



THE HEALTH IMPERATIVE

Food and nutrition have become critical public health issues. As the world's fifth largest food group and a leader in healthy food, Groupe DANONE finds itself at the heart of the issue.

Our response makes stringent health standards a principle of corporate governance.

50%

of the world's population—some three billion people—live on less than two euros (\$2.60) a day. According to the World Health Organization (WHO), over two billion suffer from inadequate vitamins or minerals or other dietary deficiencies. A serious situation compounded by the fact that 300 million people around the world suffer from obesity and roughly one billion are overweight.

Public health issues directly or indirectly related to nutrition have captured enormous attention over recent years, with the result that most food companies now factor health into their strategies. This is nothing new for DANONE. Concern for health has shaped the history of our group and our brands, and the DANONE name is synonymous with good health. The same is true of our core product, yogurt: developed from a Nobel laureate's work on the benefits of dairy cultures¹ in foods, it was sold only in pharmacies in the 1920s. Our focus on health is neither opportunistic nor defensive. Health plays a defining role in all our major innovations and in the long-term strategy behind the current scope and makeup of our business. The decision we made in 1996 to sharpen our focus and reduce our business lines from nine to three was a direct consequence of a conscious, pioneering commitment to nutrition and health. Today, that same commitment shapes our day-to-day operations and is built into governance principles that call for unfailing vigilance to prevent any compromise on health. Defined in terms of providing healthy food for as many people as possible, DANONE's mission makes special demands.

To ensure continuing progress towards this ideal and underpin our concrete contribution to public health, we have adopted specific, publicly stated rules to structure governance in relation to nutrition and the continuing dialog with civil society this supposes. These rules define an approach emphasizing self-regulation, close links to society at large and focused research.

PRINCIPLES OF GOVERNANCE FOR HEALTH AND NUTRITION

To meet commitments including, in particular, those set out in our Food, Nutrition and Health Charter (see sidebar opposite), DANONE has adopted specific requirements in this area, providing a clear framework for all our subsidiaries. For each product category, our International Nutrition Guidelines define maximum and minimum content for ingredients and nutrients such as sugars, fats, proteins, vitamins and minerals, in strict compliance with the recommendations of the World Health Organization, FAO² and the European Union's Eurodiet³ program. Similarly, Communications Guidelines for our marketing teams and local advertising agencies define standards for translating scientific data into advertising and presenting our major health brands to the general public, whether in the form of verbal claims

A long tradition in nutrition and health

1789/ Discovery of the benefits of Evian natural spring water by the Marquis de Lessert.

1846/ Creation of LU biscuits, packed with wholesome grains and synonymous with healthy, convenient nutrition.

1906/ Birth of Blédine, the baby food of choice for generations. Blédine's success was to lead to the foundation of Blédina in 1965.

1919/ Creation of the first Danone yogurts by Isaac Carasso in Barcelona.

Made with lactic bacteria from the Pasteur Institute, these were sold in pharmacies.

1964/ Launch of Taillefine fat-free fromage frais.

1987/ Launch of Activia, a fermented dairy product that promotes regularity when eaten daily.

1991/ Founding of the first Danone Institute.

1994/ Launch of Actimel, a fermented dairy product that strengthens the body's natural defenses when eaten daily.

1996/ Strategic refocus on the Group's three core business lines: fresh dairy products; water and beverages; and biscuits and grain products.

1997/ Launch of Taillefine/Vitalinea biscuits.

1999/ Launch of Biskuat biscuits in Indonesia as part of a DANONE affordability initiative

aimed at offering highly nutritious products tailored to the purchasing power and health needs of people in the developing world.

2000/ Launch of Taillefine/Vitalinea beverages and slow energy-release biscuits.

2001/ Acquisition of an interest in Stonyfield Farm, a US maker of 100% organic yogurt.

2004/ Launch of Danacol, a dairy product fortified with plant sterols to help reduce bad cholesterol.



or in visuals or graphics illustrating the effects of our products.

Drawn up by multidisciplinary teams including experts from our Research & Development and Compliance departments, these guidelines set unambiguous standards. In the case of Activia, for example, they allow references to proven benefits for intestinal regularity but prohibit any reference to digestion, purification or elimination of toxins.

