

# DANONE

the year in review

# 04

Interview with Franck Riboud  
*The Danone adventure*

Health, nutrition,  
innovation, *R&D*  
at Danone Vitapole

Focus on three business lines  
*Fresh Dairy Products,  
Beverages and Biscuits*

Management  
*Where attitudes count*



DANONE

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Close-up on Groupe DANONE's three business lines: Fresh Dairy Products, Beverages, Biscuits and Cereal Products.



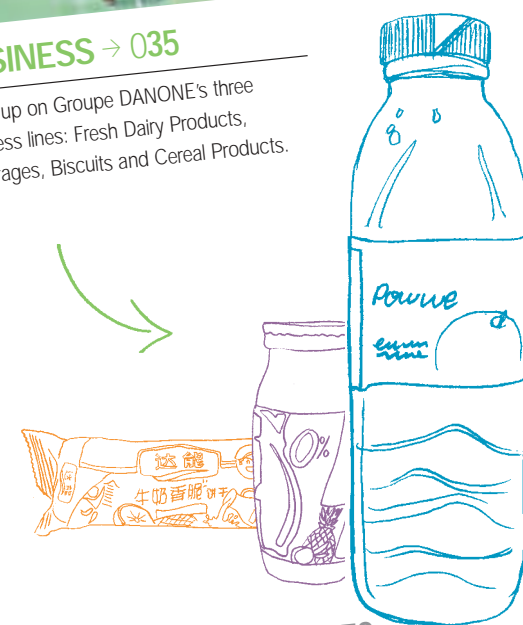
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Organic growth has never been higher—7.8%. A review of key financial results in 2004.

## Y después.

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ワタシハ  
ツマラナイ  
オナナ。♀



毎日のビオでおなかスッキリ、ツマラナイ。





→ **FRANCK RIBOUD**  
49, Chairman and CEO since 1996. Joined the company in 1981 and worked in accounting, marketing and sales before becoming Managing Director of Evian, then head of Business Development and Acquisitions, and Vice-Chairman in 1994.

# The Danone adventure

DANONE's **business model is based on organic growth**, driven by geographical expansion, innovation and the rapid progress of brands that stand for health.

## INTERVIEW WITH FRANCK RIBOUD

**You have described 2004 as an historic year. Could you tell us more about that and about the Group's business over the year?**

**Franck Riboud** → By "historic" I was simply referring to the fact that we posted the strongest organic growth in our history—7.8%, which is not only our best ever, but also one of the best showings in the food industry worldwide. Obviously, we feel very satisfied with that, especially as we have run into some headwinds here and there. But looking beyond that result, I think it is important to emphasize two things. Firstly, that we have consistently met our targets and commitments, year after year. And secondly, that we have the capacity to maintain strong growth.

**What do you consider the main sources of growth potential?**

**F. R.** → Last year, our three businesses all increased their sales. But to understand the dynamics of our Group's growth over recent years, you need to look at things a bit differently—not necessarily in terms of individual business lines, even though our growth strategy is clearly founded on the strength of our three core businesses. Firstly, there are what we call our blockbusters—product concepts that each generate several million euros in sales around the world and achieve double-digit growth. Most of these are in Fresh Dairy

Products, and their success reflects the health benefits they offer consumers with the support of consistently high spending on research and development. To take some examples, Actimel, Activia—sold as Bio in France—and Taillefine-Vitalinea have all seen sales rise by over 25%.

Then there are beverages in Asia, which are a very powerful source of growth momentum. We are market leader for water in China and Indonesia, and we are working hard to expand our business in beverages with health and functional benefits. All told, sales were up 14% last year.

Which brings me to the third driver for growth—geographical expansion. We are building the Groupe DANONE of tomorrow in markets that include not only China and Indonesia, but also Mexico, Russia and, in Fresh Dairy Products, the US. Excluding the blockbusters I mentioned and beverages in Asia—so as not to count them twice—these markets accounted for 16% of our growth last year.

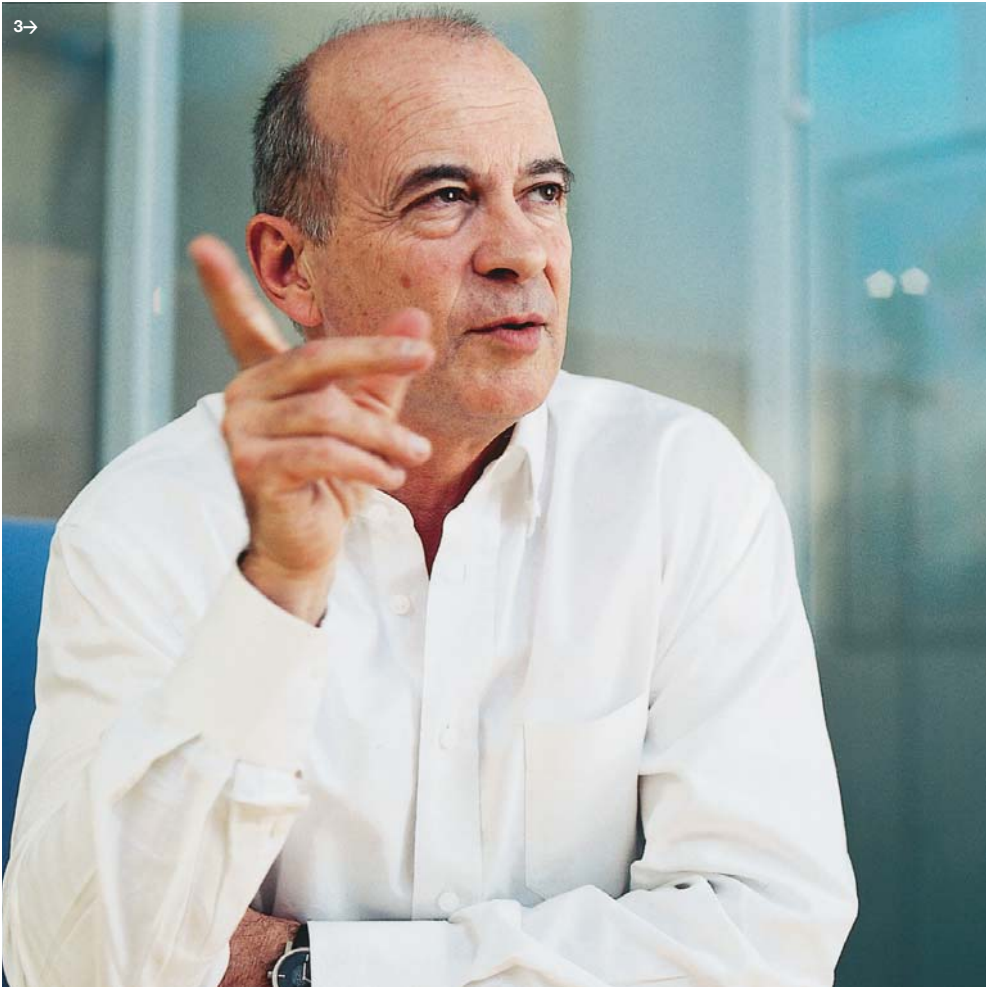
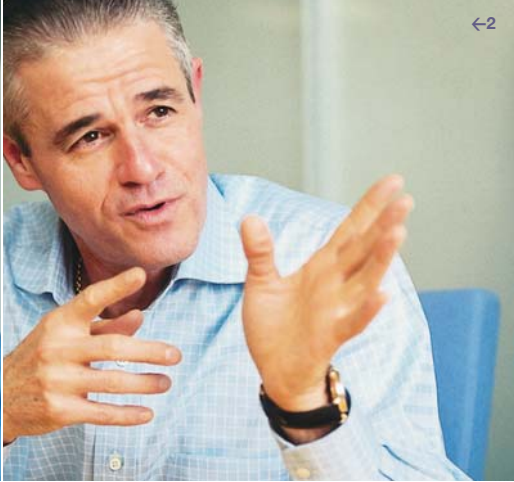
These three drivers are showing truly impressive results and the potential remains enormous. And of course that makes them strategic priorities for DANONE.

**How do the health benefits you talk about fit into your growth strategy?**

**F. R.** → Concern for health is practically built into our genes. Health is part of the ●●●

“In 2004 we posted the strongest organic growth in our history—7.8%”





EXECUTIVE COMMITTEE

→1 **GEORGES CASALA**  
63, French, Executive Vice-President, Biscuits and Cereal Products. Since joining the Group in 1973 has headed Danone Italy, Dannon US and Danone France.

→2 **SIMON ISRAEL**  
52, New Zealand, Executive Vice-President Asia-Pacific. Joined the Group in 1996 and is based in Singapore.

→3 **JACQUES VINCENT**  
59, French, Vice-Chairman and COO. Since joining the Group in 1970 has headed Danone Germany, Italaquae (Italy) and Dannon US.

→4 **FRANCK MOUGIN**  
47, French, Executive Vice-President, Human Resources. Joined DANONE in 2001 after working several years in the United Kingdom.

→5 **THOMAS KUNZ**  
47, Swiss, Executive Vice-President, Beverages. Has worked in the Group since 1990, heading Danone Mexico, Bagley (Argentina) and Dannon US.

→6 **BERNARD HOURS**  
48, French, Executive Vice-President, Fresh Dairy Products. Joined Groupe DANONE in 1985 and has headed Danone Hungary, Danone Germany and LU France.

→7 **EMMANUEL FABER**  
41, French, Executive Vice-President, Finance, Strategy and Information Systems. Joined DANONE in 1998 as Executive Vice-President, Business Development and Strategy.



identity of our top brands such as Danone, Evian and LU, and we have always emphasized the connection between food, beverages and health. That is reflected in surveys consistently showing that our brand portfolio is recognized as the most health-related in the entire food industry<sup>1</sup>. Which in a way is hardly surprising, since health has been a constant focus of our development for the last ninety years. Our strategy aims to maintain that lead with the continued development of tasty, appealing products winning recognition for proven health benefits. Our research and development center, Danone Vitapole, which pools the expertise of several hundred scientists and specialists around the world, gives us the resources we need to develop new products with a continued focus on health and nutrition. In that, it is playing a crucial role in building our future.

Obesity is regarded as one of today's main challenges for public health. What is your view of that?

**F. R.** → The trends are definitely worrying. Obesity affects around 300 million people and numbers are particularly alarming in some countries. But the problem is complex, and diet is just one aspect. While our products are on the whole nutritionally balanced, we certainly do not want to sidestep the issue. Yet prevention of obesity is not the only challenge, as the scientific community and consumers will recognize. There is also the question of promoting the healthy growth of children, particularly in developing countries, as well as preventing deficiencies and boosting immunity. Not to mention well-being in terms of digestion, water intake and so on. DANONE aims to provide effective responses as far as possible. Not only with

our products, but also through research and the work of Danone Institutes and other initiatives to prompt public awareness. In tackling these complex issues, we place special emphasis on dialog with the scientific community and consumers, continuing our long tradition of concern for health.

To return to 2004, what do you think were the least satisfactory developments?

**F. R.** → Well, clearly the impairment of our assets in home-and-office (HOD) water delivery<sup>2</sup> in the US and, to a lesser extent, Europe, was a blow. Our performances in this area remain very strong in emerging markets like Mexico and Indonesia. But the going has been much tougher in the US, where the model is very different and the business is not really the same, except that it also involves sale of water in large containers. DS Waters, a company in which we have a 49% interest, is facing rapid changes and we probably failed to properly anticipate their importance. And that led to a sizable exceptional charge on 2004 accounts to recognize the decline in the value of HOD assets over the previous two years. We now have to find appropriate ways to make up for that, which will probably mean adjusting our business model in this area.

Your Biscuits business line has returned to growth. Could you tell us more about how that was achieved?

**F. R.** → The results for Biscuits in 2004 were good news. A few months back, we undertook to counter loss of pace in the business and we have succeeded in doing that. Action included selling our subsidiaries in the UK and Ireland, where our

“ Our strategy calls for continued development of tasty, appealing products that win recognition for proven health benefits.”



●●● share of the market was too small to hold much promise, and creating a joint venture in Latin America alongside a major local contender to back rapid regional expansion. But our main focus was on efforts to put new life into our brands and markets in continental Europe. The result was a 3.9% overall rise in 2004 sales after flat trends in 2003, with margins now nearing 10%. Growth has been particularly strong in Asia and Russia, but performances have also been healthy in Western Europe, especially the Benelux countries, Spain and France, where LU is regaining ground. We still have a lot of work ahead of us, but we have laid the foundations for a full-blooded recovery—our teams are highly motivated and are ready to make the most of product innovations, improvements in quality and the nutritional value of our offering.

**Turning to geographical spread, it's clear that conditions have been more difficult on the French consumer**

**market. Isn't that a worry?**

**F. R.** → I mentioned headwinds earlier on, and the situation in France is one of the things I was talking about. Consumer demand is soft, relationships with retailers are sometimes strained and government pressures on prices are not being offset by rises in volumes. We are certainly not very happy about that, but rapid expansion in other parts of the world means that we are less and less dependent on the French market. The fact that our sales grew by nearly 8% in 2004, despite weakness in France—still our largest single national market—shows that we are making good progress towards a better geographical balance.

**China appears to be an important part of that new balance.**

**F. R.** → Definitely. China now accounts for nearly 9% of our sales and we have over 24,000 people working for us there, which is around a quarter of our total workforce. We have been operating in China for fifteen years now and we are market

leader for both packaged water and biscuits. We produce locally for local people. And we are making money, which is more than a lot of businesses can say. Our margins there are even slightly above the Group average. But China isn't our only new frontier. Our growth is just as impressive in Mexico, in Indonesia, in Russia—and even the US for our Fresh Dairy Products. We are also consolidating beachheads around the Mediterranean from Morocco to Turkey, a region that will open up new horizons for growth in the future. These developments are something all of us at DANONE are very excited about.

**You often talk about your Group's culture and your special way of doing things. Doesn't geographical expansion threaten that?**

**F. R.** → There was that risk. But we have taken steps to spread and share our culture across the Group in its expanded form, ensuring a degree of overall consistency. Our DANONE Way program makes an important contribution to that. ●●●



●●● But we have also learned to welcome the influence of the developing countries we work in, because it enables us to take a fresh look at our differences and develop innovative and exciting new ways to move ahead, to move forwards. The opportunities that offers us are practically limitless. I very much believe that our new frontiers are not just about new sources of growth. They also help us to ask new questions, look for new solutions, find new ways of working and new ways of thinking. What we do in Indonesia or in Russia should

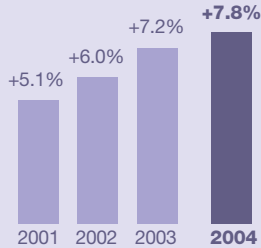
our capacity to adapt and anticipate. I also believe that we have to favor the rapid circulation of ideas across borders. Which can often best be achieved outside the usual hierarchies.

**To conclude, could you say something about DANONE's prospects and strategic priorities this year?**

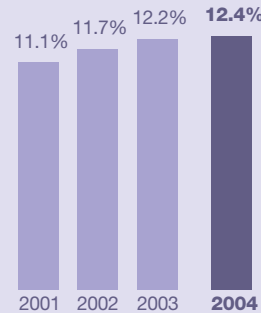
**F. R.** → We have confirmed our medium-term targets for the fourth year running—organic growth between 5 and 7%, a rise in operating margin between 20 and 40 base points and a 10% rise in earnings per share. We feel confident of success and we are very determined to deliver, although the first half is likely to be a bit difficult for several reasons, putting us nearer the low end of those ranges. As for strategic priorities, organic growth remains at the top of our list. Our business is all about getting consumers to buy more of our products. And to do that, we have to develop products that deliver value for those consumers. We have to move into new markets, invent new

KEYFIGURES

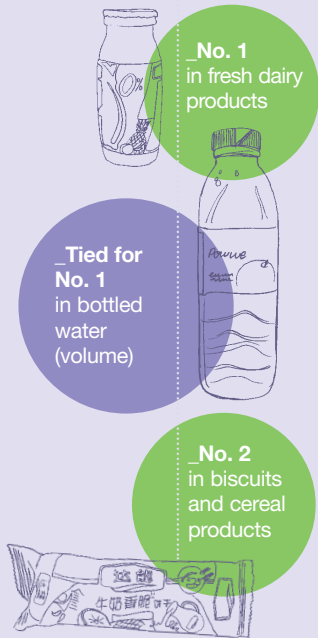
ORGANIC GROWTH IN SALES (like-for-like)



OPERATING MARGIN



LEADING POSITIONS WORLDWIDE



1994-2004  
Once BSN, now DANONE

The name change marked a turning point for the business as a whole. By assuming the name of its strongest international brand, BSN—long one of Europe's leading producers of glass—signaled plans to step up its international growth and confirmed its focus on the food industry, while emphasizing healthy eating. On July 7, 1994, the General Meeting of shareholders approved the shift from BSN to DANONE. And a new logo—a child looking up at a star—became the banner under which this new international food company was to sail. In the ten years that followed, DANONE pulled out of all non-food business and divested beer, confectionery and other food activities not in keeping with its focus on healthy eating. Over the same period, sales of dairy products doubled and those of beverages tripled, while business outside Western Europe jumped from under 15% of the total to over 40% today.



