trading days preceding the board of directors' meeting which grants the options and generally may not be exercised for two or four years after the grant date.

However, the plan rules for the options granted by the board of directors as of April 11, 2003 provide that the beneficiaries may exercise all or part of the options before the two to four-year period has elapsed in the event of a successful tender offer for the shares of the Company.

At the annual shareholders' meeting of April 26, 2007, the board of directors will submit for approval resolutions for a new authorization of 26 months to grant options to purchase shares of the Company, on one or more occasions, subject to a limit of three million shares, which would annul and replace the previous authorization granted to the board of directors on April 22, 2005.

In addition, the annual shareholders' meeting of April 22, 2005 authorized the board of directors to grant, once or multiple times, over a maximum period of 26 months, existing or newly issued shares of the Company free of charge in an amount of up to 0.4% of the Company's share capital, *i.e.*, one million shares. At the annual shareholders' meeting of April 26, 2007, the board of directors will submit for approval resolutions for a new authorization of 26 months to grant existing or newly issued shares of the Company free of charge, on one or more occasions, subject to a limit of one million shares.

Shareholders' Agreements

To the Company's knowledge, there is no shareholder other than Eurazeo holding more than 5% of the capital or voting rights of the Company and there are no shareholders' agreements.

Shares Held in the United States

For information on shares held in the United States, see "Item 9. The Offer and Listing—Price History of Shares."

Related Party Transactions

In June 1998, the Company, Sofina, its wholly owned subsidiary Interamerican Finance and Danasia Participations, an affiliate of Sofina, entered into a memorandum of understanding regarding their respective ownership interests in Danone Asia Pte Ltd, a holding company for Groupe Danone's investments in the Asia-Pacific region. Under the terms of the memorandum of understanding, Sofina, Interamerican and Danasia had an option to sell to the Company, and the Company had an option to buy from them, their entire ownership interest in Danone Asia Pte Ltd. These options were exercisable in thirds, beginning, respectively, on January 1, 2003, January 1, 2005 and July 1, 2006, at a price to be determined based on an agreed upon formula, taking into account the then current market value of the shares. At the end of 2002, Danone confirmed its intention to exercise these three purchase options. The interest of the Group in Danone Asia increased from 90.34% at December 31, 2002 to 93.56% at December 31, 2003, to 96.78% in January 2005 and to 100% on July 1, 2006. In addition, in December 2001, the Company granted to Union Financière Boël preemptive acquisition rights exercisable at market value with respect to Sofina shares held by a subsidiary of the Company. In December 2004, the Group sold its interests in Sofina. Mr. Yves Boël, one of the Company's directors until April 2002 and currently an honorary director, was the Chairman of Sofina and the delegated Chairman ("*administrateur délégué*") of Union Financière Boël, and Mr. Richard Goblet d'Alviella, one of the Company's current directors, is a delegated director of these two companies. In addition, Mr. Franck Riboud was a director of Sofina until June 2006. See "Item 6. Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors."

Each of the above-referenced transactions was entered into on an arm's-length basis according to the Company's normal business practices.

No loans or guarantees were granted or made by the Company or its subsidiaries to any member of the executive committee.

Transactions by Directors and members of the Executive Committee (“mandataires sociaux”) of the Company’s shares

| Name | Type of transaction | Date of transaction | Unit price (in euros) | Number of shares | Total amount (in euros) |
|---|------------------------------|----------------------------|------------------------------|-------------------------|--------------------------------|
| Frank Riboud⁽¹⁾ | Exercise of purchase options | 02/27/2006 | 58.09 | 60,000 | 3,485,400 |
| | Sale | 02/27/2006 | 97.00 | 60,000 | 5,820,000 |
| | Exercise of purchase options | 08/03/2006 | 73.57 | 65,000 | 4,782,050 |
| | Sale | 08/03/2006 | 104.36 ⁽²⁾ | 65,000 | 6,783,229 |
| | Exercise of purchase options | 12/01/2006 | 69.40 | 28,000 | 1,943,200 |
| | Sale | 12/14/2006 | 119.90 | 1,528 | 183,270 |
| Jacques Vincent | Exercise of purchase options | 02/21/2006 | 73.57 | 60,000 | 4,414,200 |
| | Sale | 02/21/2006 | 94.25 | 47,630 | 4,489,127 |
| | Sale | 04/04/2006 | 101.50 | 2,300 | 233,450 |
| | Exercise of purchase options | 09/14/2006 | 69.40 | 60,000 | 4,164,000 |
| | Sale | 09/14/2006 | 108.80 | 21,000 | 2,284,800 |
| | Sale | 10/20/2006 | 115.70 | 9,150 | 1,058,655 |
| | Sale | 10/20/2006 | 115.70 | 8,970 | 1,037,829 |
| Emmanuel Faber | Exercise of purchase options | 08/03/2006 | 69.40 | 26,500 | 1,839,100 |
| | Sale | 08/03/2006 | 104.55 ⁽²⁾ | 26,500 | 2,770,575 |
| | Exercise of purchase options | 08/03/2006 | 73.57 | 60,000 | 4,414,200 |
| | Sale | 08/03/2006 | 104.35 ⁽²⁾ | 60,000 | 6,261,000 |
| Bernard Hours | Exercise of purchase options | 03/08/2006 | 58.09 | 2,000 | 116,180 |
| | Exercise of purchase options | 03/08/2006 | 61.98 | 4,000 | 247,920 |
| | Sale | 03/09/2006 | 96.09 | 4,000 | 384,360 |
| | Exercise of purchase options | 06/05/2006 | 58.09 | 1,200 | 69,708 |
| | Exercise of purchase options | 09/04/2006 | 51.53 | 12,000 | 618,360 |
| | Sale | 09/04/2006 | 107.14 ⁽²⁾ | 12,000 | 1,285,680 |
| Christian Laubie | Sale | 08/03/2006 | 105.54 | 3,000 | 316,614 |
| | Sale | 08/31/2006 | 107.90 | 2,000 | 215,800 |
| | Sale | 09/12/2006 | 108.90 | 3,000 | 326,700 |
| Benoît Potier | Purchase | 05/19/2006 | 91.45 | 500 | 45,725 |
| Georges Casala | Exercise of purchase options | 02/22/2006 | 44.25 | 30,000 | 1,327,500 |
| | Sale | 09/04/2006 | 107.90 | 1,500 | 161,850 |
| | Sale | 09/15/2006 | 109.90 | 1,500 | 164,850 |
| Thomas Kunz⁽³⁾ | Exercise of purchase options | 9/20/2006 | 69.40 | 12,000 | 832,800 |
| | Sale | 9/20/2006 | 108.80 | 20,000 | 2,176,000 |
| | Exercise of purchase options | 9/20/2006 | 61.98 | 4,000 | 247,920 |
| | Exercise of purchase options | 9/20/2006 | 73.57 | 4,000 | 294,280 |
| Philippe-Loïc Jacob | Exercise of purchase options | 11/21/2006 | 69.40 | 3,200 | 222,080 |
| | Sale | 11/21/2006 | 119.18 | 3,200 | 381,376 |
| | Exercise of purchase options | 12/13/2006 | 64.19 | 1,400 | 89,866 |
| | Exercise of purchase options | 12/13/2006 | 61.98 | 800 | 49,584 |

⁽¹⁾ Three persons related to Mr. Riboud each completed a sale of 3,765 shares of the Company on December 14, 2006 at a price per share of 119.90 euros.

⁽²⁾ Net amount.

⁽³⁾ On November 7, 2006, Mr. Kunz purchased 12,000 put options and sold 12,000 call options at a unit price of 3.78 euros.

Item 8. Financial Information

Consolidated Statements and Other Financial Information

See “Item 18. Financial Statements,” for a list of the financial statements filed with this annual report.

Dividend Policy

The declaration and amount of dividends to be paid on the shares in respect of any period are subject to the decision by the Company’s shareholders at an ordinary general meeting of shareholders. Pursuant to French law, payment of dividends must be made within nine months following the end of the fiscal year to which they relate.

Under French law and the Company’s bylaws, the Company’s unconsolidated statutory net income in each fiscal year, as increased or reduced, as the case may be, by any profit or loss of the Company carried forward from prior years, less any contributions to legal reserves, is available for distribution to the shareholders of the Company as dividends, subject to other applicable requirements of French law and the Company’s bylaws.

Pursuant to the Company’s bylaws, the Company’s shareholders may determine at an ordinary meeting the portion, if any, of dividends that each shareholder may elect to receive in shares. For dividends distributed in respect of the years 1989 through 1995, each of the Company’s shareholders was given the option of receiving dividends in the form of cash or shares. Applications for dividend payments in the form of shares shall be submitted no later than three months after the date on which the general shareholders’ meeting is held. The board of directors does not intend to recommend a stock dividend in the near future.

Dividends paid to holders of shares or ADSs who are not residents of France generally will be subject to French withholding tax at a rate of 25%. Under certain tax treaties entered into between France and other countries, such withholding tax may be reduced to 15% for holders of shares who qualify for the benefits of these treaties, subject to certain procedures and exceptions. Under the Treaty between France and the United States for Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital signed on August 31, 1994 (the “Treaty”), such reduced withholding tax may apply to holders of shares and also to holders of ADSs, who are residents of the United States as defined by the provisions of the Treaty, subject to certain procedures and exceptions.

French individual residents are entitled to a tax credit with respect to dividends paid to them since January 1, 2005, which is equal to 50% of the distributed dividends, capped at € 230 or € 115 depending on the marital status of the recipient. Under certain tax treaties entered into between France and other countries this French tax credit attached to dividends may, in certain circumstances, be paid, net of withholding tax, to non-French resident individual shareholders. In addition, under the Treaty, such payment of French tax credit, net of withholding tax, may have been available not only to certain individual holders of shares but also to certain individual holders of ADSs, qualifying as U.S. residents under the Treaty, subject to certain exceptions and procedures. See “*Item 10. Additional Information—Taxation—French Taxation—Taxation of Dividends*” and “*Item 10. Additional Information—Taxation—Taxation of U.S. Investors—Taxation of Dividends.*”

Dividends paid to holders of ADSs are converted from euro to dollars and subjected to a charge by the depositary for any expenses incurred by the depositary in such conversion.

The following table sets forth the total dividends paid per share and per ADS for each year indicated, with and without the French tax credits attached to dividends and before deduction of any French withholding tax, taking into account the two-for-one stock split effected by the Company in June 2004.

| Year to Which Dividend Relates ⁽¹⁾ | Dividends Per Share | Dividends Per Share Including French Tax Credit Calculated at the Rate of 50% ⁽²⁾ | Dividends Per ADS | Dividends Per ADS Including French Tax Credit Calculated at the Rate of 50% ⁽²⁾ |
|---|---------------------|--|------------------------|--|
| | (€) | (€) | (\$) ⁽³⁾⁽⁴⁾ | (\$) ⁽³⁾⁽⁴⁾ |
| 2002 | 1.15 | 1.73 | 0.26 | 0.39 |
| 2003 | 1.23 | 1.84 | 0.29 | 0.43 |
| 2004 | 1.35 | 1.35 | 0.34 | 0.34 |
| 2005 | 1.70 | 1.70 | 0.44 | 0.44 |
| 2006 ⁽⁵⁾ | 2.00 | 2.00 | 0.53 | 0.53 |

(1) Pursuant to French law, payment of dividends must be made within nine months following the end of the fiscal year to which they relate.

(2) A French tax credit (known as the *avoir fiscal*) was attached to distributions of dividends made before December 31, 2004. Its amount ranged from 10% to 50% of the dividends depending on the nature of the recipient. For simplification purposes, the *avoir fiscal* included in the dividend per share in the chart above were calculated at the rate of 50%. From 2005 on, the *avoir fiscal* has been abolished and partially replaced by a French tax credit benefiting only individuals. Such French tax credit is equal to 50% of the dividends distributed, but capped at €230 or €115 per year depending on the marital status of the recipient. Any payment equivalent to French tax credits, less applicable French withholding tax, is made only following receipt by the French Tax Administration of a claim for such payment filed by shareholders entitled to such payment, and is generally not expected to be paid before 12 months after the filing of such claim, and after the close of the calendar year in which the respective dividends are paid. See “Item 10. Additional Information—Taxation—French Taxation” and “Item 10. Additional Information—Taxation—Taxation of U.S. Investors.”

(3) Periods prior to 2006 translated solely for convenience from euro into dollars at the Noon Buying Rates on the respective dividend payment dates, or on the following business day if such date was not a business day in France or the United States. For convenience only, *avoir fiscal* amounts have been translated into dollars at the Noon Buying Rates on such dates although such amounts are paid subsequent to such payment dates. The Noon Buying Rates may differ from the rate that may be used by the Depositary to convert euro to dollars for purposes of making payments to holders of ADSs. Figures for 2005 translated solely for convenience at the Noon Buying Rate on December 29, 2006 of \$ 1.3197 per € 1.00.

(4) As each ADS represents one-fifth of one share, the amount of dividends per share has been divided by five to obtain the historical dividends declared per ADS.

(5) Dividends to be proposed at the shareholders' meeting to be held on April 26, 2007.

Legal Proceedings

On December 5, 2001, the European Commission concluded that anti-competitive practices in the beer market in Belgium had occurred and imposed a fine of € 44.6 million on the Company. The entire amount was provisioned in the Group's accounts at December 31, 2001 and was paid in 2002. In February 2002, the Company launched a procedure seeking to recover the amount paid. In October 2005, the Court of First Instance confirmed the decision of the European Commission. However, the Court decided to slightly reduce the amount of the fine imposed, from € 44.04 to € 42.41 million, finding that the Commission had incorrectly determined that an aggravating circumstance existed. The Company has appealed this decision to the European Court of Justice. This appeal was rejected by the European Court of Justice in February 2007.

The Group is not presently party to litigation or arbitration that could have or has had, in the recent past, a significant effect on its financial condition, activities or results.

The Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business. Liabilities are accrued for when a loss is probable and can be reasonably estimated. See Note 18 to the Consolidated Financial Statements.

Item 9. The Offer and Listing

Price History of Shares

The principal trading market for the Company's shares is the Euronext Paris SA, or Euronext Paris, the French integrated national dealing system through which trading in all French listed securities occurs. The Company's shares are traded on Eurolist by Euronext™ (ISIN Code: FR0000120644) and are included in the CAC 40 Index, the principal stock exchange index published by Euronext Paris, the market enterprise which manages and operates the French stock exchange markets and are included in the Dow Jones Eurostoxx and Dow Jones Stoxx. Since September 25, 2000, the Company's shares are eligible for deferred settlement service. The Company's shares have been included in the Eurostoxx 50 index and Dow Jones Sustainability World Index since September 2000.

In the first half of 2004, the Company delisted its shares from the London Stock Exchange and the Brussels Stock Exchange, due to the low liquidity of the shares on these exchanges. The delisting from the London Stock Exchange occurred on March 24, 2004 and the delisting from the Brussels Stock Exchange occurred on May 11, 2004.

Since December 1990, the Company has sponsored an American Depositary Receipts, or ADRs, program in the United States with Citibank, N.A., as depositary. The American Depositary Shares, or ADSs, issued pursuant to such program have been registered with the Securities and Exchange Commission under a Registration Statement on Form F-6. Each such ADS represents one-fifth of one share. Since November 20, 1997, the ADSs have been listed on the New York Stock Exchange under the symbol "DA." Groupe Danone has reached its current filing limit for ADRs. As a result, Citibank, N.A., as depositary, will no longer accept deposits of ordinary shares for the issuance of ADRs for Groupe Danone until further notice. The Groupe Danone ADR Program remains open for the cancellation of ADRs.

As of December 31, 2005, 24,243,025 ADSs were outstanding, representing approximately 1.86% of the Company's outstanding shares, and there were 164 holders of record of ADSs, 3 of which had addresses outside the United States.

The table below sets forth the reported high and low sales prices for the Company's shares reported by Euronext Paris and for the ADSs on the New York Stock Exchange for the periods indicated.

| Calendar Period | Euronext Paris | | New York Stock Exchange | |
|--------------------------|----------------|--------|-------------------------|-------|
| | High | Low | High | Low |
| | (in €) | | (in \$) | |
| Monthly | | | | |
| March 2007 | 123.45 | 115.11 | 35.75 | 32.52 |
| February 2007 | 128.34 | 115.70 | 35.72 | 32.10 |
| January 2007 | 120.00 | 112.50 | 33.35 | 31.66 |
| December 2006 | 120.10 | 113.10 | 33.74 | 32.26 |
| November 2006 | 121.10 | 113.70 | 33.50 | 31.02 |
| October 2006 | 117.60 | 108.60 | 31.39 | 29.02 |
| September 2006 | 112.20 | 105.40 | 29.92 | 28.27 |
| Quarterly | | | | |
| 2006 | 121.10 | 85.20 | 33.74 | 20.89 |
| First quarter | 101.80 | 85.20 | 26.40 | 20.89 |
| Second quarter | 102.30 | 88.40 | 27.50 | 23.51 |
| Third quarter | 112.20 | 95.00 | 29.92 | 25.75 |
| Fourth quarter | 121.1 | 108.6 | 33.74 | 29.02 |

| Calendar Period | Euronext Paris | | New York Stock Exchange | |
|----------------------|----------------|-------|-------------------------|-------|
| | High | Low | High | Low |
| | (in €) | | (in \$) | |
| 2005 | 96.30 | 67.75 | 23.17 | 17.21 |
| First quarter | 77.00 | 67.75 | 20.44 | 17.72 |
| Second quarter | 77.10 | 71.20 | 19.97 | 17.29 |
| Third quarter | 96.25 | 72.00 | 23.17 | 17.21 |
| Fourth quarter | 91.35 | 81.40 | 21.86 | 19.48 |
| Yearly | | | | |
| 2004 | 63.30 | 62.20 | 18.58 | 15.30 |
| 2003 | 68.50 | 52.10 | 16.32 | 11.48 |
| 2002 | 75.20 | 54.70 | 13.94 | 10.94 |

Sources: Euronext Paris S.A. and Bloomberg.

On March 30, 2007, the last reported listed price of the Company's shares on Euronext Paris was € 123.19 per share and the last reported listed price of the Company's ADSs on the New York Stock Exchange was \$35.72 per ADS.

Plan of Distribution

Not applicable.

Nature of Trading Market

Generals

On September 22, 2001 upon successful completion of an exchange offer, the Paris-Bourse^{SBF} SA, or the SBF, the Amsterdam Stock Exchange and the Brussels Stock Exchange merged to create Euronext, the first pan-European exchange. Through the exchange offer, all the shareholders of the SBF, the Amsterdam Stock Exchange and the Brussels Stock Exchange contributed their shares to Euronext N.V., a Dutch holding company. The Portugal Exchange was integrated into Euronext in February 2002.

In January 2002, Euronext N.V. acquired the London International Financial Futures and Options Exchange (LIFFE), London's derivative market, and created Euronext.liffe. Euronext.liffe is the international derivatives business of Euronext, comprising the Amsterdam, Brussels, Lisbon, London and Paris derivatives markets. Euronext.liffe creates a single market for derivatives, by bringing all of its derivatives products together on one electronic platform, LIFFE CONNECT®.

Euronext N.V. is listed on Eurolist by Euronext™.

Securities quoted on exchanges participating in Euronext cash markets are traded and cleared over common Euronext platforms. NSC is the common platform for trading, Clearing 21 is the platform for clearing. In addition, Euronext Paris anticipates the implementation of central clearinghouse (but not before 2008), settlement and custody structures over a common system. However, these securities will remain listed on their local exchanges. As part of Euronext, Euronext Paris retains responsibility for the admission of shares to Euronext Paris' trading markets as well as the regulation of those markets.

Euronext Paris

As from February 21, 2005, all securities currently traded on the *Premier*, *Second* and *Nouveau Marchés* are listed and traded on a single market, Eurolist by Euronext™, which is operated by Euronext Paris. In accordance with Euronext Paris rules, the shares issued by domestic and other companies are classified in capitalization

compartments. The shares of listed companies are distributed between three capitalization compartments, according to the criteria set by Euronext Paris:

- Compartment A comprises the companies with market capitalizations above € 1 billion;
- Compartment B comprises the companies with market capitalizations from € 150 million and up to and including € 1 billion;
- Compartment C comprises the companies with capitalizations below € 150 million.

The Company's shares have been classified in Compartment A of the Eurolist by Euronext™ market.

In addition, securities of certain other companies are traded on a non-regulated over-the-counter market, the *Marché Libre OTC*, which is also operated by Euronext Paris.

Securities listed on Euronext Paris are placed in one of two categories, *Continu* (continuous trading) or *Fixing* (call auctions), depending on the volume of transactions. The Company's shares are listed in the category known as *Continu*, which includes the most actively traded securities. The minimum yearly trading volume required for a security to be placed in *Continu* is 2,500 trades.

Securities listed on Eurolist by Euronext™ are traded through authorized financial institutions that are members of Euronext Paris. Trading on Eurolist by Euronext™ takes place continuously on each business day from 9:00 a.m. to 5:30 p.m. (Paris time), with a pre-opening session from 7:15 a.m. to 9:00 a.m. and a pre-closing session from 5:30 p.m. to 5:35 p.m. during which transactions are recorded in the central order book but not executed, a closing auction at 5:35 p.m. and a “trading at last phase” from 5:35 p.m. to 5:40 p.m. (during which transactions are executed at the closing price). Any trade of securities effected after the close of a stock exchange session is recorded on the next Euronext Paris trading day at the previous session's closing price for the relevant security. Euronext Paris publishes a daily official price list that includes price information concerning listed securities. Euronext Paris has introduced continuous electronic trading during trading hours for most actively traded securities. Any trade of a security that occurs outside trading hours is completed at a price within a range of 1% of the closing price for that security.

Trading in the listed securities of an issuer may be suspended by Euronext Paris if quoted prices exceed certain price limits defined by the regulations of Euronext Paris. In particular, if the quoted price of a *Continu* security, such as the Company's shares, varies by more than 10% from a reference price, Euronext may suspend trading (for the portion of the orders which would be traded outside the 10% threshold) for up to four minutes. The reference price is usually the opening price, or, with respect to the first quoted price of a given trading day, the last traded price of the previous day, as adjusted if necessary by Euronext Paris to take into account available information. Further suspensions for up to four minutes are also possible if the price again varies by more than 10% from a new reference price equal to the price which caused the first trading suspension. Euronext Paris may also suspend trading for a four-minute period if trades are bound to breach the so-called “dynamic” thresholds, set at 2% plus or minus the last trade price. Euronext Paris may also suspend trading of a listed security in certain other circumstances, including, for example, the occurrence of unusual trading activity in such security. In addition, in exceptional cases, the *Autorité des Marchés Financiers* (the “AMF”) may also suspend trading.

All trades of securities listed on Eurolist by Euronext™ are performed on a cash-settlement basis on the third trading day after the trade. However, market intermediaries are also permitted to offer investors a deferred settlement service (*Service à Règlement Différé* or SRD) for a fee. The SRD allows investors who elect this service to benefit from leverage and other special features of the monthly settlement market. The SRD is reserved for securities which have a total market capitalization of at least € 1 billion and represent a minimum daily trading volume of € 1 million and which are normally cited on a list published by Euronext Paris. The Company's shares are eligible for the deferred settlement service. Investors can elect on the determination date (*date de liquidation*), which is, at the latest, the fifth trading day before the end of the month, either to settle the trade by the last trading day of the month or to pay an additional fee and postpone the settlement decision to the determination date of the following month.

Prior to any transfer of securities held in registered form on Eurolist by Euronext™, the securities must be converted into bearer form and accordingly inscribed in an account maintained by an accredited intermediary with Euroclear France S.A., a registered clearing agency. Securities transactions are initiated by the owner giving instructions (through an agent, if appropriate) to the relevant accredited intermediary. Trading securities listed on Eurolist by Euronext™ are cleared and settled through Clearing 21 and Euroclear France S.A. using a continuous net settlement system. A fee or a commission is payable to the broker-dealer or other agent involved in the transaction.

Ownership of equities traded on a deferred settlement basis is considered to have been transferred only after the equities have been registered in the purchaser's account. Under French securities regulations, any sale of securities executed on a deferred settlement basis during the month a dividend is paid is deemed to occur after the dividend has been paid. If the sale takes place before, but during the month of, a dividend payment date, the purchaser's account will be credited with an amount equal to the dividend paid, and the seller's accounts will be debited by the same amount.

Selling Shareholders

Not applicable.

Dilution

Not applicable.

Expenses of the Issue

Not applicable.

Item 10. Additional Information

Share Capital

Not applicable.

Memorandum and Articles of Association

For the Company's registry and number, please see "Item 4. Information on Groupe Danone—History and Development," and for the Company's corporate purpose, refer to Article 2 of the Company's bylaws. An unofficial English translation of the bylaws is included as an exhibit to this annual report.

The section below is a summary of the material information concerning the Company's share capital, together with material provisions of applicable French law and the Company's bylaws. Such description of the Company's share capital and information does not purport to be complete and is qualified in its entirety by reference to the Company's bylaws. You may obtain copies of the Company's bylaws in French from the *Greffe du Registre du Commerce et des Sociétés de Paris, France* or by writing to Groupe Danone, *Direction Relations Investisseurs*, 17, Boulevard Haussmann, 75009 Paris, France. Please refer to those full documents for additional details.

Board of Directors

For a complete description of directors' powers under French law and Danone's bylaws, see "Item 6. Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors."

Share Capital

At February 28, 2007, the Company's share capital totaled € 130,432,373 divided into 260,864,746 outstanding common shares of the same class with a nominal value of € 0.50 per share. The board of directors will submit to the shareholders' meeting on April 26, 2007 a resolution to divide the nominal value of the shares in two, which would be brought from € 0.50 to € 0.25. All the outstanding shares are fully paid. The Company's bylaws provide that shares may be held in registered or bearer form, at the option of the shareholder.

Shareholders' Meetings and Voting Rights

General

In accordance with French law, there are two types of shareholders' general meetings: ordinary and extraordinary.

Ordinary general meetings of shareholders are required for matters such as:

- electing, replacing and removing directors,
- allocating fees to the board of directors,
- appointing statutory auditors,
- approving the annual and consolidated financial statements,
- declaring dividends and authorizing dividends to be paid in shares, and
- approving regulated agreements.

Extraordinary general meetings of shareholders are required for the approval of matters such as:

- amending the Company's bylaws, in particular the corporate purpose and/or the name of the Company,

- approving mergers in which the Company is not the surviving entity or in which the Company is the surviving entity but in connection with which the Company is issuing a portion of its share capital to the acquired entity,
- increasing or decreasing the Company's share capital,
- creating a new class of equity securities (common or preferred shares),
- authorizing or approving the issuance of any securities giving rights to equity securities, and
- the voluntary liquidation of the Company prior to the end of its statutory term.

Special meetings of shareholders of a certain category of shares or of securities giving access to the Company's share capital are required for any modification of the rights derived from such category of shares or for any modification of the terms and conditions ("*contrat d'émission*") for such securities giving access to the Company's share capital. The resolutions of the shareholders' general meeting affecting these rights are effective only after the approval by the relevant special meeting.

Annual Ordinary Meetings

French law requires the board of directors to convene an annual ordinary general meeting of shareholders to approve the annual and consolidated financial statements. This meeting must be held within six months of the end of the Company's fiscal year. This period may be extended by an order of the President of the *Tribunal de Commerce*. The board of directors may also convene an ordinary or extraordinary general meeting of shareholders upon proper notice at any time during the year. If the board of directors fails to call such a meeting, the Company's statutory auditors may call the meeting. In case of a bankruptcy, the liquidator or the court-appointed agent may also call a shareholders' meeting in some instances. Any of the following may request the president of the *Tribunal de Commerce* to appoint an agent to call a shareholders' meeting:

- one or several shareholders holding at least 5% of the Company's share capital,
- the auditors,
- the worker's committee in cases of urgency,
- any interested party in cases of urgency,
- certain duly qualified associations of shareholders who hold their shares for at least two years in registered form and who together hold a specified percentage of the voting rights of the Company, and
- majority shareholders in share capital or voting rights after a public tender offer or the acquisition of a controlling block of shares.

Notice of Shareholders' Meetings

The Company must announce general meetings of shareholders at least 35 days in advance by means of a preliminary notice (*avis de réunion*) which is published in France in the *Bulletin des annonces légales obligatoires*, or BALO. This preliminary notice must be sent to the AMF. It must contain, among other things, the time, date and place of the meeting, the agenda of the meeting and a draft of the resolutions to be submitted to the shareholders, a description of the procedures that holders of bearer shares must follow to attend the meeting, the procedure for voting by mail and the e-mail address (if any) to which written questions to the board of directors can be sent.

At least 15 days prior to the date set for a general meeting of shareholders on first call, and at least six days before any second call, the Company must send a final notice (*avis de convocation*) containing, among other things, the final agenda and other information for the meeting and the e-mail address (if any) to which written questions to the board of directors can be sent. This notice must be sent by mail to all holders of registered shares who have held such shares for more than one month prior to the issuance of the notice and published in a

newspaper authorized to publish legal announcements in the local administrative department (*département*) in which the Company is registered, as well as in the BALO, with prior notice having been given to the AMF.

Additional resolutions to be submitted for approval by the shareholders at such meeting may be proposed to the board of directors after the publication of the preliminary notice in the BALO but not later than 25 days before the shareholders' meeting by:

- one or several shareholders holding a specified percentage of share capital,
- a duly qualified association of shareholders who have held their shares in registered form for at least two years and who together hold a specified percentage of the Company's voting rights, or
- the worker's committee.

Shareholders wishing to submit additional resolutions must provide to the board of directors a certificate (*attestation de participation*) from their accredited intermediary evidencing their share ownership. This certificate must be issued again at midnight on the third business day before the shareholders' meeting. The board of directors must then submit such resolutions to a vote of the shareholders.

Any shareholder may submit to the board of directors written questions relating to the agenda for the meeting. The board of directors must respond to these questions. Such shareholder must also provide a certificate from the accredited intermediary evidencing share ownership at least four business days before the shareholders' meeting.

In general, shareholders can only take action at a shareholders' meeting on matters listed on the agenda for the meeting. In exception to this rule, shareholders may take action with respect to the dismissal of directors and to the appointment of new directors even though these actions have not been included on the agenda.

Attendance and Voting at Shareholders' Meetings

Attendance and exercise of voting rights at ordinary general meetings of shareholders and extraordinary general meetings of shareholders are subject to certain conditions specified by French law and the Company's bylaws. There is no requirement that a shareholder have a minimum number of shares in order to attend or to be represented at an ordinary or extraordinary general meeting of shareholders or to vote by videoconference or any other means of telecommunication which allows the shareholders to be identified.

In accordance with French law, a precondition for exercising any voting rights is that a holder of shares of the Company, either in registered form or in bearer form have his/her securities registered in his/her name or his/her intermediary at midnight on the third business day preceding the meeting.

In the case of a holder of shares in bearer form, the accredited intermediary must issue a certificate (*attestation de participation*) in the exhibit to the *formulaire de vote à distance* (voting form), to the proxy or to the *carte d'admission* (admission card) at midnight on the third business day preceding the meeting.

Pursuant to French law, a holder of shares who has already voted, sent a proxy or requested his/her *carte d'admission* or *attestation de participation* may transfer all or part of his/her shares at any time.

However, if the sale takes place before midnight on the third business day preceding the meeting, the Company shall invalidate or modify accordingly, as the case may be, the vote, proxy or *carte d'admission* or *attestation de participation*. The accredited intermediary who maintains the accounts shall notify the sale to the Company or to its authorized agent.

If the sale takes place after midnight on the third business day preceding the meeting, the accredited intermediary is not required to notify the Company and the Company is not required to take any action.

