



*Cada vez más gente
lo elige como postre.*



PERFORMANCE

CLOSE-UP ON GROUP BUSINESS

In 2006, Groupe DANONE posted its best performance ever in terms of organic growth. Drivers were expansion into new geographical markets, rapid deployment of brands clearly positioned for health benefits, and an unrelenting focus on new-product development. A review by business line.

9.7%

Organic growth in sales/

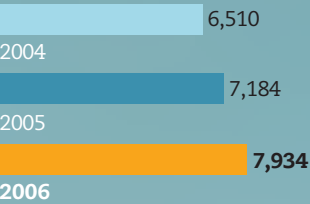
During the year sales from existing business rose 9.7% to €14,073 million, one of the strongest increases in our history. Vigorous growth was visible in all three core businesses and in all geographical markets.

KEY FIGURES

FRESH DAIRY PRODUCTS

28,757 employees
No. 1 worldwide in FDP
Sales: €7.9 billion
56.4% of total Group sales

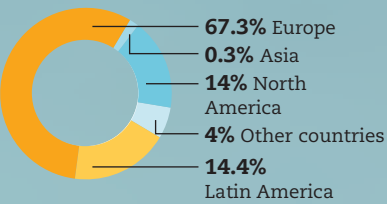
→ SALES (€ millions)



→ YEAR-ON-YEAR CHANGE IN OPERATING MARGIN

2005	13.4%
2006	14%

→ SALES BY GEOGRAPHICAL MARKET



→ SALES OF BLOCKBUSTER PRODUCTS

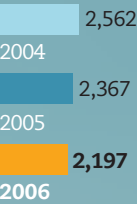
Activia: €1.3 billion
Actimel: €1 billion
Vitalinea: €900 million
Danonino: €800 million

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BISCUITS

14,740 employees
No. 2 worldwide in biscuits
Sales: €2.2 billion
15.6% of total Group sales

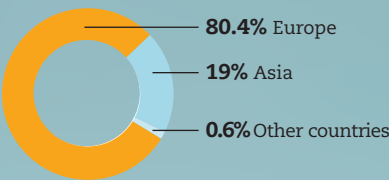
→ SALES (€ millions)



→ YEAR-ON-YEAR CHANGE IN OPERATING MARGIN

2005	13.7%
2006	13.7%

→ SALES BY GEOGRAPHICAL MARKET

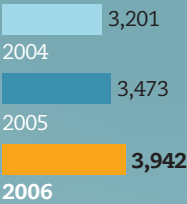


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BEVERAGES

43,253 employees
No. 2 worldwide in packaged water
Sales: €3.9 billion
28% of total Group sales

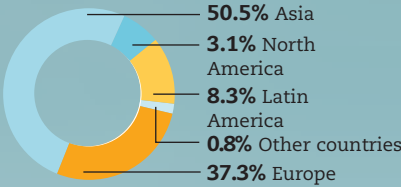
→ SALES (€ millions)



→ YEAR-ON-YEAR CHANGE IN OPERATING MARGIN

2005	12.9%
2006	12.8%

→ SALES BY GEOGRAPHICAL MARKET



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FDP business line looks to new geographical horizons

FDP's vigorous performance in 2006 rewarded two strategic priorities that had been in place for only a few months. These prioritized brands bringing strong consumer health benefits and faster geographical expansion.

DANONE's Fresh Dairy Products (FDP) line, which represents 56% of Group sales, chalked up another successful year in 2006, with sales rising 9.2%* to €7.9 billion. Growth came primarily from a significant increase in volumes, up 355,000 metric tons for the year. Profitability also rose sharply, with operating margin up seven basis points to nearly 14%. This good performance consolidates DANONE's position as worldwide leader in the sector, with 2006 market share averaging more than 35% wherever the Group does business.

GROWTH BY REGION

In Europe, growth made a comeback in 2006. A rise in French sales reflected the performances of Activia, Danette and Petit Gervais brands and the success of new launches, especially in ranges with reduced fat and sugar. In Spain, the largest single source of FDP sales revenues, volumes rose a further 3%, while Northern Europe saw growth of 8%. On surging Central European markets, sales were

up 21%, with a record 35% increase for Russia and continued double-digit growth in Poland. In the North Africa/Middle East region, the Group continued to build a solid network. DANONE is expanding rapidly in this region, investing steadily and posting across-the-board growth of around 10%. Turkey, a star performer in 2005, was the only exception amid fallout from political troubles in 2006. Latin America made another strong showing, with sales growth averaging more than 20% in Argentina, Mexico and Brazil. In 2006, our primary focus in these countries was on productivity to counter the impact of inflation. The strategy worked: prices for Danone products edged up only 0.5% on average, enabling Danone to be more competitive than other local manufacturers and make steady gains in market share. The United States saw a major breakthrough for the Group's health concept. Sales of both DANONE FDP companies in the US—Stonyfield, the leading organic producer, and Dannon—were up more than 10%, with Stonyfield holding on a firm

track and Dannon benefiting from the successful launch of Activia, which posted sales of \$130 million in its first year on the market (see p. 42). This first launch of a probiotic line in the US signals the start of a trend that will gain pace in coming years.

