



20%

Sales of **FRESH DAIRY PRODUCTS** posted a record rise of 12.2%, buoyed by the performance of four star brands—Activia, Actimel, Danonino/Petit Gervais and Vitalinea/Taillefine—which reported growth of nearly 20%, and the geographic expansion on several continents.

20 bns

WATERS sales for 2007 totaled some 20 billion liters, setting growth for the line at 4%. This reflects resilience to unfavorable weather in Western Europe and a highly focused growth strategy geared around natural waters and their contribution to health.



17%

The new **BABY NUTRITION** line has global reach and promises especially robust growth, spurred by innovation and internationally applied best practices. Baby Nutrition sales are expected to account for 17% of Danone's business in 2008.

Number 1

The **MEDICAL NUTRITION** line is number one in 19 countries, primarily in Europe and Asia. Sales reached €800 million in 2007, with 35% from Special Needs Nutrition including food supplements to fight malnutrition, and 65% from Targeted Nutrition products designed to help patients.



Percentages for Fresh Dairy Products and Waters are expressed at constant scope of consolidation and exchange rates. Percentages for Baby Nutrition and Medical Nutrition reflect pro forma accounts.

BUSINESS

In 2007, Danone turned in another year of firm growth in sales and operating income—a performance all the more impressive in view of challenging economic conditions marked by rising commodity prices and adverse summer weather in Western Europe. Scientifically proven health positioning for leading brands and geographic expansion were key contributing factors.

Das neue  Joghurt mit dem  an Nährstoffen für die Frau.



Das PLUS für mich.

- + Folsäure für Konzentrationsfähigkeit, Zellteilung und Zellneubildung, beteiligt am Proteinstoffwechsel
- + Vitamin B5 (Pantothensäure) für Lipidstoffwechsel, Abbau von Kohlenhydraten
- + Vitamin B12 für die Blutbildung, Abbau einzelner Fettsäuren
- + Vitamin D für Knochendichte, Calciumaufnahme im Knochen, Muskelaufbau



FDP

SCIENCE FOR PROGRESS

Fresh Dairy Products (FDP) had a record year in 2007, reporting 12.2% growth at constant structure and exchange rates. Sales came to €8.8 billion* — over half of the Group total.

4 brands

Blockbuster products under four brands—**Activia, Actimel, Vitalinea/Taillefine and Danonino/Petit Gervais**—account for over €4.5 billion in sales. Activia alone represents nearly €2 billion of this figure.

A

strong 12.2% rise in Fresh Dairy Products sales in 2007 once again reaffirms this line's ability to innovate and win new territory for its leading brands. With operating margin up from 13.7 to 14%, the business was also more profitable, despite a steep rise in raw material costs. Milk prices saw a record increase, generating €300 million in additional costs, while spiraling oil prices made transport and packaging more expensive. These increases forced Danone to raise prices an average 5.5% for the year, though actual increases varied by country. Yet higher prices were well tolerated overall, with volume growth keeping pace with last year to reach 5 million metric tons.

Growth by region

Sales in Europe rose nearly 10%, buoyed by robust trends in Spain—the FDP sales leader—and strong showings in Italy and Greece. There were also impressive gains in Northern Europe, with 22% growth in the Netherlands and 20% in Scandinavia. Eastern Europe confirmed its potential with an overall increase of nearly 23%. In North America, volumes in Canada were up a vigorous 19%, while US growth of nearly 10% in the first half of 2007 jumped to almost 20% in the second, spurred by the success of Activia and DanActive. Launched in 2006 and 2007, respectively, these high performers have underscored the power of brands with strong health positioning. Sales were also up 10% for US-based Stonyfield, which leads the North American market for organic dairy products and is the largest producer of organic yogurt in the world. Growth in Latin America averaged 17% overall, with remarkable performances in several individual countries. Sales were up 23% in Argentina, 19% in Brazil and 12% in Mexico, a trio that now accounts for nearly 14% of FDP's total business. The Group also made impressive gains in Africa and the Middle East, with 35% growth in South Africa, 18% in Algeria, and 11% in Saudi Arabia. In Asia, 2007 brought 18% growth in Japan, where the Group took full control of its FDP business after buying out its original partners, Calpis and Ajinomoto. In China, experience acquired through partnerships plus gains in brand awareness led Danone to maintain its growth strategy. In late 2007, the Group launched several new initiatives designed to further its continuing goal of expanding market share for Danone brands in China.