Proxies and Votes by Mail

In general, all shareholders who have properly registered their shares or duly presented a certificate from their accredited financial intermediary have the right to participate in general meetings of shareholders.

Shareholders may vote either by proxy, by mail or by any means provided for in the Company's bylaws, including by remote data transmission to the Company (Internet) of the correspondence ballot papers or a proxy form pursuant to applicable laws and regulations.

Proxies will be sent to all registered shareholders and, on request, to any holder of shares in bearer form. Under French law, in order to be counted, such proxies must be received at the Company's registered office or at such other address indicated on the notice convening the meeting prior to the date of the meeting (the Company requires proxies to be received at least three days before the 2007 general shareholders' meeting). A shareholder not domiciled in France as defined by the French Civil Code (*Code Civil*) may be represented at a shareholders' meeting by an intermediary registered under the conditions set forth by the French legal and regulatory provisions in force. This shareholder will therefore be considered to be present at the meeting for the computation of the quorum and the majority. A shareholder may grant proxies to his or her spouse or to another shareholder. A shareholder that is a corporation may grant proxies to a legal representative. Alternatively, the shareholder may send the Company a blank proxy without nominating any representative. In this case, the chairman of the meeting will vote the blank proxies in favor of all resolutions proposed by the board of directors and against all others.

With respect to votes by mail, the Company must send a voting form to all registered shareholders and, on request, to any holder of shares in bearer form. Votes by mail must be received together with the *attestation de participation* at such address at least three days prior to the date of the meeting. The deadline for the Company to receive proxy forms for votes by mail or by proxy is determined by the board of directors and published in the notice of the meeting in the BALO. For the 2007 general shareholders' meeting, the deadline for the Company to receive proxy forms for votes by mail has been set at least three days before the meeting.

The board of directors may decide that votes submitted during the general meetings of shareholders may be sent by remote data transmission pursuant to applicable regulations.

Subject to the limitations described below, each share confers on the shareholder the right to one vote. Under French law, shares of a company held by entities controlled directly or indirectly by that company are not entitled to voting rights and are not counted for quorum or majority purposes.

The Company's bylaws provide that each registered and fully paid-up share held in registered form in the same name for at least two years shall entitle the holder thereof to double voting rights at a meeting of shareholders. The Company's bylaws also provide that no shareholder shall be able to exercise, directly or indirectly, more than 6% of the total number of voting rights represented by the outstanding shares of the Company as of the date of the meeting. However, a shareholder may exercise up to 12% of the total number of voting rights to the extent such voting rights result from double voting rights.

The foregoing limitations on voting rights shall no longer apply in the event any person or persons acting alone or in concert were to come into possession of at least two-thirds of the Company's shares in a public tender offer for the totality of the Company's shares.

Quorum

French law requires that shareholders having at least 20% of the shares entitled to voting rights must be present in person or voting by mail or by proxy or by any means provided for in the bylaws including by remote data transmission, in accordance with the applicable laws and regulations to fulfill the quorum requirement for:

- an ordinary general meeting of shareholders, and

- an extraordinary general meeting of shareholders where an increase in the Company's share capital is proposed through incorporation of reserves, profits or share premium.

The quorum requirement is at least 25% of the shares entitled to voting rights, on the same basis, for any other extraordinary general meeting of shareholders.

If a quorum is not present at a meeting, the meeting is adjourned. When an adjourned ordinary shareholders' meeting is reconvened, there is no quorum requirement. No quorum is required when an adjourned extraordinary general meeting of shareholders is reconvened only to approve an increase in the Company's share capital through incorporation of reserves, profits or share premium. In the case of any other reconvened extraordinary general meeting of shareholders, shareholders having at least 20% of outstanding voting rights must be present in person or voting by mail or by proxy or by any means, including by remote data transmission, in accordance with the applicable laws and regulations, for the quorum to be met. If a quorum is not present, the reconvened meeting may be adjourned for a maximum of two months. No deliberation by the shareholders may take place without a quorum. However, only questions which were on the agenda of the adjourned meeting may be discussed and voted upon at any reconvened meeting.

Majority

At an ordinary general meeting of shareholders or an extraordinary general meeting of shareholders deciding upon any capital increase by incorporation of reserves, profits or share premium, a simple majority of the votes cast is required to pass such a resolution. At any other extraordinary general meeting of shareholders, a two-thirds majority of the votes cast is required.

However, a unanimous shareholder vote is required to increase liabilities of shareholders.

Abstention from voting by those present in person or present by any means, including by remote data transmission in accordance with applicable laws and regulations or represented by proxy or voting by mail, is counted as a vote against the resolution submitted to a shareholder vote.

Financial Statements and Other Communications with Shareholders

In connection with any shareholders' meeting, the Company is required to provide to any shareholder who so requests a set of documents, including the Company's annual report and a summary of the results of the five previous fiscal years.

French law also requires that a special report must be provided to the general shareholders' meeting regarding stock options and free shares authorized and/or granted by the Company.

Pursuant to a French act of August 1, 2003 (*loi de sécurité financière*), the Chairman of the Company's board of directors is required to deliver a special report to the ordinary shareholders' meeting regarding the status of the preparation and organization of the work of the board of directors, the status of the internal control procedures implemented by the Company and on the restrictions, if any, that the board of directors has placed on the powers granted to the Chief Executive Officer. In general, this report describes the objectives of the Company's internal controls, the organization of the participants in the Company's internal controls and the internal control procedures that are currently in place. This report will be presented to the combined extraordinary and ordinary general shareholders' meeting of April 26, 2007.

Dividends

The Company may distribute dividends out of "distributable profits," plus any amounts held in the Company's reserves that the shareholders decide to make available for distribution, other than those reserves which are specifically required by French law and the Company's bylaws.

“Distributable profits” consist of unconsolidated statutory net profit in each fiscal year, as increased or reduced, as the case may be, by any profit or loss of the Company carried forward from prior years, and as reduced by the legal reserve fund allocation described below.

Legal Reserve

French law provides that French *sociétés anonymes* are each required to allocate 5% of their unconsolidated statutory net profits in each fiscal year to a legal reserve fund before dividends may be paid with respect to that year. Funds must be allocated until the amount in such legal reserve fund is equal to 10% of the aggregate nominal amount of the issued and outstanding share capital. The legal reserve fund constitutes a legal guarantee for third parties dealing with the Company and, in this respect, may not be distributed to shareholders. As of December 31, 2006, the Company’s legal reserve was € 15 million. This legal reserve may be distributed only upon liquidation of the relevant entity.

Approval of Dividends

According to French law, the board of directors may propose a dividend for approval by the shareholders at the annual general meeting of shareholders. The Company’s bylaws provide that, to the extent the distributable profits are sufficient, a first dividend will be paid to the shareholders each year equivalent, subject to certain adjustments, to 6% interest per annum on the paid and nonredeemed amounts of their shares.

If the Company has earned distributable profits since the end of the preceding fiscal year as reflected in an interim income statement certified by the Company’s auditors, the board of directors may distribute interim dividends to the extent of the distributable profits for the period covered by the interim income statement. The board of directors may declare such dividends, subject to French law, and may do so, for interim dividends paid in cash, without obtaining shareholder approval. For interim dividends paid in shares, prior authorization by a general shareholders’ meeting is required.

Distribution of Dividends

Dividends are distributed to shareholders *pro rata* according to their respective holdings of shares. Dividends are payable to holders of shares outstanding on the date of the shareholders’ meeting approving the distribution of dividends. In the case of interim dividends, distributions are made to shareholders on the date of the board of directors’ meeting approving the distribution of interim dividends. The actual dividend payment date is decided by the shareholders in an ordinary general meeting of shareholders or by the board of directors in the absence of such a decision by the shareholders. The Company’s bylaws provide that the shareholders’ meeting may decide to give each shareholder the option of receiving its dividend in the form of cash or of shares.

Timing of Payment

According to French law, the Company must pay any dividends within nine months of the end of the Company’s fiscal year, unless otherwise authorized by a court order. Dividends not claimed within five years of the date of payment revert to the French State.

Changes in Share Capital

Increases in Share Capital

Pursuant to French law, the share capital of the Company may be increased only with the approval of the shareholders at an extraordinary general meeting of shareholders. Increases in the Company’s share capital may be effected by:

- issuing common or preferred shares,
- issuing a new class of equity securities, or

- increasing the nominal value of the existing shares.

Increases in share capital by issuing common or preferred shares may be effected by issuing such securities:

- for cash,
- for assets contributed in kind,
- by conversion, exchange or redemption of debt securities previously issued,
- by exercise of any such rights attached to other securities giving rights to common or preferred shares, including warrants or stock options,
- by capitalization of profits, reserves or share premiums,
- subject to various conditions, in satisfaction of debt incurred by the Company, or
- any combination of the above.

Decisions to increase the share capital through the capitalization of reserves, profits and/or share premiums require the approval of an extraordinary general meeting of shareholders, acting under the quorum and majority requirements applicable to ordinary general shareholders' meetings. Increases effected by an increase in the nominal value of shares require unanimous approval of the shareholders, unless effected by capitalization of reserves, profits or share premiums. All other capital increases require the approval of an extraordinary general meeting of shareholders. See "—Shareholders' Meeting and Voting Rights."

Since the ordinance n° 2004-604 of June 24, 2004, the shareholders, at an extraordinary general meeting, may delegate the authority, subject to certain conditions, or the powers to carry out certain increases in the Company's share capital to the board of directors. The board of directors may further delegate this right to the Chairman and Chief Executive Officer and with his agreement, to one or several Assistant Managing Directors.

Whenever the shareholders approve a capital increase or approve the delegation to the Company's board of directors of the right to implement a capital increase (except when it results from an earlier issue of securities giving right to shares), they must also consider whether an additional capital increase should be reserved for the Company's employees and its subsidiaries or whether to delegate to or to authorize the Company's board of directors the right to carry out such reserved capital increase.

The combined extraordinary and ordinary general shareholders' meeting of April 22, 2005 adopted the following resolutions:

(i) to delegate to the board the authority for a period of 26 months to increase the Company's share capital by issuing, with preemptive subscription rights, shares and other securities giving right to the Company's share capital, up to a maximum nominal amount of € 45,000,000,

(ii) to delegate to the board the authority for a period of 26 months to increase the Company's share capital by issuing, without preemptive subscription right, shares and other securities giving right to the Company's share capital, up to a maximum nominal amount of € 33,000,000,

(iii) to delegate to the board the authority for a period of 26 months to increase the Company's share capital through the incorporation of reserves, profits, share premiums or any other amounts that may be capitalized up to a maximum nominal amount of € 33,000,000,

(iv) to authorize the board of directors for a period of 26 months to increase the capital in favor of employees of the Company or the companies of the Group, with corresponding waiver of preemptive subscription rights up to a maximum nominal amount of € 2,000,000, and

(v) to authorize the board of directors for a period of 26 months to allocate existing ordinary shares or ordinary shares of the Company to be issued, free of charge in an amount of up to 0.4% of the Company's share capital, *i.e.*, one million shares as at the date of this extraordinary general shareholders' meeting.

Resolutions will be submitted for approval at the combined extraordinary and ordinary general shareholders' meeting of April 26, 2007:

(i) to delegate to the board of directors the authority for a period of 26 months to increase the Company's share capital by issuing, with preemptive subscription rights, shares and other securities giving right to the Company's share capital,

(ii) to delegate to the board the authority for a period of 26 months to increase the Company's share capital by issuing, without preemptive subscription rights (but with a priority right for existing shareholders), shares and other securities giving right to the Company's share capital,

(iii) to authorize the board to increase the amount of the capital increases mentioned in (i) and (ii) by 15%,

(iv) to delegate to the board the authority for a period of 26 months to increase the Company's share capital by issuing shares and other securities giving right to the Company's share capital in case of an exchange offer initiated by the Company,

(v) to delegate to the board the authority for a period of 26 months to increase the Company's share capital by issuing shares and other securities giving right to the Company's share capital in order to pay for shares contributed to the Company,

(vi) to delegate to the board of directors the authority for a period of 26 months to increase the Company's share capital through the incorporation of reserves, profits, share premiums or any other amounts that may be capitalized up to a maximum nominal amount of 33 million euros,

(vii) to authorize the board of directors for a period of 26 months to increase the capital in favor of employees of the Company or of companies of the Group, with corresponding waiver of preemptive subscription rights up to a maximum nominal amount of 3 million euros,

(viii) to authorize the board for a period of 26 months to grant stock options; the maximum number of shares that could be exercised from these stock options should not exceed 3 million, and

(ix) to authorize the board of directors for a period of 26 months to allocate a maximum of 1 million existing ordinary shares or ordinary shares of the Company to be issued, free of charge.

The total amount of the shares issued in all capital increases pursuant to the authorizations in paragraphs (i) to (v) may not exceed a maximum nominal amount of 45 million euros. Moreover, the total amount of the shares issued in all capital increases pursuant to the authorizations in paragraphs (ii) to (v) may not exceed a maximum nominal amount of 33 million euros.

All of these resolutions, if voted, will replace the resolutions voted at the shareholders meeting on April 22, 2005.

The shareholders will also vote on the division in two of the nominal value of the shares of the Company.

Decreases in Share Capital

According to French law, the share capital of the Company may be decreased only with the approval of the shareholders at an extraordinary general meeting of shareholders. In the case of a capital reduction, other than a reduction to absorb losses or a reduction as part of a program to purchase the Company's shares, all shareholders must be offered the possibility to participate in such a reduction. The Company's share capital may be reduced either by decreasing the nominal value of the shares or by reducing the number of outstanding shares. The number of outstanding shares may be reduced either by an exchange of shares or by the repurchase and cancellation of shares. Holders of each class of shares must be treated equally unless affected shareholders agree otherwise.

Preemptive Subscription Rights

According to French law, if the Company issues securities for cash giving right either immediately or at a later date to subscribe to the Company's new shares, current shareholders will have preemptive subscription rights to these securities on a *pro rata* basis. These preemptive subscription rights require the Company to give priority treatment to those shareholders. The rights entitle the individual or entity that holds them to subscribe to an issue of any securities that may increase the share capital of the Company by means of a cash payment or a settling of cash debts. Preemptive subscription rights are transferable during the subscription period relating to a particular offering. These rights may also be listed on Euronext Paris.

A two-thirds majority of the shares entitled to vote at an extraordinary general meeting of shareholders may vote to waive preemptive subscription rights with respect to any particular offering. French law requires that the board of directors and the Company's independent auditors present reports that specifically address any proposal to waive preemptive subscription rights. In the event of a waiver, the issue of securities must be completed within the period prescribed by French law. The shareholders may also decide at an extraordinary general meeting of shareholders to give the existing shareholders a non-transferable priority right (*délai de priorité*) to subscribe to the new securities, during a limited period of time. Shareholders may also notify the Company that they wish to waive their own preemptive subscription rights with respect to any particular offering if they so choose.

Form, Holding and Transfer of Shares

Form of Shares

The Company's bylaws provide that the shares must be held in registered or bearer form.

Holding of Shares

In accordance with French law concerning dematerialization of securities, shareholders' ownership rights are not represented by share certificates but by book entries.

The Company maintains a share account with Euroclear France, or Euroclear, with respect to all shares in registered form (the "Company Share Account"), which in France is administered by Lazard Frères Banque acting on behalf of the Company as its agent. In addition, Lazard Frères Banque, on behalf of the Company, maintains separate accounts in the name of each shareholder (a "Shareholder Account") either directly or, at a shareholder's request, through the shareholder's accredited intermediary. Each Shareholder Account shows the name of the holder and his shareholdings and, in the case of shares held through an accredited intermediary, shows that they are so held. Lazard Frères Banque, as a matter of course, issues confirmations as to the shares registered in the Shareholder Accounts. However, these confirmations do not constitute documents of title.

Shares held in bearer form are held on the shareholder's behalf by an accredited intermediary and are registered in an account maintained by such accredited intermediary with Euroclear. The account is held separately from the Company's share account with Euroclear. Each accredited intermediary maintains a record of shares held through it and will issue certificates of registration in respect thereof. Transfers of shares held in bearer form may only be effected through accredited intermediaries and Euroclear.

The Company's bylaws allow the Company to request that Euroclear provide the Company, at any time, with, among other things, the identity of holders of shares or other securities, held in bearer form, conferring immediate or eventual voting rights at its shareholders' meetings along with the number of securities held by each of them and, if applicable, the restrictions relating to such securities.

French law states that shares held by any non-French resident may be held on the shareholder's behalf in a collective account or in several individual accounts by the intermediary.

According to French law, the intermediary must declare his position as an intermediary holding shares on behalf of the beneficial owner. Consequently, the owner of shares recorded in the collective account or in several individual accounts by an intermediary will be represented in the general shareholders' meetings by this intermediary.

Transfer of Shares

The Company's bylaws do not contain any restrictions relating to the transfer of the shares.

Registered shares must be converted into bearer form before being transferred on Euronext Paris and, accordingly, must be registered in an account maintained by an accredited intermediary. A shareholder may initiate a transfer by giving instructions to the relevant accredited intermediary.

Dealings in shares are initiated by the owner giving instructions (through his agent, if appropriate) to the relevant accredited intermediary. For dealings on Euronext Paris, an *impôt sur les opérations de bourse*, or tax assessed on the price at which the securities were traded, is payable at the rate of 0.3% on transactions up to € 153,000 and at a rate of 0.15% thereafter. The tax is subject to a rebate of € 23 per transaction and a maximum assessment of € 610 per transaction. Non-residents of France are generally not subject to the payment of such *impôt sur les opérations de bourse*.

In addition, a fee or commission is payable to the broker involved in the transaction, regardless of whether the transaction occurs within or outside France. No registration duty is normally payable in France, unless a transfer instrument has been executed in France.

See “—Taxation—French Taxation.”

Liquidation Rights

In the event that the Company is liquidated, the assets of the Company remaining after payment of its debts, liquidation expenses and all of its remaining obligations, if any, will be distributed first to repay in full the nominal value of the shares. Any surplus will be distributed *pro rata* among the holders of shares in proportion to the nominal value of their shareholdings.

Requirements for Holdings Exceeding Certain Percentages

French law provides that any individual or entity, acting alone or in concert with others, that becomes the owner of, directly or indirectly, more than one-twentieth, one-tenth, three-twentieths, one-fifth, one-fourth, one-third, one-half, two-thirds, eighteen-twentieths or nineteen-twentieths of the outstanding shares or the voting rights of any French listed company or that increases or decreases its shareholding or voting rights above or below any of these thresholds, must notify such company within five trading days of exceeding or falling below such level. The individual or the entity must also notify the AMF, within five trading days of such date, of the number of equity securities it holds and the voting rights attached thereto. The AMF then makes this information public.

French law imposes additional reporting requirements on persons who acquire more than 10% or 20% of the outstanding shares or voting rights of a company listed on a regulated market. These persons must file a report with the company and the AMF within ten trading days of the date they cross the threshold. In the report, the acquirer must specify its intentions for the following 12-month period, including whether or not it intends to continue its purchases, to acquire control of the company in question or to seek nomination to the board of directors. The AMF makes the notice public. The acquirer must also publish a press release stating its intentions in a financial newspaper of national circulation in France. The acquirer may amend its stated intentions, provided that it does so on the basis of significant changes in its own situation or that of other shareholders. Upon any

changes of intention, it must file a new report. These requirements also apply to registered intermediaries who hold shares on behalf of shareholders who are not French residents.

Under the regulations of the AMF, subject to limited exemptions, any person or persons acting in concert who come to own more than 33 1/3% of the share capital or voting rights of a French-listed company must initiate a public tender offer for the balance of the share capital and for the balance of the securities giving access to the share capital of such company.

In addition, the Company's bylaws provide that any individual or entity acting alone or in concert who holds a fraction equivalent to 0.5% or any multiple thereof of the voting rights outstanding at any time must, within five trading days of reaching such threshold, notify the Company of the total number of shares or securities giving access to the capital and the total number of voting rights that he or she holds thereof by registered letter incorporating a proof of delivery slip.

Pursuant to the Company's bylaws, this declarative obligation is also required of the intermediary registered on behalf of the owners of shares which do not have their domicile in the French territory. According to the Company's bylaws, in the event of the failure to comply with this notification requirement, and upon the request of any holder or holders of 5% or more of the voting rights, such non-complying shareholder will be deprived of its voting rights in excess of the fraction which should have been declared for a period of two years following its compliance with the notification requirements.

In order to permit shareholders or intermediaries to give the notice required by law, the Company must, on a monthly basis, notify the AMF of the total number of shares and voting rights of the Company if the number of shares or voting rights has changed since the previous disclosure. This information is made public by the AMF pursuant to its regulations. In order to facilitate compliance with the notification requirements provided for under French law, a holder of ADSs may deliver any such notification to the Depositary with respect to shares represented by ADSs and the Depositary shall immediately forward such notification to the Company and the AMF.

In addition, any shareholder (including a holder or beneficial owner of ADSs) who fails to comply with the above requirements may have all or part of its voting rights suspended for up to five years by the Commercial Court at the request of the Company's Chairman and Chief Executive Officer, any shareholder or the AMF, and may be subject to a € 18,000 fine.

Purchase by the Company of its Own Shares

In accordance with French law, the Company may not subscribe for its own shares. However, pursuant to the European regulations, French law and the AMF's regulations, the Company may, either directly or through a financial services intermediary (*prestataire de services d'investissement*) purchase its own shares in an amount of up to 10% of its share capital. Pursuant to AMF regulations, the Company, prior to the completion of a repurchase program, must make public a report containing a description of the program. However, the publication of a description is not required if an equivalent description is provided, either (i) in the special report to the annual shareholders' meeting concerning the completion of the repurchase program during the previous fiscal year or (ii) in the Company's *document de référence*.

The Company may not repurchase an amount of shares that would result in the Company's holding, directly or through a person acting on the Company's behalf, more than 10% of the Company's outstanding share capital, or if the Company has different classes of shares, 10% of the shares in each class.

Repurchased shares held by the Company must be held in registered form. These shares must be fully paid up. Such shares are deemed to be outstanding under French law but are not entitled to dividends (these are carried forward to the next fiscal year as distributable profits) or voting rights and the Company may not exercise preferential subscription rights.

The shareholders, at an extraordinary general meeting of shareholders, may decide not to take such shares into account in determining the preferential subscription rights attached to the other shares. However, if the shareholders decide to take them into account, the Company must either sell the rights on the market before the end of the subscription period or distribute them to the other shareholders on a *pro rata* basis.

The general shareholders' meeting of April 27, 2006 authorized the board of directors to repurchase and dispose of up to 18,000,000 of the Company's shares at a maximum purchase price of € 120.

Pursuant to the authorizations granted by the shareholders at the general meeting of shareholders on April 22, 2005 and on April 27, 2006, the Company completed share repurchases during 2006 as detailed in "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

The Company's board of directors will submit to the next general shareholders' meeting, which will be held on April 26, 2007, a resolution to authorize the Company's board of directors to repurchase an amount of the Company's shares representing a maximum of 10% of the share capital of the Company at a maximum purchase price of € 160 per share (for purposes of illustration and without taking into account treasury shares, 26,086,474 shares at December 31, 2006 representing a maximum aggregate purchase price of € 4,173,835,840). The purposes of the share repurchase program are the following:

- the allocation of options for the purchase of shares to the employees and officers,
- the free allocation of shares to employees and/or officers,
- the delivery of securities upon the exercise of rights attached to securities giving right to share capital,
- the delivery of shares for payment or exchange notably in regards to acquisitions, and
- the cancellation of shares up to the maximum legal amount.

At February 28, 2007, the Company held, directly or indirectly, 20,944,356 shares (20,455,171 at December 31, 2006) of which 6,831,088 were for share option purchase plans and equity-linked securities, 3,222,924 were held for cancellation and 8,008,284 were related to acquisitions.

Cancellation of Shares and Capital Decreases Following Share Repurchases

The general meeting of shareholders of April 22, 2005 granted an authorization to the board of directors for 24 months to cancel shares repurchased in the context of a share repurchase program and decrease the share capital subject to a limit of 10% of the existing share capital on the day of the meeting. Pursuant to this authorization, 1,400,000 shares and 2,600,000 shares were cancelled on August 1, 2006 and December 18, 2006, which reduced the share capital by € 0.7 million and € 1.3 million, respectively.

At the annual shareholders' meeting of April 26, 2007, the board of directors will submit for approval resolutions for a new authorization of 24 months (which would annul and replace the previous authorization granted to the board of directors on April 22, 2005, to the extent unused) to confer the power to cancel and reduce the share capital of the Company up to a limit of 10% of the share capital outstanding at the date of the meeting.

Trading by the Company in its Own Shares

Pursuant to the regulations of the European Union and the AMF, the Company may not trade in its own shares for the purpose of manipulating the market. Pursuant to these regulations, there are certain requirements for trades by a company to be considered valid:

- the issuer may not, when executing trades under a share repurchase program, purchase shares at a price higher than the highest price of the last independent trade or the highest current independent bid on the trading venues where the purchase is carried out;

- when the issuer carries out the purchase of its own shares through derivative financial instruments, the exercise price of such derivative financial instruments shall not be above the higher of the price of the last independent trade or the highest current independent bid;
- the issuer may not purchase more than 25% of the average daily volume of the shares in any one day on the regulated market on which the purchase is carried out. The average daily volume figure is to be based on the average daily volume traded in the month preceding the month of public disclosure of the program and fixed on that basis for the authorized period of the program. Where the program makes no reference to that volume, the average daily volume figure must be based on the average daily volume traded in the 20 trading days preceding the date of purchase.

In addition, in order to benefit from the exemption provided by the regulations of the European Union and the AMF, a company shall not, during its participation in a share repurchase program, engage in the following trading:

- selling of its own shares during the life of the program;
- trading where the company becomes aware of information that, if disclosed, would have a significant impact on the market price of its securities;
- trading during a 15-day period before the date on which the company makes its consolidated, annual and intermediary accounts public.

However, these requirements do not apply if:

- the issuer has in place a time-schedule share repurchase program; or
- the share purchase program is lead-managed by an investment firm or a credit institution which makes its trading decisions in relation to the issuer's shares independently of, and without influence by, the issuer with regard to the timing of the purchases.

Pursuant to the General Regulation of the AMF and its instructions, the Company must publicly disclose any transactions carried out pursuant to an ongoing share repurchase program by way of a press release posted on the AMF's website, no later than the seventh trading day following the date of execution of any such transactions.

In addition, as the case may be, the Company will disclose, at least once a month, specified information regarding transactions.

Exchange Controls

Ownership of ADSs or Shares by Non-French Residents

Under French law, there is no limitation on the right of non-French residents or non-French shareholders to own or, when applicable, to vote securities of a French company.

A French law dated February 14, 1996 abolished the requirement that a person who is not a resident of the European Union obtain an *autorisation préalable* (prior authorization) prior to acquiring a controlling interest in a French company.

However, pursuant to article R.151-1 *et seq.* of the French Financial and Monetary Code, the acquirer/investor must file a *déclaration administrative* (administrative notice) and a *déclaration statistique* (statistical declaration) with French authorities in connection with certain cases of foreign investments, direct investments and indirect foreign investments in any French company. Under existing administrative rulings, ownership of more than 10% of a French company's share capital or voting rights is regarded as a direct investment subject to a *déclaration statistique* and ownership of more than 33.33% of a French company's share capital or voting rights is subject to a *déclaration administrative*. In addition, French law provides for a list of business sectors in which certain investments must be authorized by French authorities.

Exchange Controls

Under current French exchange control regulations, there are no limitations on the amount of payments that may be remitted by a French company to non-French residents. Laws and regulations concerning foreign exchange controls do require, however, that all payments on transfers of funds made by a French resident to a non-resident be handled by an authorized accredited intermediary. In France, all registered banks and substantially all credit establishments are accredited intermediaries.

Other

For other limitations affecting shareholders, see “—Form, Holding and Transfer of Shares” and “—Requirements for Holdings Exceeding Certain Percentages.”

Taxation

French Taxation

The following is a general summary of the material French tax consequences of owning and disposing of shares by a holder that is not a resident of France and does not hold the shares in connection with a business conducted in France. The statements relating to French tax laws set out below are based on the laws in force as of the date hereof, and are subject to any changes in applicable French tax laws or in any applicable double taxation conventions or treaties with France occurring after such date.

This discussion is intended only as a descriptive summary and does not purport to be a complete analysis or list of all potential tax effects of the purchase or ownership of the shares.

Potential purchasers of shares are urged to consult their own tax advisors concerning the consequences of ownership and disposal of shares.

Taxation on Sale or Disposal of Shares

Subject to more favorable provisions of any relevant double tax treaty, persons who are not French residents for the purpose of French taxation (as well as, under certain conditions, foreign states, international organizations and certain foreign public bodies) and who have held, alone or with relatives, not more than 25%, directly or indirectly, of the dividend rights (*bénéfices sociaux*) of the Company at any time during the preceding five years, are not generally subject to any French income tax or capital gains tax on any sale or disposal of shares.

If a share transfer is evidenced by a written agreement, such share transfer agreement is, in principle, subject to registration formalities and therefore gives rise to a 1.1% (since January 1, 2006) registration duty assessed on the higher of the purchase price and the market value of the shares (subject to a maximum assessment of € 4,000 per transfer (since January 1, 2006), provided that, under certain circumstances, no duty is due if such written share transfer agreement is executed outside France).

Taxation of Dividends

In France, dividends are paid out of after-tax income.

With respect to dividends paid since January 1, 2005, French individual shareholders are entitled to a tax credit equal to 50% of the dividend paid, capped at € 230 or, as the case may be, € 115, depending on the marital status of the individual shareholder. Non-individual shareholders are not entitled to this tax credit.

Under French domestic law, dividends paid to non-residents are normally subject to a 25% French withholding tax and non-residents are not eligible for the benefit of the French tax credit mentioned above.

Under most tax treaties entered into between France and other countries, such withholding tax may, subject to certain conditions, be reduced and give rise in such other country to a tax credit of the amount of the tax or, in the case of certain tax treaties, be eliminated.

Certain tax treaties further provide for a refund of the French tax credits attached to dividends to certain non-residents. The French tax authorities have indicated that non-resident individual shareholders benefiting from a tax treaty providing for the refund of the French tax credits attached to dividends are entitled to the refund of the above-mentioned French tax credit, net of the applicable withholding tax.

The following countries and *Territoires d'Outre-Mer* have entered into treaties with France whereby tax residents of such countries and territories may, under certain circumstances, obtain from the French tax authorities a reduction (generally reducing the withholding tax rate to 15%) of all or part of such withholding tax and a refund of the French tax credits attached to dividends (net of applicable withholding tax).

| | | | |
|--------------|-------------|-------------|-----------------------------|
| Australia | India | Mexico | Switzerland |
| Austria | Israel | Namibia | Togo |
| Belgium | Italy | Netherlands | Turkey |
| Bolivia | Ivory Coast | New Zealand | Ukraine |
| Brazil | Japan | Niger | United Kingdom |
| Burkina Faso | Latvia | Norway | United States |
| Canada | Lithuania | Pakistan | Venezuela |
| Estonia | Luxembourg | Senegal | <i>Territoires d'Outre-</i> |
| Finland | Malaysia | Singapore | <i>Mer and Other:</i> |
| Gabon | Mali | South Korea | Mayotte |
| Ghana | Malta | Spain | New Caledonia |
| Iceland | Mauritius | Sweden | Saint-Pierre et Miquelon |

As to dividends paid in 2006 by the Company, non-resident shareholders benefiting from a treaty may have been subject, on the date of payment, to the withholding tax at the reduced rate provided for by such treaty, rather than to the French withholding tax at the rate of 25% to be later reduced to the treaty rate, if the shareholder established entitlement to such reduced rate before the date of payment by providing the paying agent with a certificate (the Simplified Certificate) based on the draft provided by the French Tax Authorities in their Administrative Guidelines 4 J-1-05, dated February 25, 2005.

