

DANONE 14

**ECONOMIC
AND SOCIAL
REPORT**

BRINGING HEALTH
THROUGH FOOD
TO AS MANY PEOPLE
AS POSSIBLE



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**ECONOMIC
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REPORT**

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PREFACE

"Antoine and I dreamed of making Danone a global brand," said Daniel Carasso of his first encounter with Antoine Riboud—who had insisted on the responsibility of every business not merely to its employees, but to the wider world. In a pivotal speech just a few months earlier, Antoine Riboud had laid the foundation for Danone's dual commitment to business success and social progress, now a pillar of our corporate culture. A few decades later, his son Franck Riboud defined our mission: bringing health through food to as many people as possible. In 2014, we reached our strategic goals and reaffirmed the critical role of our four business lines, buoyed by the engagement of 100,000 employees in over 140 countries. The year was a turning point for us, bringing changes that included a new governance structure designed to create the conditions we need to build the Danone of tomorrow—and make it last. Read on to find out what we did during this transformative year and how it will make us stronger.



2014—SUCCESS FACES NEW CHALLENGES

FRANCK RIBOUD
Chairman, Board of Directors

EMMANUEL FABER
Chief Executive Officer

A CONVERSATION WITH FRANCK RIBOUD AND EMMANUEL FABER

Danone should look like—not in 2015-2016, but in 2020, 2030 and even 2050. I believe that it's my responsibility to focus most of my time on these issues, and I wanted to adapt our governance structure to reflect that. Which is why we and the Board decided to separate the Chairman's duties from those of Chief Executive Officer.

Emmanuel and I have worked together for nearly 20 years. He knows our company inside out and is totally dedicated to Danone's dual commitment to business success and social progress. He has been at my side for most of our major strategic decisions, and both

the Board and I trust him implicitly

In 2014 Danone met each of its targets, from growth in sales to gains in operating margin and free cash flow—and we succeeded despite short-term pressures including a steep rise in milk prices. A trajectory that contributed to an atmosphere of optimism and confidence at this critical juncture, energized by new governance structures and promising new prospects in all four core businesses and across all regions.

CHANGES IN DANONE'S GOVERNANCE WERE A HIGHLIGHT OF 2014. WHAT PROMPTED THEM?

FRANCK RIBOUD, Chairman, Board of Directors:

First, I've always viewed a smooth succession as one of the first responsibilities of any business leader. So these changes addressed that, as I worked closely with our Board of Directors to pave the way for my succession. Second, a company goes through different phases as it grows. Over the past 18 years, we've deployed the strategy we adopted in 1996, and we've met those targets. But for a number of months I've been thinking very hard about what tomorrow's

to manage our core businesses successfully in today's complex environment. So today it is my duty to help Emmanuel assume his new responsibilities and ensure a smooth succession in the process. In the years ahead, we'll be teaming up on many of the issues that will shape tomorrow's Danone, each of us in our own capacity [see p. 16, *Governance adapted to meet Danone's new challenges*].

Finally, and most importantly, I'm not simply handing over responsibility for managing the company day to day. What I'm transferring to Emmanuel and to our new teams is Danone's legacy.

€21,144_M

SALES

4.7%

LIKE-FOR-LIKE SALES GROWTH

YOU BECAME CEO ON OCTOBER 1. WHAT WERE YOUR FIRST IMPRESSIONS IN THOSE EARLY MONTHS?

EMMANUEL FABER, CEO:

First let me say a few words about the legacy Franck just mentioned, which is crucial to me. As CEO, my job comes down to continuing Danone’s dual commitment to business success and social progress—a commitment formulated in 1972 by Antoine Riboud and spearheaded by Franck over the past 20 years. That’s my job, and it will remain my prime focus in the years ahead. A decade ago, Franck fleshed out Danone’s unique mission of bringing health through food to as many people as possible; how can we ensure that mission continues to create value, both for our business and for society? That’s my job.

Over the past few months, my priority has been putting together a management team whose members we announced in December and March. It’s a Danone team, but 75% of its members have changed jobs or shifted over from another area.

Next, I made two critical decisions. The first was to send the message, loud and clear, that I am committed to all four of Danone’s core businesses: each has a role to play in Danone’s mission. The second concerns our structures, including the Africa of tomorrow, our local and company-wide infrastructures,

our management of natural resource cycles, and the shape of Franck Riboud’s Danone 2020 initiative.

“AS CEO, MY JOB COMES DOWN TO CONTINUING DANONE’S DUAL COMMITMENT TO BUSINESS SUCCESS AND SOCIAL PROGRESS.”

E.F.: Our achievements in 2014—including a return to profitable growth in the second half of the year—form a solid foundation that Danone will build on in 2015 and the years ahead. Our sales rose 4.7% and we met our targets for trading operating margin and free cash flow.

During the year, we made significant gains on many markets, including Europe, where a focused effort to revamp our product lines and boost productivity is

beginning to pay off. At the same time we continued to build our product portfolio and expand in high-growth markets, particularly Asia and Africa. Each of our four core businesses—Fresh Dairy Products, Waters, Early Life Nutrition and Medical Nutrition—makes a contribution to our performance, our mission and our growth strategy. And that, in turn, enabled us to propose increasing our dividend to €1.50 per share.

Over the past few months I've spent a lot of time out in the field. I've visited some twenty countries in all, and met with nearly 100 of our 150 General Managers, along with younger managers and members of our management committees. Because even though I know our company inside out, it was important for me to begin by connecting with our people and meeting with them in my new role as CEO.

LOOKING BACK, WHAT WERE THE HIGHLIGHTS OF 2014?

F.R.: 2014 marked a turning point; it brought major changes aimed at laying the foundations for our future. We hammered out our roadmap for Danone 2020, a program that will shape the next stages in our growth. At the same time, we were facing a complex and unsettled world economy, roiled by volatile commodity prices and exchange rates in key Danone markets, including Russia and Argentina. Despite all that, we met the targets we'd set and announced at the beginning of the year. We can be proud of that: it was by no means a given, and it demonstrates both the strength of our brands and the commitment of our people. It also allows us to look to the future with optimism. Today we have all the resources we need to ensure lasting, profitable growth as we head toward 2020 and beyond.



use for bottles and their design—la Goutte d’évian is a good example. And we’re revisiting both our advertising vectors and our distribution channels. We’ve played an active role in promoting flavored waters—aquadrinks—developed by Bonafont, Volvic and our other brands. Early Life Nutrition has bounced back to the growth it had reached before the false safety

alert from our New Zealand supplier in 2013, reflecting our successful efforts to reposition our growing-up milks with mothers. In China, the market that took the strongest hit, demand for all of our brands continues to rise. Nutrilon, for example, is doing very well in the ultra-premium segment and in specialized distribution. Finally, our Medical Nutrition division reported a strong performance, with +7.9% growth in Europe and across all our high-growth markets, including Turkey, Brazil and the UK, along with very promising markets in the Middle East and

HOW ARE YOUR FOUR BUSINESSES DOING? IN A CHALLENGING WORLD ECONOMY, YOU’VE MADE THE MOST OF MANY OPPORTUNITIES. CAN YOU GIVE US A FEW EXAMPLES?