Health benefits drive growth

With 2007 sales of nearly €2 billion, Activia—a fermented dairy product that, when eaten daily, helps promote

transit regularity within two weeks—reaffirmed its status as a powerful growth engine, while Danacol, another star health performer in 2007, chalked up growth of 35%. A market leader for ultra-fresh cholesterol-lowering products, Danacol saw sales rise by around 35%, as deployment continued in Russia and Poland. Now sold in more than ten countries, it commands over 60% market share in each. Essensis, a new dairy product that improves skin barrier function by nourishing skin from the inside, was launched successfully on the French, Italian, Spanish and Belgian markets in 2007. Actimel, which helps strengthen the body's natural defenses, topped €1 billion in sales on continued strong growth of 13%, and sales were up 7% for Danonino/Petit Gervais, a children's yogurt fortified with bone-building calcium and vitamin D. Danone's strategy of continually improving the health benefits of products through sizeable R&D investments and backing claims with solid science has set its products apart, establishing a sound foundation for growth. The same products are differentiated through improved taste appeal and the Group's combined marketing and manufacturing prowess. In the indulgence segment, Danette topped €500 million in sales, confirming its potential in emerging countries.

Ever broader horizons

Although Danone expands into three to five new countries each year, 2007 set a record, with FDP moving into Chile, Colombia, Egypt, Thailand and Indonesia, and beginning to sell products in Kazakhstan. Danone has grown steadily on emerging markets, taking the leader's spot in only a few years. Early results in Thailand are promising, and in Indonesia the Group inaugurated a new plant that will give Indonesians access to Activia in addition to Milkuat, a long-life dairy product. Bangladesh-based Grameen Danone Foods, Ltd. (see page 54) is also gearing up for expansion, with a new plant set to distribute Shoktidoi yogurt in the Dhaka area. And in the Indian market, where Danone has formed a joint venture with Japan's Yakult Group, the partners launched their first products under the Yakult brand in late 2007.

8.8

billion euros—sales* recorded by the Fresh Dairy Product business line in 2007 versus €7.9 billion in 2006.

* Blédina is included in 2007 sales.

Bringing fresh dairy products to Indonesia



With the construction of a new plant near Jakarta in 2007, Danone is stepping up its presence in Indonesia, expanding its activity to include fresh dairy products. Based on nutritional studies of Indonesians, Danone chose Activia as its first locally made product. And since dairy products were still relatively new in Indonesia, the priorities established were to set an affordable price of between 20 and 28 eurocents per portion and develop a milk supply network consistent with the Group's quality standards. Here Danone has worked with local banks, setting up a microcredit system to help small farmers buy cattle. Groupe Danone is the first international group in Indonesia to launch local production of yogurt and hopes to become market leader.



DANACOL: A STAR IS BORN

Danacol continues to grow, with 2007 sales of €135 million and market share topping 60% in the ten-plus countries where it is sold. Behind its success: solid scientific backing for its health benefits, increased taste appeal and an expanded product range.

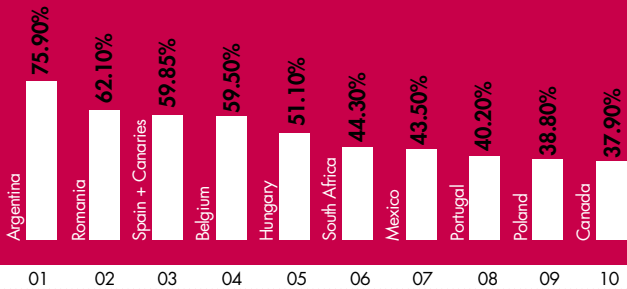
FOCUS ON DISTRIBUTION IN THE COMMUNITY

Small neighborhood outlets accounted for 35% of Fresh Dairy Products growth in 2007, primarily in Latin America and Eastern Europe. To keep dairy products fresh and available in as many shops as possible, Danone installs refrigerators and stocks them several times a week. Combining sales and logistics, this strategy gives our brand a crucial competitive edge in countries where the traditional neighborhood store dominates the market. In 2007, Danone installed 15,000 refrigerators in 12 countries, bringing the total number to 120,000 in 20 countries.