If the non-resident shareholder did not file the Certificate before the dividend payment date, the Company withheld the French withholding tax at the rate of 25%. This non-resident may claim a refund of the excess withholding tax by completing and providing the paying agent with the French Treasury forms 5000 and 5001 before December 31, 2008.

Furthermore, if a shareholder is entitled to a refund of the French tax credits attached to dividends under the relevant tax treaty, such shareholder can file a claim for the refund of the French tax credit of 50% (capped at € 230 or € 115) on distributions made by the Company in 2006, net of the applicable withholding tax, but only to the extent that the shareholder is an individual.

The French tax authorities have not detailed the filing formalities that have to be completed in order to obtain the refund of the French tax credit described above with respect to distributions paid since January 1, 2005.

Estate and Gift Tax

France imposes estate and gift tax on shares of French companies acquired by inheritance or gift from a non-resident of France.

France has entered into estate and gift tax treaties with a number of countries pursuant to which, assuming certain conditions are met, residents of the treaty countries may be exempted from such tax or obtain a tax credit. Prospective investors in shares should consult their own advisors concerning the applicability of French estate and gift tax to their shareholding in the Company and the availability of, and the conditions for claiming exemption under, such a treaty.

Wealth Tax

In the absence of a more favorable tax treaty, the French wealth tax (*impôt de solidarité sur la fortune*) does not apply to the shares of non-French resident individual investors owning directly or indirectly less than 10% of the Company's share capital, assuming such shares do not enable such individual to exercise influence on the Company.

Taxation of U.S. Investors

The following is a general summary of the material U.S. federal income tax and French tax consequences to U.S. Holders. A "U.S. Holder" is a beneficial owner of one or more shares or ADSs (a) who owns (directly, indirectly or by attribution) less than 10% of the share capital or voting power of the Company; (b) who is (i) a citizen or individual resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of the trust; (c) who is entitled to the benefits of the Convention between the Government of the United States of America and the Government of the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, signed August 31, 1994, and any protocols thereto (the "Treaty") under the "Limitation on Benefits" article of that Treaty; (d) who holds the shares or ADSs as capital assets and (e) whose functional currency is the U.S. dollar.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) holds shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds shares or ADSs, he or she should consult his or her tax advisor regarding the specific tax consequences of owning and disposing of its shares or ADSs.

Special rules may apply to U.S. expatriates, insurance companies, tax-exempt entities, banks, regulated investment companies, financial institutions, persons subject to the alternative minimum tax, securities broker-dealers, traders in securities who elect to apply a mark-to-market method of accounting, persons holding the shares or ADSs as part of a straddle, hedging or conversion transaction, and persons who acquired their shares or ADSs pursuant to the exercise of employee stock options or otherwise as compensation. Those special rules are not discussed below. Because this is a general summary, Holders are advised to consult their tax advisors concerning the specific U.S. federal, state and local tax consequences relating to the ownership and disposition of shares and ADSs applicable in light of their particular situations, as well as any consequences arising under the laws of any other relevant taxing jurisdiction.

This summary is based upon applicable United States tax laws, including the United States Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), final, temporary and proposed Treasury Regulations promulgated thereunder, rulings, judicial decisions, administrative pronouncements, the Treaty, French laws, and the practice of the French tax authorities, all as currently in effect, and all of which are subject to change or changes in interpretation, possibly with retroactive effect. The statements of United States and French tax laws set forth below assume that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. Further information as regards French taxation may be found under "Item 10. Additional Information—Taxation—French Taxation."

Taxation of Dividends

Under the Treaty, the rate of French withholding tax on dividends paid to a U.S. Holder whose ownership of the ADSs or shares is not effectively connected with a permanent establishment or a fixed base in France is reduced to 15%. Dividends paid to such U.S. Holder are immediately subject to the reduced rate of 15% on the date of payment of such dividends, provided that the U.S. Holder establishes before the date of payment that he or she is a resident of the United States under the Treaty in accordance with the procedures described below.

Subject to certain conditions and filing formalities, an individual U.S. Holder would also be entitled to a payment equal to the French tax credit of 50% attached to dividends paid in 2005 by the Company (capped at € 230 or € 115, depending on the marital situation of the U.S. Holder), net of the 15% withholding tax, if he or she attests that he or she is subject to U.S. federal income taxes on the payment of the dividend and the related French tax credit (an “Eligible U.S. Holder”).

U.S. Holders, other than Eligible U.S. Holders, are not entitled to the payment of any French tax credit in respect of dividends paid in 2005.

Generally, dividends paid to a U.S. Holder in 2006 were subject to the reduced withholding tax rate of 15% at the time the dividend was paid if the U.S. Holder provided the paying agent before the dividend payment date with a certificate (the “Certificate”) based on the draft provided by the French tax authorities in their Administrative Guidelines 4 J-1-05, dated February 25, 2005.

If a U.S. Holder entitled to a reduced withholding tax rate did not file a completed Certificate before the dividend payment date, the Company withheld the French withholding tax at the rate of 25%. Such U.S. Holder may claim a refund of the excess withholding tax by completing and providing the paying agent with the Treasury Forms 5000 and 5001 before December 31, 2008.

In all cases, any French withholding tax refund is generally expected to be paid to U.S. Holders within 12 months of filing the Form, but not before January 15th following the end of the calendar year in which the related dividend is paid.

The Certificate or, where applicable, the Treasury Forms 5000 and 5001, together with their respective instructions, are provided by the Depositary to all U.S. Holders of ADSs registered with the Depositary and are also available from the French tax authorities. The Depositary shall arrange for the filing with the French tax authorities of all Certificates, or Forms as the case may be, provided that they are completed by U.S. Holders of ADSs and returned to the Depositary in sufficient time.

For U.S. federal income tax purposes, the gross amount of any dividend (including the related French tax credit paid to a U.S. Holder, including any French withholding tax thereon) will be included in gross income as ordinary dividend income on the date each such payment is actually or constructively received (which, in the case of a U.S. Holder of ADSs, will be the date of receipt by the Depositary). Corporate U.S. Holders will not be eligible for the dividends received deduction in respect of dividends paid by the Company. Dividends generally will constitute foreign source “passive income” or (in the case of certain U.S. Holders) “financial services income” for foreign tax credit purposes. For taxable years beginning after December 31, 2006, dividend income generally will constitute “passive category income” or, in the case of certain U.S. Holders, “general category income.” The amount of any dividend paid in euro, including the amount of any French taxes withheld therefrom, will be equal to the U.S. dollar value of the euro amount calculated by reference to the spot rate in effect on the date such dividend is includible in income (which, for a U.S. Holder of ADSs, will be the date of receipt by the Depositary), regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who converts the euro amount into U.S. dollars on the date of receipt generally should not recognize any exchange gain or loss. A U.S. Holder who does not convert the euro amount into U.S. dollars on the date of receipt generally will have a tax basis in the euro amount equal to its U.S. dollar value on the date of receipt and generally will be required to recognize any exchange gain or loss realized on a subsequent conversion or other

disposition of the euro amount, which will be treated as U.S. source ordinary income or loss. Moreover, a U.S. Holder may be required to recognize foreign currency gain or loss, which generally will be U.S. source ordinary income or loss, upon the receipt of a refund of amounts, if any, withheld from a dividend in excess of the Treaty rate of 15%. Special rules govern and specific elections are available to accrual method taxpayers to determine the U.S. dollar amount includible in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and elections available in this regard.

French withholding tax imposed at the Treaty rate of 15% on dividends paid by the Company and on the payment of any related French tax credit is treated as payment of a foreign income tax and, subject to certain conditions and limitations, may be taken as a credit against a U.S. Holder's U.S. federal income tax liability. Alternatively, a U.S. Holder may claim foreign taxes paid in a particular year as an itemized deduction. A deduction does not reduce U.S. tax on a dollar-for-dollar basis like a tax credit. The deduction, however, is not subject to the limitations applicable to foreign tax credits. Each U.S. Holder is urged to consult its own tax advisor concerning whether the Holder is eligible for benefits under the Treaty, and whether, and to what extent, a foreign tax credit will be available.

Certain U.S. Holders (including individuals and some trusts and estates) are eligible for reduced rates of U.S. federal income tax at a maximum rate of 15% in respect of "qualified dividend income" received in taxable years beginning before January 1, 2011. For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if, among other things, the U.S. Holders meet certain minimum holding periods and the non-U.S. corporation satisfies certain requirements, including that either (i) the shares (or ADSs) with respect to which the dividend has been paid are readily tradable on an established securities market in the United States, or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive U.S. income tax treaty (such as the Treaty) which provides for the exchange of information. The Company currently believes that dividends paid with respect to its shares and ADSs will constitute qualified dividend income for U.S. federal income tax purposes, and the Company anticipates that its dividends will be reported as qualified dividends on Forms 1099-DIV delivered to U.S. holders. Each individual U.S. Holder of shares or ADSs is urged to consult its own tax advisor regarding the availability of the reduced dividend tax rate in light of its own particular situation and regarding the computation of its foreign tax credit limitation with respect to any qualified dividend income paid by the Company, as applicable.

The U.S. Treasury has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits or reduced tax rates in respect of qualified dividends by U.S. Holders of ADSs. Accordingly, the discussion above regarding the creditability of French withholding tax or the availability of qualified dividend treatment could be affected by future actions that may be taken by the U.S. Treasury with respect to ADSs.

Taxation of Capital Gains

In general, a U.S. Holder who is a resident of the United States as defined pursuant to the provisions of the Treaty will not be subject to French tax on any capital gain from the sale or other disposal of shares or ADSs unless the shares or ADSs form part of the business property of a permanent establishment or fixed base that the U.S. Holder has in France. Special rules apply to individuals who are residents of more than one country.

In general, for U.S. federal income tax purposes, a U.S. Holder will recognize capital gain or loss on the sale or other taxable disposition of shares or ADSs equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. Holder's tax basis (determined in U.S. dollars) in the shares or ADSs. Such gain or loss, if any, generally will be U.S. source gain or loss, and will be treated as a long-term capital gain or loss if the holding period in the shares or ADSs exceeds one year at the time of the disposition. In the case of a U.S. Holder who is an individual, any capital gain generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

The deposit or withdrawal of shares in exchange for ADSs by a U.S. Holder under the deposit agreement will not be subject to U.S. federal income tax.

Passive Foreign Investment Company Status

A non-U.S. corporation will be classified as a Passive Foreign Investment Company (a “PFIC”) for any taxable year if at least 75% of its gross income consists of passive income (such as dividends, interest, rents or royalties (other than rents or royalties derived in the active conduct of a trade or business and received from an unrelated person), or gains on the disposition of certain minority interests), or at least 50% of the average value of its assets consist of assets that produce, or are held for the production of, passive income. The Company currently believes that it did not qualify as a PFIC for the 2006 taxable year for U.S. federal income tax purposes. If the Company were to become a PFIC in any taxable year (which conclusion is a factual determination that must be made as of the close of the taxable year), the tax on distributions on its shares or ADSs and on any gain realized by a U.S. Holder upon the disposition of shares or ADSs may be less favorable than as described herein. Furthermore, dividends paid by the Company would not be “qualified dividend income” and would be taxed at the higher rates applicable to other items of ordinary income. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to their ownership of shares or ADSs.

French Estate and Gift Taxes

Under “The Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts of November 24, 1978,” a transfer of shares or ADSs by gift or by reason of the death of a U.S. Holder will not be subject to French tax unless (i) the donor or the transferor is domiciled in France at the time of making the gift, or at the time of his or her death, or (ii) the shares or ADSs were used in, or held for use in, the conduct of a business through a permanent establishment or fixed base in France.

French Wealth Tax

The French wealth tax does not generally apply to the shares or ADSs owned by a U.S. Holder who is a resident of the United States as defined pursuant to the provisions of the Treaty.

U.S. Information Reporting and Backup Withholding

Dividend payments made to Holders, and proceeds paid from the sale, exchange, or other disposition of shares or ADSs may be subject to information reporting to the IRS and possible U.S. federal backup withholding at a current rate of 28%. Backup withholding will not apply to a Holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. persons required to establish their exempt status generally must furnish IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. Holders generally will not be subject to U.S. information reporting or backup withholding. However, such Holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a Holder’s U.S. federal income tax liability and a Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information.

Dividends and Paying Agents

Not applicable.

Statements by Experts

Not applicable.

Documents on Display

The documents referred to in this annual report can be read at the U.S. Securities and Exchange Commission's public reference facilities at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Investors can obtain information on the operation of the public reference facilities by calling the Commission at 1-800-SEC-0330 or 1-202-942-8090. In addition, the SEC maintains an Internet site at <http://www.sec.gov> that contains reports and other information regarding issues that file electronically with the SEC. These SEC filings are also available to the public from commercial document retrieval services. Material filed by the Company with the SEC can also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Subsidiary Information

Not applicable.

Risks Related to the Company's ADSs

- The ADSs trade in U.S. dollars. As the principal trading market for the shares underlying the ADSs is the Eurolist by Euronext™, where the shares trade in euro, the value of the ADSs will likely fluctuate as the U.S. dollar/euro exchange rate fluctuates. If the value of the euro decreases against the U.S. dollar, the price at which the ADSs trade will decrease. In addition, since any dividends that the Company may declare will be denominated in euro, exchange rate fluctuations will affect the U.S. dollar equivalent of dividends received by holders of ADSs. See "Item 3. Key Information—Exchange Rate Information" above.
- Under French law, shareholders have preferential subscription rights (*droits préférentiels de souscription*) to subscribe for cash for issuances of new shares or other securities giving rights, directly or indirectly, to acquire additional shares on a *pro rata* basis. U.S. Holders of ADSs may not be able to exercise preferential subscription rights for the shares underlying their ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, is effective with respect to such rights or an exemption from the registration requirements thereunder is available. If preferential subscription rights cannot be exercised by an ADS holder, Citibank N.A., as depositary, will, if possible, sell such holder's preferential subscription rights and distribute the net proceeds of the sale to the holder. If the depositary determines, in its discretion, that such rights cannot be sold, the ADS holders' interest in the Company will be diluted, and, if the depositary allows rights to lapse, holders of ADSs will not realize any value from the granting of preferential subscription rights.
- In order to vote at shareholders' meetings, ADS holders who are not registered on the books of the depositary are required to transfer their ADSs for a certain number of days before a stockholders' meeting into a blocked account established for that purpose by the depositary. Any ADSs transferred to this blocked account will not be available for transfer during that time. ADS holders who are registered on the books of the depositary must give instructions to the depositary not to transfer their ADSs during this period before the shareholders' meeting. ADS holders must therefore receive voting materials from the depositary sufficiently in advance in order to make these transfers or give these instructions. There can be no guarantee that ADS holders will receive voting materials in time to instruct the depositary to vote. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.
- The Company and the depositary may amend or terminate the deposit agreement without ADS holders' consent in a manner that could prejudice ADS holders.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

The Group uses interest rates and currency derivatives exclusively to hedge financial risks incurred in the normal course of its business. The hedging operations are taken in accordance with objectives and procedures established by management. The financing of all of the Group's subsidiaries is centralized at the Group's Finance Department, which uses financial instruments to reduce the total exposure faced by the Group resulting from interest rate fluctuations.

The Group has implemented an organization enabling it to manage, in a centralized manner, all of its financial risks relating to liquidity, exchange rates, interest rates and credit risk. The Treasury Department, which is part of the Finance Department, is responsible for these risks and as a result has the special expertise and necessary tools (marketplace access, front and back offices) to act on the different financial markets in the most efficient and safest conditions. Furthermore, the organization and applied procedures are regularly evaluated by the Internal Audit Department. Finally, a detailed monthly report is prepared and delivered to the Group's General Management which may confirm the orientations chosen within the framework of the management strategies that were originally authorized.

Regarding interest rate exposure, the risk related to the Group's consolidated net debt is monitored with the objective of minimizing costs and limiting in time the fluctuations relating to the volatility of interest rates by attaining the variable rates/fixed rates limits established by management.

As far as exposure to currency fluctuations is concerned, the objective is to hedge (i) on an annual budgetary basis the risks related to commercial transactions of the Group's subsidiaries denominated in currencies other than their functional currency, and (ii) the risks related to the net assets of certain subsidiaries and affiliates that operate in countries where the functional currency is not the euro.

Sensitivity to interest rate fluctuations

The main instruments used to reduce interest rate exposure are interest rate swaps, caps, floors and swaptions contracts negotiated with major financial institutions. See Note 25 to the Consolidated Financial Statements for the nominal amount, maturity date and market value information of these instruments at December 31, 2004, 2005 and 2006. Information about the interest rate of each component of non-current financial liabilities is disclosed in Note 16 to the Consolidated Financial Statements. At December 31, 2006, taking into account interest rate hedging instruments, the net debt of the Group was essentially at a fixed rate. Consequently, the Group's exposure to interest rate variation is judged not significant. Net debt used to measure sensitivity to interest rate fluctuations corresponds to financial liabilities less marketable securities, cash and cash equivalents. It excludes financial debt related to the put options granted to minority shareholders to the extent that they do not bear interest.

The tables below provide an indication of the estimated future and significant cash flows from (i) market risk sensitive instruments exposed to changes in interest rates held by Danone at December 31, 2006, and (ii) the related hedged assets and liabilities (*i.e.*, the Group's consolidated net debt) existing on the Group's balance sheet at December 31, 2006. Such estimated cash flows are calculated based on applicable interest rates (EURIBOR 1 month: 3.6%, EURIBOR 3 months: 3.7% and the interest rates applicable in countries other than France) and currency exchange rates at December 31, 2006.

Expected cash flows from the existing interest rate instruments at December 31, 2006 are shown below by maturity dates (out-of-the-money options at December 31, 2006 are excluded):

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Subsequent to 2011</u> |
|--------------------------------------|--------------|-------------|-------------|-------------|-------------|-------------------------------|
| | (€ millions) | | | | | |
| Interest rate swaps | | | | | | |
| Euro: | | | | | | |
| • fixed rates: | | | | | | |
| — payable (average rate: 4.2%) | (5) | (1) | — | — | — | — |
| — receivable (average rate: 3.8%) | 1 | — | — | — | — | — |
| • variable rates: | | | | | | |
| — payable (EURIBOR 3 month rates) | (1) | — | — | — | — | — |
| — receivable (EURIBOR 3 month rates) | 5 | 1 | — | — | — | — |
| Other currencies: | | | | | | |
| • fixed rates: | | | | | | |
| — payable (average rate: 1.8%) | (1) | — | — | — | — | — |
| • variable rates: | | | | | | |
| — receivable | 1 | — | — | — | — | — |
| Interest rate options | | | | | | |
| • variable rates: | 5 | 1 | — | — | — | — |

Expected interest cash flows from the assets and liabilities existing on the Group's balance sheet at December 31, 2006 and hedged in part by the above-mentioned instruments are shown below by maturity dates. Expected debt repayments and proceeds from the sales of marketable securities are not reported below.

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Subsequent to 2011</u> |
|--|--------------|-------------|-------------|-------------|-------------|-------------------------------|
| | (€ millions) | | | | | |
| Non-current financial liabilities | | | | | | |
| • fixed rates (average rate: 5.3%) | (4) | (3) | (2) | (1) | (1) | — |
| • variable rates (EURIBOR 3 months and EURIBOR 1 month) | (101) | (60) | (35) | (17) | (3) | — |
| Cash and cash equivalents, net of current financial liabilities | | | | | | |
| • variable rates (EURIBOR 1 month) | 4 | — | — | — | — | — |
| Marketable securities (EURIBOR 1 month) | 93 | 85 | 63 | 25 | — | — |

Sensitivity to currency fluctuations

The Group's policy with respect to fluctuations in exchange rates is to calculate periodically its net foreign currency exposure and to use derivatives to reduce this exposure. The main instruments are forward exchange contracts, currency swaps, and cross-currency swaps entered into with major financial institutions. See Note 25 to the Consolidated Financial Statements for the nominal amount and market value information of these instruments at December 31, 2004, 2005 and 2006.

The table below provides an indication of the estimated future cash flows from the existing currency hedging instruments at December 31, 2006, shown by maturity dates, and by nature of the hedged transactions, whether anticipated commercial transactions or financial transactions and net investments in foreign currencies. These cash flows are determined based on the applicable currency rates.

| | 2007 | 2008 | Subsequent to 2008 |
|---|--------------|------|-----------------------|
| | (€ millions) | | |
| Anticipated commercial transactions | | | |
| Forward purchases of: | | | |
| • U.S. dollar | (92) | (5) | — |
| • British pound | (71) | (7) | — |
| • Polish zloty | (47) | (3) | — |
| • Other currencies | (18) | — | — |
| Forward sales of: | | | |
| • British pound | 316 | 56 | — |
| • Japanese yen | 148 | 14 | — |
| • Mexican peso | 116 | 1 | — |
| • U.S. dollar | 61 | 7 | — |
| • Polish zloty | 57 | — | — |
| • Canadian dollar | 49 | 1 | — |
| • Swiss franc | 33 | 4 | — |
| • Other currencies | 79 | 1 | — |
| Financial transactions and net investments | | | |
| Forward purchases of: | | | |
| • British pound | (1) | — | — |
| Forward sales of: | | | |
| • Czech crown | 60 | — | — |
| • Indonesian rupiah | 59 | 32 | 53 |
| • Polish zloty | 35 | 31 | 20 |
| • Other currencies | 48 | 78 | 50 |

Cash flow is reported with respect to currency options when these options are in the money at December 31, 2006.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

To Danone's knowledge, there has been no material default in the payment of principal or interest or any other material default not cured within 30 days relating to indebtedness of Groupe Danone or any of its subsidiaries.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

To Danone's knowledge, no one (i) has modified materially the instruments defining the rights of holders of its shares or (ii) has modified materially or qualified the rights evidenced by its registered securities by issuing or modifying any other class of securities.

PART III

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report on Form 20-F. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the evaluation date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2006.

The Company's independent registered public accounting firm, PricewaterhouseCoopers Audit, that has audited the financial statements included in this annual report on Form 20-F has issued a report on management's assessment of the Company's internal control over financial reporting as of December 31, 2006.

(c) Report of the Registered Public Accounting Firm

The report of PricewaterhouseCoopers Audit on management's assessment of the Company's internal control over financial reporting as of December 31, 2006 is included on page F-2 of this annual report on Form 20-F.

(d) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

It has been determined that Mr. Christian Laubie is an "audit committee financial expert" as defined in the applicable rules promulgated by the Securities and Exchange Commission and the New York Stock Exchange.

Item 16B. Code of Ethics

The Company has adopted a code of ethics that applies to its Chief Executive Officer, Vice-Chairman, Executive Vice-President—Finance, Strategy and Information Systems and Controller. A copy of this code of ethics may be obtained without charge by writing to Groupe Danone, Attention: Investor Relations, 17, Boulevard Haussmann, 75009 Paris, France.

Item 16C. Principal Accountant Fees and Services

The following table presents the aggregate fees for professional audit services and other services rendered by PricewaterhouseCoopers to the Group in 2005 and 2006.

| | PricewaterhouseCoopers | | | |
|---|------------------------|-------------|--------------------------|-------------|
| | Fee Amount | | Percentage of Total Fees | |
| | 2005 | 2006 | 2005 | 2006 |
| (in millions of euro, except percentages) | | | | |
| Audit Fees⁽¹⁾ | 4.5 | 7.5 | 56.2% | 75% |
| Audit-related Fees⁽²⁾ | 2.3 | 1.5 | 28.8% | 15% |
| Tax Fees⁽³⁾ | 1.2 | 1.0 | 15% | 10% |
| All Other Fees | 0.0 | 0.0 | 0% | 0% |
| Total | <u>8.0</u> | <u>10.0</u> | <u>100%</u> | <u>100%</u> |

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.
- (2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Group's financial statements or that are traditionally performed by the external auditor, and include due diligence related to acquisitions and audits in connection with proposed or completed acquisitions or disposals.
- (3) Tax Fees include fees billed for tax compliance services, including the review of original and amended tax returns and claims for refund.

Groupe Danone has two statutory auditors as required by French law, PricewaterhouseCoopers Audit and Mazars & Guérard. Fees for Mazars & Guérard were € 2.7 million in 2005 and € 3.2 million in 2006.

Audit Committee Pre-approval Policies and Procedures

The Audit Committee is responsible for approving all audit, audit-related and tax services. Each year, the statutory auditors provide the Audit Committee with an estimate of fees for anticipated audit, permitted audit-related and tax services.

On this basis, the Audit Committee gives pre-approval for permitted audit-related and tax services when such services do not exceed € 200,000 individually, € 500,000 in the aggregate for audit related services, € 1,000,000 in the aggregate for tax services (€ 1,500,000 in 2006) and € 800,000 in the aggregate for due diligence services. When it is expected that a permitted service will exceed these limits, the Audit Committee must be informed and specifically pre-approve such situations.

During 2006, Audit-related Fees representing 5% of total fees provided to the Group by the statutory auditors were approved by the Audit Committee pursuant to the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Mr. Richard Goblet d'Alviella, who is a director of Groupe Danone and, until July 12, 2006, was a director of Danone Asia, a subsidiary of Groupe Danone, relied on the exemption in Rule 10A-3(b)(1)(iv)(B) of the Securities Exchange Act of 1934, which allows an otherwise independent director who serves on the board of directors of both a listed company and an affiliate to serve on the audit committee of the listed company. Groupe Danone believes that the reliance on this exemption did not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the other requirements of Rule 10A-3.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

| Period | Total Number of Shares Purchased⁽¹⁾ | Average Price Paid per Share in euro |
|----------------|---|---|
| January 2006 | — | — |
| February 2006 | 320,276 | 94.42 |
| March 2006 | 742,465 | 97.16 |
| April 2006 | 977,766 | 98.14 |
| May 2006 | 1,586,062 | 94.55 |
| June 2006 | 501,194 | 90.44 |
| July 2006 | 116,000 | 98.03 |
| August 2006 | 50,000 | 104.56 |
| September 2006 | 348,017 | 110.06 |
| October 2006 | 591,618 | 114.07 |
| November 2006 | 1,017,746 | 117.13 |
| December 2006 | 822,122 | 116.53 |
| January 2007 | 678,430 | 114.55 |
| February 2007 | 0 | 0 |
| Total | 7,751,696 | 104.33 |

(1) For a description of the Company's share repurchase program, see "Item 10. Additional Information—Purchase by the Company of its Own Shares."

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

The Consolidated Financial Statements filed as part of this annual report may be found beginning on page F-1.

Item 19. Exhibits

- 1.1 Bylaws of Groupe Danone, as of December 18, 2006.
- 8.1 Subsidiaries of Groupe Danone (see Note 31 to the Consolidated Financial Statements).
- 10.1 Consent of PricewaterhouseCoopers Audit.
- 12.1 Certification of Franck Riboud, Chairman and Chief Executive Officer of Groupe Danone, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Antoine Giscard d'Estaing, Executive Vice-President—Finance, Strategy and Information Systems of Group Danone, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

The registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 2, 2007

GROUPE DANONE

By: /s/ ANTOINE GISCARD D'ESTAING

Name: Antoine Giscard d'Estaing

Title: *Executive Vice-President—Finance,
Strategy and Information Systems*

GROUPE DANONE
INDEX TO THE FINANCIAL STATEMENTS

Group Danone Financial Statements

| | |
|--|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Statements of Income for the Years Ended December 31, 2004, 2005 and 2006 | F-4 |
| Consolidated Balance Sheets as of December 31, 2004, 2005 and 2006 | F-5 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2005 and 2006 | F-6 |
| Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2004, 2005 and 2006 | F-7 |
| Notes to the Consolidated Financial Statements | F-9 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders of GROUPE DANONE

We have completed an integrated audit of GROUPE DANONE's 2006 consolidated financial statements, and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements, all expressed in Euro, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of GROUPE DANONE and its subsidiaries (together, the "Group") at December 31, 2006, December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with International Financial Reporting Standards as adopted by the European Union. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 2 to the consolidated financial statements.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15(b), that the Group maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Group's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the

design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PRICEWATERHOUSECOOPERS AUDIT

Neuilly-sur-Seine, France
March 27, 2007

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENTS

| | Notes | Year ended December 31, | | |
|--|-------|-------------------------|---------------|---------------|
| | | 2004 | 2005 | 2006 |
| | | (In millions of euro) | | |
| Net sales | | 12,273 | 13,024 | 14,073 |
| Cost of goods sold | | (6,223) | (6,644) | (7,214) |
| Selling expenses | | (3,108) | (3,331) | (3,605) |
| General and administrative expenses | | (976) | (1,017) | (1,047) |
| Research and development expenses | | (129) | (123) | (126) |
| Other (expense) income | 21 | (229) | (171) | (167) |
| Trading operating income | | 1,608 | 1,738 | 1,914 |
| Other operating (expense) income | 22 | (49) | (32) | (40) |
| Operating income | | 1,559 | 1,706 | 1,874 |
| <i>Interest income</i> | | 55 | 88 | 182 |
| <i>Interest expense</i> | | (149) | (189) | (219) |
| Cost of net debt | 23 | (94) | (101) | (37) |
| Other financial (expense) income | 23 | 104 | (9) | (31) |
| Income before tax | | 1,569 | 1,596 | 1,806 |
| Income tax | 24 | (428) | (473) | (360) |
| Income from consolidated companies | | 1,141 | 1,123 | 1,446 |
| Net income (loss) of affiliates | 7 | (550) | 44 | (40) |
| Net income from continuing operations | | 591 | 1,167 | 1,406 |
| Net income from discontinued operations | 4 | 47 | 504 | 154 |
| Net income | | 638 | 1,671 | 1 560 |
| —Attributable to the Group | | 449 | 1,464 | 1,353 |
| —Attributable to minority interests | | 189 | 207 | 207 |

PER SHARE INFORMATION (Note 14)

| | | | |
|---|-------------|-------------|-------------|
| Number of shares used in calculating earnings per share | 250,671,990 | 246,038,406 | 242,734,094 |
| Number of shares used in calculating diluted earnings per share ... | 257,530,982 | 250,280,950 | 244,688,913 |
| Earnings per share attributable to the Group | 1.79 | 5.95 | 5.57 |
| Diluted earnings per share attributable to the Group | 1.79 | 5.87 | 5.53 |