→ JULY 7, 1994  
DANONE launches its new logo.

“ Our new frontiers are not just about new sources of growth. They help us ask new questions, find new ways of working.”

help us to improve our operations in Western Europe and North America, keeping us on the move. And staying on the move is very much a part of our culture.

**Isn't it sometimes a bit difficult for an organization made up of nearly 90,000 people to be quick on its feet?**

**F. R.** → That is something I keep a very close eye on. I don't want us ever to get complacent or feel too comfortable with the way things are. In this, it is vitally important that responsibility for doing business should be as close to local markets as possible—that is the only way to preserve

opportunities. Because that is how we can create wealth for all our stakeholders. Which is the fundamental mission of every business. ●

1 Sources: JP Morgan, UBS and Morgan Stanley  
2 Home and Office Delivery - water distribution in fountains and large containers.





→ FEBRUARY 10, 2005  
At a board meeting at DANONE  
headquarters in Paris, directors reviewed  
and approved audited consolidated  
financial statements for 2004.



# Corporate governance

Broader powers have enhanced the role of DANONE's Board of Directors as **an active contributor to debate shaping important decisions** on Group strategy. 2004 in review.

There were two main developments in corporate governance at DANONE in 2004, both reflecting 2003 initiatives giving the Board of Directors more powers and more resources.

The Board was consulted throughout the year on key projects including acquisitions, divestments, projected investments and significant restructuring. Its input was rounded out at year-end by a self-assessment of Board procedures, with directors evaluating not only the quality of information they receive, but also Board operating methods, and relations with DANONE management. Results will be analyzed and presented at an upcoming Board meeting.

## 2004 activities

The Board of Directors met five times in 2004. Meetings lasted three hours on average, with 85% attendance.

Members addressed ongoing issues including market trends, Group finances, cash positions and commitments, progress in the share buyback and cancellation program, and financial statements. They also analyzed and debated significant acquisitions and divestments as negotiations progressed, among them the sale of Jacob's biscuits operations in the UK to United Biscuits and W&R Jacob Ltd in Ireland to Fruitfield Foods Ltd, plus Italaquae's bottled-water business in Italy to LGR Holding.

Reorganization of DANONE's water busi-

ness was also reviewed, including the July 1 appointment of Thomas Kunz as Executive Vice-President, Beverages, and plans to raise capacity at the Chekhov dairy plant in Russia (see p. 68). Directors gained new insights through in-depth presentations including one by Japan's Yakult Honsha, a world leader in probiotics, which signed a strategic agreement with Groupe DANONE in January 2004. Hirokatsu Hirano has represented Yakult on the Board of Directors since April 15, 2004.

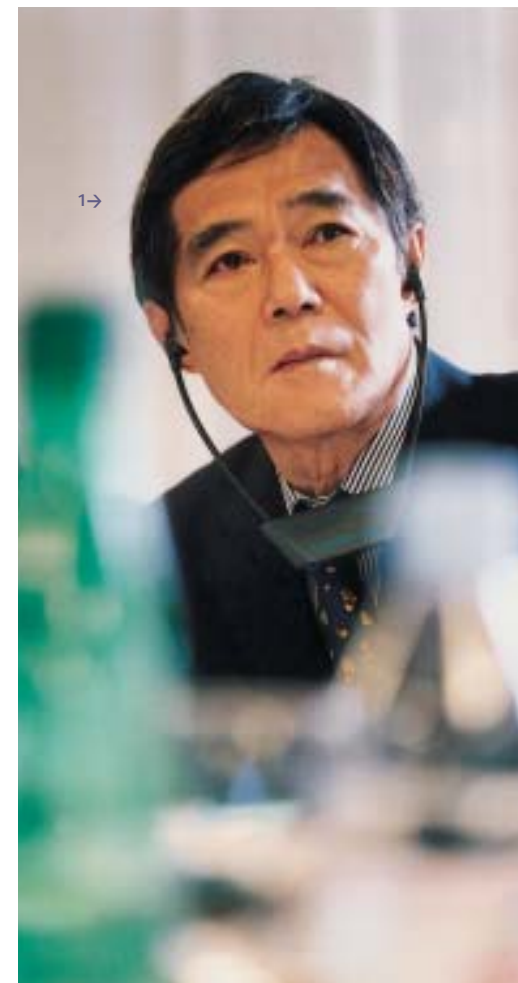
To learn more about Group operations and management, Board members took part in DANONE's Journées d'Evian, a seminar held in September each year for heads of corporate departments and some 160 managers from business units around the world.

In December 2004, directors also spent a half-day with the Executive Vice-Presidents heading business lines, who gave detailed presentations of their business and strategy.

## Two new directors

Meeting on February 10, 2005, the Board co-opted Jean Laurent and proposed that Bernard Hours be appointed director subject to the approval of the shareholders' meeting on April 22.

Jean Laurent, 60, is CEO of Crédit Agricole SA and Chairman of Crédit Lyonnais. He qualifies as an independent director



1→

1→ HIROKATSU HIRANO  
2→ CHRISTIAN LAUBIE  
3→ RICHARD GOBLET  
D'ALVIELLA  
4→ BRUNO BONNELL  
5→ JACQUES VINCENT

according to the criteria defined in the Bouton Report.

Bernard Hours, 48, joined DANONE (then BSN), in 1985 and has been Executive Vice-President, Fresh Dairy Products since 2001 after heading Danone Hungary, Danone Germany and LU France. These two new appointments follow the departure of Jérôme Seydoux and Jean Gandois, both of whom decided to end their terms as Groupe DANONE directors in 2005.

## Audit Committee

Benoît Potier was appointed head of the Audit Committee, replacing Jean Gandois. Age 47, Benoit Potier is chairman ●●●



2→

3→

4→

5→

## BOARD OF DIRECTORS

DANONE's Board of Directors has 13 members, appointed for three-year renewable terms of office. Seven qualify as independent under the regulations of the New York Stock Exchange and the recommendations of the Bouton Report.

ON APRIL 22, 2005\*, MEMBERS OF THE BOARD OF DIRECTORS WERE:

→ **FRANCK RIBOUD**  
49, Chairman and CEO,  
Groupe DANONE

→ **MICHEL DAVID-WEILL**  
72, Chairman, General  
Partner, Maison Lazard,  
director

→ **JACQUES VINCENT**  
59, Vice Chairman and  
Chief Operating Officer,  
Groupe DANONE, director

→ **HAKAN MOGREN**  
60, Deputy Chairman,  
AstraZeneca, independent  
director

→ **BRUNO BONNELL**  
46, Chairman, Infogrames  
Entertainment SA,  
independent director

→ **EMMANUEL FABER**  
41, Executive Vice-  
President Finance,  
Strategy and Information  
Systems, Groupe DANONE,  
director

→ **JEAN LAURENT\***  
60, CEO, Crédit Agricole,  
independent director

→ **RICHARD GOBLET  
D'ALVIELLA**  
56, Chief Executive Officer,  
Sofina SA, independent  
director

→ **CHRISTIAN LAUBIE**  
66, Member, Haut Conseil  
du Commissariat aux  
Comptes, independent  
director

→ **HIROKATSU HIRANO\***  
67, Adviser of the  
International Business  
Division, Yakult Honsha,  
director

→ **BERNARD HOURS\***  
48, Executive Vice-  
President, Fresh Dairy  
Products, director

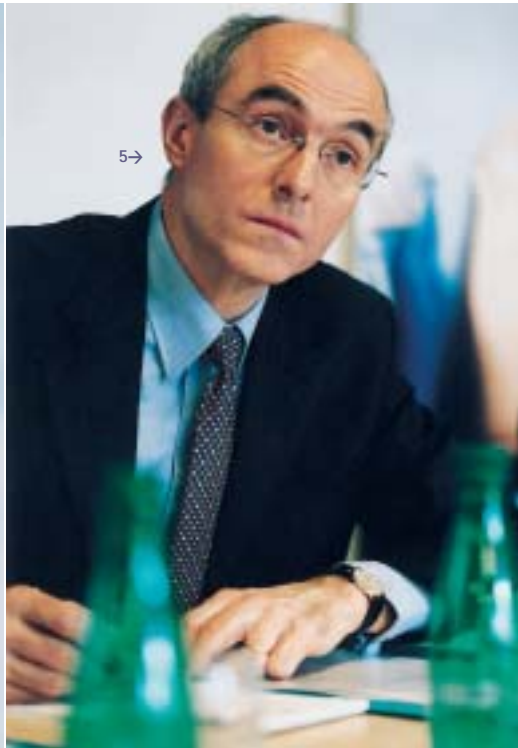
→ **BENOÎT POTIER**  
47, Chairman of the  
Management Board, Air  
Liquide SA, independent  
director

→ **JACQUES NAHMIAS**  
47, Chairman and CEO,  
Pétrofrance Chimie SA  
independent director

The Board also has three  
honorary directors: Daniel  
Carasso (Honorary  
Chairman), Yves Boël and  
Jean-Claude Haas.

\* Subject to the approval of the  
General Meeting of shareholders





1→ MICHEL DAVID-WEILL  
2→ JEAN GANDOIS\*  
3→ HAKAN MOGREN  
4→ JACQUES NAHMIAS  
5→ BENOÎT POTIER  
6→ JEAN LAURENT

\*Director until 04/22/2005



## // Everything related to ethics is fundamentally important"

### JEAN LAURENT, CEO, Crédit Agricole

#### What led you to join the DANONE Board of Directors?

**Jean Laurent** → First of all, DANONE is a remarkable business. Its achievements are truly outstanding and its success in winning a leading place on international markets has been exemplary. Then there are the values it stands for, which I wholeheartedly share with its CEO—trust, transparency, team spirit and the importance of people. I am looking forward to seeing how DANONE works from the inside, and not just in figures, balance sheets and so on. I am very honored to take on this new responsibility in addition to my existing roles as a member of the Supervisory Boards of M6 and Eurazeo in France, and as a Director of Banca Intesa in Italy and Banco Espirito Santo in Portugal.

#### What do you consider is your role as a Director and member of the Board's Compensation and Appointments Committee?

**J. L.** → Everything related to ethics is fundamentally important. That is something I believe very strongly and that I will be very attentive to. More generally, I think that

directors should have the independence to make up their own minds and say what they think in a constructive way, contributing to the work of the board as a whole. I think my experience and knowledge of business from the point of view of an international banker will be useful. As for my role on the Compensation and Appointments Committee, I will be doing what I can to help achieve what it was set up to do—defining rules of governance attuned to the life of the business and favoring the right balance within the Board, as well as the transparency and fairness of compensation.

#### What do you think are the main corporate governance issues today?

**J. L.** → Relationships between the boards and management teams of large business have become much clearer over recent years. The board now has a more defining role in strategy and risk control, and directors are much more conscious of their personal responsibility for the business. Although, of course, the precise balance can vary considerably from one company to the next. However that may be, the overriding priorities will always be trust and transparency.

• • • of the Management Board of Air Liquide and has been a director of Groupe DANONE since April 2003. Made up of three independent directors, the Audit Committee is charged with analyzing parent company and consolidated financial statements before approval by the Board of Directors. It ensures in particular that accounts have been prepared in accordance with Group accounting principles, and checks the reliability of internal procedures for the collection and verification of data. It also examines the methods and results of internal and external audits, as well as any special assignments entrusted to Group auditors. In 2004, the Audit Committee met seven times, with Group auditors attending three meetings. Specific assignments during the year included a review of the impact on Groupe

DANONE of the change to IFRS, including procedures for monitoring long-term assets and risk. The Committee played an active role in defining criteria and reviewing candidates prior to the selection of a Group auditor, interviewing short-listed applicants and submitting its recommendation to the Board of Directors. This was presented to the shareholders for approval at the annual General Meeting held on April 15, 2004.

#### Compensation Committee

Charged with supervising executive compensation policy, the Compensation Committee is made up of three directors. It met three times in 2004 to consider recommendations to the Board of Directors concerning executive compensation and stock options. At December 31, 2004, committee mem-

bers were Michel David-Weill (chairman), Jean Gandois and Jérôme Seydoux.

#### Appointments Committee

The Appointments Committee is made up of three directors and serves in an advisory capacity to the Board. It met once in 2004. During the year, the Committee analyzed proposals on Board operating procedures and the appointment of three new directors. At December 31, 2004, committee members were Michel David-Weill (chairman), Benoît Potier and Jérôme Seydoux.

#### Merger of Compensation and Appointments Committees

The Board of Directors has voted to merge these two committees into a single Compensation and Appointments Committee with effect from April 22, 2005. Three directors will serve on the new committee. • • •

**STOP PRESS:** A self-assessment of Board procedures was carried out at year-end 2004 evaluating information received, Board operating methods, relations with management and more.

## ADOPTING the IFR Standards

→ In July 2002, the European Union adopted a regulation requiring companies listed on a regulated market to present financial statements in accordance with International Financial Reporting Standards from January 1, 2005 on. This naturally changes the basis for historical comparisons and the calculation of financial ratios. To take some examples, under IFRS\* sales revenues must be stated net of rebates, trade discounts and other considerations granted to retailers, goodwill is no longer amortized, and stock options must be expensed. In addition, certain balance-sheet items have to be stated at fair value and the impact of variations in this value recognized in the income statement. DANONE began preparing for the switch to IFRS in 2003, defining a schedule for transition and identifying and calculating the main impacts, as well as making adjustments to information systems and organizing training for the staff members concerned. Transition took definite form in 2004, when two sets of financial statements were drawn up, one in accordance with IFRS and the other on the basis of French GAAP. From 2005 on, they will appear only in the IFRS format.

\* Consolidated financial statements prepared in accordance with IFRS are included in the DANONE 04 20-F and can be accessed at [www.danone.com](http://www.danone.com).

#### AUDIT COMMITTEE (AT 04/22/2005)

→ Benoît Potier\*, Chairman  
→ Richard Goblet d'Alviella\*  
→ Christian Laubie\*

#### COMPENSATION AND APPOINTMENTS COMMITTEE (AT 04/22/2005)

→ Michel David-Weill, Chairman  
→ Jean Laurent\*  
→ Hakan Mogren\*

\* independent directors



## RISK management with Vestalis

→ In 1998 Groupe DANONE adopted a system for managing global risk that has since become a benchmark, recognized for the managerial flair and vision behind it.

The aim was initially to identify and preempt risks that might keep the Group from achieving its targets, while avoiding undue caution or immobility. The solution? A system to flag areas of potential risk early on and generate the information needed for timely, informed intervention. DANONE's experts went to work and developed a tool to map risks at each business unit around the globe.

Launched in 2002 at three pilot sites, the system—called Vestalis—compiles a comprehensive list of all risks at each unit, which it ranks by frequency and financial impact on Group operations. It then defines an action plan. With Vestalis, risk can be summarized for each country or business line, and countered with action based on international standards. The Audit Committee of the Board of Directors reviews a summary of the main risks identified and monitors initiatives to limit Group exposure.

Today Vestalis covers 95% of annual sales with clear benefits for Group finances. Advantages include optimization of decisions on hedging and transfer of risk to insurance coverage, thus allowing more efficient management of risks that can—or cannot—be insured.



→ Annual meeting of shareholders on April 15, 2004

### ● ● ● Executive compensation policy

Executive compensation at DANONE includes a fixed portion and a variable portion. Based on business and individual targets, the latter represents between 40% and 60% of total compensation. For Executive Committee members in change of a business line, the variable portion of compensation reflects both success in meeting targets for sales, operating profit and free cashflow as defined in the budget, and an assessment of strategy during the year. For other members of the Executive Committee, the variable portion is based on Group targets for sales, operating margin, free cashflow and net earnings per share as communicated to financial markets. Compensation of the eight members of the Executive Committee is reviewed by the Board of Directors on the basis of the recommendations of the Compensation Committee.

In 2004, the three members of the Executive Committee who were also members of the Board of Directors received the following amounts:

Franck Riboud, Chairman and CEO: €2,426,860, down 2.7%, of which a fixed portion of €990,920 and a variable portion of €1,435,950.

Jacques Vincent, Vice Chairman and Chief Operating Officer, €1,511,140, down 3.1%, of which a fixed portion of €760,000 and a variable portion of €751,140.

Emmanuel Faber, Executive Vice-President Finance, Strategy and Information Systems, €786,430, up 4.5%, of which a fixed portion of €440,000 and a variable portion of €346,430.

In 2004, the Board granted a total of 1,919,980 stock options to approximately 1,250 staff members. The aim is to give Group managers a stake in DANONE's long-term performance.