E.F.: We’ve more than offset volatility in markets and consumer spending by deploying targeted local initiatives designed to yield quick results. Our Fresh Dairy Products division was hardest hit, particularly in Russia—which was Danone’s largest national market in 2013. Yet thanks to our very solid local platform, which supplies 100% of our milk and 100% of our production, our Russian teams generated significant growth for Prostokvashino and other brands with high added value. In the United States, we invested in capacity to meet demand for Greek-style yogurt and more generally for high-protein dairy products, which Americans spontaneously associate with health. Result: Dannon is now tied for the number-one spot in the Greek yogurt segment in the US. In Europe, we’ve streamlined our portfolio to focus on a few strong brands. Our priority is to bring consumers back to our brands, building on our products’ superior formulations, taste, high-quality ingredients and more. We’re back on course for growth, with particularly strong results in the fourth quarter, which was by no means a given. In Waters, our teams have continued to do an excellent job of creating value for a product that’s simple, natural and utterly essential. So we’ve taken a fresh look at packaging, especially for children’s products, and also at the materials we





we set out to do. We've simplified and centralized management at pan-European level, we've streamlined our decision-making processes, and we've created a shared purchasing platform to get a better grip on supply and build genuine partnerships with our suppliers. In early 2014, we revamped our product portfolio, focusing on strong brands including Activia, Actimel, Danonino. Together all of these efforts helped us stem the decline in our European sales, making the region more competitive and thus stronger.

Africa. This partly reflects its focus on pediatrics and other specialized ranges. Current demographic trends and challenges give the Medical Nutrition division very strong scope for growth.

DO YOU SEE SIGNS OF RECOVERY FOR DANONE IN EUROPE?

E.F.: Yes, we're starting to benefit from the cost-cutting and adaptation measures we adopted in 2012. When we set out to regain our competitive edge, we focused on two things: simplifying our structures and streamlining our brand portfolio. The organizational changes that we began making two years ago have now been completed, and we've accomplished what

“EVERY REGION OF THE WORLD HAS ITS OWN IMPORTANCE, AND EACH OF THE COUNTRIES WHERE WE DO BUSINESS CONTRIBUTES TO OUR GROWTH AND OUR FUTURE.”

WHICH REGIONS HOLD THE STRONGEST GROWTH POTENTIAL FOR DANONE?

E.F.: Every region of the world has its own importance, and each of the countries where we do business contributes to our growth and our future: operations in Europe are recovering, while Africa—a new frontier for us—is increasingly strategic. North America remains a key market. In Latin America, where we hold leading positions in Brazil, Argentina and Mexico, all of our product categories report significant growth. And then there's Asia—led by China and Indonesia—which is definitely a strategic priority for Danone, and where we're continuing to build our water and early life nutrition brands.

... CONTINUED ON PAGE 13



**PIERRE-ANDRÉ
TÉRISSE**

French, age 48
Executive Vice President
Africa, Executive
Committee member
since 2008

**CÉCILE
CABANIS**

French, age 43
Chief Financial Officer,
Executive Committee
member since 2015

**BERTRAND
AUSTRUY**

French, age 41
General Secretary,
Executive Committee
member since 2015

**FLEMMING
MORGAN**

British, age 59
Executive Vice President
Medical Nutrition,
Executive Committee
member since 2009

**FELIX MARTIN
GARCIA**

Spanish, age 54
Executive Vice President
Early Life Nutrition,
Executive Committee
member since 2008

**EMMANUEL
FABER**

French, age 50
CEO & Vice-Chairman
of the Board of Directors,
Executive Committee
member since 2000

**GUSTAVO
VALLE**

Argentinian, age 50
Executive Vice President
Fresh Dairy Products,
Executive Committee
member since 2015

**MARC
BENOIT**

French, age 50
Executive Vice President
Human Resources,
Executive Committee
member since 2014

**JEAN-PHILIPPE
PARÉ**

French, age 57
Executive Vice President
Research & Development,
Executive Committee
member since 2011

**FRANCISCO
CAMACHO**

Mexican, age 49
Executive Vice President
Waters, Executive
Committee member
since 2011

Effective June 2015, two new members will join the Executive Committee to shape the Danone 2020 initiative: Lorna Davis and Pascal De Petrini.

EXECUTIVE COMMITTEE WELCOMES FIVE NEW MEMBERS

To deploy corporate strategy and achieve our Danone 2020 goals, Emmanuel Faber added five new members to the Executive Committee beginning in 2015:



GUSTAVO VALLE

Argentinian, age 50

Gustavo Valle joined Danone in 1996 and had served as Executive Vice President, Fresh Dairy Products Europe since January 2014.

On January 1, 2015, he was named Executive Vice President, Fresh Dairy Products.



CÉCILE CABANIS

French, age 43

Cécile Cabanis joined Danone in 2004 and had served as Vice President Finance, Fresh Dairy Products since September 2010.

On February 20, 2015, she became Danone's Chief Financial Officer.



BERTRAND AUSTRUY

French, age 41

Bertrand Austruy joined Danone in 2001, ultimately becoming General Counsel and Vice President, Product Compliance and Food Safety. On January 1, 2015, he became Danone's General Secretary.



LORNA DAVIS

Australian, age 55

Previously, Lorna Davis served as President of the Biscuits division at Mondelez International. She joined the Executive Committee on June 1, 2015 as Chief Manifesto Catalyst for the Danone 2020 initiative. She held positions at Danone from 1997 to 2006.



PASCAL DE PETRINI

French, age 54

Pascal De Petrini began his career at Danone in 1984. Since 2013, he had served as Fonterra's Managing Director Asia-Pacific, Middle East and Africa. On June 15, 2015, he was named Executive Vice President, Strategic Resource Cycles.

In short, our geographical platform is now up and running around the globe. This is one of Danone's biggest advantages in a world that's facing major food and health challenges—challenges calling for solutions that are at once global and local, that are sustainable and that can adapt to a wide variety of countries and cultures.

I'm convinced our company is particularly well equipped and organized to meet those challenges.

... CONTINUED FROM PAGE 9

In China, we've teamed up with COFCO, and in 2013 we signed an agreement with Mengniu, China's leading dairy company, to create a joint venture in dairy products. In 2014 we extended that strategic alliance to the infant formula category by taking an equity interest in Yashili, one of China's top infant formula producers. But across all our regions, we've focused on striking a balance, because that's critical to a sustainable model for growth. In the closing quarter of 2014 we achieved 14% growth in the zone we call ALMA—the Asia-Pacific region, Latin America, Africa and the Middle East. In Africa, for example, we've increased our sales six-fold over the past three years, consolidated our positions in Morocco and acquired interests in both West Africa, with Fan Milk, and East Africa, with Brookside.

