

DeTOX



Live young

# Biscuits

## Rebuilding and renewal through local strength

Following a phase of consolidation, the Biscuit business line returned to growth in 2004. It is now ready to take the offensive and build new strengths on major markets. Priorities include the right match with local tastes and cultures, renewal of top brands to realize their full potential, and offerings with increased nutritional benefits.



→ **LU FRANCE IN THE SPOTLIGHT** Biscuit sales in France are back on the rise for the first time in four years, rewarding the reorganization that has brought DANONE teams closer to consumers and customers.

Specialization has paid off—in product categories such as crackers, sweet biscuits, or cereal bars, and in different types of meal or snack. Asset brands including Prince, Mikado, Paille d'Or, Croustilles and Cracotte have seen

sales growth accelerate, benefiting from consolidation of market positions, increased advertising and promotional outlays, and quicker product innovation. Smaller brands with strong traditions

such as Thé, Vandamme, Brun and Napolitain also posted healthy rises in 2004, as did regional brands like Rem and seasonal specialties, including Calèche, a Christmas favorite.



**a**fter a year of transition in 2003, the Biscuits business line was back in a winning mood in 2004 when sales grew 3.9%, rewarding a differentiated strategy tailored to individual markets. For there is no world market in biscuits. Instead there are a host of local, national and regional markets, reflecting wide differences in taste and culture from one part of the world to the next. Consumers are also very attached to brands, many of them with traditions going back a century or more—brands that were part of their own childhood and that of their parents. In France, Véritable Petit Beurre goes back 149 years and Paille d'Or a hundred years, while Opavia in the Czech Republic dates back to 1846, Bolshevik in Russia to 1855 and Liga in the Netherlands to 1923. In these conditions, trying to build a world brand is a daunting and, generally speaking, pointless task. Instead, the aim must be to realize the full potential of iconic brands on local and regional markets, which in some case may also mean extending their geographical scope. Examples include Petit Déjeuner, Taillefine cereal bars, Mini rollos and Ourson biscuits, all now on sale in a

number of countries. To meet the challenges this entails, the Biscuits business line has reinforced local teams, particularly in marketing, decentralizing its structures for more independent operation to get the benefit of constant, direct contact with trends in local consumer preferences. Successes on Spanish and Italian markets in 2004 show how effective this can be. Rather than challenging more powerful rivals on their own ground, subsidiaries in these countries focused on distinctive products like Petit Ecolier and Mini rollos to capture top places in several profitable niches and consolidate their number-two rankings in their respective markets. In Russia, Bolshevik restored its lead with a move into cakes through its acquisition of Chok and Rolls in 2004, and while the new business was consolidated over only a part of the year, its sales were up by close to 20%.

**Renewal and changing perceptions**

A priority in 2004 was to steady sales volumes on historical markets, which was achieved mainly through the renewal of existing ranges and efforts to improve perceptions of the nutritional value of biscuits. ●●●

**Highlights**

**RUSSIA**  
→ January 2004—DANONE acquires Chupa Chups' soft cake business, with products sold in Russia under the Chok and Rolls name. The move consolidates DANONE's leading position in the Russian biscuit market and strengthens its presence in the east of the country.

**SOUTH AMERICA**  
→ April 2004—Groupe DANONE and Groupe Arcor, the top Argentinean food group, agree to merge their South American biscuits operations in January 2005, thus becoming the region's top supplier of biscuits.

**UNITED KINGDOM**  
→ At the end of July 2004, DANONE announces the sale of Jacob's (UK biscuits) to United Biscuits, a move followed in August by the sale of W&R Jacob Ltd in Ireland to Fruitfield Foods Ltd. The divestments allow the Group to focus on markets where it holds stronger positions.

**Biscuits key figures**

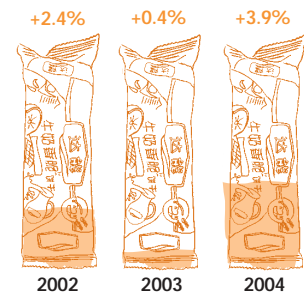
€ millions	2000	2001	2002	2003	2004
Sales	3 255	3 371	3 232	3 071	3 041
Organic growth*	+6.4%	+0.4%	+2.4%	+0.4%	+3.9%
Operating income	282	316	317	280	301
Operating margin	8.7%	9.4%	9.8%	9.1%	9.9%
Cash flow from operations	315	308	295	232	256
Depreciation and amortization	172	183	155	145	129
% of sales	5.3%	5.4%	4.8%	4.7%	4.2%
Capital expenditure	83	93	118	110	82
% of sales	2.5%	2.8%	3.7%	3.6%	2.7%
Employees	28 835	30 553	27 361	23 996	20 665

\* at constant structure and exchange rates.

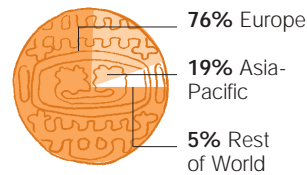
- LEADING POSITIONS WORLDWIDE\***
- No. 1: Belgium
  - No. 1: Eastern Europe
  - No. 1: China<sup>1</sup>
  - No. 1: France
  - No. 1: India
  - No. 1: Argentina
  - No. 1: New Zealand
  - No. 2: Italy

\* based on sales volumes.  
<sup>1</sup> Danone is the country's leading biscuit brand.