Full information on these issues is set out in the DANONE 2004 20-F, which can be downloaded from [www.danone.com](http://www.danone.com). ●

**KUDOS:** DANONE's achievements in corporate governance were rewarded in 2004 with the top place at the annual Agéfi competition. In addition to the Grand Prix du Jury, the Groupe received awards for "Quality and Transparency of Information and Communication" and "Independent Advisors." Groupe DANONE also won a special prize from the French financial analysts' association SFAF.

Why have an ordinary day?  
Have a **NutriDay**



Only **NutriDay** yoghurt from **Clover Danone** contains all the nutrients of milk (protein, vitamins, minerals, especially calcium) and **NutriPlus**, unique live and active cultures that help your body absorb these essential nutrients. So you and your family can have balanced nutrition for a healthy, balanced life.





# trends

→021

Innovation at DANONE means being open to new trends and opportunities. **Research, health, nutrition,** management and expansion into new geographical markets are all fields in which DANONE's culture of innovation comes into its own.







→ **Danone Vitapole: focus on nutrition and health.** Research at DANONE is carried through four main units: Vitavaleur (raw materials and cultures) • Nutrivaleur (nutrition) • Sensovaleur (assessment of organoleptic properties, tastes and preferences) • Technovaleur (new developments in technology and in prototype formulation and production).

**Danone Vitapole—home of the Daniel Carasso Research Center—is housed in an impressive metal, glass and wood structure in Palaiseau to the south of Paris.**

Set on a 10-hectare site near the elite Ecole Polytechnique and a large number of private and public-sector laboratories, the complex has 600 employees from 25 different countries, including nearly five hundred researchers, developers and quality engineers.

Teams at Vitapole explore raw materials, cultures, textures, aromas, nutritional properties, production processes and more. This high-level scientific community benefits from access to facilities that include not only research labs but also pilot lines to simulate full-scale production runs and test innovative ideas in a real-life setting. The Center keeps close track of markets to detect emerging needs and offer DANONE customers and consumers products that exactly match their increasingly high expectations.

“When the marketing department sends us specifications, our job is to see what is feasible and what not in terms of nutrition, technology and cost,” explains Cecilia Heizenreder. Heizenreder is group leader at the food hub<sup>1</sup> in charge of extruded<sup>2</sup> and filled products. Originally from Argentina, this food engineer and her team work at the cutting edge of innovation, analyzing recipes, conducting in-depth reviews of production processes and

testing the feasibility of full-scale production. One example of results is Oro Ciok Power, a sandwich cookie launched in Italy at the end of 2004. Combining chocolate and caramel in a rich mixture of aromas and textures, this new biscuit took months of work and the installation of an all-new production line to bring to market.

**Scientific expertise**

Danone Vitapole is also a center for research serving the Group’s companies around the world, and is the Group’s ultimate authority for nutrition and health. The Nutrivaleur team headed by Nicolas Gausserès takes special responsibility in this area. One of its projects was a response to the popularity of low-carbohydrate diets in the United States. “People on low-carb diets eat no sugars or other carbohydrates at all, and in theory avoid dairy products as well,” says Gausserès. “Our role was to help local teams position our offer in this market while remaining true to DANONE values. We suggested tackling one of the problems associated with these diets: calcium deficiency. So we recommended developing a low-carb yogurt with very limited sugar content. This is compatible with the diets but gives people following them the calcium they need.”

US teams went on to develop the product using special filtration to keep lactose content to a minimum. The result is Light’n Fit Carb Control, a yogurt with 80% less

sugar than regular low-cal products. DANONE now leads this market with 25,000 metric tons sold in the first nine months of last year.

Danone Vitapole also plays a central role in facilitating the exchange of know-how within Groupe DANONE. “The challenge is not to bring all research resources together on a single site, but to help subsidiaries set up local R&D units that are both effective and responsive,” explains Moïse Riboh, Director of Scientific Relations and Communication.

Illustrating this approach, local teams in China combined their own expertise with that of Vitapole units specializing in beverage development to bring out Maidong, a new drink based on a product developed by New Zealand subsidiary Frucor. “Rapid growth in Asian markets calls for additional resources and professional skills to take quick advantage of opportunities,” says Moïse Riboh. “Our role is to help local operations acquire those different skills, giving them the benefit of our expertise in sensory analysis, nutrition and technology.” •

<sup>1</sup> Central hubs, one per business line (Fresh Dairy Products, Beverages, Biscuits), bringing together experts in formulation, processes and packaging.  
<sup>2</sup> Light-weight products produced by forcing dough through forming nozzles.

# Vitapole

Danone Vitapole is not just another research facility. It is a worldwide scientific community with over 800 specialists sharpening the Group’s **focus on health and developing innovative products.**



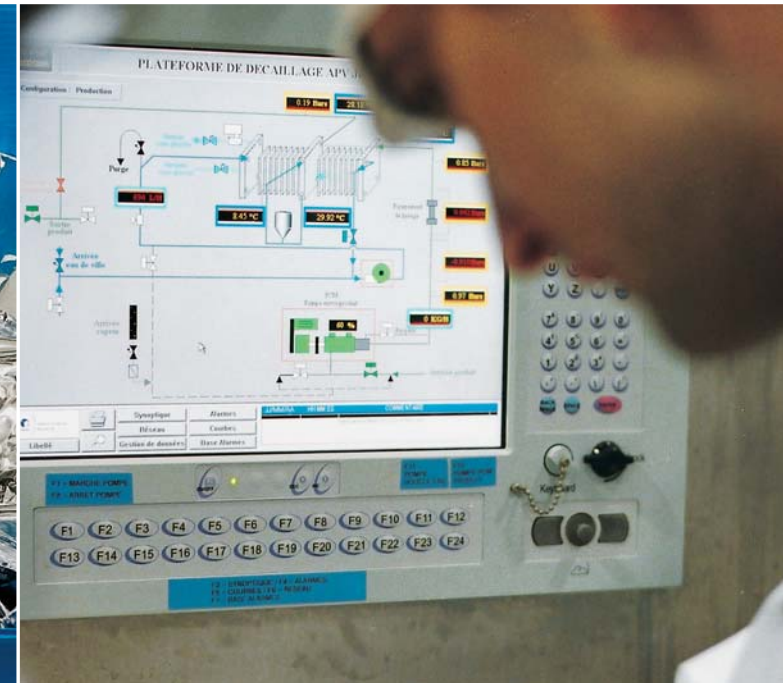


→ **Top left:** Technician installs equipment on a biscuit production line. **Top right:** Mini-fermentation reactors are used to compare ferments and cultures. **Below:** Pilot line—Biscuits being taken out of the oven; tests allow efficient scaling up of production runs. The oven here features one of the most flexible modular designs anywhere in Europe. → **Next page:** Biotechnology pilot unit—This totally automated system helps define specifications for exclusive DANONE cultures and optimize the end product. Danone Vitapole combines probiotic cultures with other ingredients to expand probiotic product offerings.





→ **Opposite page:** Microbiologists test probiotic cultures for purity and count. → **Above, this page:** Testing biscuits in a lab environment; flours are analyzed to regulate quality. Measuring product dimensions and texture allows adjustments to the balance of ingredients. **Below left:** Pouches are tested for seal resistance to ensure optimum product conservation. **Below right:** Control screen for pilot production lines.





“Focus on health” was the priority set a few years ago for the 15 Danone Institutes located around the world. In keeping with that theme, DANONE continuously **seeks new opportunities** to expand initiatives in the realm of nutrition. (see also p. 57)

## Let Your Body Smile

To round out DANONE+Cojean, a restaurant dedicated to tasty, healthy eating, DANONE opened its first fitness center in 2004. Located on the ground floor at head office in Paris, the center is fittingly named “Et votre corps sourit” (Let Your Body Smile). Classes are based on the concept of healthy movement rather than intensive movement, and include Pilates, yoga, tai-chi and exercise ball training. After years of promoting the benefits of eating well, opening a fitness center was, for DANONE, a stretch that made sense.

# Health



## Nutrition: reaching—and teaching—consumers

**Obesity and malnutrition are the 21st century’s major nutrition problems, with no country spared. How has this happened?**

**Manuel Serrano Rios** → Modern technology has brought enormous changes to our lifestyles. Now that every household, even low-income families, has a television, we’re less active. We rely more on cars, which means we exercise less. And a rise in snacking and eating outside regular mealtimes has spawned foods laden with fat and sugar, which kids find especially appealing. As a result, we’re seeing a progressively earlier onset of obesity. In Spain, for example, 13% of children are affected. Malnutrition is yet another problem. In developing countries, less affluent people have diets richer in fat because it costs less, and poorer in essential nutrients like vitamins and minerals. And in countries where economic expansion is taking off, like Brazil and China, obesity and malnutrition exist side by side.

**What are the solutions?**

**M. S. R.** → Consumers, governments, the scientific community and food industries must confront these problems head on and work together to resolve them. Obesity is bad news for everyone. Most important, it seems to me, is teaching consumers to eat well and exercise more.

**What special role can—or should—the food industry play?**

**M. S. R.** → The industry must work with nutritionists to develop products offering clear benefits for fitness and health. DANONE has already done this with some yogurts. Food companies must also bring nutritionists into their communications and advertising—it’s not enough to simply plaster the slogan “It’s good for you!” everywhere. Good communication makes consumers more aware of nutritional issues, and should be based on claims backed by the scientific community. So we’re asking companies to act responsibly. The

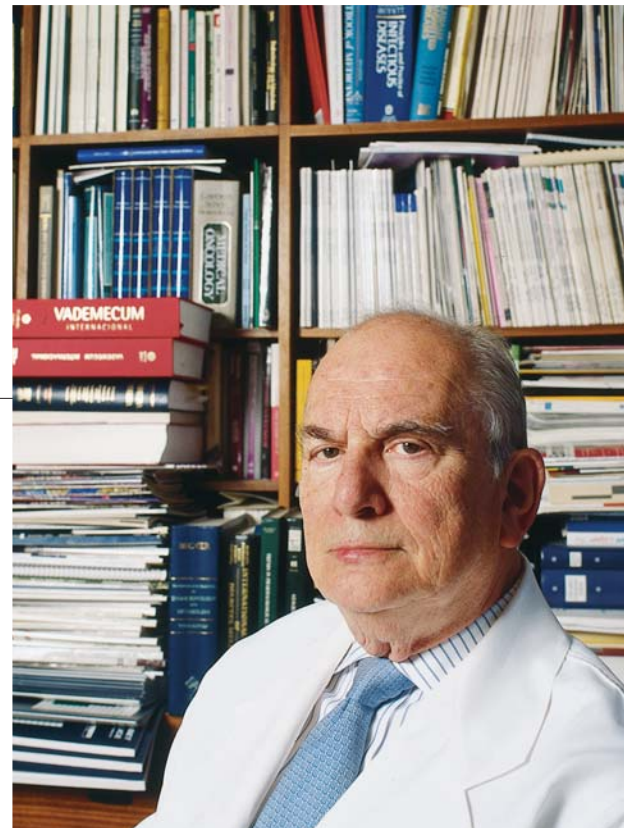
## High-nutrition biscuits

With eating habits in Asia in transition, malnutrition exists alongside obesity. Thus, studies have found that in China average consumption of calcium is only 40% of the recommended daily amount and over 15% of the population is anemic, while in Indonesia the figure rises to 30%. Yet eight percent of Chinese children and 20% of adults are overweight; 20% suffer from hypertension. One of DANONE’s key strategies is to create products that satisfy the nutritional and health needs of local populations. Examples are biscuits—a product easy to eat by definition,

with high-grain content and long shelf life—that are enriched with essential nutrients including calcium, iron, and vitamins.

In Asia, DANONE sells biscuits especially for people with dietary deficiencies, such as Danone & Milk Biscuits in China, and Biskuat in Indonesia, but also cookies fortified with calcium and vitamins for children, or made with less fat, such as Wei Zi crackers sold in China.

In 2004 we stepped up the development and launch of nutritional biscuits that are affordably priced: in China, Indonesia and Malaysia, these sell for 1 yuan, 500 rupiah or 30 ringgit cents, respectively—the equivalent of just a few cents.



**PROFESSOR MANUEL SERRANO RIOS** heads the Internal Medicine Department of the University Clinical Hospital of San Carlos in Madrid, and is President of the Danone Institute in Spain.

unsubstantiated claims seen in some advertising come from a lack of dialog with nutritionists. It’s in the food industry’s interest to sell products with health benefits and let consumers know about it, since this will ultimately boost sales. ●

(See also the Health Commitment and Fact Book and the Food, Nutrition and Health Charter at [www.danone.com](http://www.danone.com).)

## R&D: nutritional mapping sets the course for healthy eating

To adapt products to meet local dietary needs, in 2002 Danone Vitapole, DANONE’s research and development organization, began work on a detailed “nutritional map” of eight countries: France, Italy, Spain, Germany, Poland, the United States, Brazil and Mexico. Using scientific analysis and interviews with local experts, Danone Vitapole teams identified nutritional deficiencies and excesses, as well as needs and risks specific to these eight countries.

As a result, we have adjusted the formulation of our products in several

markets. For example, Danonino, our line of fresh dairy products for children, is fortified with zinc in Brazil, calcium in the United States, and Vitamin D in Poland. In 2005, a second group of countries will be added to the program.



## Preventing childhood obesity

In June, 2004, the Danone Institute in France launched an awareness campaign to aid in early detection of childhood obesity. Because regular tracking of body mass indices can improve detection, the campaign—targeting healthcare professionals, early childhood development specialists and parents—emphasized the

importance of measuring the index at the time of medical check-ups. Developed by a scientific committee including pediatricians, a nutritionist and a school doctor, and approved by the French Society of Pediatrics, the program provided posters for waiting rooms and informational brochures for doctors and parents.

By late 2004, 7,000 doctors had been exposed to the campaign message and 150,000 brochures had been distributed to parents.



Sharing best practices is a key challenge for international businesses. At DANONE, **new attitudes and direct exchanges** between employees in different business units are the priority ahead of complex data-sharing tools and databases.

## Marketplace and networking—getting the ball rolling

At DANONE the focus is on networking, not knowledge management, although the aim in both cases is to ensure effective circulation of know-how within the business. Our approach is nonetheless backed up by a range of tools and procedures, starting with the “marketplace”, a forum for exchanging best practices. As in a traditional open-air market, vendors set out their wares at stands and stalls—in this case, displays featuring best practices. The concept is now used at most DANONE conventions and training sessions, giving people from different units a chance to mingle, talk and learn.

The approach is relaxed but also effective: since September 2003, DANONE marketplaces have enabled 1,000 managers to share expertise and insights on issues affecting all business lines, with 2,700 best practices aired and shared. More recently, another type of initiative has appeared, this time working in the reverse direction. Faced with a challenge, managers launch an appeal or “message in a bottle” in the hope that someone else will have encountered the problem already and come up with a solution. The concept is based on creating communities within the Group—you can only share if you have something in common with those around you. Whence the creation of working groups and professional communities for managers within the same business line—venues, virtual or real, for the exchange of ideas. Today one manager in five participates in theme-based groups addressing issues ranging from R&D and quality to purchasing, production and more. A facilitator mediates, coordinating exchanges to make a common approach to shared problems part of day-to-day business. Once reflexes are in place, teams can move on to design and implement technologies that facilitate exchanges—specialized portals, web conferences and chatrooms, for example. This approach is illustrated by a new Group-wide directory that makes it easier to get in touch with co-workers, even as it allows each individual to showcase his or her fields of expertise—and willingness to pitch in to find solutions.



NICOLAS ROLAND, who coordinates a master's program in Economic Intelligence and Knowledge Management, is a lecturer at Sophia-Antipolis University in southern France.

## Networking A new approach to work

**Today, many big corporations have adopted knowledge management tools. Why the interest?**

**Nicolas Roland** → Because sharing know-how and developing new approaches to information exchange are now critical to successful business development. Not so long ago, “capital” mainly meant finance, but things have become far more complex and attention has shifted to human capital—intellectual capital. In today's fiercely competitive business environment, corporations can gain critical response time by finding effective ways to draw on the wealth of human and professional resources available in their subsidiaries. Demographics also play a role, not least aging populations in many countries—as key people retire, passing their knowledge on to the next generation becomes increasingly important.

**You seem to be saying that attitudes are more important than tools and technology where knowledge sharing is concerned. Is it all a matter of attitude?**

**N. R.** → I'm convinced that successful knowledge management is largely a matter of shaping a new culture of sharing and dialog within the corporation. All too often, big companies set up a panoply of knowledge management tools—

intranet portals to IT networks and databases or directories—only to realize that nobody uses them. Which makes it essential that you start by rallying everyone to the concept, and only then look into the tools they need. And even then, implementation must go hand in hand with promotion and acceptance of new attitudes towards knowledge sharing.

**European companies are often said to be lagging behind in knowledge management. What is your view?**

**N. R.** → To be sure, the US, Australia and Japan were well out in front for quite a while, but that is no longer the case. The gap has been narrowed by European employees' growing familiarity with the Internet, networks and other communications techniques. Even more importantly, the European approach to corporate governance, once based on rigid chains of command, is becoming more flexible and less hierarchical. ●

See also p. 63, Management.