These developments led me to set up an Africa division spanning all of our core businesses, led and represented by Pierre-André T erisse, who previously served as our Chief Financial Officer. We're set to build a stronger presence on this huge continent and tap into powerful existing networks for both distribution and milk collection. These offer truly outstanding opportunities to explore the region, its habits and its tastes.

“OUR GEOGRAPHICAL PLATFORM IS NOW UP AND RUNNING AROUND THE GLOBE.”

IN 2015 YOU'RE CELEBRATING DANONE ECOSYSTEM FUND'S FIFTH ANNIVERSARY AND LAUNCHING THE NEW LIVELIHOODS FUND FOR FAMILY FARMING. IS THIS A NATURAL OUTGROWTH OF YOUR DUAL COMMITMENT TO BUSINESS SUCCESS AND SOCIAL PROGRESS?

F.R.: When I talk about Danone 2020 and building the Danone of tomorrow, I'm drawing on Danone's DNA—along with the lessons we've learned from initiatives like these, which began in Bangladesh nearly ten years ago with danone.communities. To meet the challenges of sustainable farming, we need to form coalitions; we need to team up with other companies, NGOs and local authorities to develop approaches that simultaneously meet the needs of business, society

potential projects and debating their relevance in the light of our major priorities.

So we'll continue to build a company that draws on its roots and founding principles to move into the future, while remaining the company that is most attuned to the major food issues facing the world.

I'll say it again: it is my responsibility to spend most of my time preparing Danone for these challenges of tomorrow. My role has changed, but I'm still 100% committed.

E.F.: 2015 will mark a turning point. After our return to profitable growth in the second half of 2014, I'll be fine-tuning this model with my team. We'll

and the environment. That's why we created the Livelihoods Fund for Family Farming, a new fund set up in partnership with Mars, Inc. that allows us to tackle these issues at grassroots level. With the world population set to rise from 7 billion to 9 billion in 2050, the world needs to produce more with fewer natural resources. That's a major challenge by any measure, and it's an integral part of our Danone 2020 vision.

YOU'VE MENTIONED DANONE 2020. CAN YOU TELL US MORE ABOUT ITS SCOPE AND AIMS?

F.R.: Danone 2020 is an initiative designed to transform our company, addressing the major trends and challenges facing society—including the central issue of food. How can we feed 9 billion people in 2050? What resources, products and services will be needed, and how will we address health issues? The scope of these questions is staggering, and Danone has an important role to play. We need to slow down long enough to focus on the larger context, with all the risks and opportunities it presents. We're currently in the first stage of our strategic thinking here.

WHAT ARE YOUR PRIORITIES FOR 2015 AND BEYOND?

F.R.: My role is to define and spearhead Danone's long-term strategy, working with our Board of Directors and our new Strategy Committee, which includes Emmanuel among its members. The Strategy Committee is Danone's forum for exploring current and



start by continuing current efforts to optimize our European model and manage the impact of volatile commodity prices. Next, we'll invest in our brands to continue building consumer preference for our products and expanding our product categories—that's our role as leader of our various markets—drawing on the expertise of the men and women who work at Danone. Defining tomorrow's foods will be a major priority for Danone 2020, using our model based on business success and social progress as a springboard. That's our commitment—and my commitment. It's also why we've appointed Lorna Davis and Pascal De Petrini to our Executive Committee as of June 2015. Lorna will head up the Danone 2020 initiative. And Pascal will be in charge of our Strategic Resource Cycles team, tasked with strengthening Danone's ability to protect, secure and extract maximum value from our key raw materials: milk, water and plastics.

So let me repeat this: our top priority will be continuing to generate profitable sales growth and creating the conditions that will make that growth sustainable. We will also begin deploying Danone 2020, with the goal of creating value to share with our 100,000 employees, our customers and suppliers, and, of course, our shareholders.

“DANONE 2020 IS AN INITIATIVE DESIGNED TO TRANSFORM OUR COMPANY, ADDRESSING THE MAJOR TRENDS AND CHALLENGES FACING SOCIETY—INCLUDING THE CENTRAL ISSUE OF FOOD.”

SALES BY DIVISION IN 2014 (€ M)

11,129
Fresh Dairy Products

4,186
Waters

4,397
Early Life Nutrition

1,432
Medical Nutrition



Learn more at
danone.com/en/2014annualreport

NEW GOVERNANCE FOR NEW CHALLENGES

In late 2014, Danone adopted a new governance structure designed to meet the challenges of a new millennium—shaping our future in line with our mission and our dual commitment to business success and social progress, positioning ourselves to meet new food-related challenges worldwide, and keeping pace with changing patterns of consumption and an unpredictable economy.

Franck Riboud, our Chairman and Chief Executive Officer since May 1996, began planning for his succession in 2014. In early October the functions of Chairman and CEO were divided, with Franck Riboud continuing to serve as Chairman and Emmanuel Faber, until then the company's Co-Chief Operating Officer, named as CEO.

Franck Riboud discussed his rationale for the changes in a letter to Danone employees: “Just over 18 years ago, when I became Danone’s Chairman and CEO at the age of 40, we had set a certain number of goals. These included becoming a truly global company through a determined drive to win markets in emerging countries, generating outstanding organic growth, and refocusing our operations on promising core businesses where we could hold or share market leadership worldwide—all while continuing to practice our dual commitment to business success and social progress, and remaining a pace-setter in social innovation. Together, we have reached these goals. Over the past few months, I have been thinking about what tomorrow’s Danone should look like and what goals we should set for the coming decades. Our Danone 2020 project is an early example of that, and I now believe that it is my responsibility to spend most of my time on the key strategic issues that will shape our business model for the 2020s, the 2030s and beyond. And that also means creating the corporate structures and governance we will need as we move forward. At the same time—now more

1. FRANCK RIBOUD

59, Chairman of Danone’s Board of Directors

2. EMMANUEL FABER

50, Chief Executive Officer of Danone and Vice Chairman of Danone’s Board of Directors

3. BRUNO BONNELL⁽¹⁾

56, Chairman of I-Volution

4. JACQUES-ANTOINE GRANJON⁽¹⁾

52, Chairman and Chief Executive Officer, vente-privee.com

5. MARIE-ANNE JOURDAIN

56, Director representing Danone employees

6. JEAN LAURENT⁽¹⁾

70, Chairman of the Board of Directors of Foncière des Régions

7. GAËLLE OLIVIER⁽¹⁾

43, Chief Executive Officer of the property insurance businesses, AXA Asia General Insurance