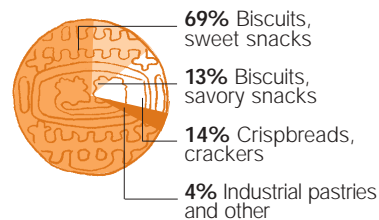
SALES GROWTH\*



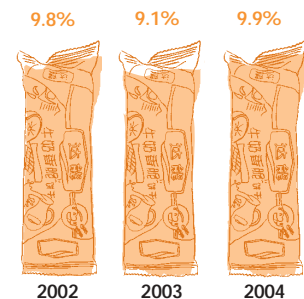
SALES BY REGION



SALES BY SEGMENT



OPERATING MARGIN



\* like-for-like

In this, the aim remains to enhance quality and taste to set products well apart from retailer brands and deep-discount offerings. The sweeping overhaul of ranges undertaken for this purpose in 2004 will be continued in 2005, and by the time it is completed, LU France, for example, will have reviewed over half of its recipes. Product renewals and innovation are also designed to favor new perceptions of biscuits, often considered an unnecessary indulgence—which can discourage buyers. To counter this idea, the business line is doing all it can to highlight nutritional value in addition to taste appeal. Example: it is too often forgotten that biscuits are rich in grains and thus packed with energy. Emphasizing this simple truth can be an effective way to accelerate sales growth, as shown by the example of LU Petit Beurre, a brand more than a century old that has seen sales quicken significantly since it began drawing attention to the fact that 72% of ingredients are from wheat.

Optimizing nutritional and health features

Product innovation, too, can play an important part in developing new perceptions, as illustrated by DANONE's success with new products developed for optimum nutritional profiles. These include Taillefine low-fat biscuits and the first low-sugar biscuit launched under the LU Petit Déjeuner brand, as well as others combining nutritional value and ingredients with special health benefits such as omega-3 fatty acids in Heudebert toast bakery products. Added nutritional value has been particularly effective in the Benelux, where LU has reinforced its top place despite the onslaught of retailer brands and deep discounters.

New frontiers

The Biscuit line is not only consolidating its historical positions, but also moving out into new territory. Asia is a natural priority since it accounts for over 50% of world growth in demand for biscuits. DANONE has thus taken initiatives that include the construction of a new factory in Suzhou, China, with a capacity of 17,000 metric tons a year on its first production line, a figure that could later rise to 100,000 metric tons. Production has begun with Danone & Milk biscuits and TUC crackers. A key challenge on Asian markets is to develop products with high nutritional value at prices affordable for the majority of people, and DANONE has responded with varied offerings suited to local tastes and purchasing power, with prices often set at one unit of the national currency. In June 2004, Danone Shanghai Biscuits thus launched individual 40g packs of Tuc and Danone & Milk at just one renminbi apiece—roughly one-tenth of a euro. This combination of convenience and affordability has paid off, with Danone Shanghai Biscuits reporting an 8% rise in 2004 sales as 33 million packs added 1,200 metric tons to volumes without cannibalizing the company's existing lines. The same strategy has been adopted for Tiger in India and Biskuat in Indonesia, reflecting the scope it provides for new development on emerging markets in general. ●

Nutritional biscuits: a strategic focus in Asia

Danone Biscuits China achieved 85% of its 2004 sales with products offering nutritional benefits, and nutrition has been a main driver for the success of the company—founded in eastern China ten years ago—in winning the number-one place on the Chinese biscuit market. This approach results from a simple observation: half of China's population suffers from a lack of calcium and 15% from iron-deficiency

anemia. To meet the needs such deficiencies entail, Danone Biscuits China has made added nutritional value a top development priority since 1998. Innovations include Danone Milk Biscuits with added calcium and vitamin D; Sunshine breakfast biscuits combining slow energy release with calcium, iron and vitamin supplements; iron-enriched Prince Sandwich—approved by China's National Disease

Center—and Hi Calcium soda crackers. Another is the Wei Zi line of crackers combining added fiber, calcium and vitamins with fat content 30% lower than for standard crackers. This is in response to problems of obesity that have emerged with rapid changes in lifestyles and diets, leading to concern among nutritionists.

\*Source: 4th China Nutritional Survey 2002.



R&D (Research and Development)

LU PETIT DÉJEUNER LOW-SUGAR BISCUITS

→ One in four French households buys breakfast biscuits at least once a year. The main obstacle to increased demand in this segment is sugar content, and in 2004 LU, number one in the field with a 75% market share, thus brought out the first low-sugar breakfast biscuits, Chocolat et Céréales and Céréales et Pépites de chocolat. In developing the product, scientific teams at Danone Vitapole put their know-how to good use, enhancing nutritional benefits while at the same time reducing sugar content and sweetness. Sugar content is 25% lower than for other breakfast biscuits, while grain and fiber content is higher, and that of vitamins and minerals similar. Since their launch just a few months ago, the two new offerings have proven a quick success, bearing out management expectations.