## Born in New Zealand, a hit in China

“We are looking for ideas to kick-start energy drinks in China,” wrote Kin Yau, head of marketing at Robust and one of the first DANONE managers to send out a “message in a bottle.” Little did he realize that the response would lead to one of the brand's most successful products ever. That input came from Eric Wilson, marketing director at Frucor in New Zealand, who with his team suggested taking inspiration from Mizone, a high-energy drink for sports enthusiasts. Transfer of best practice soon got under way, with Mizone tweaked to suit Chinese tastes. Extra vitamins were added, and it was repackaged in a stylish easy-to-carry bottle designed to appeal to its target group—active citydwellers in tune with the times. A year after launch in April 2003, Maidong was market leader in energy drinks. In 2004, Robust sold 255 million liters or 425 million bottles in China.



# Network

## Networking at DANONE means...

The exchange of **best practices** and ideas among managers to enhance **performance**. If a manager runs into a problem in one region of the world, it is logical to assume that in the **90,000-strong DANONE workforce** there will be other people—perhaps just around the corner, perhaps thousands of miles away—who have already encountered something similar and found a **solution**, or at least part of a solution. The challenge is to bring the two together, and give them the **tools** they need to exchange information more easily.



Operating in Mexico for over thirty years, DANONE is now one of the country's most dynamic and highly rated businesses.



CLAUDE HELLER, Mexican Ambassador to France.

## Mexico looks ahead

**In 2004, the Mexican economy returned to growth at last, expanding 4.4%. What were the drivers?**

**Claude Heller** → A responsible approach to public finances combining fiscal discipline and tight monetary policy played a big part. The US recovery also helped, since around 90% of our foreign trade is within North America. Not to mention the steep rise in oil prices, generating \$18 billion in additional revenues—which makes quite a difference. The result is that all indicators are now looking good: inflation is running at 5.1% and we have foreign exchange reserves of \$61 billion, while foreign direct investment—\$16 billion in 2004—is heading up. Our economy is expected to grow by another 4% this year.

**So Mexico is once again an attractive host country for foreign investment?**

**C. H.** → In an increasingly global economy, we offer outstanding opportunities for companies interested in investing abroad. Mexico is a market of over 100 million consumers, with

immense growth potential, where purchasing power is rising steadily. And we offer business-people a large pool of young and highly educated employees.

Mexico's economy is also more diversified than in the past. Raw materials used to account for most of our exports, but today the balance has shifted to manufactured goods. And we offer investors an exceptionally stable environment that has won us the trust of international markets.

**How does Mexico compare with countries like China or India, which are also popular host countries for international investment?**

**C. H.** → Our big advantage is our strategic location – right where North and South America meet. That's a powerful argument. We have also developed an extensive network of free-trade agreements with over 43 countries—NAFTA, of course, but also with countries in Latin America, the European Union, Israel and Japan. Our appeal is reflected in a steady

In early 2005 Danone de Mexico was named "Best Place to Work in Mexico" by the Great Place to Work Institute.

See also p. 60, "Commitment"

stream of inward investment that has averaged \$14 billion a year over the past few years. Mexico is the world's eighth largest economy and number one in Latin America, which makes us a natural choice for trade and investment.

**What role do you see for foreign companies in Mexico?**

**C. H.** → Our government sees foreign businesses as key partners in economic development and growth. We expect companies to be good corporate citizens and to take conditions in Mexico into account. We are a relatively wealthy country, but we still face many challenges, and are working to eradicate poverty and inequality. In this, Danone de Mexico's support for children's causes is very positive and much appreciated. ●

See also p. 60, "Commitment"

Mexico

## Close to customers —chilled cases deliver the goods

Sales of fresh dairy products in Mexico have soared 50% in the past five years, making this a strategic market for DANONE. But ensuring distribution through the country's multitude of small retail outlets—which together generate over 60% of Danone de Mexico's revenues—was problematic. To meet the challenge, the company began installing chilled display cases at points of sale nationwide. Targets included stores that had previously been unable to carry dairy products for lack of fridges, as well as outlets already equipped, where larger units were installed. By 2004, 27,000 new fridges were in place and sales rose by 4,000 tons.

Altogether, Danone brands are present in 170,000 retail outlets in Mexico, with 52,000 fridges owned by the company bringing products ever closer to ever more consumers.



## Bonafont known nationwide

Mexico is a new driver for growth at Groupe DANONE's Beverage division, operating through its bottled water subsidiary Bonafont. In just a few years, the Bonafont brand has moved up into first place, and is now as well-known to Mexican consumers as Evian is in France.

Added momentum comes from a fast-growing range of flavored waters sold under the Levite name, which helped boost

revenues by 30% in 2004, when sales volumes were up 26%. Building on the Bonafont name, the company has also moved into a new market altogether—water in large jugs for home and office deliveries, where strong demand has made Mexico the world's second largest market in volume, behind the US.

Bonafont entered the home and office delivery (HOD\*) market in 2004, joining existing

brands such as Pureza Aga, which rank DANONE among the top three contenders. In 2004, Groupe DANONE took a controlling interest in Arco Iris, one of Mexico's leading HOD suppliers.

\* water sold in jugs and other large containers.

## DANONE in Mexico at a glance

→ 30 years in the country → 3,973 employees → No. 1 in fresh dairy products with Activia, Danonino and Vitalinea → Products on sale at 170,000 retail outlets → No. 1 in bottled water with brands including Evian, Bonafont and Levite → No. 3 in home and office deliveries with 1 billion liters sold, main brand Pureza Aga → Sales of nearly €480 million (up 19% from 2003), approximately 75% in dairy products and 25% in beverages → 21 plants.

## Irapuato plant backs rise in Mexican sales

The Irapuato plant's annual output of fresh dairy products rose from 145,000 in 2003 to 210,000 tons in 2004. With demand rising fast—yogurt sales were up by over 10% during the year—the increase was timely. Production capacity for drinkable yogurts including Dan'up was doubled.

Figures like these underscore DANONE's success in supply-chain management, especially through links with its bottle supplier, whose own factory is next to the plant. A conveyor belt delivers 600 million plastic bottles a year directly to DANONE drinkable yogurt production lines—

a food-industry first in Mexico. This type of coordination makes DANONE a benchmark, ensuring the flexibility it needs to take market shifts in its stride.





# business

7.8% organic growth in 2004, the best ever for DANONE.  
**A review of our three worldwide business lines:**  
 Fresh Dairy Products, Beverages, and Biscuits & Cereal Products.



Nueva Font Vella Toque de Limón



036



043



049



# Dairy Health drives success

Fresh Dairy Products posted record growth in 2004, consolidating DANONE's world leadership in the field. Momentum reflects the success of product concepts and brands centered on health and a strategy structured for close relationships with consumers.

**f**resh Dairy Products had a record year in 2004, confirming the business line's place as the driver for the Group's growth. Sales volumes showed the strongest rise ever, putting on 8.8% or close to 350,000 metric tons more than in 2003, as did sales revenues, up 10.5% to €6.9 billion or nearly half the consolidated total. Operating income was up from €845 million to €947 million, setting the operating margin at 13.7%. Results reflect vigorous trends in several geographical regions, in particular Latin America, where sales rose 22% overall. Major contributions came from both Mexico and Argentina, where DANONE consolidated its top place with a rise of 75,000 metric tons in sales volumes. Favorable trends continued in North America, where the combined successes of Dannon and Stonyfield Farm restored the Group's number-one place on the market. Growth was similarly strong in eastern and central Europe, averaging 25% overall and topping 50% in Russia. Alongside emerging markets where the Fresh Dairy Product sector is still taking shape, traditional markets, mostly in Europe, also made healthy contributions, with strong showings from Italy, Spain and other countries to the south as well from the UK and Germany to the north. France was something of an exception, since performance suffered from soft demand for mass-market consumer goods as well as the government-sponsored initiative for concerted retail-price reductions in the second quarter.

## Asset brands—local know-how for global concepts

The main sources of momentum were the business line's asset brands. These represent four powerful concepts structured around health benefits, backed by significant commitment to research and development—each generating worldwide sales of several million euros and posting double-digit growth. Each of these blockbusters offers distinct health benefits to people around the world, although they may be sold under different names from one country to the next. Thus Activia, called Bio in France, favors healthy digestion, while Actimel helps to reinforce the immune system and Danonino, called Petit Gervais aux Fruits in France, ●●●

## Highlights

**BRAND AWARENESS**  
→ In 2004, research institute GfK rated Danone the top brand in terms of spontaneous, top-of-mind awareness (33%), placing it well ahead of competitors.

**ADDED SCOPE FOR PARTNERSHIP WITH MCDONALD'S**  
→ Since March 2004, McDonald's has offered Fruit & Yogurt, Europe's first on-tap yogurt, in 6,200 European restaurants as part of its move to expand its menus with more emphasis on health.

**A STRONG START FOR DANACOL**  
→ Launched in April 2004, Danacol is already a benchmark for the French market. Enriched with vegetable sterols, a natural ingredient that helps reduce levels of bad cholesterol, this new yogurt contributes effectively to the prevention of cardio-vascular disease. Danacol has since been deployed on other European markets including Spain, Belgium, Ireland and Portugal.

## United States: a winning combination

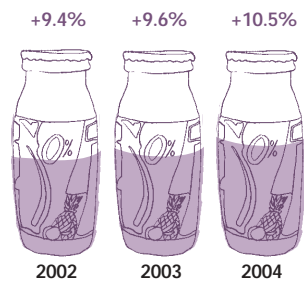
When it bought a minority interest in Stonyfield Farm, number one in the US for organic yogurts, and raised this to a majority in December 2003, DANONE was not aiming to merge the new subsidiary with its existing business through Dannon. Instead, its goal from the start was to preserve Stonyfield's distinctive character and way of doing things, so as to maintain momentum while giving the company the benefit of resources in areas including research and development, logistics and purchasing. Founded in the 1970s and still headed by the same manager, Stonyfield Farm remains faithful to its tradition of social concern, donating 10% of its profits to selected causes each year, and continues to apply its own philosophy in developing its business in cooperation with Dannon. The results speak for themselves: since DANONE acquired its first interest, Stonyfield Farm has more than doubled its sales and production. The combined market share of Dannon and Stonyfield Farm has also risen steadily and now exceeds that of their main competitor on the US market.

**LEADING POSITIONS WORLDWIDE\***  
→ No. 1: North Africa and the Middle East  
→ No. 1: Argentina  
→ No. 1: Belgium  
→ No. 1: Canada  
→ No. 1: Spain including the Canary Islands  
→ No. 1: Eastern Europe  
→ No. 1: France  
→ No. 1: US  
→ No. 2: Turkey

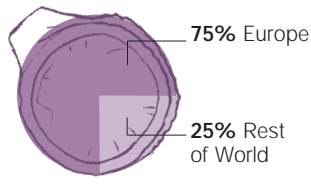
\* Based on sales volume for yogurts and assimilated products



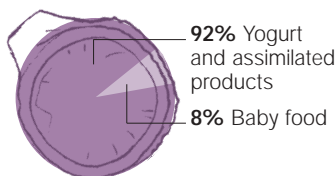
## SALES GROWTH\*



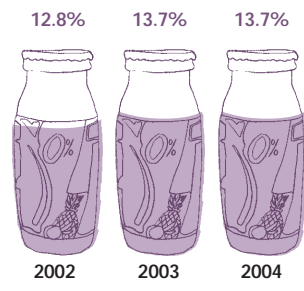
## SALES BY REGION



## SALES BY SEGMENT



## OPERATING MARGIN



\* like-for-like

● ● ● helps children to grow up healthy and strong. Finally Vitalinea, also called Taillefine, Vitasnella and Ser, depending on the country, is a range of diet products for people keeping an eye on their weight. Clearly, these benefits are not confined to any particular region, but familiarity with local consumers has been nonetheless essential to success. To take an example, Danonino, originally launched in Western Europe, has won its place on emerging markets including Argentina, Brazil and Saudi Arabia, with a different version for each country to target prevalent childhood nutritional deficiencies. Backed by communications focused on scientifically proven health benefits, Danonino is now on offer in 35 countries and generates annual sales of close to €750 million. While these four champion brands now account for half of its total sales, the Fresh Dairy Products business line remains faithful to its local brands, which are an essential part of its strategy to maintain and strengthen consumer relationships. Here the key to success is the precise identification of needs and expectations to allow rapid development of products to match. In the US, it thus took Dannon only a few months to develop its Light'n Fit Carb Control range, launched in January 2004 to meet the demands of the 60 million Americans on low-carb diets, a segment where the brand is now the uncontested

leader. Moufid yogurts in Morocco are another example. Sold at only one dirham a serving—less than one-tenth of a euro—these are perfectly suited to conditions in a country where purchasing power is low but where dairy products are a traditional mainstay of diet, as reflected in daily sales of 650,000 servings a day.

## Looking ahead

Affordable, adaptable products backed by familiarity with local consumers have enabled DANONE to take its place on what are generally considered tough markets, and the Fresh Dairy Products business line is now confident in its ability to step up the pace of expansion on new frontiers in China, Russia, Indonesia and other parts of the world where consumption of dairy products is still very low. Health will be a central theme, as it has been for recent product deployments. These include Danacol, a yogurt favoring the reduction of bad cholesterol levels, which got off to a strong start in France in April 2004. Successful launches in Portugal, Italy, the UK and Belgium followed in the second half of the year, providing a perfect illustration of DANONE's strategic emphasis on health benefits. ●

## A winning smile

The identity of Danone Fresh Dairy Products has evolved with time, and the logo must naturally keep pace. The challenge for designers was to combine warmth and immediate appeal in a format attuned to the spirit of the times without weakening brand recognition, since

consumers see the Danone logo as a sign for quality, trust and health. Rounded at the edges, the new logo displays a smile suggestive of appetite, pleasure and the well-being associated with health that shows. Backed up with the signature "Smile from within", the new design



is being deployed by stages for Fresh Dairy Products in over 40 countries. It is also used for other products sold under the Danone name, including biscuits in Asia and Taillefine/Vitalinea waters.

## → INDONESIA: AFFORDABLE QUALITY

Danone Indonesia's new drinkable yogurt got off to a vigorous start with 10 million bottles sold in just 90 days, reflecting a combination of taste appeal and nutritional quality, with five vitamins and added

calcium enriching the natural milk-protein content. Plus a very affordable price—a crucial consideration in a country where 60% of people live on less than \$3 a day. The 100 ml bottle sells for just 1,000 rupiah—the equivalent of around €0.10—putting it within the reach of

most families. To achieve this, DANONE combined rigorous cost control with the resources of Danone Aqua, number-one in Indonesia for bottled water, and its nationwide distribution network (see also p. 47).

\* 10 euro cents.





R&D  
Research  
& Development

TAILORING DANONINO TO  
LOCAL NEEDS

→ Like Actimel, Activia and Taillefine/Vitalinea, the other three asset brands for Fresh Dairy Products, Danonino adapts to local conditions. In 2004, the recipe underwent a review to optimize taste, texture and other perceived features—referred to as an organoleptic review\*—to further enhance the product’s appeal for children. In this, Danone Vitapole, the Group’s research and development center, played an essential role, conducting surveys of children aged 5 to 8 in the 35 countries where Danonino is on sale to identify their taste preferences and expectations. Subsidiaries in each country were then able to adjust recipes to match demand more precisely. In France, for example, where Danonino is sold under the name Petit Gervais aux Fruits, texture was thickened and fruit tastes enriched, contributing to a 10% rise in sales for the year.

\* To develop a new recipe or improve an existing recipe by collecting consumer sensory perceptions and descriptions of a product.

Fresh Dairy Products key figures

€ millions	2000	2001	2002	2003	2004
Sales	6 530	6 928	6 276	6 185	6 914
Organic growth*	+6.7%	+ 6.8%	+9.4%	+ 9.6%	+10.5%
Operating income	712	790	802	845	947
Operating margin	10.9%	11.4%	12.8%	13.7%	13.7%
Cash flow from operations	667	742	746	756	825
Depreciation and amortization	259	293	233	193	202
% of sales	4%	4.2%	3.7%	3.1%	2.9%
Capital expenditure	308	286	200	195	264
% of sales	4.7%	4.1%	3.2%	3.1%	3.8%
Employees	23 692	24 129	20 126	21 266	23 582

\* At constant structure and exchange rates

Baby food:  
Blédina widens its lead

In addition to yogurts, dairy beverages and other dairy products strictly speaking, sales of the Fresh Dairy Products business line include Blédina baby foods, which account for approximately 8% of the total.

Number one in France, Blédina bolstered its positions in 2004, widening its market lead and raising consumer awareness. As the only business with a specific focus on this market, Blédina benefits from its long-standing

familiarity with mothers and families, backed up by work in the field to consolidate consumer relationships and build ties to the scientific community. Product innovation has thus been a driver for success, with examples including powdered milk specialties such as Gallia Calisma as well as other products including the new “Les Idées de Maman” range for infants aged 8 to 12 months. Based on simple recipes drawing inspiration from home-made favorites, the latter come in an innovative transparent plastic bowl—practical, unbreakable and ready to serve. With a market share of over 45% in France, Blédina also increased export sales in 2004.