8. BENOÎT POTIER⁽¹⁾

57, Chairman and Chief Executive Officer, Air Liquide SA

9. ISABELLE SEILLIER

54, Head of Financial Institutions EMEA, J.P. Morgan

10. MOUNA SEPEHRI⁽¹⁾

51, member of Executive Committee, Executive Vice President, Renault SAS

11. JEAN-MICHEL SEVERINO⁽¹⁾

57, Head of I&P SARL (Investisseurs & Partenaires)

12. VIRGINIA A. STALLINGS⁽¹⁾

64, Professor of Pediatrics at the Children’s Hospital of Philadelphia

13. BETTINA THEISSIG

52, Director representing Danone employees

14. SERPIL TIMURAY*⁽¹⁾

45, Regional CEO Africa, Middle East and Asia-Pacific, Vodafone Group

15. LIONEL ZINSOU-DERLIN⁽¹⁾

60, Chairman, PAI Partners SAS

16. LAURENT SACCHI

50, Danone’s Secretary of the Board and Executive Vice President Chairman’s Office

⁽¹⁾ Directors recognized by the Board as independent under the Afep-Medef Code.

* Subject to the approval of the Shareholders’ Meeting on April 29, 2015.

THE BOARD OF DIRECTORS



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16

than ever—we must concentrate on the challenges of today. That is why I recommended that the Board of Directors separate the duties of the Chairman, who will now focus essentially on the medium and long term and concentrate on putting Danone’s governance in place, from those of the CEO, who manages our day-to-day operations. The Board agreed and confirmed me as Chairman. They also agreed with my recommendation that Emmanuel Faber be appointed as the company’s CEO, which means Emmanuel will take the helm at Danone and lead our teams. He will also head the Executive Committee and have operational responsibility for all of our businesses. Since 1997, Emmanuel has worked closely with me to make and deploy all major decisions affecting Danone. In addition to heading Business Strategy and Mergers & Acquisitions, our Corporate Finance unit and our operations in Asia, he has served as Co-COO, acquiring a thorough understanding of our company, our people, our businesses, our culture and our structures. His innovative flair, his rigor and his uncompromising standards have helped transform our company in profound ways. At age 50, he is deeply dedicated to the values of Danone’s dual commitment. The Board and I trust him implicitly to lead our businesses in today’s increasingly complex environment.”

A STRONGER CHAIRMAN

Guidance for this change in governance came from Danone’s Nomination and Compensation Committee and Board of Directors, who wanted the Chairman to be able to do more than simply coordinate the Board’s work. For Jean Laurent, Lead Independent Director and Chair of the Nomination and Compensation Committee, the explanation is simple: “For 20 years, as Vice Chairman and then as Chairman and CEO, Franck Riboud, like his father before him, led Danone to spectacular growth, transforming it into a truly

NOMINATION AND COMPENSATION COMMITTEE

This committee is tasked with:

- proposing candidates for director to the Board of Directors (it must also be informed of all nominations to the company’s Executive Committee, except for executive directors);
- laying the groundwork for Board deliberations on governance issues, and particularly for ensuring that the company meets the criteria for independence required by the Afep-Medef code;
- proposing criteria for calculating all forms of compensation for executive directors;
- providing opinions or making recommendations on principles and procedures for company policy on all forms of compensation involving Danone stock, and more generally for making any other recommendations the Committee may have concerning the company’s compensation policies.

AUDIT COMMITTEE

The Committee’s responsibilities include overseeing:

- the process of preparing financial information;
- the effectiveness of systems for internal control, risk management and internal audits;
- legally required audits of Danone’s parent-company and consolidated financial statements by the company’s statutory auditors;
- the independence of the statutory auditors.

SOCIAL RESPONSIBILITY COMMITTEE

This committee is tasked with:

- considering the company's primary environmental risks and opportunities in light of the challenges specific to its missions and operations;
- reviewing the company's social policies, their objectives and their outcomes;
- reviewing systems for reporting, assessment and control to ensure that the company's non-financial information is reliable;
- performing an annual review of non-financial ratings of the company and its subsidiaries by rating agencies.

STRATEGY COMMITTEE

(effective 2015)

This committee is tasked with:

- analyzing the company's top strategic priorities;
- preparing and guiding the Board's work on major strategic issues such as:
 - growth areas
 - acquisition opportunities
 - divestments
 - major agreements and partnerships
 - any transactions involving the company's share capital
 - potential diversification
 - and more generally any transaction with a significant impact on Danone's future.

global company, focusing it on emerging markets and preparing it for the challenges of tomorrow. This growth created value for all of Danone's stakeholders, including our shareholders. Under his leadership, the company's value nearly quintupled, and dividend per share never went down. In addition to his business performance, Franck Riboud personifies the company, its values, its management style and its unique culture, both internally and externally. For all of these reasons—and while we commend his decision to lay the groundwork for his succession even before turning 60—the Board felt it was essential for Franck Riboud to stay involved in the life of the company full-time to ensure a smooth, gradual transition, even as we fully accept the executive authority of the CEO. We believe that this model for succession and knowledge transfer is in the best interest of the company, its employees and its shareholders.”

Over the past few months, this stronger chairmanship has translated into a number of different activities for Franck Riboud. He has supported the new CEO and his team as they took on their new responsibilities and presented our new principles of corporate governance to various groups of stakeholders. He has talked with the management team about the Danone 2020 project, helping them set goals and define the scope of broader strategic priorities. He has represented the company in meetings with high-level French, Russian and US government officials, and invested in a variety of projects linked to Danone's culture and social engagement, including the second Livelihoods Fund for Family Farming, launched in partnership with Mars, Inc.

Franck Riboud also helped design the Board's new Strategy Committee, presenting proposals on who its members might be, how it could work and what its key focus areas should be. He will chair the new Committee, supporting the Board of Directors as it considers the company's future. The Strategy Committee is not a decision-making body, but will

make recommendations to the Board on key issues affecting Danone's future. Its duties will include in-depth reviews of acquisitions and other strategic initiatives proposed by the CEO, as well as proactively considering new directions for the company in partnership with senior management. The Strategy Committee began its work in the first half of 2015.

MORE OPEN TO NEW IDEAS THAN EVER

With the Strategy Committee now in place, most of Danone's directors now have the opportunity to sit on a committee and become more deeply involved in the life of the Board. At the same time, the Board's composition has changed significantly over the past twelve months, with major increases in the percentages of independent directors (now 77%*), women (38%*) and non-French directors (31%*). Lionel Zinsou-Derlin and Gaëlle Olivier joined the Board after the 2014 Shareholders' Meeting in April, and October saw the appointments of Marie-Anne Jourdain and Bettina Theissig, new directors who bring outstanding knowledge of Danone and its people to their responsibilities as employee representatives. Subject to approval by shareholders at the Shareholders' Meeting in April 2015, this year the Board will welcome Serpil Timuray, Regional CEO of Africa, Middle East and Asia-Pacific for the Vodafone Group. She will offer the Board a seasoned perspective for the economies and special features of emerging markets, as well as her experience with new technologies—an essential area of expertise for every business in an era of digital transformation.