MARKET SHARE: THE TOP TEN FDP around the world

Growth in sales of FDP products has led to an increasingly balanced spread across geographic regions. The graph at right shows the ten countries with highest market share by value for 2007. Argentina tops the list with nearly 76%, followed by Romania.



Danone goes Russian

Ten years after entering the Russian market, our Fresh Dairy Products line generated 2007 sales of over €500 million, and Danone Russia is one of the biggest contributors to FDP sales in absolute value. Growth is powered by four blockbusters (see page 74) that together account for more than 75% of its performance, reflecting Danone's ability to adapt to local culture and respond to the taste and eating habits of Russian consumers. Thus Rastishka, the Russian version of Danonino, is fortified with calcium, iron and vitamin D to fight dietary deficiencies affecting one of every two children. Activia is another example of successfully going local. Launched in 2005, Activia Kefir—a traditional Russian beverage made from fermenting milk with kefir grains—now accounts for 20% of sales in the Activia range, and 2007 saw the debut of low-fat Activia Kefir. The product is sold in single servings to accommodate local consumption habits. In yet another example of Russian style, Danone has adapted the recipe for Actimel to include a version flavored with pomegranate, a fruit traditionally credited with strengthening the immune system. The strategy has paid off: between 2005 and 2007, Danone Russia sales jumped 62%.



Active growth for Activia

In 2007 Activia's sales neared the €2 billion mark at €1,877 million, fueled by annual growth averaging over 40% since 2000. The brand is also expanding steadily into new territory, moving into Greece, Switzerland, Thailand and Chile in 2007. Geographic targets for 2008 include Colombia and Egypt.

TURKEY SCORES WITH DANONE NATIONS CUP

Each year over 100,000 children—and many of their parents—flock to soccer fields in 81 Turkish provinces for the Danone Nations Cup (DNC) from September to May. Known in Turkey as “the Danone,” this international soccer championship for 10- to 12-year-olds is now a national fixture. The Ministry of Education is actively involved, and the number of participating schools has risen from 200 to 8,000 in eight years. At the 2007 DNC, some 115,000 youngsters found an outlet for their talents and shared a unique experience with fellow players throughout the country. Although the program is essentially community-oriented, it is central to Danone Turkey's strategy and has a real economic impact. “The DNC generates extensive media coverage,” says Serpil Timuray, General Manager of Danone Turkey. “There were over 300 articles in the press and 23 television

reports for the 2007 championship alone, and we've seen a marked improvement in our brand image. There's a ten-point gap in preference for Danone between people who are familiar with the DNC and those who aren't.” Turkey is one of 40 countries participating in the Danone Nations Cup, which has engaged over 15 million children and touched nearly 200 million lives worldwide since it was founded in 2000. The national tournaments culminate in the world finals, where over 800 youngsters compete annually in the company of French soccer star Zinedine Zidane, the DNC's international ambassador since 2003. Now the gold standard for youth soccer, the championship is grounded in four core values: openness, accessibility, fair play and sheer enjoyment



of the game. The bottom line? The DNC significantly enhances the Danone brand's international image, creating a genuine sense of community with the family audience attending the event.



BLOCKBUSTERS: A BREED APART

In 2007 Danone reaffirmed its strategy of differentiating its four blockbuster products: **Activia, Actimel, Danonino** (sold in France as **Petit Gervais**) and **Vitalinea** (also known as **Taillefine**). This differentiation strategy relies on establishing and promoting a unique positioning for each product, based on its nutritional value and health benefits. To ensure that health claims are well founded, Danone invests heavily in R&D and clinical studies, devoting €25 million to studies in 2007 alone (see page 32). It also differentiates products through innovative packaging and use of exclusive cultures and other ingredients. Examples include the success of new **Activia Cheese**—launched worldwide but tailored to local markets—and new market segments opened up by **Activia Drink**.

Asia—three models

One goal for Danone's Fresh Dairy Products line is to make products affordable for every consumer, in every country. To do so, it has developed three business models that adapt to local conditions everywhere—from mature to emerging markets. Asia offers a good example of deployment, since all three approaches have been applied in the region.