PRODUCTIVE TIES TO CIVIL SOCIETY

The second mainstay of DANONE's principles of governance for health and nutrition concerns relationships with the world outside our business. We support—and even initiate—national and international projects that bring business, public institutions and civil society together in constructive dialog, particularly where these projects contribute to consumer education or encourage responsible eating habits. In the same spirit, DANONE has given whole-hearted support to the recently adopted EU regulations requiring a sound scientific basis for all health and nutrition claims—which even in that case will only be allowed if the products concerned also comply with the basic prin-

DANONE R&D is made up of many disciplines: biologists, microbiologists, immunologists, development engineers, sensor analysis specialists and gastroenterologists.

The Charter

A touchstone for DANONE employees worldwide, our Food, Nutrition and Health Charter reflects our willingness to make public commitments. In addition to reaffirming five core values—balance, variety, pleasure, sociability and information—the Charter commits to:

- offering products that combine good nutrition with taste appeal
- cultivating dialog with scientists
- supporting research
- promoting information-sharing with the scientific community, healthcare professionals and the general public
- being attentive to public opinion
- providing consumers with clear, transparent information
- backing product claims with scientific evidence
- practicing responsible advertising
- encouraging physical activity.



Transparent labeling

Over 90% of DANONE products sold in Europe

display nutritional information on their packaging, showing—as a minimum—calories, protein, carbohydrate and fat per 100g (3oz) serving. On July 11, 2006, Groupe DANONE and six other food industry leaders gave the European Union an undertaking to further extend the range of nutritional information provided. Under this new commitment, the front of each package will show calories per portion and as a percentage of daily requirements. The back will present a more detailed nutritional breakdown for each portion, specifying values for protein, fat (including saturated fat), carbohydrates (including sugars), fiber and sodium, both in grams and as a percentage of recommended daily intake. This is in keeping with our goal of transparency—to educate consumers and give them the information they need to make informed purchases.



The Daniel Carasso Centre houses the "Atelier", a consumer space opened in 2006. It is designed to involve consumers in product and packaging development processes. The Atelier is also a source of new ideas serving all three business lines.

not lead to excess. This is the point of view of nutritionists generally, and DANONE will continue to count such products in its lineup. The important thing is to ensure that relevant information is clearly presented, giving consumers the facts they need to make their own choices.

FOUR KEY RESEARCH PRIORITIES

Clearly, none of our commitments could be met without the support of the credible advanced scientific expertise that plays a central role in the various stages in the business process. DANONE's R&D teams are thus the most important—or at least the most demanding—contributors to health and nutrition governance within our group, ensuring a sound scientific basis for the quality of our products and the benefits they provide. DANONE R&D counts over 900 people from more than 20 different countries around the world. Among them are some 700 researchers with advanced know-how in fields that include biology, microbiology, molecular biology, gastroenterology, nutrition and food safety. These researchers pool their expertise to focus on four key priorities: active health, or a product's demonstrable bene-

fits on human health; nutrition and the continuing drive to improve the nutritional quality of our products; affordability, through the use of new techniques and ingredients to put products within reach for as many people as possible, even in developing countries; and, finally, the sheer pleasure of food, which remains essential—no matter how healthy the product, if it has no taste appeal it will simply go uneaten, and its benefits will be lost.

In line with these priorities, our first concerns are health and nutrition, which together account for four out of five projects. Most partnerships with science institutes outside the business also focus on the same themes.

OVER 200 RESEARCH PARTNERSHIPS

Partnerships with science institutes in the public and private sector make a key contribution to DANONE's R&D strategy, reflecting our awareness of the complexities of progress in health and nutrition, which calls on advanced expertise in a wide range of highly specialized fields. To gain access to these essential resources, we forge many diffe-

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AGNÈS MARTIN, Director of Nutrition and International Coordination at the Danone Institutes

Danone Institutes: championing the cause of nutrition



Agnès Martin reviews the missions and operations of the independent non-profit Danone Institutes.

What is the role of the institutes?