BOARD OF DIRECTORS KEY FIGURES*

38%
women directors

31%
directors from outside France

55.4
average age of directors

77%
independent directors

* Subject to approval of Serpil Timuray's appointment by the Shareholders' Meeting on April 29, 2015.

THREE NEW MEMBERS JOIN THE BOARD OF DIRECTORS

Under France's Job Security Act of June 2013, the Board now includes two voting directors representing the company's employees. Serpil Timuray's appointment must be approved by the Shareholders' Meeting on April 29, 2015.

BETTINA THEISSIG

Director representing
Danone employees



Bettina Theissig has served as Chairwoman of the Works Council for Milupa, Early Life

Nutrition Germany since 2002. Since joining Danone in 1978, she has worked in a wide range of departments—from advertising and human resources to sales and marketing—gaining broad knowledge of Danone and the challenges facing our employees.

MARIE-ANNE JOURDAIN

Director representing
Danone employees



Marie-Anne Jourdain joined Danone in 1989, and since September 2014 has served as Danone project and social monitoring manager. After working abroad for nine years, she returned to Danone headquarters in Paris as a member of the Legal Department. In 2002 she refocused her career on representing employees and defending their interests, and joined various bodies representing employees, both at Danone headquarters and at national level.

SERPIL TIMURAY*

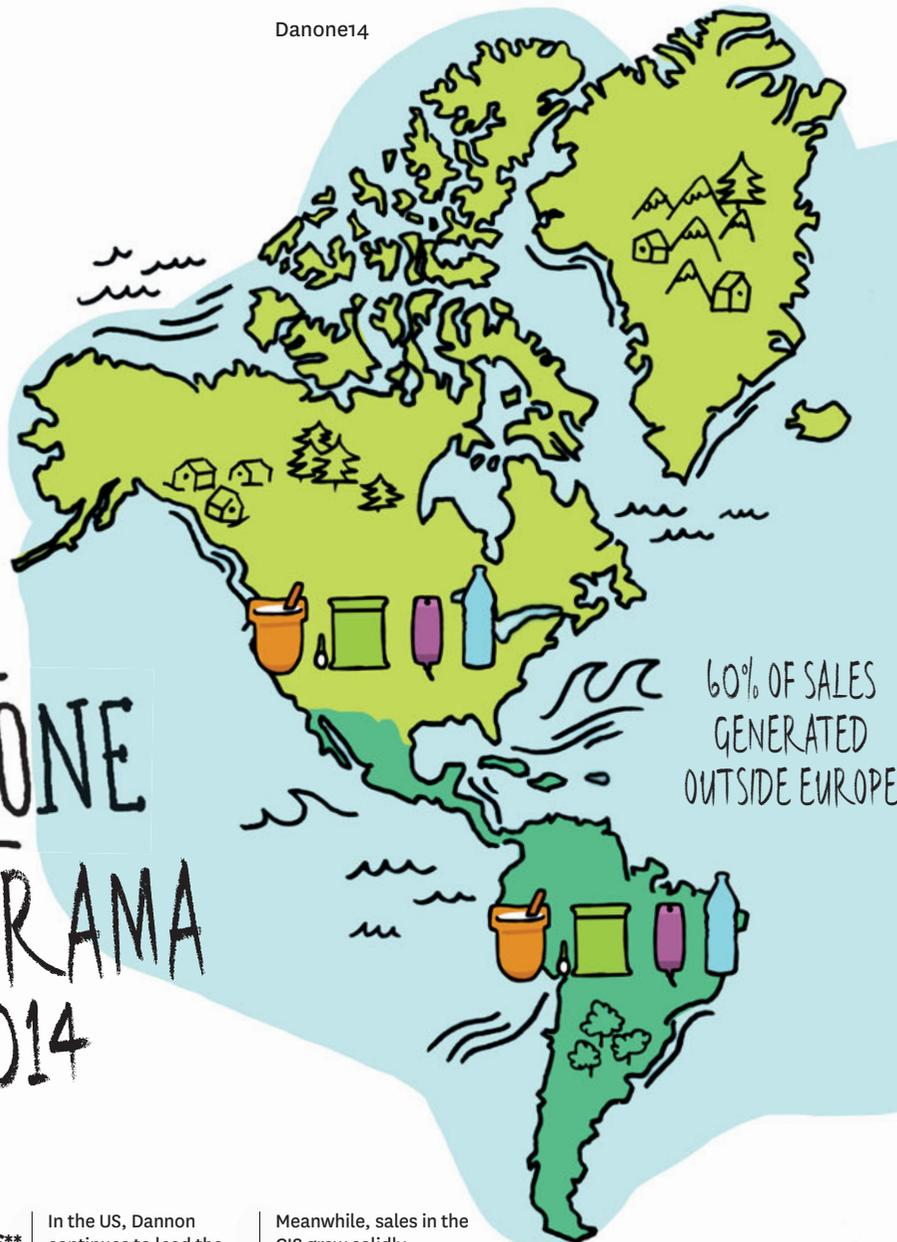
Director

A native of Turkey, 45-year-old Serpil Timuray joined the Vodafone



Group in 2009 as Chief Executive Officer of Vodafone Turkey, and is now Vodafone's Regional CEO of Africa, Middle East and Asia-Pacific and a member of its Executive Committee. After ten years in marketing at Procter & Gamble, she served as General Manager of Danone Turkey from 2002 to 2008.

DANONE PANORAMA 2014



- Fresh Dairy Products
- Waters
- Early Life Nutrition
- Medical Nutrition

NORTH AMERICA* / CIS**

22% of sales
+5%*** growth

In the US, Danone continues to lead the fresh dairy products category, now leveling off after several years of robust growth powered by the Greek yogurt segment.

Meanwhile, sales in the CIS grew solidly throughout the year. With milk prices up sharply, Danone gave high-value products a significantly larger place in its product portfolio, offsetting declining

volumes in milk and other lower-value segments.

* North America: US, Canada (Mexico excluded).
** CIS: Commonwealth of Independent States.
*** All figures like-for-like.

EUROPE (including Turkey)

40% of sales
+2%* growth

Europe made a very good showing in 2014, with Early Life Nutrition, Waters and Medical Nutrition driving a 2% rise for the year.

* All figures like-for-like.

ALMA*

38% of sales
+7.4%** growth

The ALMA region remains very dynamic, with 7.4% growth driven by Waters in Asia and Fresh Dairy Products in Latin America in particular.