The first model is intended for mature countries like Japan. Here Danone regularly launches innovative new versions of its flagship products, introducing new flavors and formats and improving nutritional value—by reducing sugar in Actimel and Danonino, for example, or increasing Activia's bifidus content. The Group is also careful to make these products more competitive by holding price increases below inflation to make brands more and more affordable. Over the past 15 years, its prices have risen less than 15 base points.

The remaining two approaches are designed for emerging markets. The same blockbuster products are also sold in China, Thailand, and Indonesia, but by using local raw materials and the right packaging, they are priced so that consumers can



afford to enjoy them regularly. The third model is applied in poorer countries like Bangladesh. Under this approach, populations with incomes below €1 a day can regularly enjoy products with significant health benefits, and poverty is reduced at the same time. Shoktidoi yogurt, affordably priced at 5 BDT or around 6 eurocents, is sold door to door by 300 Grameen Ladies (see page 54). And the model has proved just how effective it is: 10,000 units were sold every day in 2007.

2008 HOLDS PROMISE

In 2008, Danone's Fresh Dairy Products line is aiming to accelerate growth. How? By leveraging its well-balanced presence on markets around the world, and by taking advantage of certain markets, now mature, that are growing at an annual rate of 20%. Growth drivers will include continued deployment of Danacol worldwide, accelerating sales of Activia and DanActive in the United States, and expanding business in Indonesia, Colombia and China, where the outlook for Activia is excellent.

MARKET OUTLOOK

Rising demand

In recent years demand for Fresh Dairy Products market has grown steadily around the globe. Danone is the world's number one maker of Fresh Dairy Products, with total market share of around 22% worldwide and weighted average market share of 32% in the countries where it does business.



SALES GROWTH

Strong momentum

The Fresh Dairy Products line posted sales of €8.8 billion—representing some 5 million metric tons—in 2007, with 67% of the total in Europe and the remaining 33% in the rest of the world. A steady stream of product launches and overhauls have fueled the line's success.

* All figures in millions of euros.



WATER POWERED BY NATURE

In 2007, **Danone refocused on natural waters**, using products with high added value to develop new markets. The Waters line's growth strategy is increasingly based on emphasizing the health benefits of leading water brands from Danone's own springs.

The year 2007 was a good one for the Waters business line, with 4% growth at constant structure and exchange rates, and 6% growth outside Asia. It was a commendable performance given the especially cool summer weather in Western Europe and a complex relationship with Wahaha in China. The Waters business line's sales totaled €3.5 billion, while the trading operating margin rose from 12.5% to 13.6% for the year.

Growth by region

In North and South America, Waters posted overall gains of 21.4%, with a rise of nearly 40% in Argentina. In

Mexico, Bonafont sales were up 18%, due largely to its success in the home and office delivery (HOD) market. In Europe, poor summer conditions in France, the United Kingdom, Germany and Belgium pushed sales down 2%. By contrast, Poland posted a steep 16% rise, as did Turkey, with sales up 14% against a backdrop of more favorable weather. Outside Europe and Japan, export sales were up 12%, driven primarily by Evian. In Japan, export sales grew a record 32%, buoyed by natural Volvic and Evian waters and by the launch of Volvic Fruit Kiss. In China, 2007 saw a disagreement with Wahaha over the management of jointly owned companies, and negotiations for a long-term solution began in the second half of the year. At the same time, Danone Health Drink took over the number one spot in the Chinese spring water market, with growth accelerating to 19% in the Shenzhen region, its core market. In Indonesia, Aqua consolidated its position as the world's largest

producer of packaged water by volume, a performance matched by substantial investment.

Focus on waters

The Waters line has grown its business by leveraging the health benefits of water, using a differentiation strategy that positions each product based on water's four primary effects on the human body:

- elimination of toxins, a particularly important concept for Bonafont in Mexico, Font Vella in Spain and Villa del Sur in Argentina
- renewal: the human body is 79% water, which must be renewed every six weeks. This positioning relies on the association of our brands with springs that evoke ideal qualities, "mythical places" such as Evian in France, Lanjarón in Spain and Villavicencio in Argentina
- deep hydration and beneficial minerals, with Volvic in France, Zywiec in Poland and Hayat in Turkey, and
- weight management with Taillefine/ Vitalinea.

Refocusing on natural waters has strengthened the Group's positioning and increased market share in almost every country where the Waters line does business. At the same time, a new strategy—DNH for "drinkable, natural, hydrating"—has led to the launch of flavored waters with significant added value.