The notes on pages F-9 to F-68 are an integral part of the consolidated financial statements.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS

| | Notes | As of December 31, | | |
|---|-------|-----------------------|---------------|---------------|
| | | 2004 | 2005 | 2006 |
| | | (In millions of euro) | | |
| Brand names | | 1,156 | 967 | 962 |
| Other intangible assets, net | | 197 | 194 | 175 |
| Goodwill, net | | 3,847 | 4,120 | 4,145 |
| | 5 | 5,200 | 5,281 | 5,282 |
| Property, plant and equipment, net | 6 | 2,636 | 2,944 | 3,020 |
| Investments accounted for under the equity method | 7 | 1,961 | 1,256 | 1,093 |
| Investments in non-consolidated companies | 8 | 244 | 263 | 827 |
| Long-term loans | 9 | 312 | 330 | 22 |
| Other long-term assets | 10 | 198 | 283 | 115 |
| Deferred taxes | 24 | 101 | 250 | 343 |
| Non-current assets | | 10,652 | 10,607 | 10,702 |
| Inventories | 11 | 597 | 629 | 628 |
| Trade accounts and notes receivable | 12 | 1,426 | 1,503 | 1,594 |
| Other accounts receivable and prepaid expenses | 12 | 562 | 701 | 601 |
| Short-term loans | | 40 | 53 | 34 |
| Marketable securities | 13 | 2,200 | 2,413 | 2,564 |
| Cash and cash equivalents | | 466 | 576 | 655 |
| Assets held for sale | 4 | 136 | 243 | 78 |
| Current assets | | 5,427 | 6,118 | 6,154 |
| Total assets | | 16,079 | 16,725 | 16,856 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Capital stock | | 134 | 132 | 130 |
| Additional paid-in capital | | 259 | 244 | 203 |
| Retained earnings | | 4,850 | 5,728 | 6,460 |
| Cumulative translation adjustments | | (97) | 258 | 34 |
| Treasury stock | | (918) | (1,149) | (1,414) |
| Net income recognized directly in equity | | 28 | 67 | 410 |
| Stockholders' equity attributable to the Group | | 4,256 | 5,280 | 5,823 |
| Minority interests | | 250 | 341 | 246 |
| Stockholders' equity | | 4,506 | 5,621 | 6,069 |
| Non-current financial liabilities | 16 | 6,677 | 5,692 | 5,705 |
| Pension liabilities | 17 | 328 | 324 | 147 |
| Deferred taxes | 24 | 346 | 192 | 296 |
| Other non-current liabilities | 18 | 441 | 336 | 391 |
| Stockholders' equity and non-current liabilities | | 7,792 | 6,544 | 6,539 |
| Trade accounts and notes payable | 19 | 1,568 | 1,764 | 1,861 |
| Accrued expenses and other current liabilities | 19 | 1,614 | 1,893 | 1,971 |
| Current financial liabilities | 16 | 527 | 869 | 416 |
| Liabilities held for sale | 4 | 72 | 34 | — |
| Current liabilities | | 3,781 | 4,560 | 4,248 |
| Total liabilities and stockholders' equity | | 16,079 | 16,725 | 16,856 |

The notes on pages F-9 to F-68 are an integral part of the consolidated financial statements.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Year ended December 31, | | |
|--|-------|-------------------------|----------------|----------------|
| | Notes | 2004 | 2005 | 2006 |
| | | (In millions of euro) | | |
| Net income attributable to the Group | | 449 | 1,464 | 1,353 |
| Net income attributable to minority interests | | 189 | 207 | 207 |
| Net income from discontinued operations | | (47) | (504) | (154) |
| Net income (loss) of affiliates | | 550 | (44) | 40 |
| Depreciation and amortization | | 481 | 478 | 491 |
| Dividends received from affiliates | | 45 | 45 | 38 |
| Other flows with impact on cash | 27 | — | — | (82) |
| Other flows with no impact on cash | 27 | (93) | 70 | (2) |
| Cash flows provided by operating activities, excluding changes in net working capital | | 1,574 | 1,716 | 1,891 |
| (Increase) decrease in inventories | | (70) | (17) | (28) |
| (Increase) decrease in trade accounts receivable | | (27) | (87) | (132) |
| Increase (decrease) in trade accounts payable | | 143 | 123 | 161 |
| Changes in other working capital items | | 74 | 112 | 277 |
| Net change in current working capital | | 120 | 131 | 278 |
| Cash flows provided by operating activities | | 1,694 | 1,847 | 2,169 |
| Capital expenditures | | (520) | (607) | (692) |
| Purchase of businesses and other investments net of cash and cash equivalent acquired | 27 | (98) | (636) | (575) |
| Proceeds from the sale of businesses and other investments net of cash and cash equivalent disposed of | 27 | 650 | 1,659 | 430 |
| (Increase) decrease in long-term loans and other long-term assets | | 130 | (134) | 336 |
| Changes in cash and cash equivalents of discontinued operations | | 52 | 30 | — |
| Cash flows provided by investing activities | | 214 | 312 | (501) |
| Increase in capital and additional paid-in capital | | 38 | 61 | 52 |
| Purchases of treasury stock (net of disposals) | | (213) | (558) | (587) |
| Dividends | | (456) | (489) | (610) |
| Increase (decrease) in non-current financial liabilities | | (290) | (715) | 28 |
| Increase (decrease) in current financial liabilities | | (536) | (191) | (235) |
| (Increase) decrease in marketable securities | | (415) | (210) | (201) |
| Cash flows used in financing activities | | (1,872) | (2,102) | (1,553) |
| Effect of exchange rate changes on cash and cash equivalents | | (21) | 53 | (36) |
| Increase (decrease) in cash and cash equivalents | | 15 | 110 | 79 |
| Cash and cash equivalents at beginning of period | | 451 | 466 | 576 |
| Cash and cash equivalents at end of period | | 466 | 576 | 655 |
| Supplemental disclosures: | | | | |
| Cash paid during the year: | | | | |
| —interest | | 152 | 172 | 209 |
| —income tax | | 439 | 424 | 368 |

The notes on pages F-9 to F-68 are an integral part of the consolidated financial statements.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Number of shares* | | | In millions of euro | | | | | | | |
|---|--------------------|--------------------------|---------------|----------------------------|-------------------|------------------------------------|----------------|--|----------------------------|--------------------|----------------------|
| | Issued | Excluding treasury stock | Capital stock | Additional paid-in capital | Retained earnings | Cumulative translation adjustments | Treasury stock | Net income recognized directly in equity | Stockholders' equity—Group | Minority interests | Stockholders' equity |
| As of January 1, 2004 | 269,950,986 | 253,137,534 | 135 | 377 | 4,681 | — | (862) | 59 | 4,390 | 253 | 4,643 |
| Translation adjustments | | | | | | (97) | | | (97) | (24) | (121) |
| Unrealized gain (loss) on available-for-sale securities | | | | | | | | (33) | (33) | — | (33) |
| Cash flow hedges | | | | | | | | 2 | 2 | — | 2 |
| <i>Net income recognized directly in equity</i> | | | | | | (97) | | (31) | (128) | (24) | (152) |
| Net income for 2004 | | | | | 449 | | | | 449 | 189 | 638 |
| <i>Total recognized income and expense for 2004</i> | | | | | 449 | (97) | | (31) | 321 | 165 | 486 |
| Capital stock issues | 744,534 | 744,534 | | 38 | | | | | 38 | — | 38 |
| Capital stock reduction | (2,600,000) | (2,600,000) | (1) | (156) | | | | | (157) | (1) | (158) |
| Changes in treasury stock | | (515,267) | | | | | (56) | | (56) | — | (56) |
| Dividends paid | | | | | (308) | | | | (308) | (147) | (455) |
| Changes in the scope of consolidation | | | | | | | | | — | (4) | (4) |
| Stock options | | | | | 28 | | | | 28 | — | 28 |
| Put options granted to minority shareholders | | | | | | | | | — | (16) | (16) |
| As of December 31, 2004 | 268,095,520 | 250,766,801 | 134 | 259 | 4,850 | (97) | (918) | 28 | 4,256 | 250 | 4,506 |
| Translation adjustments | | | | | (5) | 355 | | | 350 | 51 | 401 |
| Unrealized gain (loss) on available-for-sale securities | | | | | | | | 45 | 45 | — | 45 |
| Cash flow hedges | | | | | | | | (6) | (6) | — | (6) |
| <i>Net income recognized directly in equity</i> | | | | | (5) | 355 | | 39 | 389 | 51 | 440 |
| Net income for 2005 | | | | | 1,464 | | | | 1,464 | 207 | 1,671 |
| <i>Total recognized income and expense for 2005</i> | | | | | 1,459 | 355 | | 39 | 1,853 | 258 | 2,111 |
| Capital stock issues | 739,670 | 739,670 | 0 | 40 | | | | | 40 | 21 | 61 |
| Capital stock reduction | (4,600,000) | (4,600,000) | (2) | (55) | (270) | | | | (327) | — | (327) |
| Changes in treasury stock | | (2,387,110) | | | | | (231) | | (231) | — | (231) |
| Dividends paid | | | | | (334) | | | | (334) | (155) | (489) |
| Changes in the scope of consolidation | | | | | | | | | 0 | (24) | (24) |
| Stock options | | | | | 23 | | | | 23 | — | 23 |
| Put options granted to minority shareholders | | | | | | | | | 0 | (9) | (9) |
| As of December 31, 2005 | 264,235,190 | 244,519,361 | 132 | 244 | 5,728 | 258 | (1,149) | 67 | 5,280 | 341 | 5,621 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY—(Continued)

| | Number of shares* | | | In millions of euro | | | | | | | |
|---|--------------------|--------------------------|---------------|----------------------------|-------------------|------------------------------------|----------------|--|----------------------------|--------------------|----------------------|
| | Issued | Excluding treasury stock | Capital stock | Additional paid-in capital | Retained earnings | Cumulative translation adjustments | Treasury stock | Net income recognized directly in equity | Stockholders' equity—Group | Minority interests | Stockholders' equity |
| As of December 31, 2005 | 264,235,190 | 244,519,361 | 132 | 244 | 5,728 | 258 | (1,149) | 67 | 5,280 | 341 | 5,621 |
| Translation adjustments | | | | | | (224) | | | (224) | (33) | (257) |
| Unrealized gain (loss) on available-for-sale securities | | | | | 3 | | | 340 | 343 | — | 343 |
| Cash flow hedges | | | | | | | | 2 | 2 | — | 2 |
| Stock options | | | | | 14 | | | 1 | 15 | — | 15 |
| <i>Net income recognized directly in equity</i> | | | | | 17 | (224) | | 343 | 136 | (33) | 103 |
| Net income for 2006 | | | | | 1,353 | | | | 1,353 | 207 | 1,560 |
| <i>Total recognized income and expense for 2006</i> | | | | | 1,370 | (224) | | 343 | 1,489 | 174 | 1,663 |
| Capital stock issues | 629,556 | 629,556 | 0 | 45 | | | | | 45 | 7 | 52 |
| Capital stock reduction | (4,000,000) | (4,000,000) | (2) | (86) | (225) | | | | (313) | — | (313) |
| Changes in treasury stock | | (739,342) | | | 3 | | (265) | | (262) | — | (262) |
| Dividends paid | | | | | (416) | | | | (416) | (194) | (610) |
| Changes in the scope of consolidation | | | | | | | | | 0 | (80) | (80) |
| Put options granted to minority shareholders | | | | | | | | | 0 | (2) | (2) |
| As of December 31, 2006 | 260,864,746 | 240,409,575 | 130 | 203 | 6,460 | 34 | (1,414) | 410 | 5,823 | 246 | 6,069 |

As of December 31, 2006, the number of treasury stock held by GROUPE DANONE and its subsidiaries amounted to 20,455,171 (19,715,829 as of December 31, 2005 and 17,328,719 as of December 2004).

The notes on pages F-9 to F-68 are an integral part of the consolidated financial statements.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Accounting principles

The consolidated financial statements of GROUPE DANONE, its subsidiaries and affiliates (together, the “Group”) as of and for the year ended December 31, 2006 were prepared under International Financial Reporting Standards (“IFRS”) as adopted by the European Union. They were approved by the Board of Directors on February 14, 2007 and will be submitted for approval to the General Annual Meeting on April 26, 2007. Differences between accounting principles under IFRS and generally accepted accounting principles in the United States of America (“US GAAP”) are summarized in Note 2.

The consolidated financial statements as of and for the year ended December 31, 2004 were prepared based on accounting principles generally accepted in France (Rule 99-02 from the CRC relating to consolidated financial statements). In order to ensure comparability with the financial statements as of and for the years ended December 31, 2005 and December 31, 2006, the financial statements as of and for the year ended December 31, 2004 have been restated to comply with IFRS. The main differences between accounting principles generally accepted in France and IFRS are presented in Note 32 to the 2005 consolidated financial statements that are included in the annual report on form 20-F for the year 2005.

1—First application of new accounting rules

In 2004, IFRIC issued interpretation 4 (IFRIC 4)—*Determining whether an arrangement contains a lease*. This interpretation requires that agreements that do not take the legal form of a lease but convey a right to use an asset, be analyzed in order to determine whether they contain an implicit lease of that asset. When this is the case, such lease must be classified as an operating or a finance lease. This interpretation is effective from January 1, 2006 with early adoption possible. The application of this interpretation by the Group from January 1, 2006 did not have a significant impact on its consolidated income statement or financial position.

In August 2005, IASB issued IFRS 7—*Financial instruments: Disclosures*. This standard, which addresses disclosures on financial instruments, is effective from January 1, 2007, with early application encouraged. The Group has not anticipated the application of this standard in its consolidated financial statements as of and for the year ended December 31, 2006.

In April 2005, IASB issued an amendment to IAS 39—*Financial instruments: Recognition and measurement*, which addresses intra-group cash flow hedges. Under this amendment, certain highly probable intra-group transactions can be hedged. This amendment is effective from January 1, 2006, with early application encouraged. The application of this amendment by the Group from January 1, 2006 did not have a significant impact on its consolidated income statement or financial position.

In June 2005, IASB issued an amendment to IAS 39 on the fair value option. Under this amendment, some financial instruments may be measured at fair value with changes in fair value being recorded in the income statement. This amendment is effective from January 1, 2006 with early application encouraged. The Group is not impacted by the amendment.

The Group does not expect that the standards and interpretations that were adopted by the IASB and IFRIC in 2006 will have a significant impact on its consolidated income statement or financial position.

2—Consolidation principles

All subsidiaries in which the Group holds, directly or indirectly, a controlling interest are consolidated. Control over an entity exists when the Group has the capacity to govern the operating and financial policies of

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

such entity, regardless of its interest in the entity. All assets, liabilities and income statement items relating to subsidiaries are reflected in the Group's consolidated financial statements. All significant intercompany balances and transactions between consolidated entities (including dividends) are eliminated in the consolidated financial statements.

All companies in which the Group exercises, directly or indirectly, a significant influence or joint control are accounted for using the equity method. Under this method, the Group accounts for its proportionate share in the company's net income and net assets.

Investments in companies that meet the above-mentioned criteria but are not included in the scope of consolidation are reflected as investments in non-consolidated companies. The inclusion of such companies in the scope of consolidation would not have a significant impact on the consolidated financial statements.

Net income of subsidiaries or equity affiliates acquired (disposed of) during the year is included in the consolidated income statement as from the acquisition date (up until the disposal date).

The scope of consolidation is presented in Note 31.

3—Foreign currency translation

Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. At period-end, accounts receivable and accounts payable denominated in foreign currencies are translated using period-end exchange rates. Foreign exchange gains and losses arising from transactions in foreign currencies are recorded under the line item "Other (expense) income" in the consolidated income statement, except those arising from (i) transactions of a long-term investment nature and (ii) financial liabilities denominated in foreign currencies that are used to hedge long-term investments denominated in the same currencies. Such unrealized gains and losses are reflected in stockholders' equity, under the heading "Cumulative translation adjustments".

Translation of financial statements of foreign operations

Financial statements of foreign operations are translated into euro as follows:

- balance sheet items are translated using period-end exchange rates;
- income statement items are translated using the average exchange rate for the period.

The resulting exchange differences, which are included in stockholders' equity under the heading "Cumulative translation adjustments", are recognized in the income statement when the related foreign operations are sold or liquidated.

4—Intangible assets

Goodwill

Upon acquisition of a subsidiary or an affiliate, the acquisition cost is allocated on a fair value basis to the identifiable assets and liabilities acquired. The difference between the cost of acquisition and the Group's share

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

in the fair value of the assets and liabilities acquired is recorded under the heading “Goodwill, net” for consolidated entities and under the heading “Investments accounted for under the equity method” for equity affiliates.

Goodwill is not amortized but is tested for impairment at least annually (see below).

Goodwill arising from the acquisition of a foreign entity is recorded in the functional currency of the entity acquired.

Brands and other intangible assets

Acquired brands with a substantial and long-term sustainable value that are supported by advertising expenses and that have an indefinite useful life are recorded under the heading “Brand names” in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and earnings contribution. These brands, which are legally protected, are not amortized. Brand names that are determined to have a finite life are reflected under the heading “Other intangible assets, net” in the consolidated balance sheet. They are amortized over their estimated useful life, which does not exceed forty years.

Licenses, patents and other acquired intangible assets are recorded at acquisition cost under the heading “Other intangible assets, net” in the consolidated balance sheet. They are amortized on a straight-line basis over their estimated useful lives, not exceeding forty years.

Impairment reviews

Intangible assets (including goodwill) are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. An impairment charge is recorded when the recoverable value of an intangible asset becomes durably lower than its carrying value.

The recoverable value of an intangible asset corresponds to the higher of market value and value in use. Value in use is assessed with reference to multiple of earnings or expected future discounted cash flows of the Cash Generating Unit (“CGU”) to which the asset belongs. CGUs correspond to subsidiaries or groups of subsidiaries that are included in a same reportable segment and that generate cash flows largely independent from those generated by other CGUs. Cash flows used to determine value in use are derived from the CGU’s business plans, which usually cover a period of three years and are generally extended to a period of five years on the basis of the most recent forecasts. Future cash flows beyond that period are extrapolated using a perpetual growth rate that is specific to each CGU. Future cash flows are then discounted using a weighted average cost of capital that is specific to the countries where the CGU operates. Market value corresponds to the estimated net selling price that could be obtained by the Group in an arm’s length transaction.

5—Property, plant and equipment

Property, plant and equipment are recorded at cost of acquisition or at construction cost.

Leased assets are recorded as fixed assets in the consolidated balance sheet, when, in substance, the terms of the lease transfer to the Group the majority of the risks and rewards associated with the ownership of the asset. The asset is recorded for an amount that corresponds to the lower of fair value and the discounted value of future

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

lease payments. The assessment of the level of risks transferred is based on an analysis of the lease agreement. The financial debt associated with the leased asset is recorded as a liability in the consolidated balance sheet.

Interest relating to funds borrowed to finance the construction of property, plant and equipment is included in the cost of the asset during the construction period.

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- Buildings: 15 to 40 years;
- Machinery and equipment: 5 to 15 years;
- Others: 3 to 10 years.

Impairment reviews

Property, plant and equipment are reviewed for impairment when events or circumstances indicate that they may be impaired. An impairment charge is recorded when the recoverable value of an asset (or group of assets) becomes lower than its carrying value. Recoverable value corresponds to the higher of value in use and market value. Value in use is estimated on the basis of the discounted cash flows the asset (or group of assets) is expected to generate over its estimated useful life. Market value corresponds to the estimated net selling price that could be obtained by the Group in an arm's length transaction.

Refundable containers

Refundable containers are recorded at acquisition cost. They are depreciated on a straight-line basis, based on available statistics for each company, over the shortest of the following estimated useful lives:

- physical useful life, taking into account the internal and external breakage rates and wear and tear;
- commercial useful life, taking into account planned or likely modifications of containers.

Liabilities for deposits received are revalued when refundable rates per container change. Any loss arising from changes in refundable rates is charged to the income statement as incurred.

6—Investments in non-consolidated companies

Investments in non-consolidated companies are treated as available-for-sale investments. They are stated at fair value, with unrealized gains and temporary unrealized losses recorded directly in stockholders' equity. Unrealized losses that are other than temporary are recorded directly in the income statement. For listed companies, fair value is assessed based on the stock price as of the end of the period. For non-listed companies, fair value is assessed based on recent transactions entered into with third parties, put and/or call options negotiated with third parties or external appraisals. When such elements do not exist, fair value is determined to be equivalent to the carrying value. Impairment charges and gain or loss on disposal of non-consolidated investments are recorded under the line item "other financial (expense) income".

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7—Long-term loans and other long-term assets

As of December 31, 2004 and 2005, other long-term assets mainly comprised held-to-maturity assets that were measured at amortized cost using the effective interest rate method. As of December 31, 2006, other long-term assets mainly comprised bond securities that are treated as available-for-sale. They are stated at fair value, with unrealized gains and temporary unrealized losses recorded directly in stockholders' equity. Unrealized losses that are other than temporary are recorded directly in the income statement. Long-term loans are measured at amortized cost using the effective interest rate method.

8—Inventories

Inventories are stated at the lower of cost or market value. Cost is primarily determined using the weighted average method.

9—Marketable securities

Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are treated as trading securities and are carried at market value, with changes in market value recorded in the income statement in the line item "Interest income".

10—Cash and cash equivalents

Cash equivalents consist of highly liquid investments, debt securities and deposits with a maturity of three months or less at the date of purchase. Cash equivalents are carried at market value.

11—Treasury stock

GROUPE DANONE's capital stock held by the Company and its subsidiaries is reflected as a reduction in total stockholders' equity, under the heading "Treasury stock". Treasury stock is measured at historical cost.

12—Grants and subsidies

Investment subsidies are reflected in the balance sheet under the heading "Other non-current liabilities". They are released to income (in the line item "Other (expense) income") on a straight-line basis over the estimated useful lives of the related fixed assets.

Other grants and subsidies are recorded in the line "Other (expense) income" of the income statement in the year during which these grants are earned.

13—Deferred taxes

Deferred income taxes are recorded for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except those differences that relate to goodwill. Deferred taxes are calculated using the liability method, applying the last enacted income tax rates expected to be applicable when the temporary differences will reverse. Deferred income taxes relating to the subsidiaries' undistributed retained earnings are recorded when distribution of these retained earnings is expected in the foreseeable future.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred tax assets and liabilities are offset when the entity has a legal right to offset.

Deferred tax assets are not recognized in the consolidated balance sheet when it is more likely than not that these taxes will not be recovered.

14—Retirement indemnities, pension costs and post-retirement healthcare benefits

Defined contribution plans

Contributions due under defined contribution plans are expensed as incurred. These expenses are allocated to different line items in the income statement.

Defined benefit plans

The Group's benefit obligations relating to defined benefit pension and retirement indemnity schemes are calculated using the projected unit credit method based on actuarial assumptions, including employees' turnover, salary increases and employees' expected active life. The obligation is discounted using a discount rate that is specific to each country. These obligations are covered either through provisions recorded in the balance sheet over the period the rights are acquired by the employees or through assets held in externally managed funds to which the Group contributes.

Gains and losses resulting from changes in the actuarial assumptions that are used to calculate the obligations and estimated return on assets are recognized in the income statement over the estimated average residual active life of the employees, for the portion of the changes that exceeds 10% of the higher of the obligation and the plan assets.

The net periodic pension cost in relation to defined benefit plans comprises the service cost for the year, the interest cost and the amortization of actuarial gains and losses, net of the return on plan assets.

15—Provision for risks and liabilities

Provisions for risks and liabilities are reflected under the line "Other non-current liabilities" in the consolidated balance sheet. Provisions for identified risks and liabilities of uncertain timing or amount are recorded when the Group has a present obligation to a third party as a result of a past event and it is certain or probable that this obligation will result in a net outflow of resources for the Group.

16—Convertible bonds

The nominal amount of convertible bonds is allocated at the issue date between its debt component and its equity component. The value of the equity component, which corresponds to the conversion option, is the difference between the total value of the instrument and the value of the debt component. At the issue date, the value of the debt component corresponds to the market value of a debt instrument having the same characteristics, but without a conversion option. The debt component is subsequently measured at its amortized cost, using the effective interest rate method. As of December 31, 2006, the Group had fully repaid its convertible bonds.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17—Financial instruments

The Group uses derivative financial instruments, mainly through specialized subsidiaries, for the purpose of managing its exposure to currency fluctuations and interest rate risks. As a policy, the Group does not enter into speculative or leveraged transactions, nor does the Group hold or issue financial instruments for trading purposes.

The Group has been applying IAS 39, *Financial Instruments—Recognition and Measurement*, since January 1, 2004. In accordance with IAS 39, all derivative financial instruments must be recorded in the balance sheet at their fair value. When derivatives are designated as fair value hedges, changes in the fair value of both the derivatives and the hedged items are recognized in the income statement. When derivatives are designated as cash flow hedges, the effective portion of changes in their fair value is recorded in stockholders' equity: this effective portion is recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are directly recognized in the income statement.

Derivative financial instruments that are not classified as hedging instruments are recorded at fair value at year-end, with changes in fair value recorded directly in the income statement.

18—Put options granted to minority stockholders

In accordance with IAS 32—*Financial instruments: Disclosure and Presentation*, when minority stockholders hold put options that enable them to sell their investment to the Group, the minority's share in the subsidiaries' net assets is reflected as a financial liability in the consolidated balance sheet. This financial liability is measured at the exercise price of the option.

As of today, there remains some uncertainty regarding the treatment of the difference between the exercise price of the options and the carrying value of the minority interests that have to be reflected as financial liabilities. The Group has chosen to present such a difference as additional goodwill. This goodwill is adjusted at period end to reflect changes in the exercise price of the options and in the carrying value of the minority interests to which they relate. This treatment has no impact on the consolidated income statement.

19—Net sales

Net sales are recognized when title and risk of loss pass to the customers in accordance with customer purchase orders or sales agreements.

Net sales are stated net of trade discounts, customer allowances and trade support actions that are generally invoiced by customers.

Uncollectible accounts receivable are estimated and reserved for when payment is not reasonably assured. The method used for determining such reserve has not changed over the recent years.

20—Advertising costs

Advertising costs are expensed as incurred.

21—Research and development costs

Research and development costs are expensed as incurred. Development costs are not capitalized as the recognition criteria set by IAS 38—*Intangible assets*, are usually not met before the products are launched on the market.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22—Other operating (expense) / income

Other operating income and expense comprise significant items that, because of their unusual nature, cannot be viewed as inherent to the current activities of the Group. They mainly include capital gains and losses on disposals of consolidated operations as well as impairment charges in relation to long-lived assets of subsidiaries.

23—Stock options

Stock options granted to employees are measured at their grant date fair value. Fair value is determined using the Black and Scholes valuation model, based on assumptions determined by management. Fair value is expensed over the vesting period (from two to four years), with a corresponding increase in stockholders' equity. Prior period expense recorded in relation to options that lapse before they vest are reversed in the income statement in the period during which they lapse.

24—Earnings per share

Earnings per share is based on the weighted average number of shares outstanding during the year after deducting GROUPE DANONE's treasury stock held by the Company and its subsidiaries.

Diluted earnings per share is calculated in a similar manner, except that the number of shares is increased to take into account shares that could potentially be issued following the exercise of share options by employees and, up until 2005, the conversion of convertible bonds. Up until 2005, net income was increased to take into account the related theoretical reduction in interest charges, net of tax, that would have resulted from the conversion of the convertible bonds.

25—Discontinued operations and assets & liabilities held for sale

Assets and liabilities held for sale are reflected in separate line items in the consolidated balance sheet of the period during which the decision to sell is made. Balance sheets of prior periods are not restated. In addition, net income and cash flows of discontinued operations are reflected in separate line items in the consolidated income statement and statement of cash flows, respectively, for all periods presented. IFRS 5 defines a discontinued operation as a component of an entity that (i) generates cash flows that are largely independent from cash flows generated by other components (ii) is held for sale or has been sold, and (iii) represents a separate major line of business or geographic area of operations. The Group has determined that, given the way it is organized, components correspond to its reportable segments and geographic areas.

26—Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements, especially regarding the valuation of intangible assets, investments accounted for under the equity method, deferred tax assets, financial liabilities relating to put options granted to minority stockholders, provisions for risks and liabilities, provisions for commercial agreements and pension liabilities. Those estimates and assumptions are detailed in the corresponding notes. Actual amounts could differ from those estimates.

27—Reclassification

Certain amounts in prior periods' financial statements may have been reclassified for comparability with the last period presented.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 2—Summary of differences between accounting principles followed by the Group and United States generally accepted accounting principles

The Group's financial statements have been prepared in accordance with IFRS as adopted by the European Union. As they relate to the Group, there is no difference between IFRS as adopted by the European Union and IFRS as adopted by the IASB.

The IFRS, as they relate to the Group, differ in certain respects from accounting principles generally accepted in the United States ("US GAAP").

A. Description of main differences

The main differences between IFRS and US GAAP, as they relate to the Group, are discussed in further detail below.

a—Presentation differences

1. Net sales and selling expenses

In the consolidated financial statements, coupons granted by the Group to final consumers are reflected as promotional expenses within selling expenses. Under US GAAP, according to EITF 01-09—*Accounting for Consideration given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, coupons must be reflected as a reduction of net sales as they are presumed to be a reduction in selling prices. Had US GAAP been applied, net sales and selling expenses would have been reduced by € 46 million in 2006 (€ 43 million in 2005 and € 41 million in 2004). This reclassification would have no impact on operating income or net income.

2. Operating income

In the consolidated financial statements, certain non-current and unusual items are excluded from the trading operating income and are reflected on a separate line item in the income statement called "other operating (expense)/income". This line item includes capital gains and losses on disposals of consolidated operations as well as impairment charges in relation to long-lived assets of subsidiaries.

Under US GAAP, there is no difference between trading operating income and total operating income. Consequently, had US GAAP been applied, the elements reflected under the line item "Other operating (expense)/income" would be reflected under the line item "Other (expense)/income" within operating income.

3. Minority interests

In the consolidated financial statements, minority interests are included within stockholders' equity. In addition, when minority stockholders hold put options that enable them to sell their investment to the Group, the minority's share in the subsidiaries' net assets is reflected as a financial liability in the consolidated balance sheet.

Under US GAAP, minority interests are excluded from stockholders' equity. In addition, when minority stockholders hold put options that enable them to sell their investment to the Group, the minority's share in the subsidiaries' net assets is not reflected as a financial liability in the consolidated balance sheet.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Deferred taxes

In the consolidated financial statements, deferred tax assets and liabilities are classified as non-current items and are presented on separate line items in the consolidated balance sheet.

Under US GAAP, deferred taxes are classified as current or non-current items consistently with the classification of the item to which they relate. Had US GAAP been applied, long-term deferred tax assets and long-term deferred tax liabilities would have been reduced by € 48 million and € 28 million, respectively.

5. Statement of cash flows

Under US GAAP, a subtotal “Cash flows provided by operating activities excluding changes in net working capital” would not be presented in the statement of cash flows.

b—Recognition and measurement differences

1. Amortization of brands and goodwill

In the consolidated financial statements, consistent with IFRS 3—*Business Combinations*, brand names with indefinite useful life are not amortized and goodwill has not been amortized since January 1, 2004, the transition date to IFRS. Brand names and goodwill are reviewed for impairment at least once a year. An impairment charge is recorded when their recoverable value appears to be durably less than their carrying value, where recoverable value corresponds to the higher of market value and value in use.

Effective January 1, 2002, the Group adopted SFAS 142—*Goodwill and other intangible assets*, for the purpose of this reconciliation. Similar to IFRS 3, SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful life and instead requires that they be tested for impairment at least annually. However, prior to the adoption of SFAS 142, the Group was applying APB 17—*Intangible Assets*, for the purpose of this reconciliation. Under APB 17, intangible assets such as brand names and goodwill had to be amortized over their estimated useful life, which could not exceed forty years. Prior to the adoption of SFAS 142, brand names were amortized over forty years for the purpose of this reconciliation.

Consequently, the net book value of goodwill and brand names under IFRS differs from the net book value of goodwill and brand names under US GAAP. Additionally, impairment charges and capital gains or losses resulting from disposals of operations may be different under IFRS and US GAAP. In 2006, had US GAAP been applied, the gain on disposal of the sauces activities in Asia and of Griffins (Biscuits—New-Zealand) would have been increased by € 4 million and € 10 million, respectively. In addition, the impairment charge relating to the goodwill of Robust (Beverages—China) would have been increased by € 4 million.

In 2005, had US GAAP been applied, the gain on disposal of the sauces activities in the United Kingdom and in the United States would have been increased by € 39 million. In addition, the gains on disposals of Italaquae (Beverages—Italy), Galletas Noël (Biscuits—Colombia) and Delta Dairy (Fresh Dairy Products—Greece) would have been reduced by approximately € 8 million in total. Finally, the impairment charges relating to Bakoma (Fresh Dairy Products—Poland) and to the goodwill of Danone Waters of Canada (HOD water—Canada) would have been increased by € 7 million in total.