Probiotics, the benefits of science

Recent months have seen a surge in interest for probiotics from both medical journals and magazines for the general public in countries ranging from the UK, the Netherlands and Spain to the US. According to the definition adopted by the World Health Organization in 2001, “Probiotics are live micro-organisms which, when administered in adequate amounts, confer a health benefit on the host.” As a

pioneer in the field, DANONE has built up a unique store of expertise through its research and the development of groundbreaking ranges that include Activia—sold as Bio in France—and Actimel, both offering benefits borne out by several scientific studies. Over recent decades, probiotics have also won growing recognition from consumers, particularly in Asia, which now accounts for 62% of probiotic products sold worldwide.

Increased concern for health and continuing scientific progress have made probiotics the most promising market segment in fresh dairy products. DANONE’S two flagship brands are showing the full benefit of vigorous trends, posting growth that has averaged 30% over the past four years. In 2004, Actimel sales came to around €800 million, while the Activia range topped the €650 million mark. Partnership with Yakult,

number one for probiotics in Japan and Asia as a whole, makes for added momentum, with DANONE holding a 20% interest in the company’s equity. In recent years, research cooperation between the two has been reinforced with the establishment of joint teams to work on specific projects and the Global Probiotics Council to make probiotics better known to healthcare specialists.

→ LEADER IN  
PROBIOTICS  
Actimel, Activia and  
Yakult—DANONE’s  
Japanese partner—  
are the world’s top  
brands in probiotics.







NYHED!



KAN SPISES UDEN NOGET PÅ

Prøv en lækker ovnbagt snack med paprika eller oliven/rosmarin næste gang du skal hygge foran fjernsynet. Den kan spises helt uden noget på. Velkomme.

# Beverages

moving towards  
new growth levers

The Beverage business line met growth targets for 2004, with sales up 7% despite the high basis for comparison set during the heat wave of summer 2003. It also laid the foundations for future growth, investing in new market segments.





## Highlights

### HOME AND OFFICE DELIVERIES\* IN THE US AND EUROPE

→ DANONE's consolidated financial statements for 2004 show an exceptional, non-recurring charge of approximately €600 million for its interests in home and office water deliveries in Europe and the US.

\* Water distribution in fountains and jugs.

### SALE OF BOTTLED WATER BUSINESS IN ITALY

→ In November 2004, DANONE reached an agreement with LGR Holding for the sale of its subsidiary Italaquae, number three in Italy for bottled water. Italaquae has an 8.5% share of this fiercely competitive market, reporting sales of €150 million in 2004.

### PACKAGING: WATER GETS A FRESH LOOK IN 2004

→ In Germany, Evian is now available in Tetra Pack packaging, while in France Badoit came out in bright red—a first for bottled water.

### EVIAN IN CHINA

→ In March 2004, the Evian spa opened in Shanghai, showcasing the brand for the Chinese market.

### LEADING POSITIONS WORLDWIDE\*

- No. 1: Argentina
- No. 1: China
- No. 1: Spain
- No. 1: Indonesia
- No. 1: Mexico<sup>1</sup>
- No. 1: Germany<sup>2</sup>
- No. 2: France

\* based on sales volumes  
1 bottled water.  
2 still water.

**b**everage sales reached €3.4 billion in 2004, for an organic rise of 7%. This was achieved despite unfavorable conditions that included higher prices for raw materials, in particular PET, now used for most bottles, as well as the euro's rise against the dollar and yen, and a cool summer in Europe. Much of the impetus came from Latin America and Asia, now emerging as the drivers for fresh growth. In Asia alone, sales were up by over 14% to nearly €1.3 billion. Aqua in Indonesia and Wahaha in China together account for almost all volumes in Asia. In Latin America, the main sources of momentum were Argentina, where Ser, a brand focusing on fitness and weight control, reported a rise of more than 300% in volumes to over 100 million liters and, even more, Mexico, where sales were up around 30%. Already number one for bottled water in Mexico with its Bonafont brand, DANONE reinforced its positions in home and office deliveries, taking control of Arco Iris, one of the leading local contenders on this market (see also p.32). Results in Europe were more uneven, with the situation varying significantly from country to country. Positive trends included

double-digit growth in the UK, recovery in Germany and continued resilience in Spain. These nonetheless offset weaker performances in France, where business suffered from cool summer weather, contrasting with the heat wave of the previous year, as well as declines in supermarket prices.

### Continued innovation

DANONE'S Beverage business maintained its world leadership in volumes of natural and mineral waters, with top brands including Evian, number one worldwide by sales revenues, Volvic, Wahaha in China, Indonesia's Aqua, which posts the world's highest volumes, and Bonafont in Mexico. Aiming for new sources of growth based on market segments rather than geographical expansion alone, the business line continued its development of flavored waters, making the pleasures of natural flavors its main focus to attract health-conscious customers with refreshing, low-sugar alternatives to traditional soft drinks.

### Winning new customers

As in 2003, business units in other countries continued efforts to ●●●

## Beverages key figures

€ millions	2000	2001	2002	2003	2004
Sales	4 141	3,796	3,691	3,557	3,427
Organic growth*	+8.4%	+7.1%	+4.3%	+9.9%	+7%
Operating income	513	432	464	537	494
Operating margin	12.4%	11.4%	12.6%	15.1%	14.4%
Cash flow from operations	537	519	556	583	532
Depreciation and amortization	302	276	269	234	198
% of sales	7.3%	7.3%	7.3%	6.6%	5.8%
Capital expenditure	395	321	236	208	150
% of sales	9.5%	8.5%	6.4%	5.8%	4.4%
Employees	31,042	42,556	40,124	39,126	39,148

\* At constant structure and exchange rates



## New horizons in Asia and the Pacific

**SIMON ISRAEL**, Executive Vice President, Asia-Pacific, reviews the performance of DANONE's beverage operations in the region, which accounts for 42% of the line's sales.

### What were the main developments for beverage business in Asia and the Pacific last year?

**S. I.** → With sales up 14%, DANONE took first place on the region's beverage market, but performance suffered from rises in PET prices and the impact of unfavorable exchange-rate variations on our export sales. Despite that, Beverages in the Asia-Pacific area accounted for 15% of the Group's growth over the year, with sales topping €1.4 billion and making up 10% of the consolidated total.

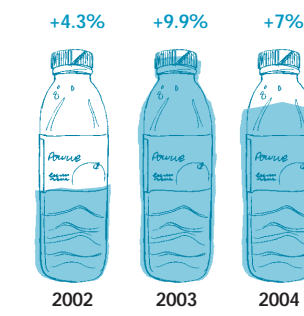
**What are the main sources of growth momentum for Beverages in Asia?**  
**S. I.** → Innovation made

an important contribution to business last year. The main focus of growth strategy is now on functional drinks and flavored waters. In China, the success of Robust's Maidong and Wahaha's G-Vital, two high-energy drinks, reflects new demand from sophisticated city-dwellers looking for innovative products with added nutritional benefits. And in Indonesia Aqua's Splash of Fruit flavored water was a main driver for volume growth. At DANONE, we see enormous potential for continued expansion in these two different countries.

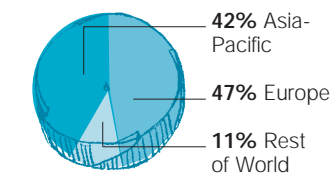
### What about Australia and New Zealand?

**S. I.** → In New Zealand, Frucor has held onto its lead in functional drinks, as well as in fruit juices, where it has 40% of the market, due in particular to the success of its Just Juice line. In 2004, the company moved into a new segment with carbonated fruit-based soft drinks, which offer a healthier alternative to the usual fizzy soft drinks. Frucor is also continuing to build up its business in Australia, where sales were up 3%, benefiting from direct store deliveries among other things.

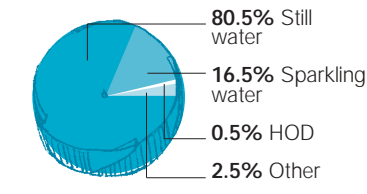
### SALES GROWTH\*



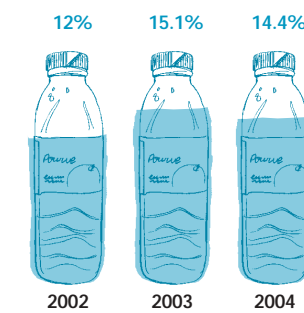
### SALES BY REGION



### SALES BY SEGMENT



### OPERATING MARGIN



\* like-for-like



## R&D (Research & Development)

### BADOIT ROUGE MAKES A BRIGHTER SPLASH

→ On store shelves since June 2004, Badoit Rouge offers customers added fizz in a bright red bottle.

Danone Eaux France aims to win a special place for Badoit, innovating to set it apart on the French market where lightly-carbonated waters are the rule. With added natural gas, Badoit Rouge contains twice as many small bubbles as most, while innovative packaging underscores its robust character, with bright red multi-layer PET\* bottles combining plastic and nylon for optimum storage. In its first seven months, Badoit Rouge was chosen by two million households and sold over 18 million liters representing 3% of the market. It won additional recognition, too: named Product of the Year by French consumers and Beverage of the Year by retailers, it also took DANONE management's Dan'Inov d'Or prize.

\* Polyethylene terephthalate.

●●● accelerate deployment of the business model developed by Danone Eaux France, which holds a market share of over 60% in flavored waters.

Their strategy is thus to build on existing strengths in bottled mineral water, expanding the scope of top brands to new segments. To this end, Volvic launched Volvic Apfel in Germany and Volvic Splash in the UK, while Aqua has put Aqua Splash of Fruit on the market in Indonesia. Danone Eaux France also continued its move into new territory with a steady flow of new products that included Volvic Strawberry, Volvic Lemon, Volvic Orange and Volvic Green Tea in 2004.

In the Asia-Pacific area and Latin America, too, innovation was a driver for growth. Functional beverages offering clearly

identified health benefits were a main lever to win new customers among city-dwellers looking for added value. Examples include new flavors added to the Ser range of low-sugar carbonated waters in Argentina, while New Zealand subsidiary Frucor launched a new carbonated water under the name H2go as well as a carbonated fruit-based drink, Just Juice Bubbles. In China, the success of Maidong high-energy drinks in 2004 bears out hopes that functional beverages will provide new impetus for growth, especially if they continue to win business away from traditional soft drinks. ●

## Ser in Argentina: an alternative to sweet sodas

In Argentina, consumers are keen on carbonated drinks, which account for 31% of the market compared with only 13% in France and Italy, but still very figure conscious. Launched less than two years ago, Aguas Danone Argentina's Ser ranges appears to be the right response, offering

the choice of still water enriched with calcium and magnesium or gently carbonated waters flavored with lime and other citrus fruit. The still water has made for an association with health, while the flavored low-calorie carbonated waters offer taste appeal—a combination

that has won the brand a large following, especially among young city dwellers. Its success is in any case beyond doubt, with sales up more than 300% to top 100 million liters in 2004. Ser now holds the number-two place in Argentina for low-calorie carbonated beverages.

### → AQUA IN INDONESIA AND ITS DISTRIBUTION NETWORK

With its 4,000 islands and 2 million small points of sale, Indonesia poses distribution problems, as Pascal de Petrini, Aqua's General Manager, explains: "The road network

in Indonesia is under-developed, there are not many motorways. The roads have deteriorated because of the climate and are often very busy." Aqua decided to create a distribution system from scratch. The company signed exclusive agreements with 70 distributors

which carry out 80% of Aqua deliveries, for 19-liter water fountain bottles and also for traditional sizes (330ml, 660ml and 1.5l). In total, 10,000 trucks bearing the Aqua logo travel the roads every day in Indonesia, servicing 1.3 million points of sale.





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.



After 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.

**LEADING POSITIONS WORLDWIDE\***  
→ No. 1: Belgium  
→ No. 1: Easten 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.

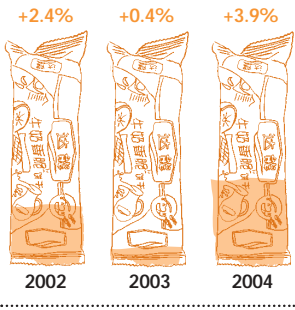
Biscuits key figures

€ 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
% os sales	2.5%	2.8%	3.7%	3.6%	2.7%
Employees	28 835	30 553	27 361	23 996	20 665

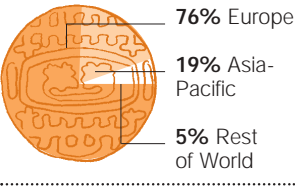
\* at constant structure and exchange rates.



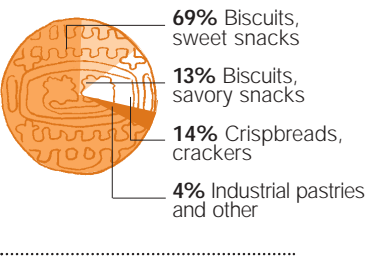
SALES GROWTH\*



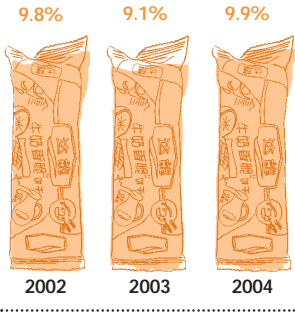
SALES BY REGION



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.



# commitment

Groupe DANONE has long been recognized for its active commitment to social progress and the environment. For the past three years, we have reinforced our heritage of social responsibility with **DANONE Way**—a practical, sustainable approach to building our corporate values into the Group's policies and aspirations.

**b**oth public institutions and society at large are increasingly committed to sustainable development and social progress, with recent developments including ratification of the Kyoto protocol, incorporation of an Environment Charter into the French constitution, the campaign against obesity, and the Sarbanes-Oxley Act. In line with our tradition of corporate responsibility, DANONE is pursuing an ambitious policy on all these fronts. In corporate responsibility and sustainable development, one of the biggest challenges for an international group is not defining broad principles, but making all employees around the world—and especially our managers—feel that they are part of our vision.

The “DANONE Way of doing business” responds to this challenge. It allows each business unit to adapt Group requirements to its day-to-day working environment, finding ways to improve employee relations, reduce the environmental impact of production sites, and improve corporate governance without losing sight of local needs.

DANONE Way defines benchmarks for the Group's commitments to employees, consumers, customers, suppliers, shareholders and society at large. Focusing on food safety, human resources, ethics and other areas of social responsibility, it uses an interactive tool on our intranet. Each business unit assesses its own performance against a set of best practices. Employees are brought into the process, whatever their status and function, as working groups discuss practices, help their Management Committee assess the business unit's performance, and—most importantly—contribute ideas for improvement. Self-assessment ensures that the business units are genuinely committed to adopting the program and moving ahead—and their motivation is all the greater because they set these goals themselves. Repeated every two years and supplemented with external audits, DANONE Way assessments measure progress to date and identify new challenges for the future. By late 2004, the program had been deployed in 60 of the Group's business units, from China to Mexico, South Africa and Europe. Providing snapshots of cur-

rent situations, DANONE Way helps the Group maintain a comprehensive, up-to-the-minute view of its policies, goals and values.

## Shared tool for global performance

DANONE Way is a powerful engine for global performance and sustainable growth. Success in the marketplace depends on anticipating risks and considering the needs of the society around us. And the DANONE Way program helps the Group build relationships of trust with all stakeholders—suppliers, distributors, industrial partners, employees, consumers as well as local communities.

After only four years, DANONE Way has proven its effectiveness in disseminating, sharing and enhancing a corporate culture that is grounded in DANONE's dual commitment to business success and social progress—dedicated to the conviction that economic and social progress go hand in hand.



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P.060



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For more information, see the **DANONE 2004** Social and Environmental Responsibility Report



# Working together for children

Children have a special place at DANONE. A broad range of our products, with the familiar logo depicting a child looking up at a star,

are favorites with youngsters in many countries. Which has made it only natural for DANONE business units to launch dozens of programs and initiatives on behalf of children around the globe. In June 2004, French soccer great Zinedine Zidane, the symbol of our long-term commitment to young people, became DANONE's ambassador for children's programs worldwide. Our eleven-year partnership, remarkable for both its longevity and its purpose, has a single goal: helping youngsters "believe in their dreams." This is not about advertising or product promotion—just a shared desire to combine Zidane's fame and the Danone brand to inspire, create and

expand programs for children. Projects naturally include sponsorship of soccer and other sporting events around the world, including the Danone Nations Cup soccer tournament, a dream come true for over 2.5 million youngsters each year. But support also extends to outreach programs like DANONE Children's Day, which for the past three years has encouraged Group business units and employee volunteers to support local children's causes. Rallying hundreds of employees at 100 DANONE sites, the event benefits over 100 charities working for disadvantaged children in 31 countries. A commitment Zinedine Zidane takes to heart.