Sold under major brand names, these include Volvic Fruits in France (a new-generation water including 15% fruit juice); Villa del Sur Levité in Argentina; and Volvic Fruit Kiss in Japan (see opposite). Early results are positive, with flavored waters taking much of the credit for Waters' very strong growth in Japan last year. Following its launch in 2006, Argentina's Villa del Sur Levité flavored water was successfully renovated in 2007, joining with newly launched SER Sport to give Danone's Argentine Waters business a fresh boost.

Distribution a driver for growth

Also fueling growth are new Aqua Drink in-store sales areas in France, Argentina and the United Kingdom. With a dual emphasis on pleasure and health, these are introducing consumers to a new generation of products based on natural water. Another Danone priority is to continue building local distribution networks, stepping up the presence and visibility of the Group's brands in everyday life by creating more points of sale in each country, often in small neighborhood outlets. This strategy, which the Group has been implementing independently and in partnership with exclusive distributors, has already been deployed in Poland, the United Kingdom, Mexico and Argentina. ■



VILLA DEL SUR LEVITÉ TAKES OFF

Relaunched in Argentina in 2006, Villa del Sur Levité flavored water had another successful year in 2007. The brand is sold in three flavors—orange, grapefruit and apple—and sales grew 62% in a single year, adding more than four points to Villa del Sur's share of the total market for bottled waters (by value).

1 for 10 means water for everyone

Since 2006, Volvic has worked with UNICEF on an ambitious program to improve access to safe drinking water in developing countries.

Worldwide statistics confirm that diarrhea from contaminated water is one of the major killers of children under five. From its beginnings in Niger, the "Drink 1, Give 10" campaign has helped dig and maintain wells that give local populations reliable access to 40 liters of safe drinking water per person per day—twice the absolute minimum established by the World Health Organization.

Originally launched in Germany and France, the program was expanded to Japan, Indonesia, Mexico, the United States, and other countries in 2007. In mature markets, proceeds are donated to UNICEF programs in African countries such as Niger, Ethiopia and Mali, while proceeds in emerging countries are used to finance local programs. In Mexico, Bonafont has partnered with a local NGO, concentrating on rural areas like Chiapas province, where 32% of the population lacks access to safe water. With backing from both Volvic and UNICEF, the program has rallied massive support from employees.



Volvic takes Japan by storm

First launched in Japan in May 2007 Volvic's flavored water Fruit Kiss Lemon helped boost the brand's market share in that country from 17% to 21%. It was one of the line's greatest achievements for the year in the fiercely competitive Japanese market. With full-year sales totaling almost 3 million liters, Fruit Kiss outperformed projections for both distribution and rotation.



79% of the human body is water. An adult of average height, living in a temperate climate and without significant physical effort, needs around 2.5 liters of water a day. Beverages supply 1.5 liters, while the remaining 1 liter comes from food.

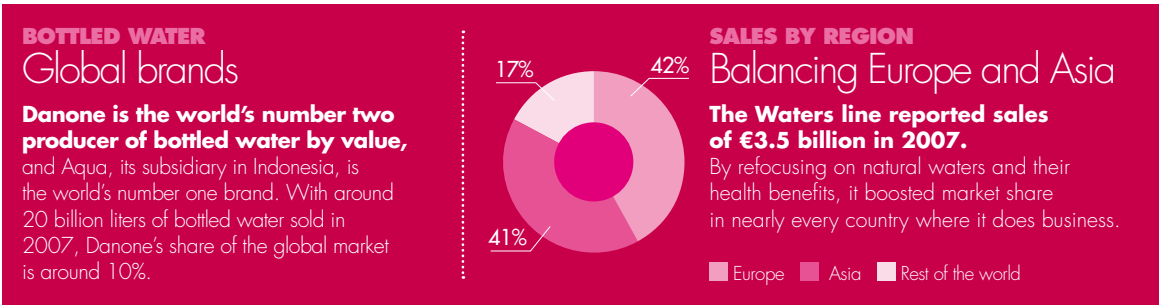
EVIAN TARGETS THE TOP

Overall, Evian sales are up 3.4%, and the brand has strengthened positions on all markets—starting with France, where it delivered its best performance in over 10 years with 2.5% growth by volume. This reflects the brand's unique assets, which Evian enhanced in 2007 by focusing on three core themes. The first, developed in France, Japan, Belgium and the United Kingdom, is the brand's core health positioning—its contribution to renewing the body's water content. The second is its responsible attitude towards sustainable development, as reflected by Evian's practice of qualitative and controlled water resource management, plus its commitment to protecting the world's wetlands. Both Evian and Danone are parties to the Ramsar International Convention on Wetlands, and the two companies teamed up to found the Evian