In 2004, had US GAAP been applied, the loss on disposal of the Biscuits activities in the United Kingdom and in Ireland would have been decreased by € 21 million.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Deferred taxes on brand names

As part of the transition to IFRS on January 1, 2004, the Group recognized deferred tax liabilities on brand names against stockholders' equity.

Under US GAAP, deferred tax liabilities relating to brand names acquired in business combinations must be recognized with a corresponding increase in goodwill. Had US GAAP been applied, as of December 31, 2006, stockholders' equity would have been increased by € 318 million (€ 327 million as of December 31, 2005 and € 366 million as of December 31, 2004), goodwill would have been increased by € 203 million (€ 203 million as of December 31, 2005 and € 228 million as of December 31, 2004) and deferred taxes would have been decreased by € 115 million (€ 124 million as of December 31, 2005 and € 138 million as of December 31, 2004). In addition, in 2005, the gain on disposal of the sauces activities in the United Kingdom and in the United States would have been decreased by € 37 million and, in 2004, the loss on disposal of the Biscuits activities in the United Kingdom and in Ireland would have been increased by € 34 million.

3. Purchase accounting—Fair value

In the consolidated financial statements, upon acquisition of a less than 100% owned subsidiary, the identifiable assets and liabilities of the acquired entity are measured at their fair value and the minority interests are stated at the minority's share in the fair value of the identifiable assets and liabilities.

Under US GAAP, identifiable assets and liabilities are measured at their fair value at the date of acquisition to the extent of the Group's share in the assets and liabilities. The minority's share in the identifiable assets and liabilities is stated based on the pre-acquisition carrying amounts of these assets and liabilities. Consequently, had US GAAP been applied, brand names and minority interests would have been reduced by € 130 million as of December 31, 2006 (€ 131 million as of December 31, 2005 and € 138 million as of December 31, 2004), with no impact on stockholders' equity. Revaluations of other net assets are usually not significant.

4. Stock options

In the consolidated financial statements, consistently with IFRS 2—*Share-based payments*, stock options granted to employees are measured at their fair value, which is expensed in the income statement over the vesting period of the options. The fair value of the options is calculated using the Black & Scholes valuation model, based on assumptions determined by management. As part of the transition to IFRS on January 1, 2004, the Group performed the valuation of all the unvested options as of that date, including those granted before November 7, 2002, the effective date of IFRS 2.

The Group applies FAS 123 (R)—*Accounting for Share-Based Compensation*, for the purpose of this reconciliation. Similar to IFRS 2, FAS 123 (R) requires that stock-options granted to employees be measured at their grant date fair value, with the fair value being recognized in the income statement over the vesting period. However, the effective date of FAS 123 (R) differs from the effective date of IFRS 2. FAS 123 (R) is effective from January 1, 2006, with early application encouraged for all the periods that have not been covered by published financial statements. The Group has decided to apply FAS 123 (R) from January 1, 2005, for the purpose of this reconciliation. Prior to January 1, 2005, the Group was applying APB Opinion N° 25—*Accounting for Stock Issued to Employees* for the purpose of this reconciliation and no stock-based compensation was recorded in 2004 under the provision of APB 25. Consequently, the stock-based compensation recognized in the 2004 income statement under IFRS has been reversed for the purpose of this reconciliation. This adjustment has no impact on stockholders' equity.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Cumulative translation adjustments

As part of the adoption of IFRS on January 1, 2004, the Group chose to apply the exemption offered by IFRS 1 regarding cumulative translation adjustments for foreign operations. These translation adjustments, which amounted to a negative value of € 1.9 billion as of January 1, 2004, were deemed to be zero at that date. This adjustment had no impact on stockholders' equity.

Consequently, in the consolidated financial statements, the gain or loss on disposals of foreign operations exclude translation adjustments that arose prior to January 1, 2004. The gain or loss on disposal of foreign operations may therefore be different under IFRS and under US GAAP. In 2006, had US GAAP been applied, the net gain on disposal of operations would have been decreased by € 40 million in total, corresponding to the cumulative translation adjustments existing as of January 1, 2004 in relation to the disposed investments. In 2005, had US GAAP been applied, the net gain on disposal of operations would have been reduced by approximately € 58 million in total and in 2004, the net loss on disposal of the Biscuits activities in the United Kingdom and in Ireland would have been increased by € 14 million.

6. Pension liability

In the consolidated financial statements, actuarial gains and losses in relation to defined benefit plans are recognized when they exceed 10% of the higher of the obligation and the plan asset (the "corridor" approach). In addition, as part of the adoption of IFRS on January 1, 2004, the Group chose to recognize all actuarial gains and losses against stockholders' equity.

Up until December 31, 2005, the Group was applying SFAS 87—*Employers Accounting for Pensions*, for the purpose of this reconciliation. Under SFAS 87, actuarial gains and losses, including those generated before January 1, 2004, were recognized using the "corridor" approach. In addition, SFAS 87 required that when the fair value of plan assets was lower than the Accumulated Benefit Obligation ("ABO"), the pension liability be adjusted to reflect the difference. An equal amount was to be recorded as an intangible asset or as a reduction in stockholders' equity for the portion that exceeded the amount of unrecognized prior service costs. Had US GAAP been applied, stockholders' equity attributable to the Group would have been increased by € 35 million (before tax) as of December 31, 2005 (€ 58 million as of December 31, 2004) in relation to the recognition of actuarial gains and losses, and stockholders' equity would have been decreased by € 72 million (before tax) as of December 31, 2005 (€ 67 million as of December 31, 2004) in relation to the minimum liability. In addition, in 2005 the net gain on disposal of HP Foods would have been decreased by € 25 million and in 2004 the net loss on disposal of the Biscuits activities in the United Kingdom and in Ireland would have been increased by € 36 million.

As of December 31, 2006, the Group applied SFAS 158—*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158, which amends SFAS 87, requires that the funded status of a benefit plan, measured as the difference between the fair value of plan assets and the benefit obligation, be recognized in the consolidated balance sheet as an asset for overfunded plans and a liability for underfunded plans, and that actuarial gains and losses be recognized as a component of other comprehensive income. Had US GAAP been applied, stockholders' equity attributable to the Group would have been decreased by € 66 million (before tax and minority interests) as of December 31, 2006. The application of SFAS 158 resulted in an increase in the pension provision by approximately € 26 million.

7. Put options granted to minority stockholders

As indicated in Notes 5 and 16 to the consolidated financial statements, the Group is committed to acquiring the minority shareholdings owned by third parties in some of the less than 100% owned subsidiaries, should

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

these third parties wish to exercise their put options. IAS 32—*Financial instruments: Disclosures and Presentation* requires that when minority stockholders hold a put option, a financial liability should be recognized for the present value of the consideration that the Group would have to pay if this option were exercised. Consequently, the share of these minority shareholders in the net assets of the subsidiary is eliminated from “Minority interests” in the consolidated balance sheet, and the difference between the amount of the eliminated minority interests and the amount of the financial liability recognized is recorded as goodwill.

Under U.S. GAAP, written puts on minority interests are treated as derivative instruments and measured at fair value. Accordingly, only the fair value of the put option granted to minority stockholders is recognized as a financial liability under U.S. GAAP as opposed to the present value of the full redemption price under IFRS. For put options having an exercise price that is equal to the fair value of the related minority interests at the closing date, the fair value of the derivative instruments is deemed to be equal to zero. As of December 31, 2006, 2005 and 2004, all put options granted to minority stockholders in consolidated subsidiaries had a redemption amount equal to the fair value of the related minority interests. Therefore, the fair value of the underlying put options was nil and consequently no liability was recorded under U.S. GAAP.

Accordingly, as of December 31, 2006, had U.S. GAAP been applied, financial liabilities would have been reduced by € 2,504 million (€ 2,626 million as of December 31, 2005 and € 2,440 million as of December 31, 2004), minority interests would have been increased by € 420 million (€ 431 million as of December 31, 2005 and € 422 million as of December 31, 2004), goodwill would have been decreased by € 2,069 million (€ 2,179 million as of December 31, 2005 and € 2,002 million as of December 31, 2004) and stockholders’ equity attributable to the Group would have been increased by € 16 million. This adjustment has no impact on net income.

As of December 31, 2006, the main put option related to Danone Espagne. The financial liability, minority interests that were reclassified to financial liabilities and goodwill relating to this option amounted to € 2,020 million, € 285 million and € 1,720 million, respectively.

8. Securitization of receivables

From June 2001 to June 2006, the Group maintained a securitization program with financial institutions to sell without recourse accounts receivable to a special purpose vehicle (“FCC—Fonds Commun de Créances”). The FCC was to be consolidated in the Group’s financial statements as the Group retained a majority of the risks and rewards associated with the activities of the FCC. The consolidation resulted in the transferred receivables being kept in the consolidated balance sheet, with a financial liability being recognized for a similar amount.

Under US GAAP, insofar as the program met the derecognition criteria of SFAS 140—*Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, the transferred receivables were derecognized from the balance sheet. Consequently, had US GAAP been applied, trade accounts receivable would have been decreased by € 400 million as of December 31, 2005 (€ 703 million as of December 31, 2004) and financial liabilities would have been decreased by a similar amount. In addition, had US GAAP been applied, the cost of the securitization program would have been reflected within operating income. Consequently, expenses amounting to € 5 million in 2006 (€ 10 million in 2005 and € 15 million in 2004) would have been reclassified from interest expense to operating expense.

9. Convertible bonds

In the consolidated financial statements, when a financial instrument has several components (“hybrid” financial instrument), the debt components must be separated from the equity components. Accordingly, options that enable the holder to convert the financial instrument into equity of the issuer must be classified as equity in the consolidated balance sheet. The nominal amount of the instrument must be allocated between the different

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

components, the value of the equity component being the residual value (difference between the total value of the instrument and the value of the debt component). The value of the debt component must correspond to the value of a debt instrument having the same characteristics, but without the conversion option.

Under US GAAP, the convertible bonds issued by the Group, which were fully redeemed in January 2006, were entirely reflected as financial liabilities and the interest expense was calculated based on the nominal interest rate. Consequently, had US GAAP been applied, stockholders' equity would have been decreased by € 19 million (before tax) as of December 31, 2004 and the interest expense in 2005 would have been decreased by € 19 million.

10. Discontinued operations

In the consolidated financial statements, a discontinued operation is defined as a component of an entity that (i) generates cash flows that are largely independent from cash flows generated by other components, (ii) is held for sale or has been sold and (iii) represents a separate major line of business or geographic area of operations.

Under US GAAP, a discontinued operation is also defined as a component of an entity that (i) generates cash flows that are largely independent from cash flows generated by other components and (ii) is held for sale or has been sold. However, this component does not necessarily have to represent a separate major line of business or geographic area. The component can be an operating segment, a reporting unit, a subsidiary or a group of assets. Griffins, a Group subsidiary that was held for sale as of December 31, 2005, met the criteria of a discontinued operation under US GAAP. Consequently, had US GAAP been applied, Griffins' net income and the gain on disposal of Griffins would have been reflected on the line item "Discontinued operations" in the income statement for a total amount of € 61 million in 2006 (€ 8 million in 2005 and € 11 million in 2004). Similarly, Danone Waters of Canada met the criteria of a discontinued operation under US GAAP. Consequently, had US GAAP been applied, Danone Waters of Canada's net loss and the loss on disposal of Danone Waters of Canada would have been reflected on the line item "Discontinued operations" in the income statement for a total amount of € 6 million (€ 94 million in 2005, including an € 85 million impairment charge and nil in 2004).

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

B. Reconciling statements

Reconciliation of net income

The reconciliation of net income from IFRS to US GAAP is as follows:

| (All amounts in millions of euro except per share data) | Year ended December 31, | | |
|--|----------------------------|--------------------|--------------------|
| | 2004 | 2005 | 2006 |
| Net income attributable to the Group under IFRS | 449 | 1,464 | 1,353 |
| <i>US GAAP adjustments:</i> | | | |
| Impairment charges | (7) | (27) | (4) |
| Gain/(loss) on disposal of assets | (63) | (108) | (18) |
| Stock-based compensation | 28 | — | — |
| Net periodic pension cost | (4) | — | (1) |
| Derivative instruments and application of the amortized cost method | — | 14 | 1 |
| Others | (7) | (3) | (7) |
| Net income with US GAAP adjustments before tax effect and minority interests | 396 | 1,340 | 1,324 |
| Tax effect of the above adjustments | 3 | (5) | 2 |
| Effect of the above adjustments on minority interests | — | — | — |
| Net income under US GAAP | 399 | 1,335 | 1,326 |
| —Of which net income from continuing operations | 341 | 906 | 1,141 |
| —Of which net income from discontinued operations | 58 | 429 ⁽¹⁾ | 185 ⁽²⁾ |
| Basic earnings per share under US GAAP | 1.59 | 5.43 | 5.46 |
| —Of which basic earnings per share from continuing operations | 1.36 | 3.68 | 4.70 |
| —Of which basic earnings per share from discontinued operations | 0.23 | 1.75 | 0.76 |
| Diluted earnings per share under US GAAP | 1.57 | 5.35 | 5.42 |
| —Of which diluted earnings per share from continuing operations | 1.35 | 3.62 | 4.66 |
| —Of which diluted earnings per share from discontinued operations | 0.22 | 1.73 | 0.76 |

(1) Including a net capital gain of € 484 million arising from the disposal of the sauces activities in the United Kingdom and the United States.

(2) Including a net capital gain of € 130 million arising from the disposal of the sauces activities in Asia.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation of stockholders' equity

The reconciliation of stockholders' equity from IFRS to US GAAP is as follows:

| (In millions of euro) | 2004 | 2005 | 2006 |
|---|---------------------|---------------------|---------------------|
| Stockholders' equity attributable to the Group under IFRS | 4,256 | 5,280 | 5,823 |
| <i>US GAAP adjustments:</i> | | | |
| Deferred taxes on brand names | 366 | 327 | 318 |
| Amortization of goodwill | 174 | 130 | 123 |
| Amortization of brand names | (319) | (279) | (261) |
| Actuarial gains and losses | 58 | 35 | (66) |
| Minimum pension liability | (67) | (72) | — |
| Derivative instruments and application of the amortized cost method | (15) | — | — |
| Reclassification of minority interests on treasury shares | 16 | 16 | 16 |
| Others | 8 | (4) | — |
| Tax effect of the above adjustments | 7 | 14 | 23 |
| Effect of the above adjustments on minority interests | (12) | (13) | (3) |
| Stockholders' equity under US GAAP | <u>4,472</u> | <u>5,434</u> | <u>5,973</u> |

C. Additional disclosures under US GAAP

Additional disclosures required by SFAS 141 and SFAS 142—Goodwill per segment

As of December 31, 2006, goodwill can be broken down as follows (per reporting segment):

| (In millions of euro) | Fresh Dairy Products | Beverages | Biscuits | Total Divisions |
|---------------------------------|-------------------------|-----------|----------|--------------------|
| Consolidated subsidiaries | 522 | 876 | 998 | 2,396 |
| Affiliated companies | 245 | 92 | 63 | 400 |
| Total | 767 | 968 | 1,061 | 2,796 |

D. Effect of new accounting pronouncements

1. Pensions

In September 2006, the Financial Accounting Standards Board issued SFAS 158—*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which addresses the accounting for pensions. SFAS 158 requires that:

- a liability be recognized for defined benefit pension and postretirement plans that are unfunded and that an asset be recognized for defined benefit pension and postretirement plans that are overfunded,
- the defined benefit obligation and plan assets be measured as of the date of the employer's fiscal year-end,
- the unrecognized actuarial gains and losses, prior service costs and transition assets / liabilities be recognized as a component of accumulated other comprehensive income,
- additional disclosure be provided in the financial statements.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2006, the Group adopted the recognition and disclosure provisions of SFAS 158 (see Note 2.A.b.6 above). The Group already complies with the measurement date provision of SFAS 158.

2. Fair value measurement

In September 2006, the Financial Accounting Standard Board issued SFAS 157—*Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The application of SFAS 157 by the Group from January 1, 2008 should not have a significant impact on its consolidated income statement or financial position.

3. Income taxes

In June 2006, the Financial Accounting Standard Board issued FIN 48—*Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS 109—*Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes, by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Group is currently assessing the impact the adoption of FIN 48 will have on its consolidated income statement and financial position.

4. Share based payment

In December 2004, the Financial Accounting Standards Board issued SFAS 123 (revised 2004) *Share Based Payment*, which is a revision of SFAS 123—*Accounting for Share-Based Compensation*. SFAS 123 (R), which supersedes APB Opinion 25—*Accounting for Stock Issued to Employees*, requires all share-based payments to employees to be recognized in the financial statements based on their fair value. SFAS 123 (R) is effective for public companies no later than the first fiscal year beginning after June 15, 2005. As indicated in paragraph A—above, the Group has decided to apply FAS 123 (R) from January 1, 2005 for the purpose of this reconciliation. In 2004, the application of SFAS 123 (R) by the Group would have reduced net income by approximately € 28 million and basic and diluted earnings per share would have been € 1.49 and € 1.47, respectively.

NOTE 3—Changes in the scope of consolidation

Acquisitions

In 2006, the main acquisitions were the following:

- Acquisition of an additional 3.22% interest in Danone Asia, the entity that holds the Group's investments in the Asia-Pacific area, bringing the Group's shareholding in Danone Asia to 100%;
- Acquisition of an additional interest in Danone Djurdjura (Fresh Dairy Products—Algeria), bringing the Group's shareholding from 51% to 100%. This entity, which was previously accounted for under the equity method, has been consolidated since the second half of 2006;
- Acquisition of an additional interest in Danone Romania (Fresh Dairy Products—Romania), bringing the Group's shareholding from 65% to 100%;
- Acquisition of a 22.18% interest in Hui Yuan Juice Holdings Co (Beverages—China), an entity that is accounted for under the equity method;

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- Acquisition of a 100% shareholding in Rodich (Fresh Dairy Products – Ukraine), an entity that is consolidated;
- Acquisition of a 49% shareholding in Aqua d’Or (Beverages – Denmark), an entity that is accounted for under the equity method.

In 2005, the main acquisitions comprised a 3.22% additional investment in Danone Asia, and a 29% additional investment in Sotubi (Biscuits-Tunisia) bringing the Group’s shareholding in this company from 20% to 49%.

In 2004, the main acquisitions comprised an additional investment in Zywiec Zdroj (Beverages-Poland), the purchase of the assets of Chock and Rolls (Biscuits-Russia) and an investment in Bonafont Garrafones y Servicios (HOD water—Mexico).

Disposals

In 2006, the main disposals were the following:

- Sauces activities in Asia: the disposal of these activities in January 2006 generated a gain of approximately € 154 million before minority interests. As the Group discontinued its Sauces activities, this gain is reflected under the line item “Net income from discontinued operations” (See Note 4);
- Griffins (Biscuits—New Zealand): the disposal of this subsidiary, which was completed in May 2006, generated a non taxable gain of approximately € 43 million, which is reflected under the line item “Other operating (expense) income” in the consolidated income statement;
- Danone Waters of Canada (HOD—Canada): the disposal of this subsidiary, which was completed in June 2006, generated a net loss of approximately € 11 million. The loss before tax, which amounts to € 38 million, is reflected under the line item “Other operating (expense) income” in the consolidated income statement;
- Bakoma (Fresh Dairy Products—Poland): the disposal of this affiliate, which was completed in December 2006, generated a net gain of approximately € 6 million. This gain is reflected under the line item “net income (loss) of affiliates” in the consolidated income statement.

In 2005, the main disposals comprised:

- Italaquae (Beverages—Italy): in November 2004, the Group signed an agreement relating to the disposal of its water activities in Italy. The disposal was completed in January 2005 and generated a € 19 million gain before tax, which is reflected under the line item “Other operating (expense) income” in the 2005 consolidated income statement;
- Galletas Noël (Biscuits—Colombia): the disposal of this investment, which was accounted for under the equity method, was completed in February 2005 and generated a € 22 million net gain. This gain is reflected under the line item “Net income (loss) of affiliates” in the 2005 consolidated income statement;
- HP Foods and Lea & Perrins (Sauces—United Kingdom and United States): the disposal of these two companies in August 2005 generated a € 473 million net gain. This gain is reflected under the line item “Net income from discontinued operations” in the 2005 consolidated income statement;
- DS Waters, LP (HOD water—United States): Following the Group’s decision to discontinue its HOD water activities in the United States, which were accounted for under the equity method, the Group disposed of DS Waters, LP’s assets to the investment fund Kelso. The agreement reached with Kelso

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

comprised the simultaneous acquisition by the Group of Suntory's shareholding in DS Waters, LP, consistent with the put option that was granted by the Group to Suntory Ltd. The disposal, which was completed in November 2005, generated a net loss of € 313 million. This loss is reflected under the line item "Net income (loss) of affiliates" in the 2005 consolidated income statement;

- Mahou (Beer—Spain): the disposal of this investment, which was accounted for under the equity method, was completed in December 2005 and generated a € 292 million net gain. This gain is reflected under the line item "Net income (loss) of affiliates" in the 2005 consolidated income statement.

In addition, in 2005, the disposals of CCDA Waters (Beverages—United States) and Delta Dairy (Fresh Dairy Products—Greece) did not generate any significant capital gain or loss.

In 2004, the main disposals comprised the Biscuits activities in the United Kingdom and in Ireland.

Other changes in the scope of consolidation

In 2006, the Group and its partner in Aga Pureza (Beverages—Mexico) revised the shareholders' agreement in order to transfer the control of the entity to the Group. Aga Pureza, which was previously accounted for under the equity method, has therefore been consolidated since December 31, 2006.

Britannia Industries and its holdings companies were deconsolidated on July 1, 2006. Consequently, the Group's shareholding in these entities is reflected as non-consolidated investments as of December 31, 2006 (see Note 8).

In April 2004, the Group and Arcor, the leader in the Argentinean food industry, signed an agreement aiming at merging in 2005 their biscuits businesses in South America. Bagley Latino America, the new entity to which the Group contributed its Biscuits activities in Argentina and Brazil (which were previously consolidated in the Group's accounts), is 49% held by the Group and has been accounted for under the equity method since January 2005.

On July 1, 2005, the Group took control of Al Safi Danone Company (Fresh Dairy Products—Saudi Arabia), an investment that was previously accounted for under the equity method. Since the Group took control, which did not result in any change in the Group's percentage of control or interest in the entity, Al Safi Danone Company has been fully consolidated.

Finally, as from April 2004, Yakult (Fresh Dairy Products—Japan), has been accounted for under the equity method. Prior to April 2004, Yakult was reflected as a non-consolidated investment in the consolidated balance sheet.

NOTE 4—Discontinued operations / assets and liabilities held for sale

Discontinued operations

Discontinued operations relate to the Group's Sauces activities, which comprised the following entities: HP Foods (Europe), Lea and Perrins (United States), Amoy and Amoy Foods (Asia). The Group disposed of its Sauces activities in Europe and in the United States in 2005, and of its Sauces activities in Asia in 2006.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table details the income statements of the Sauces activities for the years ended December 31, 2004, 2005 and 2006:

| (In millions of euro) | Year ended December 31, | | |
|--|----------------------------|------------|------------|
| | 2004 | 2005 | 2006 |
| Net sales | 302 | 219 | — |
| Cost of goods sold | (146) | (111) | — |
| Selling expenses | (61) | (47) | — |
| General and administrative expenses | (21) | (15) | — |
| Research and development expenses | (2) | (2) | — |
| Other (expense) income | (6) | (2) | — |
| Trading operating income | 66 | 42 | — |
| Other operating (expense) income | — | 473 | 154 |
| Operating income | 66 | 515 | 154 |
| Income tax | (19) | (11) | — |
| Net income from discontinued operations | 47 | 504 | 154 |
| <i>Attributable to the Group</i> | 47 | 504 | 149 |
| <i>Attributable to minority interests</i> | — | — | 5 |

The line item “Other operating (expense) income” comprised:

- in 2005, the net gain on disposal of the Sauces activities in Europe and in the United States,
- in 2006, the net gain on disposal of the Sauces activities in Asia.

The following table details the statements of cash flows of the Sauces activities for the years ended December 31, 2004, 2005 and 2006:

| (In millions of euro) | Year ended December 31, | | |
|--|----------------------------|------------|------------|
| | 2004 | 2005 | 2006 |
| Net income | 47 | 504 | 154 |
| Depreciation and amortization | 6 | 4 | — |
| Other changes | (1) | (475) | (154) |
| Cash flows provided by operating activities, excluding changes in net working capital | 52 | 33 | — |
| (Increase) decrease in inventories | 1 | 1 | — |
| (Increase) decrease in trade accounts receivable | 4 | (1) | — |
| Increase (decrease) in trade accounts payable | 1 | 6 | — |
| Changes in other working capital items | (1) | (5) | — |
| Net change in current working capital | 5 | 1 | — |
| Cash flows provided by operating activities | 57 | 34 | — |
| Capital expenditure | (6) | (4) | — |
| Net change in loans | 1 | — | — |
| Cash flows used by investing activities | (5) | (4) | — |
| Increase in cash and cash equivalents | 52 | 30 | — |

As of December 31, 2005, the assets and liabilities of the Sauces activities in Asia amounted to € 64 million and € 21 million, respectively. The assets, which were reflected under the line item “Assets held for sale” in the consolidated balance sheet, mainly comprised current assets for € 23 million and intangible assets for € 27 million. The liabilities, which were reflected under the line item “Liabilities held for sale” in the consolidated balance sheet, mainly comprised current liabilities.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2004, the assets and liabilities of the Sauces activities amounted to € 324 million and € 109 million, respectively. In conformity with IFRS 5—*Non-current Assets held for Sale and Discontinued Operations*, these assets and liabilities have not been reclassified as “Assets held for sale” and “Liabilities held for sale” in the 2004 consolidated balance sheet.

Other assets and liabilities held for sale

As of December 31, 2006, the Group was in the process of disposing of its minority shareholding in Griesson (Biscuits – Germany). Consequently, the € 78 million investment in this entity was reclassified from the line item “Investments accounted for under the equity method” to the line item “Assets held for sale” in the consolidated balance sheet.

As of December 31, 2005, the Group was in the process of disposing of its investment in Griffins. Consequently, Griffins’ assets and liabilities were reflected under the line items “Assets held for sale” and “liabilities held for sale” for € 179 million and € 13 million, respectively, as of December 31, 2005. Assets mainly comprised intangible assets for a total amount of € 126 million and tangible assets for a total amount of € 31 million. Liabilities mainly comprised current liabilities. The disposal of Griffins was completed in May 2006 (see Note 3).

As of December 31, 2004, assets and liabilities held for sale comprised the assets and liabilities of Italaquae, the disposal of which was completed early 2005.

NOTE 5—Intangible assets

Changes in the net book value of intangible assets

Changes in the net book value of intangible assets can be detailed as follows:

| <u>(In millions of euro)</u> | <u>Goodwill</u> | <u>Brands</u> | <u>Others</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|---------------------|
| Gross amounts | | | | |
| As of January 1, 2004 | 3,763 | 1,284 | 379 | 5,426 |
| Capital expenditure | 15 | — | 21 | 36 |
| Disposals | — | — | (27) | (27) |
| Impairment charge | (4) | — | — | (4) |
| Changes in the scope of consolidation | (280) | (125) | 1 | (404) |
| Translation adjustments | (12) | (3) | 1 | (14) |
| Reclassification as assets held for sale | (40) | — | (2) | (42) |
| Reevaluation of goodwill linked to options granted to minority stockholders | 406 | — | — | 406 |
| Others | (1) | — | 24 | 23 |
| As of December 31, 2004 | <u>3,847</u> | <u>1,156</u> | <u>397</u> | <u>5,400</u> |
| Depreciation | | | | |
| As of January 1, 2004 | — | — | (195) | (195) |
| Charge for the year (net of disposals) | — | — | (8) | (8) |
| Changes in the scope of consolidation | — | — | 0 | 0 |
| Translation adjustments | — | — | 1 | 1 |
| Reclassification as assets held for sale | — | — | 1 | 1 |
| Others | — | — | 1 | 1 |
| As of December 31, 2004 | <u>—</u> | <u>—</u> | <u>(200)</u> | <u>(200)</u> |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| (In millions of euros) | Goodwill | Brands | Others | Total |
|---|---------------------|-------------------|---------------------|---------------------|
| Gross amounts | | | | |
| As of January 1, 2005 | 3,847 | 1,156 | 397 | 5,400 |
| Capital expenditure | 52 | — | 17 | 69 |
| Disposals | — | — | (17) | (17) |
| Impairment charge | (53) | — | — | (53) |
| Changes in the scope of consolidation | 5 | (124) | (6) | (125) |
| Translation adjustments | 107 | 13 | 26 | 146 |
| Reclassification as assets held for sale | (72) | (78) | (9) | (159) |
| Reevaluation of goodwill linked to options granted to minority stockholders | 254 | — | — | 254 |
| Others | (20) | — | (16) | (36) |
| As of December 31, 2005 | <u>4,120</u> | <u>967</u> | <u>392</u> | <u>5,479</u> |
| Depreciation | | | | |
| As of January 1, 2005 | — | — | (200) | (200) |
| Charge for the year (net of disposals) | — | — | (10) | (10) |
| Changes in the scope of consolidation | — | — | 6 | 6 |
| Translation adjustments | — | — | (8) | (8) |
| Reclassification as assets held for sale | — | — | 6 | 6 |
| Others | — | — | 8 | 8 |
| As of December 31, 2005 | <u>—</u> | <u>—</u> | <u>(198)</u> | <u>(198)</u> |
| Gross amounts | | | | |
| As of January 1, 2006 | 4,120 | 967 | 392 | 5,479 |
| Capital expenditure | 65 | — | 21 | 86 |
| Disposals | (26) | — | (5) | (31) |
| Impairment charge | (43) | — | — | (43) |
| Changes in the scope of consolidation | (123) | — | (31) | (154) |
| Translation adjustments | (54) | (5) | (15) | (74) |
| Reclassification as assets held for sale | — | — | — | — |
| Reevaluation of goodwill linked to options granted to minority stockholders | 183 | — | — | 183 |
| Others | 23 | — | 30 | 53 |
| As of December 31, 2006 | <u>4,145</u> | <u>962</u> | <u>392</u> | <u>5,499</u> |
| Depreciation | | | | |
| As of January 1, 2006 | — | — | (198) | (198) |
| Charge for the year (net of disposals) | — | — | (24) | (24) |
| Changes in the scope of consolidation | — | — | 4 | 4 |
| Translation adjustments | — | — | 4 | 4 |
| Reclassification as assets held for sale | — | — | — | — |
| Others | — | — | (3) | (3) |
| As of December 31, 2006 | <u>—</u> | <u>—</u> | <u>(217)</u> | <u>(217)</u> |

The amortization charge of other intangible assets amounted to € 27 million in 2006 (€ 25 million in 2005 and € 31 million in 2004). It is allocated to different line items in the income statement consistently with the nature and utilization of the underlying assets.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill

Goodwill linked to options granted to minority stockholders

The Group is committed to acquiring the minority shareholdings owned by third parties in some of the less than 100% owned subsidiaries, should these third parties wish to exercise their put options. These stockholders may be “historic” stockholders of the entities, private investors or international organizations, such as the European Bank for Reconstruction and Development. The exercise prices of these put options are usually based on the profitability and the financial position of the entity as of the exercise date. The exercise of these options would increase the Group’s shareholding in the related entities. As indicated in Note 1.18, under IAS 32, the minority’s shareholdings in the entities must be reflected as financial liabilities in the balance sheet, with the liabilities being measured at the exercise price of the options (see Note 16). In addition, the difference between the exercise price of the options and the historic value of the minority interests is reflected as goodwill in the consolidated balance sheet.