The 16 Danone Institutes around the world have three goals: promoting research to increase nutrition knowledge, keeping healthcare and education professionals informed, and raising public awareness of important food issues. In short, they enhance, update and disseminate scientific knowledge of nutrition. Each institute sets up programs addressing local issues, organizes workshops and symposia, and develops and disseminates publications on nutrition themes. DANONE set up the Institutes in 1991, continuing and reinforcing a close, long-term involvement in health issues. They also illustrate our commitment to making a contribution to community life that goes well beyond making food products. Altogether, Danone

Institutes now count more than 220 recognized nutrition experts, who work in public organizations, hospitals, universities and research centers.

How do the Danone Institutes work?

Every institute has a six- to 25-member Scientific Council that defines programs and communications priorities. Strategic and financial decisions are made by a Board of five to eight scientists and DANONE representatives, who also serve as the institute's contacts with the press and other organizations. I should also stress the importance of ethics for the institutes. And of course their programs have no commercial content of any kind.

What sort of projects are the institutes involved in?

In 2006, for example, Italy's Danone Institute began providing doctors with training in pediatric nutrition—and that's in addition to the annual nutrition programs for pediatricians that the Institute has offered since 1998. In Germany, the Danone Institute has just released a series of television commercials on child nutrition. And since 2004 the Institute in France has run a program encouraging French healthcare professionals to track children's weight so that obesity risks can be detected as early as possible. On the research front, the Institutes sponsor a wide variety of projects on food, nutrition and child development in different parts of the world. Since their creation in 1991, Danone Institutes have sponsored over 700 research program worldwide. The Institutes have also organized more than 135 conferences, brought out 75 publications, and set up 72 public education programs.

For more information/ Each Institute has its own website, providing a wealth of information in the language of the host country for professionals and laypeople alike. Visitors to these sites can find answers on local health and nutrition issues, subscribe to e-newsletters, and download books, newsletters, educational kits and other documentation. Links to all of the sites can be found at www.danoneinstitute.org

Danone Nutrition Prize

Since 1998 the Danone Institute has awarded its Danone International Prize for Nutrition. Every two years it rewards a researcher or research team whose work in the field of nutrition has made a major contribution to improving public health.

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Danone Institutes worldwide

Germany, Belgium, Canada, China, Spain, the United States, France, Israel, Italy, Japan, Mexico, Poland, the Czech Republic, Russia, Turkey, and the International Institute.

Activia takes the American market by storm



The New York Times, December 28, 2005. A front page article spotlights the benefits of Activia.

Danone's association with probiotics goes back nearly 90 years, to our first yogurt product. Spurred by health concerns and numerous scientific discoveries, the probiotic segment is now among the most dynamic in the market for fresh dairy products. Activia is a perfect example of this trend. Daily consumption of Activia yogurt, made with the probiotic bacterial strain Bifidus Essensis, helps restore regularity in just two weeks. Its scientifically proven benefits are now winning favor around the globe. Americans—who consume only 6kg (13 pounds) of dairy products annually, compared with nearly 33kg (73 pounds) for the French—first discovered Activia in 2006. In a country where a healthy diet is often equated with supplement pills and 70 million people suffer from irregularity, Dannon US faced the challenge of making the public aware of the then little-known benefits of probiotics and the science behind them. Despite these handicaps, the new concept was a resounding success with distributors and consumers alike. With sales reaching \$130 million in just one year, Activia has gone down as one of the most spectacular product launches in US history.

FIGURES SPEAK FOR THEMSELVES

This formula has proved equally successful in other countries. Mexicans bought nearly 80,000 metric tons (90,000 tons) of Activia in 2006, and the product also did well in Brazil and China. In Russia, 2006 saw the launch of affordably-priced Activia Kefir, a traditional cheese-flavored fermented milk drink. After posting annual sales growth of 25% in 2001-2003 and 36% in 2004-2005, Activia reached worldwide sales of €1.3 billion in 2006—a success built on universal appeal and health positioning backed by clearly presented scientific evidence.