"For me the most important thing is being able to give back to other people, and to children in particular, my own happiness—the joy they've given me. DANONE has the same desire to share, and to inspire dreams in thousands of youngsters. A commitment to putting things in motion." **Zinedine Zidane**

## DANONE takes a stand

The Group spells out its convictions and commitments in a Food, Nutrition and Health Charter.

Good nutrition means health and well-being. That fundamental idea has been rooted in the history of DANONE from the days when the benefits of Evian mineral water were first discovered in 1789, when LU baked its first biscuits rich in cereals in 1846, and when Isaac Carasso made the first Danone yogurt in 1919 to help fight intestinal disorders. And the same philosophy still guides us. Today, with food companies expected to be more responsible and vigilant than ever, the Group has set out its convictions and commitments in a Food, Nutrition and Health Charter, championed by both Danone Vitapole, the Group's International Research Center, and DANONE's Secretary General. At DANONE, we prefer action to words. Which means our Charter is based on real-world practices, many

built on long experience. Its aim: to serve as a practical guide for DANONE business units around the world.

### Clearly defined commitments

The Charter reaffirms our core convictions on food, nutrition and health—the need for a balanced and varied diet, the benefits of enjoying meals with others, and the importance of consumer information. It defines nine basic commitments covering products, research, relationships with health professionals and public authorities, and communications. To take one example, DANONE is committed to using its R&D expertise to offer products matching varied tastes and nutritional needs. Essential to honoring this commitment are the methods for evaluating the nutritional quality of products developed by

Danone Vitapole researchers. DANONE is also committed to sharing knowledge and research findings with health professionals, authorities and the general public. To meet the need for transparency and consumer education, we are in the process of adding nutrition labeling to all products, and are expanding our information services through magazines, websites and call centers staffed by dietitians. All health and nutrition claims are backed by scientific evidence. A case in point: over 30 scientific studies attest the health benefits of Actimel, Activia/Bio and the cultures they contain.

The Food, Nutrition and Health Charter, together with Groupe DANONE's convictions and commitments, can be found on line at [www.danone.com](http://www.danone.com).



### Danone Institutes: promoting health and nutrition for 13 years

There are now 15 Danone Institutes worldwide, with over 200 internationally recognized experts on their advisory boards. Their mission is to foster nutrition research and favor healthy eating for people everywhere. Since 1991, Danone Institutes have supported over 600 research programs, organized more than 130 conferences involving 24,000 professionals, and published 72 scientific works.



## Guidance for suppliers



Guiding suppliers towards greater respect for fundamental social principles is a critical component of DANONE's commitment to social responsibility. Over the past two years, our Respect program has translated this goal into action, adapting to varied local conditions and fostering constructive dialog with suppliers. Broad in scope, Respect involves all our suppliers, several Group divisions and all business lines.

### Working in partnership

"We have developed practical tools to give managers a more accurate picture of suppliers' working conditions and to help them work with suppliers to design and implement corrective action where necessary," explains Stephan Arino, head of the Respect program. Non-discrimination, freedom of association, employee safety and other fundamental workers' rights defined in

international labor conventions are incorporated into the General Terms & Conditions of our purchasing contracts, and managers work in partnership with suppliers to improve compliance in day-to-day operations. "The first step is for the manager to visit local suppliers' production facilities and assess working conditions on the basis of 15 criteria, including the presence of fire extinguishers, employee diversity, and the level of access allowed to the manager during the visit," says Stephan Arino. "Where necessary, we recommend a social audit by a specialist and in some cases we draw up an action plan and a timetable." This approach is increasingly common, with 25 audits recently performed in under 18 months. In every case, the goal is to find practical solutions in cooperation with the supplier.

→ Putting principles to work. Ever since eco-packaging emerged in France in the 1970s, DANONE has incorporated eco-design into packaging as part of a continuing drive for environmental quality. In June 2001, the Group pledged to cut packaging weight by 10% within ten years, a commitment echoed in the DANONE Way program's emphasis on the environment in general and eco-design in particular.

# Reducing the impact of packaging

We know that economic development and industrial expansion create major challenges for society. In response, Groupe DANONE is moving to integrate environmental concerns into every stage in the business process from the start—making production sites more environment-friendly, promoting integrated farming and reducing the environmental impact of packaging. On this last point, increased use of eco-design has begun to offer new solutions.

### A virtuous circle

"Our approach calls for clearly defined steps throughout the industrial process, from sourcing the raw materials to recycling the package," explains Jean-Pierre Rennaud, Groupe DANONE's Environment Director. "Eco-packaging is part of a virtuous circle: by reducing packaging weight and consumption of raw materials, we reduce our environmental impact and cut production costs at the same time."

Examples include lighter packaging for Crème de Yaourt, implemented successfully since October 2004, which now saves 800 metric tons of materials a year.

### A cross-functional approach

Our success results from cross-functional efforts, with teams from the Group's Research and Development, Marketing and Purchasing divisions working closely with our suppliers. "For this kind of project to succeed,"

insists Jean-Pierre Rennaud, "everyone in the production chain has to step up and be accountable." Eco-packaging involves varied challenges: packaging size has to accommodate marketing needs, and technology has to meet product storage and distribution requirements—all without distorting the consumer's perception of the product. A tall order, but with cooperation among all our divisions, DANONE is on the way to finding a solution for this complex puzzle.





## Mexico embraces dual commitment



To grow business in Mexico, DANONE is banking on our dual commitment—the conviction that business success goes hand in hand with social progress. Putting this into practice means combining attention to people with a realistic view of social conditions. Danone de Mexico first began tackling this challenge in the mid-nineties.

### Social progress...

At the time, the situation was dire: Mexico was in the grip of a serious economic crisis, and the future of the business unit was in doubt. Rather than adopting a purely economic strategy to rebuild market share, Danone de Mexico turned to employee development, inspired by the simple idea that a business cannot grow unless its people prosper—the very heart of the dual commitment to business success and social progress expressed by Antoine Riboud in 1972. Danone de Mexico thus launched varied initiatives to forge closer ties with employees and motivate them in working towards business goals. More broadly, these programs were designed, in the words of one Mexican manager,

to make the company “a close-knit family” pulling together to overcome difficulties.

### ... yields business success

Today the economic crisis is only a memory, but the employee programs are still going strong, says Luis Olvera, Human Resources Director for Danone de Mexico. “In 2004, we donated a percentage of our sales to charities helping sick children, and the program was expanded to include the children of employees unable to afford particularly expensive medical treatments. During the year, Danone thus provided care for 34 youngsters.” Also in 2004, Danone de Mexico established partnerships with Mexican universities to meet the combined goal of recruiting tomorrow’s managers and preparing Mexican students for the job market, showing them what companies need and teaching them to interview successfully. The Mexican version of Groupe DANONE’s dual commitment has been a success: 99% of Danone Mexico employees say they are happy to work at DANONE, and surveys confirm that a large majority of consumers consider Danone a socially responsible business. More recently, Danone was voted the “best company to work for” in Mexico. All in all, a recipe for future success.

For more on Mexico, see also p.32.



→ In the days immediately following the disaster, the Group’s Indonesian business units set up a special team—DANONE for Aceh—and began distributing tens of thousands of bottles of water, packages of biscuits and dairy drinks brought in to North Sumatra by helicopter. In India, Britannia employees sprang into action, sending several tons of biscuits to the Andaman and Nicobar Islands along with other food supplies, clothing and tents. The rest of the Group’s business units quickly followed suit.



©SIPA

# Solidarity for Asia

Immediately following the tsunami that devastated Southeast Asia in December 2004, Groupe DANONE and its employees rallied to help the victims. In the interest of efficiency, the Group initially focused aid on Indonesia, where the tsunami hit hardest and where the Group has a particularly strong

presence, pledging to distribute several million DANONE products to communities in the Aceh area on the island of Sumatra.

### Coordinated efforts

“Within a few days, we had set up a crisis center and our DANONE for Aceh program. We then offered our help to the

NGOs and international agencies on the ground,” explains Owen Ow, President of Danone Indonesia. He continues “In a crisis like this, the important thing is to make sure that efforts are properly coordinated.” By late February, with the support of the Group’s three Indonesian business units, their local distributor Pak Yunus, and the army, the team had already distributed two million bottles of Aqua water, two million packages of Biskuat biscuits and 800,000 bottles of Milkkuat dairy drinks.

### Support from around the world

Despite difficult conditions and the often complex logistic and political challenges, several of the Group’s employees chose to devote their time to the project in the awareness that no amount of help could ever match the extent of the devastation. “Faced with a disaster of this magnitude, you can never do enough, although

I’m convinced we did what could be expected of a company like DANONE,” notes Owen Ow. This willingness to be useful spread across the Group, and many DANONE employees around the world expressed interest in making personal contributions to the relief effort. As part of DANONE Solidarity for Asia, the Group formed a partnership with the International Red Cross to meet the most immediate need: funds for emergency aid. By late February 2005, employee donations supplemented by contributions from several business units totaled €420,000, with all amounts transferred to national branches of the International Red Cross and Red Crescent. In addition to the emergency relief, Groupe DANONE is also addressing the long term with plans to launch a community service program to assist the more than 3,000 Aceh schools damaged or destroyed by the tsunami.



# management

→ 063

Human resources underpin growth, with individual and collective development a **major performance driver** at DANONE. Interviews with managers about key initiatives.



★ LUCIE LE FRANCOIS,  
Manager, Supply Chain Logistics and Value Chain,  
Danone Canada



★ DJEROUD LAHLOU,  
Manager, Operations, Danone Djurdjura,  
Algeria



★ MALGORZATA DMOWSKA,  
Logistics Director, LU Poland



★ ALEXANDRA MICHALON,  
Junior Controller, Danone Waters Germany



★ WANG YE RILEY,  
Manager, Supply Chain Logistics and Value Chain,  
Robust, China



★ EVELYNE LLAURO BARRES,  
Form Methods Manager, Groupe DANONE, France



★ SIMON BESTEL,  
Category Sourcing Buyer, Danone Vitapole



★ NATHALIE GRANGE,  
Junior Buyer Sub-contracting, Danone France



★ ROMAN BEKMANSUROV,  
Investments Buyer, Danone Russia

**g**roupe DANONE has built a large part of its success and international reputation on its human and social policy. A pacesetter in training and profit-sharing, DANONE was also one of the first companies to sign international agreements with union organizations. Today, Group business units in many countries are regularly ranked among the best local employers. And in a fast-moving business context, DANONE continues to reinvent its human policy to meet new challenges.

## Continuity and change

For over thirty years, human resource and relationship management at DANONE has been based on the conviction that there can be no sustainable business development without human development. The two go hand in hand, even as conditions change—for clearly, expectations today are not the same as in the past, with new challenges appearing all the time. To maintain its focus, DANONE must constantly adapt, extend and reinvent its HR model. Priorities are set out in a document that has just been reissued in its fourth edition since 1974.

## Attitudes, behaviors and individual development

This new policy responds to new challenges in corporate strategy and social affairs, with issues ranging from globalization and expansion in emerging economies to social responsibility, employment issues in certain countries, and the lack of resources in others. Targets for profitable and sustainable growth are also addressed. A top priority is employability. In a world where no employer can guarantee a job for life, DANONE focuses on helping each employee develop and maintain the skills they need to retain their appeal in the job market. Long committed to assisting employees affected by restructuring, the Group also identifies and promotes new skills required in today's workplace, facilitating internal mobility and placements through training. The approach illustrates how business success and social progress go hand in hand—the company's interests are clearly served by enhancing the pool of skills available, while employees emerge better prepared to pursue career paths in-house or even outside of DANONE (see also p.66).

In a general way, training is clearly one of the great challenges shaping performance in the years ahead, especially for managers responsible for rallying teams

to shared values, stimulating motivation and development.

A corporate training program for management launched in 2004 will revisit this area. Rather than focus on specific technical expertise, it will develop a shared management language, as well as attitudes and behaviors that reflect Group values at every level. The focus is individual development, extending well beyond strictly professional considerations and based on a simple observation: performance is directly affected by a company's capacity to promote employee satisfaction in the broadest sense, and thus its capacity to take into account each person's individual goals and aspirations.

The findings of the survey taken every two years of 8,500 managers bear out this observation.

A firm belief that attitudes and behavior make a critical difference explains another DANONE priority in human resource management. We are dedicated to making networking—the spontaneous exchange of good practices from all over the world—a reflex for all Groupe DANONE managers (see also p.30). In this key area, success hinges not only on procedures and methods, but also on each person's capacity to take on board new ideas—an approach that sums up DANONE's approach to human relations. ●



**Where many companies offer different training courses at one venue, DANONE takes a different approach. Campus is not a virtual university, but a mobile one—flexible and in touch with markets around the world.**

The concept is simple: schedule most management training over a week at one site, several times a year, and bring in participants from around the world. But Danone Campus takes this basic ideas one step further by changing sites each time. From Buenos Aires to Paris, New York, Evian and Marrakech, Campus moves from one continent to another, one hemisphere to the next. The benefits are clear. First, by attending training sessions at one site, managers from different countries and functions have more opportunities to meet up with their counterparts. Alongside traditional courses by business line, sessions thus address cross-functional issues, while salesmen, marketers, buyers and human resource managers can attend specialized workshops, then meet for input on research or social responsibility. Secondly, staying a full week in a country fosters close contacts with local DANONE operations, highlighting the real challenges and specificities of a particular region or country. Thirdly, the university has no expensive, permanent structure to manage year-round. Three years after its first sessions, Campus remains a successful “traveling university”, meeting three or four times a year. Concretely, sessions bring together several hundred managers from across the Group,

drawn from different countries, regions and business lines. The 12th session, held in December 2004 in Morocco, gathered 430 managers, junior staff and management committee members representing over nine functions altogether. Input sessions were organised by business line, with content from universities or well-known consultants adapted to a variety of levels. There were also general management training workshops for all participants, including “coaching and development” and “training trainers” sessions under the Odyssée management development program. Finally, a team from the Centrale Laitière dairy, which manages DANONE Fresh Dairy Products in Morocco, presented their approach to sustainable development. The aim throughout is simple: help individual participants to progress and—just as importantly—learn how to motivate their own team once they are back home. Clearly, the value of the sessions goes beyond training input alone. “Campus is a formidable meeting point for ideas and exchange,” says Franck Mougins, Executive Vice-President, Human Resources, “and a key vector for disseminating our management culture.” For participants, a networking attitude\* takes on real meaning, while forums and other events facilitate the sharing of knowledge and experiences, even as informal exchanges bring them together at other moments.

\* An approach to exchanging best practices and ideas used by the Group's managers to improve performance.

#### INPUT AT EACH LEVEL

→ Adapting products to local markets, improving inventory tomorrow's commercial successes and launching a recruitment campaign are just a few of the themes tackled by participants at Campus sessions.

These hands-on training seminars present tools that can be put into use immediately across a broad range of issues. Junior staff members gain understanding of fundamentals, while experienced managers benefit from advanced training, and senior directors take master classes to revitalize their technical and management know-how while sharing best practices.

# Campus

a corporate university on the move

## Training programs based on everyday situations...

“The professional and management skills courses we present at Campus have incorporated a pragmatic approach and active exchange from the start. Content is prepared and presented jointly by an external speaker and an experienced DANONE manager. The aim is to identify everyday problems and bring participants up to speed on

the tools available to help them resolve these. We cover key theoretical concepts, but more importantly, give participants a common vocabulary and very concrete solutions. Our teaching uses the direct approach, which means we can adjust the initial program to address problems or issues raised by our students.”



★ NICOLAS THUILLIEZ, from consultants Proconseil leads Quality training sessions at Campus.

## ...offering concrete tools and solutions

“Based on good business practices, Danone Campus enables managers to acquire tools that can be directly applied.” Thus Mathieu Vallée, Supply Chain Manager at LU France, found concrete solutions for managing a multitude of product references (many food forms, flavors, packaging, etc.). Team management skills are also

in the spotlight: in one of the many role-plays, Selma Chouni interviewed Michel Tobaldo, Purchasing Director Italy, for a job; thirty years her senior, he has several hundred managers reporting to him. The experience was extremely enriching, bringing insights from an experienced director to her own experience as a young executive.



★ Campus participant MATHIEU VALLÉE, Supply Chain Manager at LU France



**A global program adapted to local needs, Evolution aims to develop the employability of Group personnel, particularly non-managers. The project is partly based on a new contract linking DANONE and its employees.**

In an economic context where professions change quickly and jobs for life no longer exist, the Evolution program, launched in 2004, has a dual goal: underpin company performance by continually developing employee skills, and promote active job security by encouraging mobility and professional development. What makes Evolution special is that it addresses non-managers. "Non-managers represent 79,000 people throughout the world, or 88% of the Group's personnel," explains André Mathieu, director of Organization Development for Operations functions. "For the most part, these employees hold operator, administrative or sales positions." Yet until recently they had fewer career management tools than managers. For example, a large majority of DANONE's 8,500 managers undergo a formal performance review each year, whereas less than 20% of non-managers have had a development review interview in the past three years. "This situation is all too common—and totally unsatisfactory," says Franck Mougin, Executive Vice-President, Human Resources. Enter Evolution, a program designed to preserve and improve the professional attractiveness of employees, both in-house and vis-à-vis external employers.