As of December 31, 2006, goodwill linked to these put options amounted to € 2,069 million (€ 2,179 million as of December 31, 2005 and € 2,002 million as of December 31, 2004). In 2006, the € 110 million decrease mainly derived from the deconsolidation of Britannia Industries (see Note 8) and from a reallocation to “other goodwill” following the exercise of some options during the year 2006, partly offset by the reevaluation of some options. The main goodwill relates to Danone Spain, for a total amount of € 1,720 million.

Other Goodwill

In 2006, the main changes in goodwill not linked to options granted to minority stockholders (“other goodwill”) related to the acquisition of additional interests in Danone Asia and Danone Djurdjura, partly offset by the € 40 million impairment charge related to Robust (see below).

In 2005, the main changes in other goodwill related to the impairment charge on the goodwill of Danone Waters of Canada, to the reclassification under the line item “Assets held for sale” of the goodwill of the Sauces activities, as well as to translation adjustments.

In 2004, the main changes in other goodwill related to the disposals of the Biscuits activities in the United Kingdom and Ireland.

As of December 31, 2006, other goodwill amounted to € 2,076 million (€ 1,941 million as of December 31, 2005 and € 1,845 million as of December 31, 2004). No individual goodwill represented more than 5% of the total, with the exception of the goodwill generated by the acquisition of Lu, Volvic, Wahaha and Saiwa, which in the aggregate amounted to approximately € 889 million (€ 808 million as of December 31, 2005 and € 780 million as of December 31, 2004).

Brands

The heading “brand names” in the consolidated balance sheet mainly consists of brands acquired in purchased business combinations. Brand names include, among others, the brand name *Volvic*, the *Danone* brand in Spain and the main brands of the Group’s biscuits operations.

In 2006, changes in brand names mainly resulted from translation adjustments.

In 2005, changes mainly resulted from the disposal of HP foods and the reclassification of Amoy and Griffins’ brands as assets held for sale.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In 2004, changes mainly resulted from the disposal of the Biscuits activities in the United Kingdom and Ireland.

Impairment reviews

The net book value of goodwill, brands and other intangible assets is reviewed annually and when certain events or circumstances indicate that their value may be impaired. These events or circumstances are linked to significant, unfavorable and durable changes that have an impact on the economic environment, the assumptions or targets set at the time of acquisition. An impairment charge is recorded when the recoverable value of the assets tested becomes durably lower than their net book value. Recoverable value is determined as detailed in Note 1.4.

As of December 31, 2006, the Group reviewed the carrying value of all its intangible assets with indefinite useful lives. As stated in Note 1.4, the CGU's value in use is determined based on multiples of earnings or on expected discounted cash flows.

The table below presents, for each operating segment, the value of intangible assets with indefinite useful lives and the range of multiples of earnings that were used to calculate the CGU's value in use.

| <u>Operating segment</u> | <u>Net book value of intangible assets with indefinite useful life (in millions of euro)</u> | <u>Multiples of operating income before depreciation and amortization</u> |
|------------------------------------|--|---|
| Fresh Dairy Products | 2,751 | Between 7 and 15 |
| Beverages | 1,021 | Between 7 and 20 |
| Biscuits and Cereal Products | 1,336 | Between 10 and 15 |

In addition, when value in use is determined based on expected discounted cash flows, the perpetual growth rate and discount rate vary depending on the geographical area where the CGU operates, and in particular on the maturity of the markets.

Following this review, the Group recorded a € 40 million impairment charge in relation to the goodwill of Robust (Beverages—China). This charge was determined by reference to the entity's value in use, based on expected discounted cash-flows. The perpetual growth rate and discount rate used amounted to 1% and 11.7%, respectively. A 1 point increase or decrease in the discount rate would result in a decrease or increase in the recoverable value of 9% and 11%, respectively. A 1 point increase or decrease in the perpetual growth rate would result in an increase or decrease in the recoverable value of 7% and 6%, respectively.

As of December 31, 2005, the Group reviewed the carrying value of the goodwill relating to Danone Waters of Canada (HOD water—Canada). Following this review, which was conducted with the assistance of external consultants, the Group recorded a net impairment charge of € 53 million. The Group disposed of its investment in Danone Waters of Canada in June 2006 (see Note 3).

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 6—Property, plant and equipment

Changes in the net book value of property, plant and equipment can be detailed as follows:

| <u>(In millions of euro)</u> | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Refundable containers</u> | <u>Others</u> | <u>Capital assets in progress</u> | <u>Total</u> |
|--|--------------------|----------------------|------------------------------------|----------------------------------|---------------------|---------------------------------------|-----------------------|
| Gross amounts | | | | | | | |
| As of January 1, 2004 | 215 | 1,414 | 4,192 | 182 | 439 | 194 | 6,636 |
| Capital expenditure(*) | 3 | 34 | 136 | 24 | 40 | 275 | 512 |
| Disposals | (1) | (22) | (135) | (13) | (47) | (1) | (219) |
| Changes in the scope of consolidation ... | (8) | (43) | (222) | (18) | (18) | (4) | (313) |
| Translation adjustments | (1) | (15) | (64) | (11) | (9) | (7) | (107) |
| Others | (21) | 46 | 173 | 2 | 9 | (230) | (21) |
| As of December 31, 2004 | <u>187</u> | <u>1,414</u> | <u>4,080</u> | <u>166</u> | <u>414</u> | <u>227</u> | <u>6,488</u> |
| Depreciation | | | | | | | |
| As of January 1, 2004 | (23) | (683) | (2,801) | (110) | (280) | (1) | (3,898) |
| Charge for the year | (2) | (61) | (312) | (24) | (56) | — | (455) |
| Disposals | — | 17 | 121 | 12 | 40 | — | 190 |
| Changes in the scope of consolidation ... | 1 | 27 | 198 | 13 | 18 | — | 257 |
| Translation adjustments | — | 4 | 31 | 6 | 4 | — | 45 |
| Others | 4 | (2) | (9) | 3 | 13 | — | 9 |
| As of December 31, 2004 | <u>(20)</u> | <u>(698)</u> | <u>(2,772)</u> | <u>(100)</u> | <u>(261)</u> | <u>(1)</u> | <u>(3,852)</u> |
| <u>(In millions of euro)</u> | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Refundable containers</u> | <u>Others</u> | <u>Capital assets in progress</u> | <u>Total</u> |
| Gross amounts | | | | | | | |
| As of January 1, 2005 | 187 | 1,414 | 4,080 | 166 | 414 | 227 | 6,488 |
| Capital expenditure(*) | 8 | 32 | 82 | 27 | 32 | 423 | 604 |
| Disposals | (5) | (53) | (140) | (17) | (21) | (1) | (237) |
| Changes in the scope of consolidation ... | (2) | (7) | (39) | — | 8 | 18 | (22) |
| Translation adjustments | 7 | 68 | 235 | 9 | 38 | 25 | 382 |
| Reclassification as assets held for sale ... | (5) | (20) | (68) | — | (7) | (3) | (103) |
| Others | 24 | 74 | 275 | 2 | 19 | (375) | 19 |
| As of December 31, 2005 | <u>214</u> | <u>1,508</u> | <u>4,425</u> | <u>187</u> | <u>483</u> | <u>314</u> | <u>7,131</u> |
| Depreciation | | | | | | | |
| As of January 1, 2005 | (20) | (698) | (2,772) | (100) | (261) | (1) | (3,852) |
| Charge for the year | (4) | (68) | (302) | (24) | (57) | (1) | (456) |
| Disposals | — | 33 | 125 | 16 | 18 | 1 | 193 |
| Changes in the scope of consolidation ... | — | 7 | 43 | — | (7) | — | 43 |
| Translation adjustments | — | (19) | (129) | (5) | (22) | — | (175) |
| Reclassification as assets held for sale ... | — | 12 | 43 | — | 6 | — | 61 |
| Other | (3) | — | 2 | — | 2 | (2) | (1) |
| As of December 31, 2005 | <u>(27)</u> | <u>(733)</u> | <u>(2,990)</u> | <u>(113)</u> | <u>(321)</u> | <u>(3)</u> | <u>(4,187)</u> |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| (In millions of euro) | Land | Buildings | Machinery and equipment | Refundable containers | Others | Capital assets in progress | Total |
|--|-------------|--------------|-------------------------|-----------------------|--------------|----------------------------|----------------|
| Gross amounts | | | | | | | |
| As of January 1, 2006 | 214 | 1,508 | 4,425 | 187 | 483 | 314 | 7,131 |
| Capital expenditure(*) | 6 | 28 | 118 | 26 | 26 | 474 | 678 |
| Disposals | (7) | (43) | (214) | (19) | (34) | — | (317) |
| Changes in the scope of consolidation ... | 10 | 4 | 2 | (18) | 25 | 8 | 31 |
| Translation adjustments | (6) | (36) | (131) | (5) | (23) | (18) | (219) |
| Reclassification as assets held for sale ... | — | — | — | — | — | — | — |
| Others | 1 | 88 | 259 | 3 | 30 | (388) | (7) |
| As of December 31, 2006 | 218 | 1,549 | 4,459 | 174 | 507 | 390 | 7,297 |
| Depreciation | | | | | | | |
| As of January 1, 2006 | (27) | (733) | (2,990) | (113) | (321) | (3) | (4,187) |
| Charge for the year | (2) | (67) | (312) | (23) | (60) | — | (464) |
| Disposals | 1 | 33 | 196 | 18 | 29 | — | 277 |
| Changes in the scope of consolidation ... | — | (2) | 6 | 9 | (15) | — | (2) |
| Translation adjustments | — | 9 | 67 | 3 | 13 | — | 92 |
| Reclassification as assets held for sale ... | — | — | — | — | — | — | — |
| Other | — | 8 | (3) | (1) | 3 | — | 7 |
| As of December 31, 2006 | (28) | (752) | (3,036) | (107) | (351) | (3) | (4,277) |

(*) Including assets acquired under capital leases

Gross and net amounts of assets acquired under capital leases amounted to € 27 million and € 20 million, respectively (€ 17 million and € 11 million, respectively, as of December 31, 2005 and € 16 million and € 9 million, respectively, as of December 31, 2004).

The depreciation charge of property, plant and equipment amounted to € 464 million in 2006 (€ 456 million in 2005 and € 455 million in 2004). It is allocated to different lines in the income statement consistently with the nature and utilization of the underlying assets.

NOTE 7—Investments accounted for under the equity method

The net book value of investments accounted for under the equity method is as follows:

| (In millions of euro) | 2004 | 2005 | 2006 |
|---|--------------|--------------|--------------|
| Goodwill, net | 493 | 393 | 393 |
| Group's share in net assets of entities accounted for under the equity method | 1,230 | 863 | 700 |
| Loans to entities accounted for under the equity method | 238 | — | — |
| Total | 1,961 | 1,256 | 1,093 |

As of December 31, 2006, investments accounted for under the equity method mainly comprised Yakult, The Danone Springs of Eden, BV (HOD water—Europe) and Hui Yuan Juice Holdings Co. Net assets of entities accounted for under the equity method, especially with regards to The Danone Springs of Eden, BV, include the identifiable intangible assets and residual goodwill resulting from the consolidation of their own activities.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In 2006, the decrease in the net book value of investments accounted for under the equity method mainly resulted from the impairment charge recorded in relation to The Danone Springs of Eden, BV (see below), from the reclassification of the Group's investment in Griesson as an asset held for sale (see Note 4) and from the first-time consolidation of Aga Pureza and Danone Djurdjura. The decrease is partly offset by the acquisitions of Hui Yuan Juice Holdings Co and Aqua d'Or.

In 2005, the decrease in the net book value of investments accounted for under the equity method mainly resulted from the disposals of assets in DS Waters, LP and of Mahou (see Note 3).

As of December 31, 2004, loans granted to entities accounted for under the equity method related to preferred shares due from DS Waters, LP for a total amount of US\$ 325 million. These loans, which were to mature in 2011, bore interest at a cumulative rate of 12%. Following the disposal of DS Waters, LP's assets in November 2005, the balance of this loan was nil as of December 31, 2005 and 2006.

Changes in the net book value of goodwill relating to investments accounted for under the equity method

Changes in the net book value of goodwill relating to investments accounted for under the equity method are as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|
| As of January 1 | 636 | 493 | 393 |
| Acquisitions | 189 | 31 | 89 |
| Disposals and other changes in the scope of consolidation | — | (92) | (60) |
| Impairment charge | (308) | (51) | — |
| Translation adjustments | (24) | 12 | (29) |
| As of December 31 | <u>493</u> | <u>393</u> | <u>393</u> |

Acquisitions

In 2006, acquisitions mainly related to Hui Yuan Holdings Co, in which the Group holds a 22.18% shareholding, and to Aqua d'Or, in which the Group holds a 49% shareholding. In 2004, acquisitions mainly related to Yakult, which has been accounted for under the equity method since April 1, 2004.

Disposals and other changes in the scope of consolidation

The line "Disposals and other changes in the scope of consolidation" mainly comprised the impact arising from the first-time consolidation of entities that were previously equity accounted for, namely Al Safi Danone Company, from July 1, 2005, Danone Djurdjura from July 1, 2006 and Aga Pureza from December 31, 2006.

Impairment charge

In 2005, the impairment charge related to the goodwill of Bakoma (see below). In 2004, the impairment charge related to the goodwill of DS Waters, LP and The Danone Springs of Eden, BV, such goodwill being written down to zero.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Changes in the Group's share in net assets of entities accounted for under the equity method

Changes in the Group's share in net assets of entities accounted for under the equity method are as follows:

| <u>(In million of euros)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|---------------------|-------------------|-------------------|
| As of January 1 | 1,166 | 1,230 | 863 |
| Changes in the scope of consolidation | 249 | (458) | 13 |
| Share in net income | 58 | 69 | 62 |
| Impairment charge | (150) | — | (100) |
| Dividends paid | (45) | (45) | (38) |
| Others | (48) | 67 | (100) |
| As of December 31 | <u>1,230</u> | <u>863</u> | <u>700</u> |

The line “Changes in the scope of consolidation” comprised the acquisitions and disposals of entities accounted for under the equity method (see Note 3).

In 2006, the impairment charge related to the Group's investment in The Danone Springs of Eden, BV (see below). In 2004, the impairment charge related to the Group's share in the net assets of DS Waters, LP.

The other changes mainly resulted from translation adjustments and, in 2006, from the reclassification of the Group's investment in Griesson as an asset held for sale (see Note 4).

Net income (loss) of affiliates

The line item “Net income (loss) of affiliates” can be detailed as follows:

| <u>(In million of euros)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|-----------------------------------|---------------------|------------------|--------------------|
| Group's share in net income | 58 | 69 | 62 |
| Impairment charge | (608) | (51) | (130) |
| Gain on disposal | — | 26 | 28 |
| Total | <u>(550)</u> | <u>44</u> | <u>(40)</u> |

In 2006, the line item “Gain on disposal” mainly comprised the € 6 million net gain on disposal of Bakoma. In 2005, this line item comprised the € 292 million net gain on disposal of Mahou, the € 22 million net gain on disposal of Galletas Noël and the € 313 million net loss on disposal of DS Waters, LP's assets.

In 2006, the line item “Impairment charge” comprised the € 130 million non-current charge relating to the Group's investment in The Danone Springs of Eden, BV (see below). In 2005, this line item comprised the € 51 million charge relating to the goodwill of Bakoma (see below). In 2004, this line item comprised the impairment charges and provision relating to the HOD water activities in the United States and Europe.

Impairment reviews

The Group reviews the carrying value of its investments accounted for under the equity method whenever events or circumstances indicate that they may be impaired. An impairment charge is recorded when their recoverable value, as defined in Note 1.4 and Note 1.5, becomes durably lower than their net book value.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Danone Springs of Eden, BV

As of December 31, 2004, the Group reviewed the carrying value of its investment in The Danone Springs of Eden, BV. Following this review, a € 153 million impairment charge was recorded. The impairment test was reconducted in 2005 and 2006 with the assistance of external consultants and was based on the following assumptions:

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|----------------------------------|-------------|-------------|-------------|
| – Discount rate before tax | 8.7% | 10.0% | 10.0% |
| – Perpetual growth rate | 2.5% | 2.5% | 1.0% |

In the light of the economic performance of this entity over 2006, the Group revised some of the assumptions that were used to perform the impairment review at the end of 2005, in particular the assumption relating to the perpetual growth rate. This revision conducted the Group to record a € 130 million non-current charge in relation to its investment in The Danone Springs of Eden, BV. This charge was recorded under the line item “Net income (loss) of affiliates”, with a corresponding impact on the line items “Investments accounted for under the equity method” and “Other non-current liabilities” in the balance sheet.

A 1 point increase or decrease in the discount rate would result in a decrease or increase in the recoverable value by 16% and 21%, respectively. A 1 point increase or decrease in the perpetual growth rate would result in an increase or decrease in the recoverable value by 18% and 13%, respectively.

Bakoma

As of December 31, 2005, the Group reviewed the carrying value of its investment in Bakoma. Following this review, the Group recorded an impairment charge of € 51 million. This charge was calculated based on the estimated market value of Bakoma. The Group disposed of its investment in Bakoma in December 2006 and generated a € 6 million capital gain (see Note 3).

Significant financial information

Significant financial information, as it relates to entities accounted for under the equity method, are as follows (100%):

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------------|-------------|-------------|-------------|
| Net sales | 5,525 | 4,053 | 4,114 |
| Net income | 232 | 296 | 299 |
| Stockholders' equity | 3,909 | 2,664 | 2,766 |

Fair value of investments accounted for under the equity method

The fair value of investments accounted for under the equity method amounted to € 1,441 million as of December 31, 2006 (€ 1,504 million as of December 31, 2005 and € 2,383 million as of December 31, 2004). It was determined as follows:

- For listed companies, by reference to stock prices as of December 31;
- For non-listed companies, by reference to the value resulting from recent transactions entered into with third parties or put and/or call option negotiated with third parties and/or external appraisals. When such elements do not exist, the market value is determined to be equivalent to the carrying value.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 8—Investments in non-consolidated companies

Net book value and changes in investments in non-consolidated companies

The net book value of investments in non-consolidated companies can be detailed as follows:

| (In millions of euro) | % of interest in 2004 | 2004 | % of interest in 2005 | 2005 | % of interest in 2006 | 2006 |
|--------------------------------|--------------------------|------------|--------------------------|------------|--------------------------|------------|
| Britannia Industries Ltd | 25.5 % | — | 25.5 % | — | 25.5 % | 114 |
| Wimm Bill Dann | 8.6 % | 40 | 9.9 % | 89 | 13.7 % | 290 |
| ONA | 2.7 % | 38 | 2.7 % | 47 | 2.7 % | 66 |
| Shanghai Bright Dairy | 7.7 % | 34 | 9.7 % | 33 | 20.0 % | 129 |
| Others | — | 132 | — | 94 | — | 228 |
| Total | | 244 | | 263 | | 827 |

In 2006, the increase in non-consolidated investments mainly resulted from the reclassification of the Group's shareholding in Britannia Industries (see below), from the acquisition of a 3.8% additional interest in Wimm Bill Dann and of a 10.3% additional interest in Shanghai Bright Dairy, as well as from the reevaluation of the investments to their fair market value at period-end.

As indicated in Note 1.6, investments in non-consolidated companies are treated as available-for-sale investments. They are stated at fair value, with unrealized gains and temporary unrealized losses recorded directly in stockholders' equity. Unrealized losses that are other than temporary are directly recorded in the income statement. As of December 31, 2006, the unrealized gains recorded under the heading "Net income recognized directly in equity" amounted to € 337 million before tax (€ 70 million as of December 31, 2005 and € 25 million as of December 31, 2004). The unrealized gains that were recorded under the heading "Net income recognized directly in equity" as of December 31, 2005 and that were transferred to income in 2006 were not significant.

Britannia Industries Ltd

The Company owns a 25.5% indirect interest in Britannia Industries Ltd (Biscuits—India). The Group controls Britannia Industries (hereafter "Britannia") as per the shareholders' agreement signed with its Indian partner in ABIH, Britannia's main shareholder and one of the Company's subsidiaries. Consequently, the Group has been consolidating Britannia up until June 30, 2006.

Britannia is a public company that is listed on the Bombay stock exchange. During the second half of 2006, Britannia's board of directors decided to strictly apply the Indian law and to suspend the communication of financial information, whenever this information is not simultaneously communicated to all the shareholders of Britannia. Such decision was made upon the recommendation of Britannia's audit committee, which was based on legal consultations.

Given that Britannia's financial information is available within a timetable that is not consistent with that of the Group, and that Britannia's financial information is prepared under Indian GAAP, the Group no longer has the IFRS financial information that enables it to consolidate Britannia.

Consequently, the Group has decided to deconsolidate its investment in Britannia as from July 1, 2006 and to reflect it as a non-consolidated investment. As indicated in Note 1.6, this investment is measured at its fair value, which is determined based on the period-end stock price.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2006, the fair value of the Group's investment in Britannia amounted to € 114 million. In addition, as of December 31, 2006, the impact on the consolidated stockholders' equity due to the reevaluation of the investment in Britannia amounted to € 77 million before tax. This impact is measured by reference to Britannia's € 37 million contribution to the consolidated stockholders' equity at the deconsolidation date.

Finally, the put option granted to the Group's partner in Britannia, the exercise price of which was reflected as a financial liability up until the deconsolidation date, is now treated as a derivative financial instrument that is measured at its fair value. Insofar as the exercise price of the option is equivalent to the share in the fair value of Britannia that it corresponds to, its fair value was nil as of December 31, 2006. As of that date, the exercise price of the put option amounted to € 114 million (€ 185 million as of December 31, 2005).

The following table presents Britannia's contribution to the main line items of the consolidated balance sheets as of December 31, 2005 and June 30, 2006.

| <u>(In millions of euro)</u> | <u>As of December 31, 2005</u> | <u>As of June 30, 2006</u> |
|--|--|------------------------------------|
| Goodwill ⁽¹⁾ | 178 | 143 |
| Other non-current assets | 29 | 29 |
| Other current assets excluding cash and cash equivalents and marketable securities | 51 | 54 |
| Cash and cash equivalents and marketable securities | 73 | 66 |
| Total assets | 331 | 292 |
| Stockholders' equity attributable to the Group | 36 | 37 |
| Minority interests ⁽¹⁾ | 51 | 49 |
| Non-current liabilities excluding financial liabilities | 2 | 2 |
| Current liabilities excluding financial liabilities | 52 | 48 |
| Financial liabilities ⁽¹⁾ | 190 | 156 |
| Total liabilities and stockholders' equity | 331 | 292 |

(1) These line items comprise the effect of the put option granted to the Group's partner in Britannia.

The following table presents Britannia's contribution to the main line items of the consolidated income statements for the year ended December 31, 2005 and the six-month period ended June 30, 2006:

| <u>(In millions of euro)</u> | <u>Year ended December 31, 2005</u> | <u>Six-month period ended June 30, 2006</u> |
|---|---|---|
| Net sales | 293 | 162 |
| Trading operating income | 40 | 8 |
| Operating income | 40 | 8 |
| Income before tax | 43 | 9 |
| Income tax | (11) | (2) |
| Net income | 32 | 7 |
| - <i>attributable to the Group</i> | 8 | 2 |
| - <i>attributable to minority interests</i> | 24 | 5 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 9—Long-term loans

As of December 31, 2004 and 2005, long-term loans mainly comprised a loan granted to the holding company that acquired the Galbani cheese and cured meat activities. This loan was fully repaid in May 2006 for a total amount of € 307 million, including € 99 million of accrued interest.

The fair value of long-term loans is considered to be equivalent to their net book value, based on their expected future cash flows.

NOTE 10—Other long-term assets

Other long-term assets mainly comprise investments held as security for some damage and healthcare provisions, for a total amount of € 84 million. These investments are treated as available-for-sale and are measured at their period-end fair value.

NOTE 11—Inventories

Inventories can be detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--|-------------------|-------------------|-------------------|
| Goods purchased for resale | 52 | 44 | 68 |
| Raw materials and supplies | 267 | 296 | 295 |
| Semi-finished goods and work in progress | 33 | 28 | 33 |
| Finished goods | 245 | 263 | 238 |
| Non-refundable containers | 26 | 31 | 28 |
| Loss allowances | (26) | (33) | (34) |
| Inventories, net | <u>597</u> | <u>629</u> | <u>628</u> |

NOTE 12—Trade accounts receivable—other accounts receivable and prepaid expenses

Trade accounts receivable

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--|---------------------|---------------------|---------------------|
| Trade accounts receivable ⁽¹⁾ | 1,342 | 1,443 | 1,529 |
| Notes receivable | 159 | 133 | 134 |
| Less allowances for doubtful receivables | (75) | (73) | (69) |
| Trade accounts receivable, net | <u>1,426</u> | <u>1,503</u> | <u>1,594</u> |

(1) This line item includes securitized receivable net of the deposit for over collateralization, for a total amount of € 400 million as of December 31, 2005 and € 703 million as of December 31, 2004 (see Note 16).

Changes in the allowance for doubtful receivable are as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|------------------|------------------|------------------|
| As of January 1 | 83 | 75 | 73 |
| Charge (net of reversal) for the year | 4 | 8 | 8 |
| Utilization | (11) | (5) | (10) |
| Translation adjustments and other changes | (1) | (5) | (2) |
| As of December 31 | <u>75</u> | <u>73</u> | <u>69</u> |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Group believes its exposure to concentration of credit risk is limited due to the number of customers located in diverse geographic areas. In addition the Group is not dependent on one single customer. In 2006, net sales with the Group's major customer represented approximately 8% of the Group's net sales (9% in 2005).

The fair value of trade accounts receivable is considered to be equivalent to their net book value due to their short-term maturity.

Other accounts receivable and prepaid expenses

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|
| States and local authorities | 291 | 442 | 322 |
| Social securities and non-operating receivables | 135 | 160 | 171 |
| Prepaid expenses | 68 | 49 | 47 |
| Others | 68 | 50 | 61 |
| Total | <u>562</u> | <u>701</u> | <u>601</u> |

As of December 31, 2005, the increase in the line item "State and local authorities" was partly explained by the prepayment of income taxes.

The fair value of other accounts receivable and prepaid expenses is considered to be equivalent to their net book value due to their short-term maturity.

NOTE 13—Marketable securities

Marketable securities, which are treated as trading securities, can be detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---------------------------------------|---------------------|---------------------|---------------------|
| Negotiable debt instruments | 765 | 670 | 1,292 |
| Monetary market funds | 1,435 | 1,743 | 1,272 |
| Total | <u>2,200</u> | <u>2,413</u> | <u>2,564</u> |

Marketable securities are usually bought from major financial institutions.

NOTE 14—Earnings per share

The subsidiaries' and affiliates' distributable earnings can differ from their reported retained earnings as a consequence of (i) consolidation adjustments applied to their local accounts and (ii) the laws that are applicable in the country where these entities operate.

In accordance with French law, dividends cannot exceed the sum of the Company's net income for the year and accumulated distributable earnings. As of December 31, 2006, tax-free distributable earnings amounted to € 198 million.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The reconciliation between basic and diluted earnings per share is as follows:

| | Net income attributable to the Group (in million of euros) | Weighted average number of shares outstanding | Earnings per share attributable to the Group (in euro) | Earnings per share of continuing operations attributable to the Group (in euro) | Earnings per share of discontinued operations attributable to the Group (in euro) |
|------------------------------------|---|---|--|---|---|
| 2006 | | | | | |
| Before dilution | 1,353 | 242,734,094 | 5.57 | 4.96 | 0.61 |
| Stock-based compensation | — | 1,954,819 | (0.04) | (0.04) | — |
| After dilution | <u>1,353</u> | <u>244,688,913</u> | <u>5.53</u> | <u>4.92</u> | <u>0.61</u> |
| 2005 | | | | | |
| Before dilution | 1,464 | 246,038,406 | 5.95 | 3.90 | 2.05 |
| Convertible bonds | 6 | 2,970,169 | (0.05) | (0.02) | (0.03) |
| Stock-based compensation | — | 1,272,375 | (0.03) | (0.02) | (0.01) |
| After dilution | <u>1,470</u> | <u>250,280,950</u> | <u>5.87</u> | <u>3.86</u> | <u>2.01</u> |
| 2004 | | | | | |
| Before dilution | 449 | 250,671,990 | 1.79 | 1.60 | 0.19 |
| Convertible bonds | 14 | 6,335,287 | 0.00 | 0.02 | (0.02) |
| Stock-based compensation | — | 523,705 | — | — | — |
| After dilution | <u>463</u> | <u>257,530,982</u> | <u>1.79</u> | <u>1.62</u> | <u>0.17</u> |

NOTE 15—Stock-based compensation

Stock purchase plans

Plan characteristics

The board of directors can grant senior managers options to purchase existing shares of the Company's common stock. These options are granted at an exercise price that cannot be lower than the minimum value authorized under French law. They vest after two to four years and expire no later than eight years from the grant date.

The main characteristics of the option plans are as follows (after taking into account the two-for-one stock splits that occurred in 2000 and 2004):

| Date of shareholders' meeting | Number of authorized options | Number of options granted | Exercise price (in euro) | Number of options lapsed or forfeited at December 31, 2006 | Number of options exercised at December 31, 2006 | Number of outstanding options at December 31, 2006 |
|-------------------------------|------------------------------------|------------------------------|-----------------------------|---|--|--|
| May 14, 1997 | 3,098,340 | 2,680,040 | 33.4 — 62.0 | 302,000 | 2,214,780 | 163,260 |
| May 19, 1999 | 4,000,000 | 3,387,580 | 51.5 — 77.9 | 429,400 | 1,995,695 | 962,485 |
| May 29, 2001 | 4,000,000 | 3,703,150 | 59.1 — 70.8 | 378,100 | 1,284,933 | 2,040,117 |
| April 11, 2003 | 4,000,000 | 3,118,900 | 64.1 — 75.1 | 301,900 | 254,911 | 2,562,089 |
| April 22, 2005 | 3,000,000 | 1,008,825 | 82.6 — 111.1 | 17,750 | — | 991,075 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2006, 1,991,175 options could still be granted under the April 22, 2005 plan.

As of December 31, 2006, outstanding options can be detailed as follows:

| Range of exercise price | Outstanding | | | Exercisable | |
|--------------------------------|-------------------|--|--|-------------------|--|
| | Number of options | Average remaining life (number of years) | Weighted average exercise price (in euros) | Number of options | Weighted average exercise price (in euros) |
| From 32 to 52 euros | 88,720 | 1.2 | 51.5 | 88,720 | 51.5 |
| From 53 to 65 euros | 1,678,686 | 3.4 | 59.6 | 1,678,686 | 59.6 |
| From 66 to 78 euros | 3,960,553 | 4.6 | 71.0 | 2,901,125 | 69.5 |
| From 79 to 95 euros | 26,000 | 6.7 | 86.1 | — | — |
| From 96 to 115 euros | 965,075 | 7.3 | 99.7 | — | — |
| | 6,719,034 | | | 4,668,531 | |

Changes in outstanding options

Changes in outstanding options were as follows⁽¹⁾:

| (Number of options) | 2004 | 2005 | 2006 |
|--|------------------|------------------|------------------|
| Balance as of January 1 | 8,802,224 | 9,516,114 | 8,243,382 |
| Granted | 1,919,980 | 1,164,528 | 982,025 |
| Exercised | (321,190) | (2,173,260) | (2,191,323) |
| Forfeited/lapsed | (884,900) | (264,000) | (315,050) |
| Balance as of December 31 | 9,516,114 | 8,243,382 | 6,719,034 |

(1) After taking into account the two-for-one stock split in 2004.