12 million children from around the world have participated in the Danone Nations Cup since 1999. Promoted by French soccer legend Zinedine Zidane and organized by DANONE, this World Cup soccer tournament for kids brings home the benefits of exercise for young people. Other events are held locally throughout the world.



rent partnerships each year, creating ties to the world's leading specialists. These partnerships focus primarily on the special demands of basic research, an area where we rely entirely on outside resources, but they also cover some applied research projects as well as in vitro and vivo tests. All clinical trials are outsourced.

DANONE currently has over 200 agreements for scientific cooperation in different parts of the world. In the area of probiotics⁴, we have formed a four-year partnership with the Pasteur Institute to study how these strains act on the human body. DANONE is also working with the University of Washington on a project exploring the role of intestinal flora in health. Finally, DANONE research teams are also involved in a number of international projects under the aegis of the European Union. These include Eurostarch, a study on digestion of different types of starch and their

80%

of DANONE research projects focus directly on health and nutrition. Fifty percent of the research budget is devoted to probiotics. In 2006 the R&D budget stood at €140 million or 1% of Group sales — a rise of 8% over the previous year.

600

products are currently undergoing renovation to upgrade their nutritional profile. LU France, for example, has in the last six years reduced the saturated fat content of its biscuits by 14% and their sugar levels by 9%, while increasing their cereal content by 15%.

Biochemical array test for the characterization of strains.

Each well contains a particular strain in a specific culture medium. The color change of the culture medium indicates a biochemical modification which enables the identification of each particular strain.



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health and nutrition professionals throughout the world help ensure that subsidiaries communicate nutritional and health claims reliably, while providing scientific validation through close work with the scientific community.

Affordability/ The healthiest foods are often the most expensive—and yet the people who need them most are generally the poorest. Over the last few years DANONE has worked to resolve this contradiction with affordability initiatives focused on developing countries. Our goal is to offer highly nutritious, affordably priced products that can be sold by the unit or serving and be distributed in all local outlets. Our first experiment, calcium- and vitamin-fortified Biskuat biscuits, began selling in Indonesia in 1999 for only 1,000 rupiah (10 eurocents). Using the same model, we launched our Milkuat dairy drink in 2004, also in Indonesia. Since then, the Indonesian model has spread to China, South Africa, Morocco, and in 2006 to Bangladesh.

play a central role in this (see page 41). With the dramatic rise in obesity, our subsidiaries are also encouraged to participate in local programs promoting good eating habits and active lifestyles. Initiatives include Dannon's Next Generation program, launched last year, which offers financial support for US associations involved in nutrition programs for children. A recent initiative in Bulgaria features a play with children helping the main character discover the basics of a healthy balanced diet, the importance of fruit and vegetables, and the benefits of exercise.

All these initiatives are not just a feel-good exercise. They result from our continuing effort to make health an integral part of the daily life of our business. It is on this basis

that we have patiently built trust with consumers and credibility with scientific and regulatory institutions. It is up to us to continue earning that trust and credibility every day, ensuring that our principles of health and nutrition governance have true meaning and substance.

1. Cultures are live microorganisms such as bacteria or yeast.
2. FAO: the Food and Agriculture Organization of the United Nations.
3. Euronut is a European Commission project involving some 100 European experts. Its purpose is to develop a European program promoting health through nutrition.
4. Probiotics—the term literally means “for life”—are cultures that provide health benefits when ingested in sufficient quantities.

Poverty, nutrition and health



In 2006 DANONE and Grameen Bank, the world's leading micro-credit lender, pooled their expertise to create Shoktidoi, a yogurt developed specifically to meet the nutritional needs of Bangladeshi children.

THE CHALLENGE

Bangladesh is one of the poorest countries in the world. Some 56% of Bangladeshi children under five suffer from moderate to serious malnutrition; of those, 21% are significantly underweight. The core problem of malnutrition leads to deficiencies in iron, vitamin A, and a variety of other nutrients. Grameen Danone Foods, created in March 2006 as a joint venture between Grameen and DANONE, has the twofold mission of providing healthy food to disadvantaged Bangladeshi with nutritional deficiencies, and helping to reduce poverty by implementing a business model based on close ties to the local community.