TWO ACTIVE HEALTH BRANDS TOP €1 BILLION

The FDP growth model relies largely on four blockbuster brands that stand apart from their competitors with clearly identified, scientifically proven health benefits: Activia to favor regularity, Actimel to strengthen the body's natural defenses, Vitalinea-Taillefine to aid weight control and Danonino to promote healthy growth in children. Together, these concept brands account for 53.2% of FDP sales. All four show double-digit growth—averaging over 15% in 2006—and are expanding into new countries every year. Activia confirmed its potential with a 48% rise in sales to €1.3 billion in

* like-for-like

(cont. page 21) → → →



1/ Launched in 2003, **Activia Laban** sold in 1-liter cartons (Saudi Arabia, 3 riyals or €0.6).
2/ New in 2006: **Taillefine Mousse aux fruits** (France, €2.10 per 4-pack, 88g servings).
3/ **Blueberry Actimel** (UK, £2.34 for an 8-bottle pack, or €3.45) 4/ 2007 innovation: **Essensis** (France, €2.05 per 4-pack). 5/ 2006 launch by Dannon: **Activia** (USA, \$2.49 per 4-pack, or €1.89). 6/ Turkish version of Danonino: **Danonino** (Turkey, 0.184 new lira per 4-pack, 75g servings; €0.99).

3 billion

or, more precisely, "3 x 1 billion". In 2006, for the first time, two brands—Activia and Actimel—each recorded over €1 billion in sales. FDP operating profit also reach €1 billion.

Infant food—Blédina/ Net sales of Blédina baby food rose 6.6% from €442.2 million in 2005 to €471.5 million. At year-end 2006, the brand accounted for 48.6% of all infant foods sold in large and medium-size supermarkets in France, up 1.9% from 2005. Full-year, Blédina's market share rose 1.4% in 2005 to 47.7%.



1/ Milkuat, enriched with 5 vitamins and calcium (Indonesia, 1,000 rupiahs or around €0.1). 2/ Yogurísimo sold under the La Serenisima brand (Argentina, 1kg bag, 2.39 pesos or €0.48). 3/ Danone Nature (Egypt, 0.97 Egyptian pounds per 120g tub, or €0.13). 4/ White-chocolate flavor Danette (Brazil, 1.89 reals, or €0.68). 5/ Launched in 2004: Danacol (France, €3.49 per 6-pack). 6/ Launched in 2006: Shoktidoi (Bangladesh, 5 takas or around €0.06 per serving).



2006, while Actimel scored the second highest growth with sales up 12% to €1 billion. Vitalinea and Danonino also made good progress, reporting sales of over €900 million and €800 million, respectively.

Leveraging our experience with these four brands, we have developed new products with a marked focus on health benefits backed by a significant research commitment. These efforts paid off in late 2004, when we launched Danacol, a dairy product that helps fight bad cholesterol. Today, Danacol is sold in ten countries, bringing in sales revenues of over €100 million.

In 2006, the Group moved into dermo-nutrition, a new niche in the active health market, as FDP prepared for the launch of Essensis. Fortified with borage oil and other nutrients, plus green tea for its antioxidant effects, this new dairy product helps keep skin cells hydrated. Launched almost simultaneously in Belgium, Spain, Italy and France in early 2007, it has received an enthusiastic response from retailers and is off to a strong start.

STEPPING UP GEOGRAPHICAL EXPANSION

FDP plans to double tonnage sold over the next few years, with acquisitions and new businesses providing much of the momentum. Since early 2006, Danone has established a presence in Ukraine, launched operations in Egypt and signed a joint venture agreement in Colombia. Several acquisitions quickened the pace of FDP's Asian expansion in 2006. A joint venture with Mengniu will

As markets open up in new countries, business is set to double.

help the Group tap the potential of the Chinese market (see below) and in 2007 Danone will launch several flagship products in Thailand under an agreement with Dutch Mill Co. In Japan, Danone recently acquired full control of the joint venture set up several years ago with local companies Calpis and Ajinomoto, clearing the way for the new Danone Japan to begin an investment drive backing the growth of Group brands.

Fresh Dairy Products also plans to expand through a new hub system that will leverage Danone's production tools in large countries, using exports to establish an initial presence on neighboring markets prior to investing in local plants. In the short and medium term, Argentina could, for example, serve as a base for supplying fresh dairy markets in Chile, Uruguay and other Latin American countries.