Four types of complementary actions are used to achieve this: training, adaptation of workplace organization, formalization of career paths and, finally, partnerships. A database summarizing good practices and a series of indicators help facilitate and measure deployment. "These are based on existing local practices," notes André Mathieu.

#### Joint responsibility

Before 2008, all DANONE business units must have set up concrete programs to achieve five key objectives: basic skills—reading, writing, basic math—for each employee, skills which are lacking in many markets recently entered by DANONE; at least 23 hours of training per year; introduction of a "Skills Passport" setting out in writing positions held, skills developed and training courses taken; an annual performance review for each employee; and finally, the possibility of working in another position every five years. The Evolution program is also based on a new contract between the Group and its employees. "Our program is based on an agreement establishing joint responsibility for development," says André Mathieu. For both employer and employee have a role to play in improving job security: "One creates working conditions favorable to skills development, while the other is responsible for his or her own professional development." The second principle underlying the program is adaptation to local practices and local contexts.

#### Local application

"Evolution targets operations worldwide, but its application can only be local," notes André Mathieu. Each business unit tackles the program's priorities in light of features specific to its own workforce, focusing on initiatives that are most appropriate. Thus the Centrale Laitière in Morocco launched a reading and writing program for its employees to combat illiteracy (see also p. 67). In Russia, where the job market is very fluid, it was important to recruit, train and retain personnel (see also p. 68). In France, where the challenges are different, DANONE set up Evoluance, an adaptation of Evolution that offers training leading to official qualifications. Employees can apply for a national qualification, submitting documentation attesting to their professional skills. Altogether 423 Group employees have already followed this path. While the situation varies from country to country, plans call for all Group employees to be involved in Evolution over the four coming years.

#### KEY FIGURES

**16** pilot sites worldwide  
**23** hours: minimum target for training hours per employee per year

#### THE EVOLUANCE PROGRAM IN FRANCE:

**423** employees training for qualifications (with over 30 certificates/diplomas available).

# Evolution

meeting the employability challenge



★ XIANGDONG ZHANG,  
Director, Human Resources, Danone Biscuits China.

## Developing skills management

"As a pilot unit for Evolution, we've learned a great deal from this program—even if our current concern is recruitment rather than staff employability. An evaluation of the organization and procedures in our three plants highlighted our need to focus on people development and career management if we want to advance. A classification of

positions was drawn up in one of our plants, to match employee positions with skills. We are also introducing a Skills Passport for each employee. These initiatives will help attract talented people from the job market, develop skills of our existing employees and promote internal mobility."



★ ABDELALI BENNAJI,  
Director, Human Resources, Sale plant, Centrale Laitière, Morocco.

## Promote a wider range of skills

"Four years ago, we launched a literacy program in Arabic. Among our 250 employees—all excellent technicians—many could not read or write. We based our program on functional modules that our operators found very motivating: manufacture, hygiene and best practices in quality assurance. The aim was to equip our employees

to perform a range of tasks, which is indispensable these days. It's a win-win situation: the employer wins because the employees perform better and participate more actively in achieving the company's objectives, while the employee wins by acquiring new skills for further career development."



**When business is expanding fast, human resource management is the most difficult challenge of all—from recruitment and training to adding to the responsibilities of existing staff. Expansion of the Chekhov plant in Russia, which aims to increase production capacity three-fold over three years, is a good example. Staff must take changes in stride.**

#### THE FRESH DAIRY PRODUCT MARKET IN RUSSIA

**+7%**, average annual growth over four years  
**7** kg per year, per capita consumption

#### DANONE IN RUSSIA

**2,245** employees (over 30 different professional qualifications)

**2** plants

**€217** million (+63% vs. 2003) in sales (Russia and Ukraine). Groupe DANONE is No. 2 with over **20%** market share in value.

Main brands: Danissimo (1999), Rastishka (2000), Activia (2001), Actimel (2002).

# Adapting

## Talent serving business

Forty kilometers from Moscow, the Chekhov plant employs 300 people and produces 80,000 tons of dairy products per year (Danonino, Activia and more). Output no longer meets demand, as Jim Dwyer, General Manager, Danone Russia, explains: "With demand for dairy products growing 14% a year, our sales volumes soared 45% in 2004. It was time to scale up production facilities." Rather than build a third dairy-product plant in Russia, the Group opted to expand operations at the existing Chekhov site and increase production to 170,000 tons before April 2005, with a new Actimel line up and running by March. In 2007, the factory should be able to produce up to 350,000 tons of dairy products a year. "At our new Chekhov facility, success hinges on our ability to guide human resources and management, as much as on production and output. The challenge is to ensure that scaled-up production is accompanied by suitable HR development in a country where there are many young, well-educated graduates who, for the most part, lack practical experience,"

notes Jean-Christophe Laugee, Human Resources Director Danone Russia, adding "Staff turnover also tends to be high in Russia." With more than 120 positions to fill in a few months and 300 before the end of 2006, the challenge is daunting. Danone Russia opted to tackle this complex issue in the spirit of DANONE's longstanding commitment to business success and social progress by focusing on internal promotion and recruitment of local young people. It also set up an ambitious training scheme. To date 34 front-line supervisory positions—the keystones of the plant's new structure, which relies on autonomous production units—have been filled internally by promotion. The aim is clear: attract and retain motivated talent, and offer attractive career paths. For new recruits, Danone Russia has set up a selection system based on strict criteria including potential for in-house development and the desire to learn new skills and perform a variety of tasks. Wide-ranging training initiatives have to give employees the skills they need to cope with new industrial procedures. "The training sessions began in September 2004. They include modules on Group quality standards and safety," notes Stéphane Batoux, head of Operations at Danone Russia. "We capitalized on experience from neighboring business units: for example, a dozen employees went to Poland for training in the very specific manufacturing process used for Actimel. They brought their Polish counterparts' expertise and experience back to Russia."



★ JEAN-CHRISTOPHE LAUGÉE, Human Resources, Danone Russia.

## Develop employee skills and create loyalty

"Expanding the plant was an ideal opportunity to review our human resources policy to foster employee loyalty and convince people that a career with Danone Russia is an excellent choice. This leads us to set up a job classification and compensation system reflecting employees' positions and skills. Training

sessions helped develop new skills so that operators could handle several functions. Today, front-line supervisors can work a minimum of two different procedures. Finally, we used the extension work to improve our general working conditions, renovating common areas such as meeting rooms."

## Facilitate the transfer of skills

"By March 2005, Chekhov will be the only DANONE plant using so many different dairy technologies—producing Actimel, yogurt drinks, traditional yogurts, fromage frais and more. For this to be a success, skills development is essential. Which is why, starting in the second half of 2004, we focused on technical

training for new procedures, quality standards and management expertise. To facilitate the transfer of skills, we built a learning center within the Chekhov plant with a library where operators can consult management books in Russian."



★ VLADIMIR MYAKOTIN, Head of the extension project at the Chekhov plant.



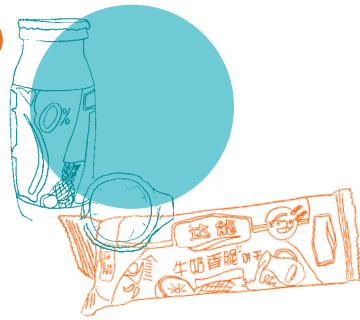


**Véritable Petit Beurre : 72 % de blé.**



→ 72

# 2004 key figures



KEY FIGURES → 073

## → KEY FINANCIAL FIGURES\*

	2003	2004	CHANGES
€ millions			
Net sales	13,131	<b>13,700</b>	7.8% <sup>1</sup>
Operating income	1,604	<b>1,705</b>	
Operating margin	12.2%	<b>12.4%</b>	22 bp
Net income (excl. exceptional one-time items)	839	<b>917</b>	+9.3%
Exceptional one-time items (net)	0	<b>(600)</b>	
Net income (attributable to the Group)	839	<b>317</b>	
Cash flow from operations	1,460	<b>1,628</b>	
Capital expenditure	543	<b>526</b>	
Free Cash Flow <sup>2</sup>	1,110	<b>1,260</b>	
Purchase of businesses and other investments	1,088	<b>98</b>	
Net earnings per share (excluding exceptional one-time items)	3.22	<b>3.58</b>	+11.2%
Net dividend per share (€) <sup>4</sup>	1.22	<b>1.35<sup>3</sup></b>	+10.2%
Return on capital invested	12.7%	<b>14.4%</b>	
Net debt	2,692	<b>1,385</b>	
Stockholders' equity (including minority interests)	5,528	<b>5,294</b>	
Debt/equity ratio	49%	<b>26%</b>	
No. of shares at Dec. 31 ('000) <sup>4</sup>	269,950	<b>268,095</b>	
Share price at Dec. 31 (euros) <sup>4</sup>	64.7	<b>67.95</b>	
Market capitalization at Dec. 31 ('000,000)	17,464	<b>18,217</b>	

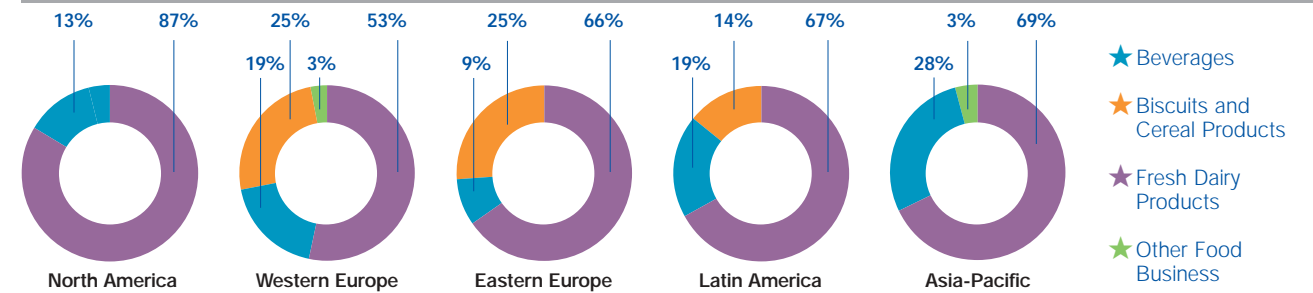
(\*) From January 2005, all financial data will be prepared in accordance with International Financial Reporting Standards. Financial information under IFRS for the year 2004 is available in the DANONE 2004 20-F or at [www.danone.com](http://www.danone.com) – (1) At constant exchange rates and scope of consolidation. – (2) Including the impact of the securitization program – (3) Subject to the approval of the General Meeting to be held on April 22, 2005. – (4) Figures for 2003 have been adjusted following the two-for-one stock split in June 2004.

## → NET SALES AND OPERATING MARGIN OVER 5 YEARS

	2000	2001	2002	2003	2004
€ millions					
Net sales	14,287	14,470	13,555	13,131	<b>13,700</b>
Published change	+7.5%	+1.3%	(6.3%)	(3.1%)	<b>+4.3%</b>
Like-for-like change <sup>1</sup>	+7.0%	+5.1%	+6.0%	+7.2%	<b>+7.8%</b>
Operating margin	10.8%	11.1%	11.7%	12.2%	<b>12.4%</b>

(1) at constant exchange rates and scope of consolidation

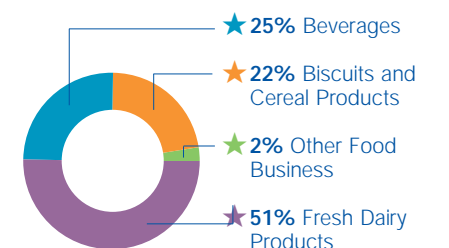
## → NET SALES BY REGION AND BUSINESS LINE



## → NET SALES BY BUSINESS LINE

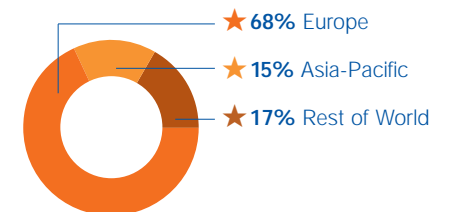
	2003	2004
€ millions		
Fresh Dairy Products	6,185	<b>6,914</b>
Beverages	3,557	<b>3,427</b>
Biscuits and Cereal Products	3,071	<b>3,041</b>
Other Food Business*	318	<b>318</b>
<b>GROUP TOTAL</b>	<b>13,131</b>	<b>13,700</b>

(\*) Includes sauces in the United Kingdom (HP Foods), the US (Lea & Perrins) and China (Amoy). Sales increased by 0.5% at constant exchange rates and scope of consolidation and represented around 2% of the Group total.



## → SALES BY REGION

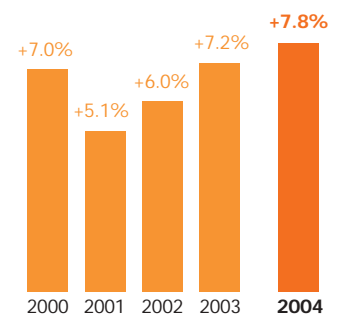
	2003	2004
€ millions		
Europe	8,876	<b>9,354</b>
Asia-Pacific	1,957	<b>2,072</b>
Rest of World	2,298	<b>2,274</b>
<b>GROUP TOTAL</b>	<b>13,131</b>	<b>13,700</b>



## → LIKE-FOR-LIKE SALES GROWTH OF 7.8%

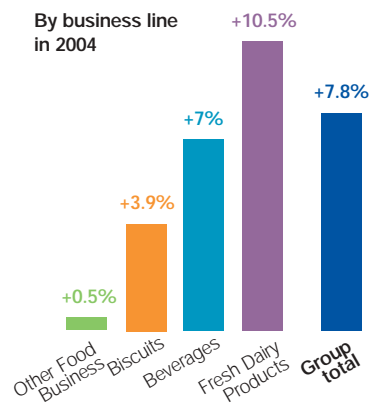
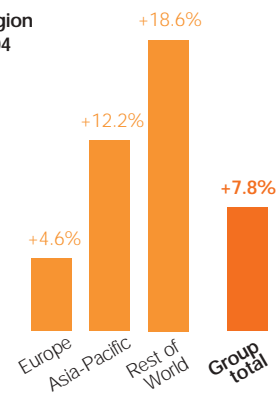
In 2004, consolidated net sales increased by 4.3%, to €13,700 million. Changes in exchange rates and in the scope of consolidation had a negative impact on net sales of 2.3% and 1.2%, respectively. The performance for the year 2004 was achieved despite the marked increase in the price of raw materials, mainly PET in Asia and Europe, and the negative impact of exchange rates (US dollar, yen) on water exports. In addition, operating

margin in the second half of 2004 was negatively impacted by weather conditions in Europe and the application of a general agreement on lowering retail prices in France. At constant exchange rates and scope of consolidation, net sales increased by 7.8% in 2004, which is the highest organic growth rate reported over the last decade. This organic growth was derived from a +5.7% increase in volumes sold and a +2.1% increase in value.





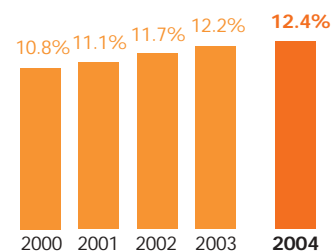
## → NET SALES GROWTH (LIKE-FOR-LIKE)

**By region in 2004**

## → OPERATING MARGIN INCREASED TO 12.4%

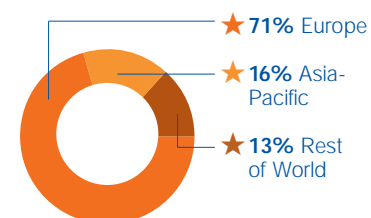
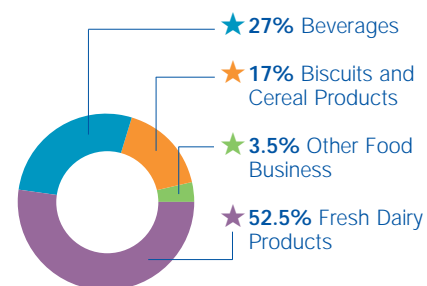
Operating margin was up for the 10th consecutive year in a row, reaching 12.4%, up by 22 basis points. Changes in the scope of consolidation had a light negative impact on operating margin. The

main changes related to the deconsolidation of HOD business in the US, consolidation of business in Turkey, and the disposal of Biscuit activities in the UK and Ireland.