THE STRATEGY

In late 2006 Grameen Danone Foods took its first step, launching Shoktidoi yogurt at the very affordable price of 5 BDT (around 6 eurocents). For Grameen Danone, the goal is to help the poorest children in Bangladesh grow up healthy and strong by providing a wholesome, nutritious product they can eat every day. In keeping with this goal,

Shoktidoi was formulated specifically for the nutritional deficiencies of children living in the region where the first Grameen Danone plant is located. Shoktidoi was developed in partnership with the Global Alliance for Improved Nutrition (GAIN*), which is also helping Grameen Danone Foods develop a nutrition campaign.

THE SOLUTION

Shoktidoi—Bengali for “yogurt that makes you strong”—is made from locally produced cow's milk and date molasses and is a natural source of the calcium and protein children need for strong bones and healthy growth. Shoktidoi's live cultures also reduce the severity and duration of diarrhea. One 80g (3oz.) cup meets 30% of a child's daily requirement of vitamin A (for good vision and a strong immune system), iron (to prevent anemia), zinc (to encourage normal weight gain and protect the immune system) and iodine (for healthy growth and brain development). In early 2007, GAIN launched an efficacy study designed to measure the benefits of regular Shoktidoi consumption.

* A non-governmental organization dedicated to improving nutrition in populations at risk.

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million people live in Bangladesh. Though data show income rising sharply and food quality improving even for the very poor, nearly half of all Bangladeshis live below the poverty line. Bangladesh remains one of the poorest countries on the planet.

30%

of a child's daily requirement for vitamin A, iron, zinc and iodine is met by one serving of Shoktidoi yogurt—no small feat in itself, since each serving is only 80g (3 oz.). Affordably priced at only 6 eurocents, Shoktidoi is accessible to the great majority of Bangladeshis.

Health and products



A fresh look at biscuits

For several years Group R&D has been working to reduce sugar content and use healthier fats in DANONE biscuits. Whole grains are now an equal priority.

THE GOODNESS OF GRAIN

Whole grains contain complex carbohydrates and provide more fiber, vitamins and minerals than refined grains. A vital part of a balanced diet, they favor regularity, help manage appetite, and contribute to daily fiber and micronutrient requirements. In 2006, top international experts reaffirmed the health benefits



Beverages: less sugar, more pleasure

The trend to lower sugar content reflects a central nutritional concern in Europe. Volvic, the top seller of flavored waters in France with a 33.7% market share, has responded to this concern with innovation and transparency, launching Volvic Sans Sucre with its low sugar content and less pronounced sweet taste—the first step, especially for youngsters,

sugar substitutes, the new product line comes in strawberry, tropical fruit and red fruit flavors. Like Volvic Gourmande and Volvic Zest, those used to sweetened drinks can enjoy sugar-free Volvic Sans Sucre with its low sugar content and less pronounced sweet taste—the first step, especially for youngsters,

towards kicking the sugar habit. In the interest of transparency, a sugar scale on each bottle rates the sugar content of Volvic beverages relative to water and sweet beverages such as sodas and fruit juices. This information allows consumers to make informed, responsible choices among sweetened, low-sugar

and unsweetened beverages. Our research to reduce the sugar content and sweetness of our beverages is only one part of DANONE's broad commitment to offering the best possible products, reducing fat and sugar and increasing fiber, vitamins.



Eating the right foods at the right age

In September 2006, Blédina launched a new line specifically for children 18 months to three years old. These groundbreaking products offer toddlers a balanced diet and introduce them to a wide variety of foods in portions the right size for their age.

INNOVATION BUILT ON SCIENCE

In France an estimated 84% of food eaten by French toddlers aged between 18 months and three years old is not produced to meet their specific needs. Jacques Ghisolfi, an academic and member of the French Pediatric Society's Nutrition Committee, underscores the concrete implications of this statistic: "Children under three aren't just miniature adults: their bodies are literally

under construction. As a result, they have special dietary needs—and their parents have a special responsibility to meet these." Between the ages of 18 and 36 months, height increases 20%, weight goes up 40%, and the brain gains an ounce every two weeks. This means that, in proportion to their weight, young children need six times more essential fatty acids and three to five times more iron than adults.