With this hub strategy and selected acquisitions, the business line plans to move into an average of three to five new countries annually over the next few years. ●

2 million

bottles of Milkuat are sold daily in Indonesia. Sixty percent of Indonesians live on less than \$3 a day (about €2.25) while many are paid daily wages and thus buy only small quantities at a time. Priced at 1,000 rupiahs (€0.10), Milkuat is tailored to local purchasing power and consumer habits, while its formulation—30% protein, and enriched with five vitamins and calcium—is adapted to nutritional needs. In 2006, Milkuat sales rose 70%.

Tackling markets nationwide in China/ In China, 2006 brought a joint venture between DANONE and the country's leading producer of fresh dairy products, Mengniu Dairy Company Limited. While per capita consumption of FDPs remains low, consumers are increasingly health and diet-conscious, which makes for major growth potential. The new company is positioning itself to develop, produce and distribute FDPs nationwide. Mengniu is listed on the Hong Kong Stock Exchange and has sales of €1 billion. A young company, it is expanding 25 to 30% a year and currently operates 20 plants in 15 provinces. DANONE plans to leverage these to build a distribution network covering all of China.

BISCUITS business line enters a new phase of growth

Number two worldwide and number one in 75% of the countries where it does business, DANONE's Biscuits line strengthened its position around the globe with rising sales and consistently high operating margins in 2006.

After two years of consolidation, repositioning, and reshaping its product portfolio, the Biscuits line posted organic growth topping 3% in 2006, up from 1.5% in 2005. Buoyant European sales made a strong contribution, rising 15.5% in Poland, 11.5% in Spain, 10% in the Netherlands and around 5% in both Italy and Greece.

Performance also benefited from a turnaround in France, which accounts for over 40% of sales. LU was the only brand to grow faster than the market, outpacing competitors with rises in both volumes and revenues to bolster its number-one place.

Results were more mixed in Hungary, the Czech Republic and Russia, where the Biscuits line has begun an overhaul of its brand portfolio on the basis of the model that has proved so successful in the rest of Europe. The new portfolio will focus on more premium or added value products, where DANONE's expertise in production,

marketing and research put the Group ahead of competitors.

In Asia, which accounts for nearly 20% of DANONE's total biscuit sales, the Group is solidly positioned as No. 1 or a strong No. 2 in Malaysia as well as in Indonesia, China and India, the continent's three largest markets. Malaysian and Chinese sales were particularly robust, with respective gains of 14% and 10%. Success in China stems partly from the winning affordability strategy pursued over the past few years. This offers nutritionally fortified products at low prices alongside higher-end brands.

SIX BRANDS, 17% OF SALES

The success of our Biscuits business line is largely attributable to the strategy we adopted in 2003, focusing on a few simple principles: optimizing production capacity, improving the nutritional profile of our products and stepping up marketing and advertising efforts to emphasize the high nutritional value of biscuits, especially their high grain content.

Our strategy also targets expansion into new geographical markets such as Algeria, where we are currently building a plant.

Finally, we are working to expand our network of neighborhood outlets, including service stations and vending machines, which offer enormous potential and account for only 4% of sales.

The business line's strong showing in 2006 also reflected good performances from Tuc, Mini-Star, Mikado, Ourson, Petit-Déjeuner and Cracotte, six star brands based on concepts that can be adapted to a variety of international markets. Each has a distinctive feature rooted in DANONE expertise—a special shape, a health benefit, or a production process—that sets it apart from competitors and makes it hard to imitate. These high-power brands have also shown that they can sell successfully in similar versions across a wide range of countries. In 2006, they accounted for 17% of the business line's sales outside Asia and posted average growth of 15%, underscoring their potential. ●

Mikado/ Mikado's strong performance (sales up over 10% in 2006) stems directly from the brand's steady stream of new products—including, in France, a milk-chocolate variety in 2003, caramel chocolate in 2005 and chocolate hazelnut in 2006—combined with successful repositioning as a specialty for young adults. Advertising reflects this focus, with a fresh, irreverent tone underscoring Mikado's appeal for consumers aged 18 to 35. To meet demand in the nine countries where these chocolate-dipped stick biscuits are sold, a new production line was inaugurated at year-end 2006 at the LU plant in Cestas in southwestern France.