→ OPERATING MARGIN AND OPERATING INCOME BY BUSINESS LINE	Operating margin 2003	Operating margin 2004	Operating income 2003	Operating income 2004
€ millions				
Fresh Dairy Products	13.7%	13.7%	845	947
Beverages	15.1%	14.4%	537	494
Biscuits and Cereal Products	9.1%	9.9%	280	301
Other Food Businesses	17.9%	19.2%	57	61
Unallocated expenses			(115)	(98)
<b>GROUP TOTAL</b>	12.2%	12.4%	1,604	1,705

→ OPERATING MARGIN AND OPERATING INCOME BY REGION	2003	2004	2003	2004
€ millions				
Europe	14.0%	13.6%	1,244	1,275
Asia-Pacific	14.3%	14.0%	279	290
Rest of World	8.5%	10.5%	196	238
Unallocated expenses			(115)	(98)
<b>GROUP TOTAL</b>	12.2%	12.4%	1,604	1,705



## → FINANCIAL DATA

## Income statement data (€ millions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Consolidated net sales	12,797	13,488	12,935	13,293	14,287	14,470	13,555	13,131	13,700
Sales growth (like-to-like)	+2.6%	+2.3%	+4.6%	+5.7%	+7%	+5.1%	+6%	+7.2%	7.8%
Operating income	1,140	1,224	1,293	1,391	1,550	1,609	1,590	1,604	1,705
Operating margin	8.9%	9.1%	10%	10.5%	10.8%	11.1%	11.7%	12.2%	12.4%
Net income (attributable to the Group)	516	559	598	682	721	132	1,283	839	317

## Cash flow data (€ millions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cash flow from operations	1,212	1,229	1,327	1,423	1,558	1,611	1,578	1,460	1,628
Capital expenditures	684	797	711	703	798	737	603	543	526
Purchase of businesses and other investments	1,140	470	485	934	2,849	1,071	495	1,088	98
Free Cash Flow <sup>1</sup>	528	537	647	622	624	1,503*	1,038*	1,110*	1,260*

## Financial position (€ millions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Stockholders' equity (incl. minority interests)	6,895	7,268	7,297	6,867	8,019	6,727	5,816	5,528	5,294
Net debt	3,289	2,752	2,873	3,119	4,401	4,827	2,269	2,692	1,385
Debt/equity ratio	48%	38%	39%	45%	55%	72%	39%	49%	26%

## Stockmarket data

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Share price at Dec. 31 (€) <sup>3</sup>	28	42	61	59	80	69	64	65	68
Number of shares at Dec. 31 ('000) <sup>3</sup>	290,556	292,288	295,700	296,544	298,172	282,066	274,670	269,950	268,095
Market capitalization at Dec. 31 (€ millions)	8,005	11,964	17,971	17,347	23,943	19,322	17,606	17,466	18,217

## Per share data (€)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
EPS (fully diluted) <sup>3</sup>	1.8	1.9	2.05	2.35	2.55	0.49	4.72	3.22	1.25
EPS before amortization of goodwill <sup>3</sup>	2.05	2.25	2.38	2.70	3.05	1.06	5.17	3.59	1.61
Dividend per share (excluding French tax credit)	0.65	0.71	0.75	0.88	0.95	1.03	1.15	1.23	1.35 <sup>2</sup>

## Personnel

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total employees	81,579	80,631	78,945	75,965	86,657	100,560	92,209	88,607	89,449
Western Europe	50,770	44,863	42,170	33,764	28,023	28,302	23,857	23,490	22,492
Outside Western Europe	30,809	35,768	36,775	42,201	58,634	72,258	68,352	65,117	66,957

(\*) Including the impact of the securitization of receivables.

(1) Free cash flow equals cash flow from operations minus working capital requirement minus capital expenditure.

(2) Subject to the approval of the General Meeting of shareholders.

(3) Figures prior to 15 June 2004 have been adjusted to reflect the two-for-one stock split that occurred on that date.



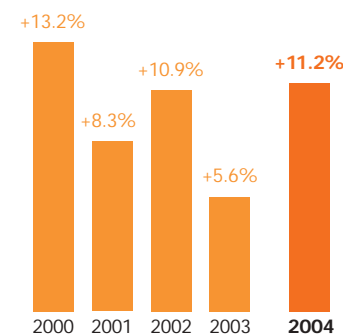
## → EARNINGS PER SHARE UP 11.2%\*

**Net income** increased from €839 million to €917 million excluding an exceptional charge of €600 million on the Group's investments in HOD businesses in the US and Europe. Excluding this exceptional charge, earnings per share increased by 11.2% in 2004.

**Diluted earnings per share** amounted to €1.25 in 2004. Excluding the exceptional charge recorded on the Group's investments in HOD businesses, diluted earnings per share would have been €3.58.

(\*) Excluding exceptional one-time items

## GROWTH IN EPS



## → PRESENCE WORLDWIDE, DEC. 31, 2004

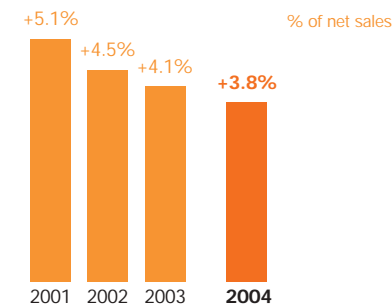
**200** plants worldwide  
sales presence in **120** countries

## → SOUND FINANCIAL POSITION

**Net debt** decreased from €2,692 million at December 31, 2003 to €1,385 million at December 31, 2004, resulting in a ratio of net debt to equity of 26%.

Capital expenditures amounted to €526 million, representing 3.8% of net sales compared with 4.1% in 2003.

## CAPITAL EXPENDITURES



## → WORKFORCE AT DEC. 31, 2004

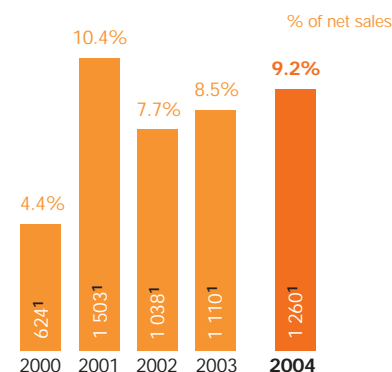
★ **33,452** people in Europe  
★ **41,027** people in Asia-Pacific  
★ **14,970** people in the rest of the world

Total workforce:  
★ **89,449**

## → CONTINUED IMPROVEMENT IN FREE CASH FLOW

**Free cash flow** showed a further improvement of 13.5%, reflecting optimization of working capital requirements and controlled capital expenditures.

## FREE CASH FLOW\*



(\*) Including the impact of the securitization program  
(1) € millions

## → WORLDWIDE RANKING AT DEC. 31, 2004—ANNUAL PER CAPITA CONSUMPTION



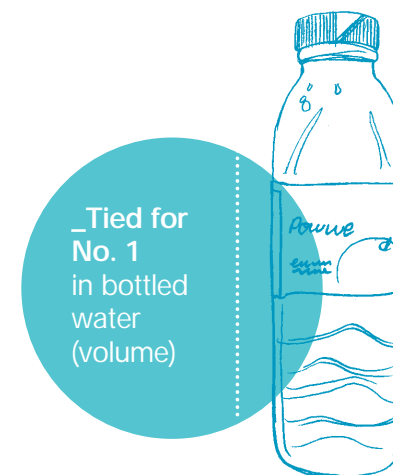
**\_No. 1**  
in fresh dairy products

## PER CAPITA CONSUMPTION (KG PER YEAR)

- 4.3: world average
- 24.8: Western Europe
- 4.8: Eastern Europe
- 14.7: North America
- 4.4: Latin America
- 1.5: Asia-Pacific
- 1.3: North Africa & Middle East

## PER CAPITA CONSUMPTION (KG PER YEAR)

- 1.9: world average
- 6: Western Europe
- 2.3: Eastern Europe
- 8.9: North America
- 4: Latin America
- 0.8: Asia-Pacific
- 0.4: North Africa & Middle East



**\_Tied for No. 1**  
in bottled water (volume)

## PER CAPITA CONSUMPTION (LITERS PER YEAR)

- 22: world average
- 101: Western Europe
- 22: Eastern Europe
- 69: North America
- 52: Latin America
- 9: Asia-Pacific
- 10: North Africa & Middle East



**\_No. 2**  
in biscuits and cereal products

## → NET SALES FOR GROUPE DANONE'S TEN MAJOR MARKETS

→ <b>France:</b> €3,600 million	→ <b>UK &amp; Ireland:</b> €813 million	→ <b>Mexico:</b> €480 million
→ <b>Spain &amp; Canary Islands:</b> €1,559 million	→ <b>Italy:</b> €651 million	→ <b>Argentina:</b> €352 million
→ <b>China:</b> €1,088 million	→ <b>Benelux:</b> €554 million	
→ <b>USA:</b> €838 million	→ <b>Germany:</b> €543 million	

## → FOR MORE INFORMATION

see the **DANONE 2004 20-F**





## → MUTUAL TRUST

Over 2004 as a whole, the CAC40 rose by 7.4% and the EuroStoxx 50 by 6.9%, with European market performances suffering from rises in oil prices and the decrease in the US dollar vs the euro in the second half of 2004. Groupe DANONE's stock price increased by 5% in 2004, outperforming the agrifood sector index (4.6%).

**This performance demonstrates the strength of the Group's business model,** which enables it to generate strong like-for-like growth, thus outperforming its competitors, and to improve its profitability despite an unfavorable economic environment in France and significant increases in some raw material prices. Average shareholders' return over the period 1999-

2004 amounted to 4.8%. In contrast, the performance of a sample composed of main food industry stocks improved by only 1.9% over the same period. In 2004, Group management maintained continuing discussions with analysts and investors, with approximately 300 contacts.

(\*) Source: Bloomberg, Dec. 31, 1999 to Dec. 31, 2004.

(†) Unilever, Nestlé, Cadbury Schweppes, General Mills, Kellogg's, PepsiCo and Coca-Cola; calculations based on stock prices translated into euros.

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0800 320 323

E mail:  
finance@danone.com

**Share buybacks and cancellations**  
2.6 million shares canceled in  
February 2004.

3.4 million shares bought back in 2004

17,328,719 own shares held at  
December 31, 2004.

**Legal limits on share buybacks  
and cancellations in France**  
A company may not hold more than  
10% of its own shares at any time.

No more than 10% of shares may be  
canceled in any period of 24 months.

Holdings of own shares and cancella-  
tions are subject to the approval of the  
Annual General Meeting.

## → SHARE OWNERSHIP (AT DECEMBER 31, 2004)

Groupe DANONE share ownership:

Institutional investors:

- France 29%
- US 15%
- UK 9%
- Other 18%

Individuals

Board members

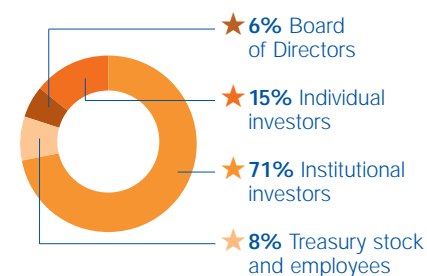
Treasury stock and employees

71%

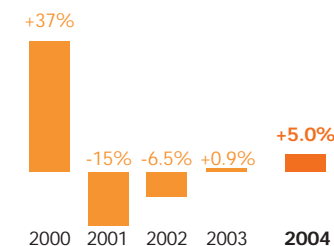
15%

6%

8%



## → SHARE PRICE 2000-2004



## → GROUPE DANONE SHARE DATA

**Nominal value:** €0.50 per share at Dec. 31, 2004

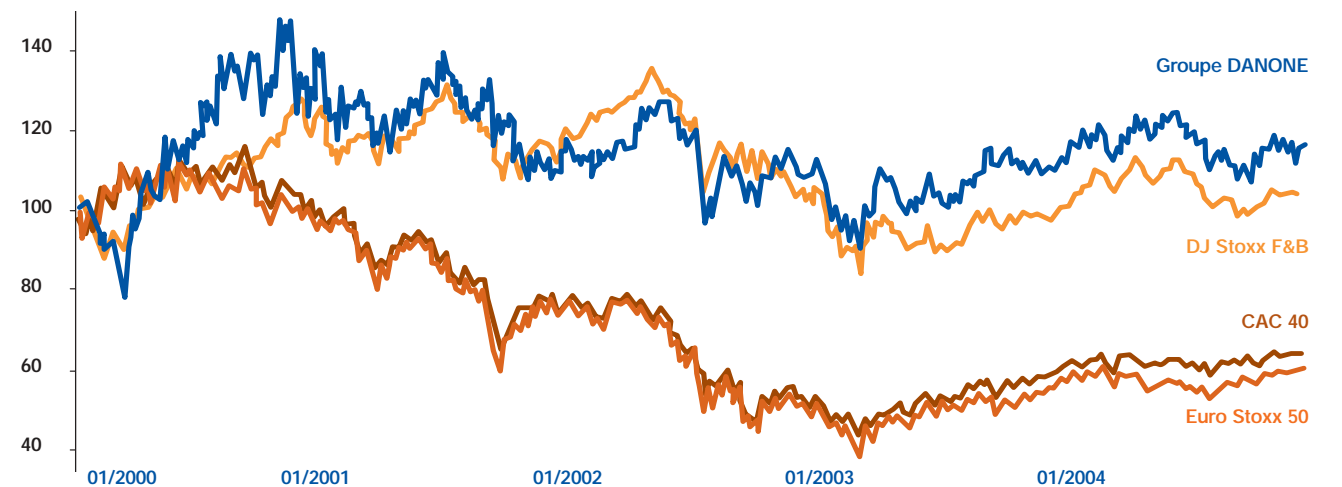
**Number of shares listed at Dec. 31, 2004:** 268,095,520

**Listings:** Euronext Paris, SWX Suisse Exchange and the New York Stock Exchange in the form of American Depositary Shares (ADS).

## → MAIN SHAREHOLDERS

At Dec. 31, 2004	% of capital	% of voting rights
Eurazeo	3.66%	7.16%
Caisse des dépôts et consignations	2.88%	2.82%

## → MAJOR STOCKMARKET INDEXES FROM JAN. 1, 2000 TO DEC. 31, 2004



## → KEY MARKET DATA

	2000	2001	2002	2003	2004
€ thousands					
Market capitalization at Dec. 31	23,943	19,322	17,606	17,466	18,217

€

Closing price for the year <sup>3</sup>	80	69	64	65	68
High for the year <sup>3</sup>	87	82	75	69	73
Low for the year <sup>3</sup>	46	62	55	52	62

€ thousands

Average number of shares traded daily <sup>3</sup>	1,200	1,180	1,574	1,599	1,271
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## → PER SHARE DATA AT DEC. 31, 2004

	2000	2001	2002	2003	2004
In thousands of shares					
Number of shares for the calculation of diluted EPS <sup>3</sup>	298,172	282,066	274,670	269,950	268,095
Number of shares representing capital stock <sup>3</sup>	282,746	285,394	274,482	263,196	257,883

€

Diluted EPS <sup>2</sup>	2.55	2.76	3.06	3.22	3.58
Growth in EPS <sup>2</sup>	13.2%	8.3%	10.9%	5.6%	11.2%
Net dividend excluding tax credit	0.95	1.03	1.15	1.22	1.35 <sup>1</sup>
Payout ratio <sup>2</sup>	37% <sup>2</sup>	38% <sup>2</sup>	36% <sup>2</sup>	37%	37%

(1) Subject to the approval of the annual General Meeting. – (2) Excluding exceptional one-time items.

(3) Figures for prior years have been adjusted following the two-for-one stock split in June 2004.





**NORTH AMERICA**  
Net sales: €1.1 bn  
8% of total sales  
No. 1 in dairy products  
No. 1 in HOD  
6,645 employees

**WESTERN EUROPE**  
Net sales: €8.2 bn  
60% of total sales  
No. 1 in dairy products  
No. 1 in biscuits and cereal products  
No. 2 in bottled water  
22,492 employees

**EASTERN EUROPE**  
Net sales: €1.2 bn  
9% of total sales  
No. 1 in dairy products  
No. 1 in bottled water  
10,960 employees

**LATIN AMERICA**  
Net sales: €1.1 bn  
8% of total sales  
No. 1 in dairy products and bottled water  
No. 2 in biscuits and cereal products  
7,892 employees

**AFRICA AND MIDDLE EAST**  
No. 1 in dairy products in South Africa  
  
DANONE has significant interests in companies with strong positions in Saudi Arabia, Morocco, Tunisia, Algeria and Israel.

**ASIA-PACIFIC**  
Net sales: €2.1 bn  
15% of total sales  
No. 1 in biscuits and cereal products and bottled water  
41,027 employees



For more information...



Social and environmental  
responsibility report  
DANONE 04



20-F DANONE 04



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**Blédina s'engage à offrir à votre bébé  
ce que la nature a de meilleur.**



- L'engagement Blédina, c'est :**
- Des vergers et des champs préservés, loin de source de pollution.
  - Des ingrédients rigoureusement sélectionnés.
  - Des contrôles réguliers des modes d'élevage et de culture.
  - Une traçabilité garantie des fruits, légumes, céréales et viandes.
  - Une cuisson à la vapeur pour préserver les saveurs des ingrédients.
  - **Aucun ajout de colorant, de conservateur ou d'arôme artificiel\*.**

\*Conformément à la réglementation en vigueur.





**DANONE**

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