MEETING CHILDREN'S NEEDS

Blédina has responded to these needs with Petits Grands, a balanced line of tasty foods that promote psychosensory and psychomotor development in children 18 months to three years old. In stores since September 2006,



The right nutrients for the right country

The nutritional content of Danonino, DANONE's leading children's brand, has been varied to match specific needs in 14 different countries. In Brazil, where anemia and undernutrition coexist with obesity, Danonino is fortified with calcium, iron, vitamins A and D, and zinc to meet the requirements of local children. In Mexico, the product is fortified with iron; in Japan, with vitamins A and D; in Spain, with calcium; and in France, where Danonino is sold as Petit Gervais aux fruits, with vitamin D. Though the nutrients vary, the goal is always the same: to help children grow up strong and healthy.

Health and science

Benevolent bacteria



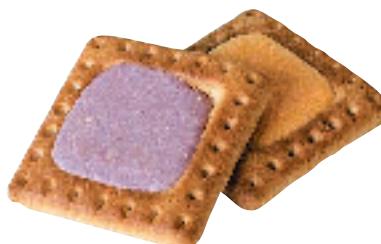
DANONE has been studying probiotic bacteria—bacterial strains with health benefits—for over 20 years. Our research into these microorganisms has enabled us to identify their relationships with their hosts and to understand how they take their place in the body, how they grow, and how they work. The human digestive tract contains some 100 billion bacteria per gram of content. These bacteria help the body digest

food and keep the digestive system balanced and healthy. Microorganisms such as yeasts and molds also play an active role in the fermentation process used to preserve foods and to improve their flavor and nutritional properties.

NATURAL PROCESSES
Science has for centuries been interested in the processes involved in alcoholic fermentation—the conversion of sugar

into alcohol—along with the yeast fermentation used to make bread, the fermentation of pickles, chocolate and cheeses, and finally milk fermentation, which relies on lactic bacteria to produce cultured milk and yogurt. DANONE Research selects lactic bacteria with the right technical, organoleptic and probiotic properties for use as cultures in our fresh dairy lines, developing products based on specific probiotic properties. The two most striking examples of these probiotic products have been a worldwide success—Activia, which contains the DN 173-010 strain of the Bifidus family to promote regularity, and Actimel, formulated with the DN 114-001 strain of *Lactobacillus casei* to help strengthen the body's natural defense system.

INNOVATION FOR HEALTH
In this way, DANONE develops new products using 100% natural dairy cultures. Working in partnership with internationally recognized scientific institutes (see p. 48), our research teams focus on immune function, digestive well-being, and the interaction of probiotics with resident intestinal flora and the body as a whole. We are also studying the possibility of producing active molecules—vitamins, for example—that benefit human health.



What about biscuits ? In a move to offer consumers biscuits made with real yogurt—and with the taste and goodness of yogurt—DANONE R&D developed a patented process for making biscuits with living ferments. The biscuits keep from six to nine months at room temperature. They are marketed under the brand name Liga in the Netherlands.



Probiotic Conference: Moving science forward

The knowledge shared among scientists provides the essential base for consensual progress, a fact well illustrated by the fourth annual Probiotic Conference. In early 2006, 160 experts from 30 countries gathered in Paris to review the latest advances in probiotic science and assess their practical applications. Each year, this event has attracted greater interest and more participants. Reflecting the quality and authority of contributions, proceedings have been published in a number of scientific journals, among them *The American Journal of Clinical Nutrition* in 2002, *Current Nutrition and Food Science* in 2003, and the *European Journal of Nutrition* in 2004 and 2005.

NICOLAS GAUSSERES, Director of Health and Nutrition Research

“Every health claim must be backed by clinical studies.”



“Clinical studies provide scientific evidence of our products' benefits, and Danone has always seen them as critical. And with the advent of new European regulations on health claims, the strategic

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patents were filed
by DANONE in 2006,
of which 20 were for
Fresh Dairy Products.

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clinical studies
were launched in 2006,
eight related to Actimel
and four to Activia.
In five years the clinical
studies budget has grown
fifteen-fold.