* ALMA: Latin America, Africa, Middle East, Asia-Pacific.
** All figures like-for-like.

HIGHLIGHTS



ACTIVIA & SHAKIRA: A WINNING DUO

Activia sponsored the hit music video La La La (Brazil 2014), featuring Colombian pop star Shakira—a living example of the brand's slogan "Feeling good starts from the inside." By December 1, 2014, it had set a world record with 430 million views. Activia and its new poster girl used the video to support the World Food Programme, donating the value of 3 million school meals in Africa and Latin America. Watch the video (again):



DANONE ECOSYSTEM FUND MARKS 5TH ANNIVERSARY

Inspired by our dual commitment to business success and social progress, the Danone Ecosystem Fund links the company's growth to that of local stakeholders in our economic ecosystem. In five years, the Fund has launched 56 projects, allocated €52.4 million, helped created 2,000 direct jobs and had a direct impact on 23,000 people in 25 countries worldwide. Initiated by nearly one-third of the company's subsidiaries and built in partnership with local NGOs, the Fund's projects focus on five priorities: sustainable farming, distribution, protection of local communities, recycling and personal services.



VOLVIC'S VOLCANO MOVES CENTER STAGE

Volvic marked its 50th anniversary by giving new prominence to the French volcano that has always been its symbol. Now the center of a new advertising campaign, the volcano's iconic shape and vibrant green color are featured on a bold new label with a redesigned logo. The new brand identity will reach all 250 Volvic products, sold in 85 countries.

NATURE: STRONG COMMITMENTS FOR 2020

At Danone, we believe that a healthy diet begins with a healthy environment. This conviction inspired our Nature 2020 commitments, with ambitious goals in four key areas in 2014: climate, water, packaging and farming. Since 2000, we've cut water consumption in our plants by 39%, and we've set a goal of 60% for the year 2020. We've also reduced our carbon footprint by 41.6% since 2008 and are working to exceed 50% by 2020. We work constantly to protect the environment—by participating in a packaging waste collection and recycling program, by promoting sustainable agriculture, by launching initiatives that fight deforestation, and by contributing actively to major ecosystem restoration projects.





MEDICAL NUTRITION DIVISION IN GOOD HEALTH

2014 was an excellent year for the division, which delivered sales growth of nearly 8%, buoyed by solid volume performances in Turkey, China, Brazil and the Middle East. Medical Nutrition also continued to expand its product portfolio, launching innovations that included PKU Lophlex LQ Juicy and Fortini Creamy Fruit in the pediatric category, and Fortini powder to meet the special needs of Brazilian consumers. Finally, the division continues to offer increasingly effective on-line sales and home delivery services.

AFRICA: LAND OF OPPORTUNITY

In July, Danone acquired a 40% stake in Brookside, East Africa's leading dairy products company. Founded in Kenya in 1993, Brookside has built a dense network in the region, with a unified distribution network serving 200,000 points of sale daily and a milk collection network of 140,000 farmers—the largest in East Africa. This tie-up strengthens the multi-business platform that Danone is building in Africa, which is already generating €1.2 billion in sales. To step up our growth in this strategic region, Danone has created a new Africa division, headed by Executive Committee member Pierre-André Térissé, to develop products and create structures and teams tailored to local realities.



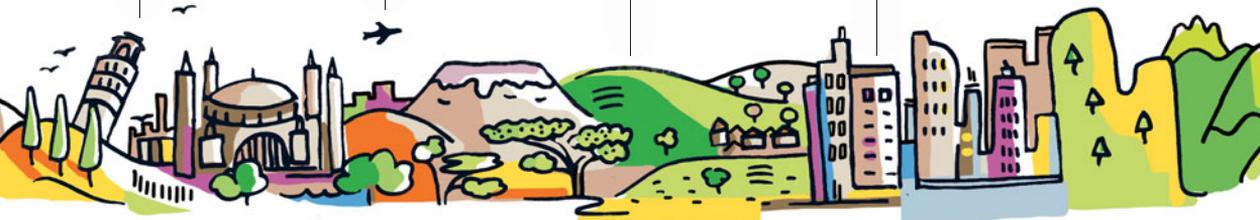
CHINA: NEW STRENGTH FOR A STRATEGIC ALLIANCE

Working with our Chinese partner Mengniu, Danone has acquired a 25% stake in Yashili, one of China's leading infant milk companies. The move enhances our position in the country's early life nutrition market, and Danone and Mengniu plan to use this new alliance to grow Yashili and offer a wide range of products that meet the very highest standards for the category.



STAYING CLOSE TO CONSUMERS

Our Waters division signed a worldwide license with the Hollywood blockbuster Spiderman. The superhero now appears on 33-cl bottles of brands from Mizone in China to evian worldwide—proof that healthy hydration and entertainment can go together. Young consumers can access on-line apps to make the experience even more fun.



JAGUAR & PANTHER: ON THE HUNT FOR TALENT

Our international exchange programs Jaguar (created in 2010) and Panther (created in 2013) were originally intended for managers in South America. But they have been so successful that in 2014 we extended their reach to include exchanges between the Americas as well. In 2015 Jaguar and Panther will expand again, to include the Asia-Pacific region, Europe, Russia and Africa, ultimately allowing for intercontinental job exchanges. To date nearly 70 managers have participated in the two programs, sharing best practices and cross-fertilizing experiences.



YOGURT: FIGHTING DIABETES & CARDIOVASCULAR DISEASE

In April, the Yogurt in Nutrition Initiative for a Balanced Diet (YINI) hosted the 2nd Global Summit on the Health Effect of Yogurt. Topics included a study showing that daily consumption of yogurt* can reduce the risk of type 2 diabetes—the most common form of the disease—by as much as 28%. And the 3rd World Congress of Public Health Nutrition, held in November in the Canary Islands, featured a presentation on the benefits of yogurt in fighting obesity and reducing the risk of cardiovascular disease.

* San Diego, Experimental Biology 2014.

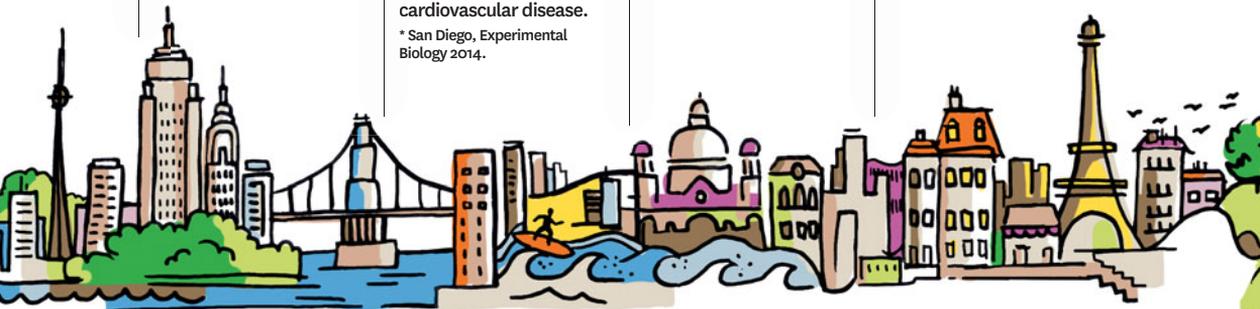
PROFUTURA FOR MOTHER & CHILD

Launched in China, Europe, Australia and Argentina, Profutura is the first range of products and services tailored to the nutritional needs of both mother and child during the first 1,000 days of life—a crucial period for the baby's development and future health. Products are paired with an interactive program designed to guide young mothers through this period and provide a forum where they can communicate with experts.