water schools in 2007 (see page 50). The third theme is Evian's up-market image, which the brand built on in 2007 by emphasizing its positioning as a luxury product. Two versions of a bottle specially designed by Christian Lacroix for the 2007 holiday season were put on the market: a "ready-to-wear" bottle sold to two million customers worldwide; and a hand-blown "haute couture" version produced in a very limited series of 99 bottles and sold for €5,000, with proceeds donated to the Ramsar Convention. In the United States, Evian also sells a premium bottle made of PET* and fitted with a pouring spout made of stainless steel, made available exclusively to restaurants. To round out this new positioning, the brand has relaunched the Evian spray bottle with



an updated design. Inspired by the world of cosmetics, the spray is positioned as a beauty product, with claims emphasizing its ability to set makeup and hydrate skin. * Polyethylene terephthalate



SPOTLIGHT ON NUMICO AND BLÉDINA

With Numico, Danone has acquired worldwide positions in two new business areas—**Baby Nutrition and Medical Nutrition**. Key 2007 figures for Numico* and Blédina point to particularly robust future growth.

BABY NUTRITION (FORMERLY NUMICO)

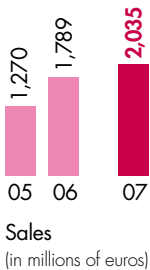
Baby Nutrition's trading operating margin reached 14.4% in 2007, offsetting price hikes for milk and other raw materials by simultaneously raising prices and cutting costs. Sales growth was strongest for the Fruit Dessert category, up 21.4%, followed by Growing Up Milk with 15.8% and Infant Formula and Follow On Milk with 12%.

9.7%

sales growth
The Baby Nutrition line posted an increase in sales of 9.7% from 2006 to 2007.

14.4%

margin
In 2007, the Baby Nutrition business line's trading operating margin reached 14.4%.

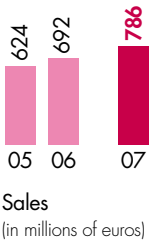


MEDICAL NUTRITION (FORMERLY NUMICO)

Despite rising raw material costs, Medical Nutrition widened its trading operating margin by 20 base points between 2006 and 2007, primarily by boosting productivity. The line's strongest sales growth came in the oral nutrition category, up 16.5%, and lactose GI intolerance/allergies category up 23.6%.

13.4%

sales growth
Medical Nutrition posted 13.4% growth in sales from 2006 to 2007, up from 10.8% between 2005 and 2006.



21.8%

margin
In 2007, the Baby Nutrition business line's trading operating margin reached 21.8%.

* Figures for Numico are based on full-year 2007, although Numico did not become part of Groupe Danone until October 31, 2007. Growth in trading operating margin is based on Numico's accounting methods.



Robust growth for Blédina

Blédina reported a vigorous 10% rise in sales in 2007, to €492.4 million. Its market share in France topped 50% for the first time, due largely to investments in developing products for infants aged 18-36 months. The brand is also expanding internationally, especially in North Africa (see page 29). Success is built on a genuine capacity for innovation that strengthens its positioning as a welcome support for busy mothers, with breakthroughs ranging from food products under the Petits Grands label to new milks developed by Blédilait and Gallia.

blédina
les Petits Grands
Les petits ont enfin leurs plats de grands.



1 portion
de viande
ou de poisson

+



1 portion
de légume
ou de féculent

=



Et clic...
1 plat complet
équilibré!



C'est nouveau, c'est varié,
c'est équilibré, c'est la liberté!

- 10 nouvelles recettes gourmandes en portions séparées.
- 25 menus possibles à composer selon les envies de votre petit grand.
- Des plats complets adaptés à ses besoins nutritionnels.

Retrouvez les Petits Grands sur www.bledina.com



blédina