In 2006, the average price of GROUPE DANONE stock was €102.42.

Valuation of stock options

As indicated in Note 1.23, stock options granted to employees are measured at their grant date fair value, based on assumptions determined by management. Options granted in 2004, 2005 and 2006 were measured based on the following assumptions:

| | 2004 | 2005 | 2006 |
|-----------------------------------|---------|---------|---------|
| Risk-free interest rate | 3.7% | 3.1% | 3.96% |
| Expected life | 6 years | 6 years | 5 years |
| Expected volatility | 20.3% | 19.2% | 20.9% |
| Expected dividend yield | 1.9% | 1.8% | 1.8% |

The expected volatility was determined based on an observation of the historical volatility over a period identical to the expected life of the options.

The risk-free interest rate was determined based on the interest rate of State bonds.

The weighted average value of options granted in 2004, 2005 and 2006 was € 15.7, € 13.8 and € 20.98 per option, respectively.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In 2006, the expense relating to stock options amounted to € 14 million (€ 23 million in 2005 and € 28 million in 2004). This expense is reflected as “Other (expense) income” in the consolidated income statement and as retained earnings in the consolidated balance sheet.

Employee share ownership plans

Employees of the Group’s French entities can, on an annual basis, purchase new shares of the Company as part of a share ownership plan. The purchase price of the shares corresponds to 80% of the average stock price over the last 20 days preceding the meeting of the board of Directors that approves the plan. The benefit granted to the employees is calculated based on the grant date fair value of the shares, taking into account the restriction on these shares over a 5-year period and the market parameters that are applicable to employees, in particular the borrowing rate. The grant date corresponds to the date on which the plan is announced to the employees. In 2006, the fair value of the shares was calculated based on a Company’s stock price of € 90.6, a 3.39% risk-free interest rate and a 6.5% employees’ 5-year borrowing rate. This accounting treatment is compliant with the communication made by the CNC on December 21, 2004 in relation to share ownership plans.

NOTE 16—Financial liabilities

Classification by nature

| (In millions of euro) | 2004 | 2005 | 2006 |
|--|--------------|--------------|--------------|
| Convertible bonds | 605 | 70 | — |
| Equity-linked notes | 130 | — | — |
| Bank loans, other debt and employee profit-sharing debt | 3,326 | 3,465 | 3,617 |
| Financial liabilities linked to options granted to minority stockholders | 2,440 | 2,626 | 2,504 |
| Financial liabilities linked to securitized receivables | 703 | 400 | — |
| Total | <u>7,204</u> | <u>6,561</u> | <u>6,121</u> |
| —Including short-term portion | 527 | 869 | 416 |
| —Including long-term portion | 6,677 | 5,692 | 5,705 |

Convertible bonds

In June 2001, the Company issued 5,076,142 bonds with a nominal value of € 197 for a total amount of € 1,000 million. Those bonds bore interest at an annual rate of 1.2% and could be converted and/or exchanged into new or existing shares of the Company.

The accounting treatment of these convertible bonds is explained in Note 1.16. The effective interest rate was 2.8%.

As part of the early redemption options that were included in the issue agreement, the Company early repaid 1,906,311 bonds in June 19, 2003 for a total amount of € 376 million, 3,750 bonds on June 19, 2004 for a total amount of € 0.7 million and 2,812,194 bonds on June 19, 2005 for a total amount of € 555 million. On January 2, 2006, the Company early repaid the remaining bonds, consistent with the provisions of the issue agreement that authorized early repayment, should the number of remaining bonds become lower than 10% of the number of issued bonds.

In 2005, the early repayment of the 2,812,194 bonds generated a € 13 million financial charge, which is reflected in “Interest expense” in the consolidated income statement for the year ended December 31, 2005.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Bank loans, other debts and employee profit sharing debt

This line item mainly comprises (i) EMTN (Euro Medium Term Notes) denominated in euro or in foreign currencies, which were issued as part of the Group's annual program to issue EMTNs in a nominal amount of up to € 7 billion and (ii) treasury notes in a nominal amount of up to € 2.5 billion.

In addition, as of December 31, 2006, the Company and its specialized financial subsidiaries held confirmed medium-term credit lines from banks and other financial institutions for approximately € 2,800 million (€ 2,875 million as of December 31, 2005 and € 3,050 million as of December 31, 2004). As part of such long-term commitments, as of December 31, 2006, the Group utilized € 1,712 million (€ 1,385 million as of December 31, 2005 and € 788 million as of December 31, 2004). This debt is classified as non-current financial liabilities.

Financial liabilities linked to options granted to minority stockholders

As indicated in Note 1.18, the exercise price of options granted to minority stockholders is reflected in financial liabilities in the consolidated balance sheet. As of December 31, 2006, financial liabilities relating to these options amounted to € 2,504 million (€ 2,626 million as of December 31, 2005 and € 2,440 million as of December 31, 2004). These liabilities do not bear interest.

The main commitment under these options relates to Danone Spain (€ 2,020 million). In addition, the majority of these options can be exercised at any time.

No significant investment due to the exercise of these options is currently considered as probable in the near future.

Financial liabilities linked to securitized receivables

In July 2001, the Group entered into a securitization program with financial institutions in order to sell without recourse accounts receivable for a maximum amount of € 760 million. The receivable sold on a monthly basis were net of a deposit, the amount of which was based on the total receivables sold. The securitization program ended in June 2006 and it was not renewed.

Covenants

The Group's financial liabilities are usually not subject to covenants that, in the event of default, would lead to their early repayment.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Classification by maturity

The maturity of non-current financial liabilities is as follows:

| | 2004 | 2005 | 2006 |
|-------------------------------------|------------------------------|--------------|--------------|
| <u>Maturity date</u> | <u>(In millions of euro)</u> | | |
| 2006 | 1,623 | — | — |
| 2007 | 413 | 1,305 | — |
| 2008 | 780 | 891 | 1,549 |
| 2009 | 113 | 123 | 190 |
| 2010 | 140 | 143 | 127 |
| After 2011 | 624 | 703 | 1,222 |
| Not determined ⁽¹⁾ | 2,984 | 2,527 | 2,617 |
| | <u>6,677</u> | <u>5,692</u> | <u>5,705</u> |

(1) Mainly comprise financial liabilities linked to options granted to minority stockholders. The majority of these options can be exercised at any time. The options granted to the minority shareholders of Danone Spain were granted for an initial contractual period of 25 years (expiring between November 2016 and February 2017) and may be automatically renewed for successive 5-year periods.

Classification by currency

The analysis of non-current financial liabilities by currency is as follows:

| | 2004 | | 2005 | | 2006 | |
|------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| <u>(In millions of euro)</u> | <u>Before hedging</u> | <u>After hedging(*)</u> | <u>Before hedging</u> | <u>After hedging(*)</u> | <u>Before hedging</u> | <u>After hedging(*)</u> |
| Euro | 6,125 | 5,288 | 4,746 | 4,636 | 4,971 | 4,657 |
| Yen | 182 | 392 | 478 | 395 | 302 | 347 |
| New- Zealand Dollar ... | 22 | 22 | 18 | 18 | 90 | 90 |
| US Dollar | 40 | 40 | 81 | 58 | 77 | 77 |
| Canadian Dollar | 1 | 141 | 7 | 7 | — | — |
| Czech Crown | 17 | 61 | 17 | 61 | 19 | 69 |
| Mexican Peso | — | 39 | — | 32 | 79 | 79 |
| Indonesian Rupee | 100 | 127 | 88 | 170 | 102 | 229 |
| Chinese Yuan | — | 288 | — | — | — | — |
| Polish Zloty | — | 44 | — | 61 | — | 83 |
| Russian Ruble | — | 23 | — | 24 | — | 25 |
| South African Rand | — | 22 | — | 22 | — | 18 |
| Indian Rupee | 110 | 110 | 185 | 185 | — | — |
| Others | 80 | 80 | 72 | 23 | 65 | 31 |
| Total | <u>6,677</u> | <u>6,677</u> | <u>5,692</u> | <u>5,692</u> | <u>5,705</u> | <u>5,705</u> |

(*) Derivative financial instruments related to interest rate risk are presented in Note 25

Fair value of financial liabilities

The fair value of financial liabilities is determined based on the closing market price for quoted instruments and of the estimated future cash flows for non-quoted instruments. As of December 31, 2006, the fair value of financial liabilities amounted to € 6,118 million.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 17—Retirement indemnities, pensions and post-retirement healthcare benefits

The Group contributes to retirement benefit schemes in conformity with the laws and usual practices of countries where the subsidiaries operate. As a result of contributions paid under such schemes to private or state sponsored pension funds, the Group has no actuarial liability.

The Group is also responsible for supplementary retirement schemes, contractual commitments for termination indemnities and post-retirement healthcare. The related actuarial commitments are taken into account either through the payment of contributions to externally managed funds or through provisions.

French companies

The present value of the French companies' obligations is determined based on the personnel turnover and mortality, and on the following key actuarial assumptions:

| | <u>2004</u> | <u>2005</u> |
|---|-------------------------|-------------------------|
| Retirement age (depending upon each category of employees) | Between 60 and 65 years | Between 60 and 65 years |
| Discount rate | 4.5% | 4.0% |
| Salary growth rate (depending on the age and category of each employee) | Between 2.5% and 3.5% | Between 2.5% and 3.5% |
| Expected return of plan assets | Between 3.7% and 5.1% | Between 4.3% and 5.1% |
| | | <u>2006</u> |
| Retirement age (depending upon each category of employees) | | Between 60 and 65 years |
| Discount rate | | 4.25% to 4.5% |
| Salary growth rate (depending on the age and category of each employee) | | 3.5% |
| Expected return of plan assets | | Between 4.3% and 5.1% |

Non-French companies

The present value of the non-French companies' obligations is determined on the basis of personnel turnover and mortality and using actuarial assumptions that reflect the legal, economic and monetary circumstances prevailing in each country, as follows:

| | <u>2004</u> | <u>2005</u> |
|---|-------------------------|--------------------------|
| Retirement age (depending upon each category of employees) | Between 55 and 65 years | Between 55 and 65 years |
| Discount rate | Between 3% and 16% | Between 3.75% and 13% |
| Salary growth rate (depending on the age and category of each employee) | Between 1% and 10% | Between 2% and 10% |
| Expected return of plan assets | Between 3% and 11% | Between 3.55% and 11.30% |
| | | <u>2006</u> |
| Retirement age (depending upon each category of employees) | | Between 55 and 65 years |
| Discount rate | | Between 3.75% and 11% |
| Salary growth rate (depending on the age and category of each employee) | | Between 2% and 10% |
| Expected return of plan assets | | Between 3.55% and 9.75% |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table reconciles the funded status of the companies' plans with the provision recorded in the consolidated balance sheet as of December 31, 2004, 2005 and 2006:

| (In millions of euro) | 2004 | | 2005 | | 2006 | |
|---|------------|-----------------|------------|-----------------|-----------|-----------------|
| | France | Other Countries | France | Other Countries | France | Other Countries |
| Defined benefit obligation (DBO) | 285 | 259 | 334 | 224 | 326 | 226 |
| Fair value of plan assets | (59) | (122) | (58) | (92) | (240) | (99) |
| Defined benefit obligation in excess of plan assets | 226 | 137 | 276 | 132 | 86 | 127 |
| Actuarial differences and past service costs | (14) | (21) | (53) | (31) | (42) | (24) |
| Net accrued pension cost | <u>212</u> | <u>116</u> | <u>223</u> | <u>101</u> | <u>44</u> | <u>103</u> |

As of December 31, 2006, the DBO relating to partially or fully funded plans amounted to € 457 million (€ 455 million as of December 31, 2005 and € 469 million as of December 31, 2004).

Changes in provisions for retirement indemnities and pensions can be detailed as follows:

| (In millions of euro) | Defined benefit obligation | Fair value of plan assets | Actuarial gains and losses and past service cost | Net accrued pension cost |
|---|----------------------------|---------------------------|--|--------------------------|
| As of January 1, 2004 | 721 | (349) | — | 372 |
| <i>Net periodic pension cost:</i> | | | | |
| —Service cost | 20 | | | 20 |
| —Interest cost | 26 | | | 26 |
| —Return on plan assets | | (10) | | (10) |
| —Amortization of actuarial gains and losses and past service cost | | | — | — |
| Payments made to retirees | (30) | 15 | | (15) |
| Contributions to plan assets | 1 | (14) | | (13) |
| Actuarial gains and losses | 34 | 1 | (35) | — |
| Translation adjustments | (4) | 1 | 1 | (2) |
| Others | (224) | 175 | (1) | (50) |
| As of December 31, 2004 | <u>544</u> | <u>(181)</u> | <u>(35)</u> | <u>328</u> |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| (In millions of euro) | Defined benefit obligation | Fair value of plan assets | Actuarial gains and losses and past service cost | Net accrued pension cost |
|--|-------------------------------|------------------------------|--|-----------------------------|
| As of January 1, 2005 | 544 | (181) | (35) | 328 |
| <i>Net periodic pension cost:</i> | | | | |
| —Service cost | 21 | | | 21 |
| —Interest cost | 22 | | | 22 |
| —Return on plan assets | | (7) | | (7) |
| —Amortization of actuarial gains and losses and past service cost | | | 1 | 1 |
| Payments made to retirees | (25) | 12 | | (13) |
| Contributions to plan assets | | (11) | | (11) |
| Actuarial gains and losses | 64 | (6) | (58) | — |
| Translation adjustments | 9 | (4) | (1) | 4 |
| Others | (77) | 47 | 9 | (21) |
| As of December 31, 2005 | <u>558</u> | <u>(150)</u> | <u>(84)</u> | <u>324</u> |

| (In millions of euro) | Defined benefit obligation | Fair value of plan assets | Actuarial gains and losses and past service cost | Net accrued pension cost |
|--|-------------------------------|------------------------------|--|-----------------------------|
| As of January 1, 2006 | 558 | (150) | (84) | 324 |
| <i>Net periodic pension cost:</i> | | | | |
| —Service cost | 24 | | | 24 |
| —Interest cost | 23 | | | 23 |
| —Return on plan assets | | (13) | | (13) |
| —Amortization of actuarial gains and losses and past service cost | | | 6 | 6 |
| Payments made to retirees | (33) | 14 | | (19) |
| Contributions to plan assets | | (193) | | (193) |
| Actuarial gains and losses | (12) | 1 | 11 | — |
| Translation adjustments | (6) | 2 | 1 | (3) |
| Others | (2) | | | (2) |
| As of December 31, 2006 | <u>552</u> | <u>(339)</u> | <u>(66)</u> | <u>147</u> |

In 2006, the line “Contributions to plan assets” mainly comprised the € 180 million contribution made to insurance companies in order to finance the pension plan that benefits to senior managers who were under the French pension system as of December 31, 2003.

The line “Others” mainly comprises the effects of changes in the scope of consolidation, in particular the disposals of HP Foods in 2005 and of Jacobs and Irish Biscuits in 2004.

The Group’s investment policy in plan assets depends, for each company, upon the employees’ age structure and the expected return on the different categories of assets. As of December 31, 2006, the plan assets comprised approximately 26 % of equity securities and 65 % of debt securities. The plan assets do not comprise any financial instruments issued by the Group. In addition, the actual average return on plan assets in France was 4.7 % in 2006.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Benefits expected to be paid to the employees over the next 10 years are estimated to be € 10 million in 2007, € 7 million in 2008, € 6 million in 2009, € 11 million in 2010, € 12 million in 2011 and € 67 million for the years 2012 to 2017.

Total contributions estimated to be made to plan assets in 2007 amounts to € 5 million.

Total contributions paid in relation to defined contribution plans amounted to € 17 million in 2006 (€ 11 million in 2005 and 2004).

NOTE 18—Other non-current liabilities

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|
| Restructuring | 37 | 23 | 23 |
| Other provisions for risk and charges | 394 | 302 | 357 |
| Capital investment grants | 10 | 11 | 11 |
| Total | <u>441</u> | <u>336</u> | <u>391</u> |

As of December 31, 2006, the short-term portion of non-current liabilities amounted to € 14 million (€ 19 million as of December 31, 2005 and € 17 million as of December 31, 2004).

Other provisions for risk and charges can be detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|
| Commercial liabilities | 22 | 25 | 3 |
| Financial and tax liabilities | 314 | 222 | 294 |
| Damage and healthcare liabilities | 58 | 55 | 60 |
| Total | <u>394</u> | <u>302</u> | <u>357</u> |

Decreases in provisions resulted from payments for a total amount of € 63 million in 2006 (€ 51 million in 2005 and € 36 million in 2004) and from reversals of unused provisions for a total amount of € 10 million in 2006 (€ 14 million in 2005 and € 17 million in 2004).

Increases in provisions amounted to € 105 million in 2006 (€ 37 million in 2005 and € 170 million in 2004, of which € 150 million related to the provision on the put option granted to Suntory Ltd). In 2006, increases in provisions was explained by many factors, including the provision recorded in relation to the put option granted to the major shareholder of The Danone Springs of Eden, BV.

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business. Liabilities are accrued for when a loss is probable and can be reasonably estimated.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 19—Trade accounts payable—accrued expenses and other current liabilities

Trade accounts and notes payable

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------------|---------------------|---------------------|---------------------|
| Trade accounts payable | 1,446 | 1,667 | 1,806 |
| Notes payable | 122 | 97 | 55 |
| Total | <u>1,568</u> | <u>1,764</u> | <u>1,861</u> |

The fair value of trade accounts payable is considered equivalent to their net book value given their short-term maturities.

Accrued expenses and other current liabilities

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|---------------------|---------------------|---------------------|
| Personnel (including social charges) | 294 | 341 | 382 |
| Year end rebates payable to customers | 591 | 658 | 808 |
| State and local authorities | 133 | 136 | 143 |
| Refundable containers | 97 | 105 | 83 |
| Taxes payable | 156 | 159 | 167 |
| Prepayments from customers | 79 | 112 | 116 |
| Others | 264 | 382 | 272 |
| Total | <u>1,614</u> | <u>1,893</u> | <u>1,971</u> |

The fair value of accrued expenses and other current liabilities is considered to be equivalent to their net book value given their short-term maturities.

NOTE 20—Personnel and remuneration

Group personnel costs (including payroll taxes and related charges) amounted to € 1,807 million in 2006 (€ 1,793 million in 2005 and € 1,729 million in 2004) of which € 11.1 million (€ 10.9 million and € 8.9 million in 2004) represented remuneration paid to the Group's Executive Committee (See Note 26).

As of December 31, 2006, 2005 and 2004, the Group's number of employees was broken down as follows:

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--------------------------|----------------------|----------------------|----------------------|
| Europe | 33,452 | 32,228 | 32,384 |
| Asia | 41,027 | 41,137 | 34,023 |
| Rest of the World | 14,970 | 14,819 | 21,717 |
| Total Group | <u>89,449</u> | <u>88,184</u> | <u>88,124</u> |

At constant scope of consolidation, the Group's number of employees would have been 88,124 as of December 31, 2006 and 87,720 as of December 31, 2005.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 21—Other expense and income

Other expense can be detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--------------------------------|-------------------|-------------------|-------------------|
| Employee profit-sharing | 115 | 116 | 121 |
| Stock-based compensation | 28 | 23 | 14 |
| Others | 86 | 32 | 32 |
| Total | <u>229</u> | <u>171</u> | <u>167</u> |

The line “others” mainly comprises restructuring costs and gains or losses on disposal of assets.

NOTE 22—Other operating expense and income

In 2006, the other operating expense and income mainly comprised the € 38 million loss recorded upon the disposal of Danone Waters of Canada, the € 40 million impairment charge recorded in relation to the goodwill of Robust (see Note 5), net of the € 43 million profit recorded upon the disposal of Griffins.

In 2005, the other operating expense and income mainly comprised the € 53 million impairment charge on the goodwill of Danone Waters of Canada (see Note 5) and the € 19 million gain on disposal of Italaquae.

In 2004, the other operating expense mainly comprised the € 52 million loss on disposal of Jacobs and Irish Biscuits.

NOTE 23—Interest expense, net

Interest expense, net can be detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|-------------------------------|------------------|---------------------|--------------------|
| Cost of net debt | (94) | (101) | (37) |
| Other financial income | 150 | 28 | 17 |
| Other financial expense | (46) | (37) | (48) |
| Total | <u>10</u> | <u>(110)</u> | <u>(68)</u> |

The net amount of interest paid in 2006 was € 39 million (€ 83 million in 2005 and € 105 million in 2004).

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 24—Income taxes

Income tax expense

Income before tax and the income tax expense can be detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------------|-------------------|-------------------|-------------------|
| Income before tax: | | | |
| —French companies | 470 | 329 | 308 |
| —Foreign companies | <u>1,099</u> | <u>1,267</u> | <u>1,498</u> |
| Total | <u>1,569</u> | <u>1,596</u> | <u>1,806</u> |
| Income tax expense (income): | | | |
| • Current income taxes: | | | |
| —French companies | 146 | 135 | 12 |
| —Foreign companies | <u>322</u> | <u>395</u> | <u>427</u> |
| | <u>468</u> | <u>530</u> | <u>439</u> |
| • Deferred taxes: | | | |
| —French companies | (31) | (25) | 74 |
| —Foreign companies | <u>(9)</u> | <u>(32)</u> | <u>(153)</u> |
| | <u>(40)</u> | <u>(57)</u> | <u>(79)</u> |
| Total | <u>428</u> | <u>473</u> | <u>360</u> |

The Company forms a tax group with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital. Some of the subsidiaries that elected to participate in the French tax group have signed a tax sharing agreement with the Company, in conformity with French regulations. Similar consolidated tax schemes exist in other countries, in particular in the United States, in the United Kingdom and in Germany.

Cash payments in relation to income taxes amounted to approximately € 368 million in 2006 (€ 424 million in 2005 and € 439 million in 2004).

Effective income tax rate

The effective income tax rate was 19.93 % in 2006 (29.61% in 2005 and 27.28% in 2004). The differences between the effective tax rate and the statutory tax rate in France (34.43% in 2006, 34.93% in 2005 and 35.43% in 2004) can be detailed as follows:

| <u>(In percentage of income before tax)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--|----------------------|----------------------|----------------------|
| Statutory tax rate in France | 35.43% | 34.93% | 34.43% |
| Effect of foreign tax rate differential | (2.20)% | (3.19)% | (2.79)% |
| Effect of gains/losses on disposal and impairment charges | (2.93)% | (0.32)% | (1.35)% |
| Recognition of deferred taxes on losses carried forward in the United States | — | — | (8.03)% |
| Effect of other differences | <u>(3.02)%</u> | <u>(1.81)%</u> | <u>(2.33)%</u> |
| Effective income tax rate | <u>27.28%</u> | <u>29.61%</u> | <u>19.93%</u> |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred taxes

As explained in Note 1.13, deferred taxes mainly arise from the difference between the book and tax bases of assets and liabilities. The significant components of deferred tax assets and liabilities are as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|--------------|-------------|-------------|
| Pension liabilities | 95 | 88 | 33 |
| Employee profit-sharing provision | 16 | 15 | 16 |
| Restructuring provision | 16 | 14 | 7 |
| Tax losses carried forward | 63 | 197 | 314 |
| Fixed assets | (429) | (388) | (349) |
| Others | (6) | 132 | 26 |
| Net deferred taxes | (245) | 58 | 47 |
| Deferred tax assets | 101 | 250 | 343 |
| Deferred tax liabilities | (346) | (192) | (296) |
| | (245) | 58 | 47 |
| Including short-term portion | 85 | 165 | 76 |
| Including long-term portion | (330) | (107) | (29) |

Tax losses carried forward

As of December 31, 2006, tax losses carried forward amounted to € 1,674 million and the corresponding deferred tax assets amounted to € 565 million. They mainly resulted from the tax deductibility of goodwill and operating losses in certain countries as well as from the loss on disposal of the HOD water activities in the United States. In this country, the Group has tax losses amounting to US\$ 802 million that can be carried forward over 20 years as from their origin. As of December 31, 2005, there existed some uncertainties regarding the recoverability of the full amount of these losses, which amongst others depended on the success of new product launches in the United States, in particular in the very competitive fresh dairy products market. Consequently, based on the information available as of December 31, 2005 and on the assumptions that could be used as of that date regarding the evolution of these activities in the coming years, the Group had recognized deferred tax assets for a total amount of US\$ 173 million (€ 147 million) on the portion of these losses, i.e. US\$ 485 million (€ 410 million), which were more likely than not to be used. The loss on disposal of DS Waters, LP's assets, which was reflected on the line item "Net income (loss) of affiliates" in the 2005 consolidated income statement, included the impact of the recognition of these deferred tax assets. As of December 31, 2006, the Group revisited the assumptions used in 2005 in the light of the performance of the US operating entities in 2006. Following this review, the Group has estimated that the recoverability of all the tax losses carried forward generated by the US tax group was more likely than not. Consequently, as of December 31, 2006, a deferred tax asset was recognized on all the tax losses that were unused as of that date. The corresponding income tax, amounting to € 123 million, is reflected on the line "Income tax" in the consolidated income statement.

As of December 31, 2006, based on the expected taxable income of the entities and tax consolidated groups that have generated the tax losses, the Group believes that it is more likely than not that € 800 million will not be used. The Group reviews the unutilized tax losses and the recognized deferred tax assets at each balance sheet date.

NOTE 25—Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to currency and interest rate risks incurred in the normal course of business. It is the Group's policy not to sell or purchase derivatives financial instruments for purposes other than hedging.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest rate exposure

The financing of the Group's subsidiaries is centralized and managed by the Treasury Department, which uses financial instruments to reduce the Group's net interest rate exposure. The main derivative financial instruments used are interest rate swaps and options, negotiated with major financial institutions.

Notional amounts of interest rate derivatives

The notional amounts and maturities of interest rate derivatives are as follows:

| (In millions of euro) | 2004 | 2005 | 2006 |
|---|-------------|-------------|-------------|
| Interest rate swaps ⁽¹⁾ , with a remaining term as of December 31: | | | |
| • less than one year | 1,579 | 646 | 1,354 |
| • between one and five years | 2,123 | 1,184 | 869 |
| • more than five years | 10 | — | — |
| Interest rate caps and floors, with a remaining term as of December 31: | | | |
| • less than one year | 500 | 461 | — |
| • between one and five years | 1,061 | 600 | 600 |
| • more than five years | — | — | — |

(1) Excluding cross-currency swaps, which are included in the currency derivative instruments.

The accounting treatment of these derivatives is detailed in Note 1.17.

Fair value of interest rate derivatives

A portion of the derivatives used to manage the interest rate exposure qualifies for fair value hedge accounting as they can be linked to an identified underlying hedged item (generally, an EMTN). As of December 31, 2006, the negative fair value of these derivatives amounted to € 7 million (the positive fair value amounted to approximately € 9 million as of December 31, 2005 and € 23 million as of December 31, 2004). It is reflected on the line item "Current financial liabilities" in the consolidated balance sheet. Changes in the fair value of these derivatives and the corresponding hedged items are reflected in the line item "interest expense" in the consolidated income statement.

As of December 31, 2006, the fair value of derivatives that do not qualify for hedge accounting was negative by approximately € 3 million (€ 4 million as of December 31, 2005 and € 1 million as of December 31, 2004). It is reflected on the line item "Current financial debt" in the consolidated balance sheet. Changes in the fair value of these derivatives are reflected in the line item "interest expense" in the consolidated income statement.

Exposure to changes in interest rate

As of December 31, 2006, the Group's net debt⁽¹⁾, after taking into account the interest rate derivatives, is mainly at fixed rate. Consequently, the Group's exposure to changes in interest rates is not significant.

(1) The net debt used to measure the Group's exposure to changes in interest rates corresponds to financial liabilities net of marketable securities and cash and cash equivalents. It excludes financial liabilities linked to options granted to minority stockholders as these liabilities do not bear interest.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Currency exposure

The Group's operations around the world are carried out by subsidiaries that trade primarily in their home country. Consequently, the Group's exposure to currency risks in its operating activities is low. The Group's Treasury Department uses financial instruments to reduce the net exposure to currency risk, after netting the currency positions arising from past or expected future operating transactions of the consolidated entities.

The Group also enters into derivative financial instruments to hedge borrowings denominated in foreign currencies and net investments in subsidiaries that operate in countries where the functional currency is not the euro.

The financial instruments used by the Group are mainly forward exchange contracts, purchased foreign exchange options and cross currency swaps, negotiated with major financial institutions.

Notional amounts of currency derivatives

The notional amounts of the Group's forward exchange contracts, foreign exchange options and cross-currency swaps are summarized below. Foreign currency amounts are translated at period-end exchange rates.

| (In millions of euro) | 2004 | 2005 | 2006 |
|---|--------------|-------------|-------------|
| Forward (purchases) / sales: | | | |
| • Pound Sterling | 157 | 181 | 303 |
| • Yen | 44 | 6 | 24 |
| • US Dollar | (9) | (55) | (78) |
| • Canadian Dollar | 46 | 59 | 47 |
| • Mexican Peso | 59 | 91 | 116 |
| • Swiss Franc | 20 | 24 | 16 |
| • Euro | (306) | (365) | (504) |
| • Other currencies | (21) | 72 | 84 |
| Total forward | (10) | 13 | 8 |
| Including | | | |
| —forward purchases | (434) | (446) | (917) |
| —forward sales | 424 | 459 | 925 |
| Currency swaps ⁽¹⁾ : | | | |
| • Pound Sterling | 42 | (48) | (45) |
| • Yen | 57 | (83) | 54 |
| • Canadian Dollar | 140 | — | — |
| • Singapore Dollar | (92) | — | — |
| • Indonesian Rupiah | — | 82 | 127 |
| • Chinese Yuan | 288 | — | — |
| • South African Rand | 32 | 23 | 18 |
| • Czech Crown | 54 | 47 | 50 |
| • Polish Zloty | 44 | 67 | 83 |
| • Russian Ruble | 23 | 26 | 25 |
| • Euro | (807) | (96) | (313) |
| • Other currencies | 40 | 6 | 16 |
| Total swaps | (179) | 24 | 15 |
| Options | (7) | (7) | (27) |
| Total currency derivatives | (196) | 30 | (4) |

(1) Including cross-currency swaps.

The accounting treatment of these derivatives is detailed in Note 1.17.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair value of currency derivatives

The Group's currency derivatives qualify for cash flow hedge accounting or net investment hedges.

- Cash flow hedges: the Group mainly hedges sales and purchases denominated in foreign currencies, over a maximum period of 15 months. As of December 31, 2006, the fair value of currency derivatives was positive by € 5 million (negative by € 4 million as of December 31, 2005 and positive by € 19 million as of December 31, 2004). These derivatives are reflected in the line items "Other accounts receivable and prepaid expenses" or "Accrued expenses and other current liabilities" in the consolidated balance sheet. In 2006, changes in the fair value of these derivatives, which represented a € 9 million gain, was recorded within stockholders' equity for a total amount of € 9 million, the impact on the consolidated income statement being not significant.
- Net investment hedges: As of December 31, 2006, the fair value of derivatives used as net investment hedges was negative by approximately € 20 million (€ 26 million as of December 31, 2005). It is reflected in the line item "Non-current financial liabilities" in the consolidated balance sheet, with a similar amount reflected under the heading "Cumulative translation adjustments" within stockholders' equity.

Translation exposure on entities outside the euro zone

In 2006, approximately 52 % of the Group's net sales (49% in 2005 and 47% in 2004) and 40 % of the Group's trading operating income (40% in 2005 and 33% in 2004) were outside the euro zone and therefore subject to exchange rate risk.