CHANGE IN CORPORATE GOVERNANCE

In September, Danone's Board of Directors voted to approve Franck Riboud's proposal to separate the positions of Chairman and CEO, which he had held since 1996. The Board also strengthened his position as Chairman, and he will now focus on Danone's strategic priorities in the medium and long term. Emmanuel Faber was named as the company's CEO effective October 1, 2014, and is now responsible for its day-to-day operations. For more, see Governance p. 16





NUTRIJOURNAL: THE LATEST NEWS ON FOOD & HEALTH

Consumers are increasingly convinced that they can play a role in their own health and that diet is the key. To guide them, Danone Nutricia Research launched NutriJournal, its weekly e-magazine, in late June. NutriJournal explains how diet can promote well-being for everyone, and encourages readers to share scientific and educational articles on recent developments. Contributions are published on social networks in enriched multimedia formats. See them here: <http://nutrijournal.danone.com/en>



WISE²: RAISING THE BAR FOR WORKPLACE SAFETY

Wise (Working in a Safe Environment), our workplace safety program, has been deployed at more than 400 Danone sites since 2004, reducing accidents by 90% over that ten-year period. To make our employees even safer, we've launched Wise Squared (Wise²), which also focuses on preventing health risks and taking a more systematic approach to implementing safety standards company-wide.

RUSSIA: STRONG LOCAL PRESENCE

Amid rising international tensions, the Russian ruble has fallen steadily, and milk prices in the country have become volatile, rising more than 30% in 2014. But our strong local presence, combined with our continued efforts to build Danone brands such as Prostokvashino, enabled us to overcome these challenges. Bottom line: business in Russia continued to grow in 2014, with sales up 5% over 2013.



JAPAN SCORES VICTORY IN BRAZIL

In November 2014, over 400 young people from 32 different countries gathered in Brazil for the Danone Nations Cup, the world's biggest football tournament for children ages 10-12. Japan took the trophy in the final against Paraguay. Some Nations Cup alumni have gone on to become professionals: eight of them played for their countries in Brazil in summer 2014.



Learn more at danone.com/en/2014annualreport



- FRESH DAIRY PRODUCTS -



NEW PRODUCTS AND FLAGSHIP BRANDS IN 2014 01. LIGHT & FIT PROTEIN SHAKE, USA 02. DENSYA, JAPAN 03. DANONINHO, BRAZIL 04. OIKOS, USA 05. PROSTOKVASHINO, RUSSIA 06. ACTIVIA FRUIT FUSION, UK 07. ACTIVIA, MEXICO 08. DANETTE, FRANCE 09. ACTIMEL, GERMANY 10. DANIO, POLAND 11. DANINO GREEK, CANADA 12. DANET DRINK, SPAIN 13. YOGURISIMO STICK, ARGENTINA 14. DAN'UP, BRAZIL



€11.1 BN

Sales of Fresh Dairy Products came to €11,129 million in 2014.

52%

OF THE COMPANY'S SALES CAME FROM THE FRESH DAIRY PRODUCTS DIVISION.

+1.5%

Sales of Fresh Dairy Products were up 1.5% in 2014 (like-for-like over 2013).

26%

Danone is the fresh dairy products leader in all of the 37 main countries where we do business, with 26% market share in 2014 (Nielsen).



CIS*

80% Local brands account for 80% of Danone's dairy product portfolio in the CIS.

100% of our milk is collected locally.

* Commonwealth of Independent States

TOP 3 brands that contributed most to the division's growth in 2014:

1. PROSTOKVASHINO
2. VITALINEA / LIGHT & FIT
3. OIKOS

TOP 3 countries that contributed most to the division's growth in 2014:

1. RUSSIA
2. BRAZIL
3. US

Danone is the FDP leader in all 3 countries.



- WATERS -



NEW PRODUCTS AND FLAGSHIP BRANDS IN 2014 01. VOLVIC, UK 02. AKMINA LIMONGILLER, TURKEY 03. BONAFONT LEVITÉ, MEXICO 04. VIT LEVITÉ, INDONESIA 05. BONAFONT KIDS COPA, BRAZIL 06. EVIAN LA GOUTTE, FRANCE 07. AQUA, INDONESIA 08. WE BY SER, ARGENTINA 09. MIZONE BLUEBERRY, CHINA 10. ŻWYCIE ZDRÓJ, POLAND

20%

OF THE COMPANY'S SALES CAME FROM THE WATERS DIVISION.



€4.2

BN

Waters sales came to €4,186 million.

35.5%

THE WATERS DIVISION HAS MARKET SHARE OF 35.5% IN LATIN AMERICA.

+30%

In Asia, total sales of aquadrinks grew 30%.



Indonesia accounts for

12%

of the division's total output of water in jugs.

+11.6%

Waters sales were up 11.6% over 2013.

TOP 3 brands that contributed most to the division's growth in 2014:

1. MIZONE
2. AQUA
3. VILLA DEL SUR

TOP 3 countries that contributed most to the division's growth in 2014:

1. CHINA
2. INDONESIA
3. ARGENTINA



11%

of the company's bottled water output comes from Evian and Volvic, two of our four sites in France.

- EARLY LIFE NUTRITION -



NEW PRODUCTS AND FLAGSHIP BRANDS IN 2014 01. OLVARIT FRIENDS POUCH, NETHERLANDS 02. VITAL PRECINUTRI, ARGENTINA 03. MELLIN, ITALY 04. BEBELAC, INDONESIA 05. COW & GATE, UK 06. BLÉDILAIT, FRANCE 07. BLÉDINA POUCH, FRANCE 08. APTAMIL PROFUTURA, AUSTRALIA 09. APTAMIL PRONUTRA, SWITZERLAND 10. DUMEX SUPERMIX UHT, THAILAND 11. NUTRILON PROFUTURA, ARGENTINA

TOP 3 brands that contributed most to the division's growth in 2014:

1. APTAMIL
2. NUTRILON
3. SGM

TOP 3 countries that contributed most to the division's growth in 2014:

1. GERMANY
2. INDONESIA
3. NETHERLANDS



21%

OF THE COMPANY'S SALES CAME FROM THE EARLY LIFE NUTRITION DIVISION.