1/ New in 2006: **Mini Jaffa** (Finland, 11.70 marks per 100g, or €1.29). 2/ **Mikado** (Italy, €1.32 per 75g pack) 3/ **Sesame TUC** (France, €0.99 per 100g pack). 4/ **Oro Tuffi** (Italy, €1.98 per 240g packet). 5/ Individually wrapped **Ourson** (France, €1.56 per 150 g). 6/ Czech variety of Mini-Star, sold as **Diskito** (Czech Republic, 1.89 koruny or €0.68). 7/ New in 2006: **Twisties** (Malaysia, 1.75 ringgits per 6-pack (10 x 60 g), €0.38). 8/ Raspberry **Craquinette** (France, €1.62 per 200g). 9/ Redesigned for Chinese consumers: **Prince** (China, 8.3 yuan renminbi per 360g pack, €0.80). 10/ Available in family-size package: **Bébé Dobre rano** (Czech Republic, 400g 8-pack for 50.7 koruny or €1.8). 11/ The ever-popular **Véritable Petit Beurre** (France, 200g pack for €0.97).

BEVERAGE line creates momentum for growth

DANONE's Beverage line reported like-for-like growth of 14.8% in 2006, benefiting from firm trends in some regions and leveraging the strength of natural water brands to grow new markets for functional and flavored products.

Beverages made a decisive contribution to the Group's business growth in 2006, with sales rising by some €500 million. Operating margin edged down amid sustained rises in prices for packaging raw materials, but held close to 13% at 12.8%.

All parts of the world contributed to this fine showing, with rapid growth in Europe driven by rises of 10% in both Germany and Spain, 26% for Poland, and Turkey and the UK recording smaller increases. Trouble spots were limited to the French market—and even there the Group's leading brands, Evian and Volvic, gained market share.

As in 2005, Asia and Latin America turned in the strongest performances. Asia, which accounts for 50% of beverage sales—and 60% of production volume—posted a growth rate of around 22% thanks to buoyant markets in China and Indonesia, where sales were up 26% and 18%, respectively, and in Japan.

Following an impressive 30% increase in 2005, Latin America provided continued growth with sales up more than 20% for the region as whole, 26% in Argentina and 20% in Mexico.

In Argentina, two major innovations—V energy drink, inspired by a successful concept from New Zealand, and flavored mineral water under the Villa del Sur brand—pumped up performance in the first half of the year.

In Mexico, the Bonafont natural-water brand further consolidated its lead, taking sales to the billion-liter mark and dominating the home and office delivery (HOD) market.

In both countries, DANONE applied the growth strategy used by the Beverages business line worldwide, capitalizing on the strength, name recognition and credibility of the Group's natural-water brands with functional and flavored products—new market segments where demand is particularly robust.

The Group's natural waters and local mineral waters have positioned

DANONE as a highly credible health brand on these segments, giving our new products a critical advantage over the competition.

NEW COUNTRIES, NEW MARKETS

The Beverages line is also targeting international expansion and opening markets in new countries, as illustrated by a number of tie-ups with leading local companies in 2006.

In Denmark, for example, the Group acquired a 49% stake in the Aqua d'Or bottled water company, and in Algeria DANONE stepped up its local presence, breaking into bottled water with the acquisition of Tessala and bringing the first bottles of Hayet—the Arabic word for "life"—to market in November. Danone Tessala's goal is to develop a family brand that will set the standard for quality but remain affordable for a majority of Algerian consumers, replicating the model DANONE has used successfully in several emerging countries. •



1/ Flavored water sold under Bonafont brand **Levité** (Mexico, 1.5l bottle for 10.5 pesos or around €0.7). 2/ Pioneering design from **Evian** (France, 1 liter for €0.44). 3/ **Aqua** (Indonesia, 2,000 rupiahs for 600ml bottle, or €0.17). 4/ New in 2006; **Ser Vivactiv** (Argentina, 1.89 pesos, or around €0.45). 5/ Rolled out at year-end 2006: **Hayet**—"life" in Arabic (Algeria, 1.5-liter bottle for 25 dinars, or €0.27). 6/ Energy drink **Mizone**, a success in New Zealand, then in China; rolled out in Indonesia in 2006 (Indonesia, 3,000 rupiahs for 500ml, or €0.25).

20%

growth for Bonafont (Mexico) fueled by new product development and communications built around natural spring water. Altogether, beverages account for 28% of Group sales, up 15% on a like-for-like basis. Division sales are nearly €4 billion. Asia is the division's fastest-growing single market, up 25% in 2006.

Asia—focus on functional beverages/ Strong demand in Asia is linked to the Group's strategy of innovating in functional beverages. Example: Indonesia, where Aqua, the region's leading producer of bottled water, launched Mizone in 2006. First developed by Frucor in New Zealand and adapted for the Chinese market in 2004, this energy drink shot to the head of its category in just a few months. Likewise dairy/fruit juice beverage Nutri-Express, where sales hit €200 million a scant year after its launch by Wahaha. Finally, in Japan demand for functional beverages soared 20% following the launch of Alcalyon in tandem with Japan's Kirin.