Concentration of risk

Financial instruments used by the Group to manage its exposure to interest rate fluctuations are negotiated with major counterparties. The breakdown of fair values of financial instruments by counterparty is as follows:

| <u>(As a percentage of total fair values as of December 31, 2004, 2005 and 2006)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--|-------------|-------------|-------------|
| Counterparties' rating (according to Standard & Poor's) | | | |
| • AAA | 0% | 0% | 0% |
| • AA | 55% | 86% | 92% |
| • A | 45% | 14% | 8% |

Financial instruments used by the Group to manage its exposure to currency risks are all negotiated with counterparties rated A1/P1.

The major part of the Group's derivatives are negotiated with counterparties located in geographic areas where political and financial risks are limited.

Derivatives linked to financial instruments

As part of the formation of The Danone Springs of Eden, BV, the Group has granted a put option and has been granted a call option on the 33.1% interest it does not already own, directly or indirectly. These options can be unconditionally exercised in 2008 and, when certain conditions are met, before 2008. The exercise price of

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

these options is based on a valuation of the company that takes into account its economic performance and results. Given that the exercise price of these options is equivalent to the share in the fair value of The Danone Springs of Eden, BV that they correspond to, the fair value of these options is nil. As of December 31, 2006, in light of the economic performance of the entity over 2006, the Group's commitments relating to these options was revised downwards to € 120 million (€ 150 million as of December 31, 2005).

In addition, the Group has granted a put option to its partner in Britannia Industries (see Note 8).

NOTE 26—Related parties transactions

The main related parties are the affiliated companies, the members of the Executive Committee and the members of the Board of Directors.

Affiliated companies

Affiliated companies are those companies in which the Group exercises a significant influence and that are accounted for under the equity method. They are listed in Note 31.

Transactions with affiliated companies, which are usually performed at arm's length, are detailed as follows:

| <u>(In millions of euro)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------------|-------------|-------------|-------------|
| Operating income | 33 | 32 | 39 |
| Operating expense | (8) | (7) | (8) |
| Financial income | — | — | — |

Receivables and payables with affiliated companies are detailed as follows:

| <u>(In million of euros)</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---------------------------------|-------------|-------------|-------------|
| Long and short term loans | 5 | 5 | — |
| Operating receivable | 19 | 23 | 27 |
| Operating payable | (1) | — | — |

Members of the Executive Committee and of the Board of Directors

Total remuneration paid to the members of the Executive Committee amounted to € 11.1 million in 2006 (€ 10.9 million in 2005 and € 8.9 million in 2004). In addition, as of December 31, 2006, the number of stock options granted to members of the Executive Committee amounted to 1,718,401.

As of December 31, 2006, the amount of pension provisions relating to the members of the Executive Committee amounted to € 49 million (€ 52.8 million as of December 31, 2005).

In addition, on July 21, 2004, the Board of Directors set the indemnification conditions of the members of the Executive Committee in certain cases where they cease their mandates or functions. The indemnity would correspond to twice the annual gross remuneration (fixed, variable and in-kind) they received over the last 12 months before they cease their functions.

Finally, the directors' fees paid to the members of the Board of Directors amounted to € 0.3 million in 2006 (€ 0.3 million in 2004 and 2005).

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 27—Information on the cash flow statement

Cash flow from operating activities

In 2006, the line item “Other flows with impact on cash” comprised the € 180 million contribution made to insurance companies in order to finance the pension plan that benefits to senior managers who were under the French pension system as of December 31, 2003 (see Note 17), net of the € 99 million interests received in relation to the loan granted to the holding company that acquired the Galbani cheese and cured meat activities.

The line item “Other flows with no impact on cash” can be detailed as follows:

| (In millions of euro) | 2004 | 2005 | 2006 |
|--|-------------|-----------|------------|
| Impairment charge | — | 53 | 43 |
| (Gains) and losses on disposal of assets | (62) | (49) | (46) |
| Increase (reversal) of provisions | (85) | 29 | 43 |
| Stock-based compensation | 28 | 23 | 14 |
| Others | 26 | 14 | (56) |
| Total | (93) | 70 | (2) |

In 2006, the line “Others” comprise the recognition of the deferred tax assets on the US tax group’s losses carried forward (- € 123 million) as well as the deferred tax liabilities on the contributions made to the insurance companies in order to finance a deferred pension plan (see above).

Cash flow provided by investing activities

In 2006, financial investments mainly included acquisitions as detailed in Note 3. In 2005, financial investments mainly included the acquisition of 100% of DS Waters, LP and its financial commitments.

In 2006, proceeds from sales of business and other investments resulted from the disposals of the Sauces activities in Asia (€ 180 million), of Griffins (€ 138 million) and of Danone Waters of Canada (€ 47 million). In 2005, they mainly resulted from the disposals of HP Foods and Lea & Perrins (approximately € 650 million), of Mahou (more than € 600 million) and of Italaquae (more than € 80 million).

Changes in net debt

Changes in net debt are as follows:

| (In millions of euro) | As of December 31, 2005 | Changes for the year | Transfer to current portion | Translation adjustments | Others | As of December 31, 2006 |
|---|-------------------------------|-------------------------|--------------------------------|----------------------------|--------------|-------------------------------|
| Cash and cash equivalents | 576 | 115 | — | (36) | — | 655 |
| Marketable securities | 2,413 | 201 | — | (11) | (39) | 2,564 |
| Total | 2,989 | 316 | — | (47) | (39) | 3,219 |
| Current financial liabilities | 869 | (235) | 23 | (13) | (228) | 416 |
| Non-current financial liabilities | 5,692 | 28 | (23) | (12) | 20 | 5,705 |
| Total | 6,561 | (207) | — | (25) | (208) | 6,121 |
| Net debt | 3,572 | (523) | — | 22 | (169) | 2,902 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The column “Others” mainly includes the reevaluation of options granted to minority stockholders and changes in the scope of consolidation.

NOTE 28—Commitments and contingencies

Contractual obligations and other commitments

As of December 31, 2006, the contractual obligations are as follows:

| | Amount of commitment expiration per period | | | | | | |
|---|--|------------|--------------|--------------|--------------|------------|-------------------|
| | Total | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 and after |
| On balance sheet | | | | | | | |
| Financial liabilities | | | | | | | |
| <i>Including bank loans, other borrowings and profit-sharing debt</i> | 3,598 | 405 | 1,547 | 188 | 125 | 124 | 1,209 |
| <i>Including liabilities linked to options granted to minority stockholders⁽¹⁾</i> | 2,504 | 8 | — | — | — | — | 2,496 |
| <i>Including capital leases</i> | 19 | 3 | 2 | 2 | 2 | 2 | 8 |
| Total | <u>6,121</u> | <u>416</u> | <u>1,549</u> | <u>190</u> | <u>127</u> | <u>126</u> | <u>3,713</u> |
| Off-balance sheet | | | | | | | |
| Operating lease commitments | 295 | 97 | 61 | 44 | 24 | 20 | 49 |
| Unconditional purchase obligation of goods and services | 607 | 467 | 58 | 44 | 23 | 12 | 3 |
| Capital expenditure commitments | 45 | 45 | — | — | — | — | — |
| Commitments relating to financial investments | 47 | 47 | — | — | — | — | — |
| Guarantees and pledges given | 98 | 78 | 1 | — | 1 | — | 18 |
| Others | 99 | 57 | 8 | 9 | 4 | 3 | 18 |
| Total | <u>1,191</u> | <u>791</u> | <u>128</u> | <u>97</u> | <u>52</u> | <u>35</u> | <u>88</u> |
| Commitments received | | | | | | | |
| Credit lines ⁽²⁾ | 3,094 | 539 | — | 1,152 | 1,400 | — | 3 |
| Guarantees and pledges received | 61 | 52 | 1 | — | — | — | 8 |
| Others | 61 | 56 | 2 | 1 | — | — | 2 |
| Total | <u>3,216</u> | <u>647</u> | <u>3</u> | <u>1,153</u> | <u>1,400</u> | <u>—</u> | <u>13</u> |

(1) As indicated in Note 16, the majority of these options can be exercised at any time.

(2) Total commitments, including the portion used as of December 31, 2006.

In addition, the Group is committed to acquiring investments held by third parties in non-controlled entities, should these third parties wish to exercise their put options. These commitments are described in Notes 8 and 25.

Finally, the Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including in connection with certain warranties given as part of the divestitures completed between 1997 and 2006. In some cases, damages are sought and liabilities are accrued for when a loss is probable and can be reasonably estimated.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 29—Segment information

The Group has implemented a structure, which principally consists of three operational divisions (Fresh Dairy Products, Beverages and Biscuits and Cereal Products). These divisions are managed separately and the risks and profitability are distinct for each division.

| | 2006 | | | | | |
|---|-----------------------------|------------------|-------------------------------|------------------------|--|--------------------|
| (In millions of euro) | Fresh Dairy Products | Beverages | Biscuits⁽²⁾ | Total divisions | Unallocated items⁽¹⁾ | Total Group |
| Net divisional sales | 7,954 | 3,942 | 2,199 | 14,095 | — | 14,095 |
| Sales between divisions | (20) | — | (2) | (22) | — | (22) |
| Net sales outside the Group | 7,934 | 3,942 | 2,197 | 14,073 | — | 14,073 |
| Trading operating income | 1,109 | 504 | 301 | 1,914 | — | 1,914 |
| Operating income | 1,112 | 426 | 336 | 1,874 | — | 1,874 |
| Net income (loss) of affiliates | 47 | (108) | 21 | (40) | — | (40) |
| Impairment charge | — | (140) | (3) | (143) | — | (143) |
| Investments accounted for under the equity method | 586 | 333 | 174 | 1,093 | — | 1,093 |
| Capital expenditure | 394 | 204 | 76 | 674 | 18 | 692 |
| Financial investments | 247 | 232 | — | 479 | 96 | 575 |
| Depreciation and amortization expense | 231 | 164 | 73 | 468 | 23 | 491 |
| Cash flows provided by operating activities, excluding changes in net working capital | 1,019 | 548 | 299 | 1,866 | 25 | 1,891 |
| Total assets | 6,834 | 3,832 | 2,985 | 13,651 | 3,205 | 16,856 |
| Total liabilities | 997 | 1,074 | 233 | 2,304 | 8,483 | 10,787 |

| | 2005 | | | | | |
|---|-----------------------------|------------------|-----------------|------------------------|--|--------------------|
| (In millions of euro) | Fresh Dairy Products | Beverages | Biscuits | Total divisions | Unallocated items⁽¹⁾ | Total Group |
| Net divisional sales | 7,202 | 3,473 | 2,369 | 13,044 | — | 13,044 |
| Sales between divisions | (18) | — | (2) | (20) | — | (20) |
| Net sales outside the Group | 7,184 | 3,473 | 2,367 | 13,024 | — | 13,024 |
| Trading operating income | 1,019 | 474 | 343 | 1,836 | (98) | 1,738 |
| Operating income | 1,019 | 438 | 347 | 1,804 | (98) | 1,706 |
| Net income (loss) of affiliates | 12 | (1) | 33 | 44 | — | 44 |
| Impairment charge | (51) | (53) | — | (104) | — | (104) |
| Investments accounted for under the equity method | 662 | 352 | 242 | 1,256 | — | 1,256 |
| Capital expenditure | 306 | 223 | 65 | 594 | 13 | 607 |
| Financial investments | 83 | 426 | 49 | 558 | 78 | 636 |
| Depreciation and amortization expense | 207 | 172 | 81 | 460 | 18 | 478 |
| Cash flows provided by operating activities, excluding changes in net working capital | 925 | 485 | 305 | 1,715 | 1 | 1,716 |
| Total assets | 6,108 | 3,628 | 3,044 | 12,780 | 3,945 | 16,725 |
| Total liabilities | 1,027 | 1,124 | 219 | 2,370 | 8,734 | 11,104 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | 2004 | | | | | |
|---|-----------------------------|------------------|-----------------|------------------------|--|--------------------|
| (In millions of euro) | Fresh Dairy Products | Beverages | Biscuits | Total divisions | Unallocated items⁽¹⁾ | Total Group |
| Net divisional sales | 6,528 | 3,202 | 2,564 | 12,294 | — | 12,294 |
| Sales between divisions | (18) | (1) | (2) | (21) | — | (21) |
| Net sales outside the Group | 6,510 | 3,201 | 2,562 | 12,273 | — | 12,273 |
| Trading operating income | 917 | 493 | 278 | 1,688 | (80) | 1,608 |
| Operating income | 917 | 493 | 229 | 1,639 | (80) | 1,559 |
| Net income (loss) of affiliates | 48 | (613) | 15 | (550) | — | (550) |
| Impairment charge | — | (608) | — | (608) | — | (608) |
| Investments accounted for under the equity method | 823 | 990 | 148 | 1,961 | — | 1,961 |
| Capital expenditure | 264 | 150 | 82 | 496 | 24 | 520 |
| Financial investments | 24 | 46 | 28 | 98 | — | 98 |
| Depreciation and amortization expense | 195 | 173 | 92 | 460 | 21 | 481 |
| Cash flows provided by operating activities, excluding changes in net working capital | 806 | 520 | 250 | 1,576 | (2) | 1,574 |
| Total assets | 5,512 | 3,901 | 3,007 | 12,420 | 3,659 | 16,079 |
| Total liabilities | 991 | 1,273 | 548 | 2,812 | 8,761 | 11,573 |

(1) The assets and liabilities reflected in the column “Unallocated items” include those that are held for sale, the current and deferred tax assets and liabilities and the net debt items. The income and expense reflected in the column “unallocated items” correspond to those that cannot be directly allocated to divisions. In 2006, these items are nil as the Group implemented a new system that enables it to fully allocate them to the divisions.

(2) Britannia was deconsolidated as of July 1, 2006 (see Note 8).

NOTE 30—Activities by geographic area

The Group operates in three geographic areas: Europe (which includes Western Europe, Central and Eastern Europe), Asia (which includes The Pacific Area, i.e. New-Zealand and Australia) and the Rest of the World (which includes America, Africa and the Middle East).

| | 2006 | | | |
|---|---------------|-------------|--------------------------|--------------|
| (In millions of euro) | Europe | Asia | Rest of the World | Total |
| Net sales outside the Group | 8,582 | 2,429 | 3,062 | 14,073 |
| Trading operating income | 1,295 | 244 | 375 | 1,914 |
| Operating income | 1,301 | 247 | 326 | 1,874 |
| Net income (loss) of affiliates | (114) | 18 | 56 | (40) |
| Capital expenditure | 310 | 103 | 261 | 674 |
| Cash flows provided by operations | 1,202 | 287 | 377 | 1,866 |
| Total assets | 8,780 | 2,754 | 2,117 | 13,651 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| (In millions of euro) | 2005 | | | | 2004 | | | |
|---------------------------------------|--------|-------|-------------------|--------|--------|-------|-------------------|--------|
| | Europe | Asia | Rest of the World | Total | Europe | Asia | Rest of the World | Total |
| Net sales outside the Group | 8,179 | 2,235 | 2,610 | 13,024 | 8,096 | 1,965 | 2,212 | 12,273 |
| Trading operating income | 1,266 | 256 | 314 | 1,836 | 1,209 | 259 | 220 | 1,688 |
| Operating income | 1,284 | 256 | 264 | 1,804 | 1,157 | 259 | 223 | 1,639 |
| Net income (loss) of affiliates . . . | 282 | 40 | (278) | 44 | (127) | 23 | (446) | (550) |
| Capital expenditure | 311 | 122 | 161 | 594 | 307 | 86 | 103 | 496 |
| Cash flows provided by | | | | | | | | |
| operations | 1,201 | 247 | 267 | 1,715 | 1,130 | 266 | 180 | 1,576 |
| Total assets | 8,297 | 2,548 | 1,935 | 12,780 | 8,195 | 2,314 | 1,911 | 12,420 |

NOTE 31—Scope of consolidation

In 2006, 169 entities were included in the scope of consolidation (170 in 2005 and 173 in 2004) of which 145 were fully consolidated (149 in 2005 and 146 in 2004) and 24 were accounted for under the equity method (21 in 2005 and 27 in 2004).

Entities consolidated for the first time in 2006

- Rodich
- Danone Djurdjura Algérie—accounted for under the equity method up until June 30, 2006
- Danone Dairy Egypt
- Drinkco
- Aga Pureza, accounted for under the equity method up until December 31, 2006
- Danone Foods Trading China
- Produits Laitiers Frais Asie
- Stonyfield Europe
- Ontario
- Danone Probiotics

Entities accounted for under the equity method for the first time in 2006

- Glenisk
- Grameen Danone Foods
- Yakult Danone India
- Yakult Vietnam
- Ferminvest⁽¹⁾
- Aqua d'Or
- Hui Yuan Juice Holdings Co

Entities that were excluded from the scope of consolidation in 2006

- Aguas de Lanjaron, merged with Font Vella (renamed Aguas Fontvella y Lanjaron)
- Danone Waters of Canada, sold
- Compagnie Financière Belin, merged with Générale Biscuit
- Lu Nordic⁽¹⁾, liquidated

(1) Group of entities that constitute the consolidated entity.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- Britannia Industries⁽¹⁾ and its holding companies (ABIH, ABIL, Britannia Brands, Bannaty/Dowbiggin/Nacupa/Spargo/Valletort) (See Note 8)
- Griffin's Foods, sold
- Amoy, sold
- Amoy Food Limited, sold
- Finalim IV, merged with GAAP (renamed Produits Laitiers Frais Amérique du Nord)
- Sifit, merged with Roncevaux
- Selba Holding, merged with Danone Finance Nederland
- Bakoma, sold
- Bonafont Garrafontes y Servicios, merged with Aga Pureza

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Consolidated entities

| Entities | Country | Percentage | |
|---|--------------------|-----------------|-----------|
| | | Group's Control | Interests |
| GROUPE DANONE | France | Parent company | |
| FRESH DAIRY PRODUCTS | | | |
| BLEDINA | France | 100.00 | 100.00 |
| DANONE | France | 100.00 | 100.00 |
| DANONE | Germany | 100.00 | 100.00 |
| DANONE | Austria | 100.00 | 100.00 |
| DANONE | Belgium | 100.00 | 100.00 |
| DANONE SERDIKA | Bulgaria | 100.00 | 100.00 |
| DANONE | Spain | 57.15 | 57.15 |
| DANONE CANARIES (ILTESA) | Spain | 78.51 | 44.87 |
| DANONE FINLAND | Finland | 100.00 | 100.00 |
| DANONE | Greece | 100.00 | 100.00 |
| DANONE | Hungary | 100.00 | 100.00 |
| DANONE | Ireland | 100.00 | 100.00 |
| DANONE | Italy | 100.00 | 100.00 |
| DANONE NEDERLAND | The Netherlands | 100.00 | 100.00 |
| DANONE | Poland | 100.00 | 100.00 |
| DANONE PORTUGAL | Portugal | 97.51 | 55.17 |
| DANONE | Czech Republic | 98.30 | 98.30 |
| DANONE | Romania | 100.00 | 100.00 |
| DANONE | The United Kingdom | 100.00 | 100.00 |
| DANONE INDUSTRIA | Russia | 70.00 | 70.00 |
| DANONE VOLGA | Russia | 90.78 | 63.54 |
| DANONE | Slovakia | 100.00 | 100.00 |
| DANONE | Slovenia | 100.00 | 100.00 |
| DANONE | Sweden | 100.00 | 100.00 |
| DANONE TIKVESLI | Turkey | 100.00 | 100.00 |
| DANONE | Ukraine | 100.00 | 100.00 |
| RODICH | Ukraine | 100.00 | 100.00 |
| DANONE—CLOVER | South Africa | 55.00 | 55.00 |
| DANONE DJURDJURA ALGERIE | Algeria | 100.00 | 100.00 |
| ALSAFI DANONE COMPANY | Saudi Arabia | 50.10 | 50.10 |
| DANONE ARGENTINA ⁽²⁾ | Argentina | 99.45 | 99.45 |
| DANONE | Brazil | 100.00 | 100.00 |
| DANONE CANADA DELISLE | Canada | 100.00 | 100.00 |
| DANONE DAIRY | Egypt | 100.00 | 100.00 |
| THE DANNON COMPANY | The United States | 100.00 | 100.00 |
| STONYFIELD FARM | The United States | 83.99 | 83.99 |
| DANONE DE MEXICO | Mexico | 100.00 | 100.00 |
| PT DANONE DAIRY INDONESIA | Indonesia | 100.00 | 70.30 |
| BEVERAGES | | | |
| DRINKCO | France | 100.00 | 100.00 |
| SA DES EAUX MINERALES D'EVIAN | France | 100.00 | 100.00 |
| SEAT (Sté d'Exploitation d'Activités Touristiques) ⁽³⁾ | France | 99.86 | 99.86 |
| SMDA—SOURCES DU MONT DORE EN AUVERGNE | France | 100.00 | 100.00 |
| SOCIETE DES EAUX DU MONT ROUCOUS | France | 100.00 | 100.00 |
| VOLVIC | France | 100.00 | 100.00 |
| DANONE WATERS DEUTSCHLAND | Germany | 100.00 | 100.00 |
| DANONE WATER BEVERAGE BENELUX | Belgium | 100.00 | 100.00 |

(2) Belongs to the same entity.

(3) SEAT operates the Evian casino. It is subject to the authority of the French Ministry of the Interior and the regulations applicable to gaming activities in casinos.

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| Entities | Country | Percentage | |
|--|--------------------|-----------------|-----------|
| | | Group's Control | Interests |
| AGUAS FONT VELLA Y LANJARON | Spain | 95.00 | 78.46 |
| ZYWIEC ZDROJ | Poland | 100.00 | 100.00 |
| DANONE WATERS (UK & IRELAND) | The United Kingdom | 100.00 | 100.00 |
| EVIAN VOLVIC SUISSE | Switzerland | 100.00 | 100.00 |
| DANONE HAYAT | Turkey | 100.00 | 100.00 |
| AGUAS DANONE DE ARGENTINA | Argentina | 100.00 | 100.00 |
| DANONE ARGENTINA ⁽²⁾ | Argentina | 99.45 | 99.45 |
| DANONE NAYA | Canada | 100.00 | 100.00 |
| GREAT BRANDS OF EUROPE | The United States | 100.00 | 100.00 |
| BONAFONT | Mexico | 100.00 | 100.00 |
| AGA PUREZA ⁽¹⁾ | Mexico | 50.00 | 50.00 |
| SALUS | Uruguay | 58.46 | 58.46 |
| FRUCOR BEVERAGES | Australia | 100.00 | 100.00 |
| AQUARIUS | China | 50.00 | 50.00 |
| ROBUST DRINKING WATER ⁽¹⁾ | China | 92.00 | 92.00 |
| ROBUST ⁽¹⁾ | China | 92.00 | 92.00 |
| SHENZHEN HEALTH DRINKS ⁽¹⁾ | China | 100.00 | 100.00 |
| WAHAHA ⁽¹⁾ | China | 51.00 | 51.00 |
| AQUA (PT TIRTA INVESTAMA) ⁽¹⁾ | Indonesia | 74.00 | 74.00 |
| FRUCOR | New Zealand | 100.00 | 100.00 |
| BISCUITS | | | |
| DIB ANTILLES GUYANE | France | 100.00 | 100.00 |
| DIB OCEAN INDIEN | France | 100.00 | 100.00 |
| GENERALE BISCUIT GLICO FRANCE | France | 50.00 | 50.00 |
| LU FRANCE | France | 100.00 | 100.00 |
| LU SNACK FOODS | Germany | 100.00 | 100.00 |
| LU BELGIE (GB BELGIE) | Belgium | 100.00 | 100.00 |
| LU BISCUITS | Spain | 100.00 | 100.00 |
| LU SUOMI | Finland | 100.00 | 100.00 |
| PAPADOPOULOS | Greece | 60.00 | 60.00 |
| LU GYORI (GYORI KEKSZ) | Hungary | 100.00 | 100.00 |
| SAIWA | Italy | 100.00 | 100.00 |
| LU NEDERLAND (GB NEDERLAND) | The Netherlands | 100.00 | 100.00 |
| LU POLSKA | Poland | 75.00 | 75.00 |
| OPAVIA—LU | Czech Republic | 100.00 | 100.00 |
| BOLSHEVIK | Russia | 76.42 | 76.42 |
| CHOCK AND ROLLS | Russia | 100.00 | 76.42 |
| DANONE BISCUITS | Algeria | 51.00 | 51.00 |
| DANONE MASHREQ | Egypt | 100.00 | 100.00 |
| DANONE FOODS TRADING CHINA | China | 100.00 | 100.00 |
| JIANGMEN DANONE BISCUITS | China | 100.00 | 100.00 |
| SHANGHAI DANONE BISCUITS FOODS | China | 90.00 | 90.00 |
| SUZHOU Co Ltd | China | 100.00 | 100.00 |
| DANONE BISCUITS INDONESIA | Indonesia | 100.00 | 100.00 |
| DANONE BISCUITS MANUFACTURING | Malaysia | 100.00 | 100.00 |
| DANONE MARKETING (MALAYSIA) | Malaysia | 100.00 | 100.00 |
| DANONE SNACKS MANUFACTURING | Malaysia | 100.00 | 100.00 |
| DANONE MARKETING SINGAPORE | Singapore | 100.00 | 100.00 |
| HOLDING COMPANIES | | | |
| ALFABANQUE | France | 100.00 | 100.00 |
| BIALIM | France | 100.00 | 100.00 |
| BLANRIM | France | 100.00 | 100.00 |
| Cie GERVAIS DANONE | France | 100.00 | 100.00 |
| DANONE FINANCE | France | 100.00 | 100.00 |
| DANONE RESEARCH | France | 100.00 | 100.00 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| Entities | Country | Percentage | |
|--|--------------------|-----------------|-----------|
| | | Group's Control | Interests |
| FINALIM III | France | 100.00 | 100.00 |
| PRODUITS LAITIERS FRAIS AMERIQUE DU NORD | France | 100.00 | 100.00 |
| GENERALE BISCUIT | France | 100.00 | 100.00 |
| HOLDING EUROPEENNE DE BOISSONS | France | 100.00 | 100.00 |
| INGETEC | France | 100.00 | 100.00 |
| LODAHLIM FRANCE | France | 100.00 | 100.00 |
| PRODUITS LAITIERS FRAIS ASIE | France | 100.00 | 100.00 |
| PRODUITS LAITIERS FRAIS EST EUROPE | France | 100.00 | 100.00 |
| PRODUITS LAITIERS FRAIS NORD EUROPE | France | 100.00 | 100.00 |
| PRODUITS LAITIERS FRAIS SUD EUROPE | France | 100.00 | 100.00 |
| DANONE HOLDING | Germany | 100.00 | 100.00 |
| DANONE PENSIONS MANAGEMENT | Germany | 100.00 | 100.00 |
| DANONE FINANCE BENELUX | Belgium | 100.00 | 100.00 |
| DANONE FINANCE INTERNATIONAL | Belgium | 100.00 | 100.00 |
| DANONE DANEMARK | Denmark | 100.00 | 100.00 |
| TRICAMP LACTEOS | Spain | 100.00 | 100.00 |
| DANONE FINANCE IRLANDE | Ireland | 100.00 | 100.00 |
| STONYFIELD EUROPE | Ireland | 100.00 | 96.80 |
| RONCEVAUX | Italy | 100.00 | 100.00 |
| DANONE RE | Luxembourg | 100.00 | 100.00 |
| DANONE FINANCE NETHERLANDS | The Netherlands | 100.00 | 100.00 |
| LODAHLIM | The Netherlands | 100.00 | 100.00 |
| SELBA NEDERLAND | The Netherlands | 100.00 | 100.00 |
| DANONE HOLDINGS UK | The United Kingdom | 100.00 | 100.00 |
| ONTARIO | Canada | 100.00 | 100.00 |
| DANONE FOODS | The United States | 100.00 | 100.00 |
| DANONE HOLDINGS | The United States | 100.00 | 100.00 |
| DANONE WATERS HOLDINGS Inc | The United States | 100.00 | 100.00 |
| DS WATERS LP | The United States | 100.00 | 100.00 |
| DANONE HOLDING DE MEXICO | Mexico | 100.00 | 100.00 |
| ASIA HOST | China | 100.00 | 100.00 |
| DANONE ASIA PACIFIC MANAGEMENT | China | 100.00 | 100.00 |
| BHPL | Singapore | 100.00 | 100.00 |
| CALVON | Singapore | 100.00 | 100.00 |
| DANONE ASIA | Singapore | 100.00 | 100.00 |
| DANONE ASIA HOLDINGS | Singapore | 100.00 | 100.00 |
| DANONE DAIRY INVESTMENTS INDONESIA | Singapore | 70.00 | 70.00 |
| DANONE PROBIOTICS | Singapore | 100.00 | 100.00 |
| FEDDIAN | Singapore | 100.00 | 100.00 |
| FESTINE | Singapore | 100.00 | 100.00 |
| JINJA INVESTMENTS | Singapore | 100.00 | 100.00 |
| KING SILVER | Singapore | 100.00 | 100.00 |
| KUAN / BRITANNIA BRANDS KUAN | Singapore | 100.00 | 100.00 |
| MYEN | Singapore | 100.00 | 100.00 |
| NOVALC | Singapore | 100.00 | 100.00 |
| DANONE HOLDING NEW ZEALAND | New Zealand | 100.00 | 100.00 |

GROUPE DANONE
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Entities accounted for under the equity method

| Entities | Country | Percentage | |
|--------------------------------------|-----------------|-----------------|-----------|
| | | Group's Control | Interests |
| FRESH DAIRY PRODUCTS | | | |
| GLENISK | Ireland | 35.72 | 35.72 |
| CLOVER DANONE BEVERAGES | South Africa | 39.46 | 39.46 |
| STRAUSS DAIRY | Israel | 20.00 | 20.00 |
| CENTRALE LAITIERE | Morocco | 29.22 | 29.22 |
| STIAL / SOCOGES | Tunisia | 50.00 | 50.00 |
| GRAMEEN DANONE FOODS | Bangladesh | 50.00 | 50.00 |
| YAKULT DANONE INDIA | India | 50.00 | 50.00 |
| CALPIS AJINOMOTO DANONE | Japan | 50.00 | 50.00 |
| YAKULT HONSHA | Japan | 20.02 | 20.02 |
| YAKULT VIETNAM | Vietnam | 20.00 | 20.00 |
| BEVERAGES | | | |
| FERMINVEST ⁽¹⁾ | France | 57.00 | 57.00 |
| AQUA D'OR | Denmark | 49.00 | 49.00 |
| DASANBE AGUA MINERAL NATURAL | Spain | 50.00 | 50.00 |
| MAGYARVIZ | Hungary | 50.00 | 50.00 |
| THE DANONE SPRINGS OF EDEN BV | The Netherlands | 50.00 | 66.65 |
| POLSKA WODA | Poland | 50.00 | 50.00 |
| SOTHERMA | Morocco | 30.00 | 30.00 |
| CHINA HUIYUAN JUICE | China | 22.18 | 22.18 |
| KIRIN MC DANONE WATERS | Japan | 25.00 | 25.00 |
| BISCUITS | | | |
| GRIESSON-de BEUKELAER ⁽⁴⁾ | Germany | 40.00 | 40.00 |
| BAGLEY LATINO AMERICA | Spain | 49.00 | 49.00 |
| BIMO | Morocco | 50.00 | 50.00 |
| SOTUBI | Tunisia | 49.00 | 49.00 |
| CONTINENTAL BISCUITS PAKISTAN | Pakistan | 49.49 | 49.49 |

(4) Entity that was held for sale as of December 31, 2006