€4.4 BN

Early Life Nutrition sales came to €4,397 million.



40%

The Early Life Nutrition division has 40% market share in Indonesia, with three strong brands.

+6.1%

Early Life Nutrition sales were up 6.1% over 2013 (like-for-like).

No. 2

E-commerce is now the division's No. 2 sales channel in China, outpacing traditional outlets since the first quarter of 2014.

80%

of the division's business comes from infant formulas, in particular from growing-up milks for children aged 12-36 months.

17%

Our largest Early Life Nutrition plant is located in Ireland and accounts for some 17% of the division's output.

- MEDICAL NUTRITION -



NEW PRODUCTS AND FLAGSHIP BRANDS IN 2014 01. CHOCOLATE NUTILIS, UK 02. NUTRISON, NETHERLANDS 03. NUTRINI CREAMY FRUIT, GERMANY 04. SUGAR-FREE PRO-STAT, USA 05. INFATRINI, MEXICO 06. FORTIMEL COMPACT, ITALY 07. PKU LOPHLEX LQ JUICY, UK 08. SOUVENAID, SWITZERLAND 09. NEOCATE MCT, TURKEY 10. INFATRINI, MIDDLE EAST 11. KETOCAL, BRAZIL

7%

OF THE COMPANY'S SALES
CAME FROM THE MEDICAL
NUTRITION DIVISION.



TOP 3
countries that
contributed most to
the division's growth
in 2014:

1. TURKEY
2. CHINA
3. BRAZIL

TOP 3
brands that
contributed most
to the division's
growth in 2014:

1. NEOCATE
2. NUTRINI
3. NUTRISON



€1.4 BN

MEDICAL NUTRITION SALES
CAME TO €1.432 MILLION.

No. 1

Our Medical Nutrition division leads the market in 14 European countries—Spain, France, Italy, Greece, the Scandinavian countries (Sweden, Finland, Norway & Denmark), Belgium, the Netherlands, Portugal, Italy, UK and Ireland—and is No. 2 in Germany.

40

The Medical Nutrition division
—the company's newest—
sells products in 40 countries
under the Nutricia umbrella brand.

86%

of our Medical Nutrition
products are made in
the division's main plant in
the Netherlands.



+7.9%

Total Medical
Nutrition sales were up
7.9% over 2013 (like-for-like).



1

REINVENTING
OURSELVES
TO MEET THE
FOOD CHALLENGES
OF A NEW ERA

A vibrant outdoor market scene with people shopping. In the foreground, a man in a blue and white plaid shirt is looking at a small item in his hand. Behind him, a woman in a bright pink coat is walking. To the right, a man in a patterned sweater is also looking at something. In the background, there are more people and a sign that says "Market". In the foreground, there are several wicker baskets filled with fresh produce, including green leafy vegetables and mushrooms. A small sign with a picture of a vegetable is visible in the bottom right corner.

**Globalization. Urbanization.
Virtualization. Sweeping change is
upending the way we live and the way we
eat. To bring health through food to as
many people as possible—and do so
intelligently—we study local eating habits
and closely follow changing nutritional
needs and practices.**

CHANGING FOOD FOR A CHANGING WORLD

“Tell me what you eat, and I will tell you who you are.”

French food writer Jean Anthelme Brillat-Savarin penned this line in his *Physiology of Taste* in 1826, but it’s as timely as ever. Food is still a telling reflection of history, culture and society, but in today’s world everything is faster and more complex. Global trade, industrialized agriculture, worldwide health issues, modern distribution systems and changing lifestyles—and many other trends, too—are revolutionizing our eating habits and our health.

HEALTH AND DIET— AN UNBREAKABLE BOND

As population growth and farm production have moved relentlessly forward, better agriculture has enabled the world to feed a growing number of people. According to the UN’s Food and Agriculture Organization (FAO), malnutrition is in decline, falling from 19% of the world’s population to 11% over a 25-year period. Yet over

2 billion people—nearly all of them in developing countries—are still malnourished, and their nutrient-poor diets fuel the vicious cycle of poverty, disease and underdevelopment.

At the same time, says the World Bank, average per capita income (as measured by GDP) rose 27% worldwide between 2000 and 2011. This rise in disposable income is now shaping diets and lifestyles around the globe, but the impact on health isn't always for the better. International organizations are seeing sharp increases in diabetes, cardiovascular conditions and other non-communicable diseases, and overweight and obesity are among the primary risk factors. According to a 2014 report by McKinsey*, some 2.1 billion people—more than 30% of the world's population—are now overweight, and that figure is expected to reach 50% by 2050.

HEALTH THROUGH FOOD

Every day, science produces more evidence of the benefits of a good diet—in building and maintaining good health, preventing certain diseases, and making treatments for illness more effective. Health and diet have always been inseparable, but their relationship varies with geography, income and tradition. At Danone, these issues are the core of our mission. And to better understand and evaluate each challenge, we've spent years building a knowledge base and a network of international partners that round out our perspective with a wide range of views: nutritionists, epidemiologists, biologists and sociologists, as well as NGOs and associations with priceless knowledge of local populations and their unique dietary profiles. Our goal has always been to offer products and services that meet a wide range of nutritional needs and expectations about food. Last year was no exception. In 2014 we continued to follow this guiding principle, organizing and enhancing our knowledge base.

In the United States, one in four children drinks no water—only sugar-sweetened beverages**. More than 1 million Britons over

1/3

Dietary deficiencies affect 1/3
of the world's population
(FAO)

1/3

Worldwide, 1/3 of the adult
population is overweight
(McKinsey, 2014)

70%

By 2050, 70% of the world's
population will live in cities,
up from 50% in 2010 (FAO)

65 are malnourished. In Russia, three-quarters of children aged six months to three years don't get enough iron, and in Senegal, one-fifth of children ages five to 12 suffer from serious iodine deficiencies. These are just a few of the facts we've collected as part of Danone's NutriPlanet program (see page 42), which we use to map out the nutritional landscape of each country, as well as the sociocultural environment around food. Originally developed to study the nutritional needs of India, China, Argentina and other markets that were



“FOOD DOES NOT MERELY NOURISH US: IT HAS SOCIAL, CULTURAL AND HEDONIC DIMENSIONS. IT IS A MEDIUM FOR SOCIAL INTERACTION, A FUNDAMENTAL MEANS OF BUILDING IDENTITIES, AND A SOURCE OF MANY PLEASURES.”

NICOLAS BRICAS
SOCIOLOGIST

new to us, NutriPlanet had expanded to 52 countries by the end of 2014. In each study, our first goal is to gather information on the nutritional status of each population, its food intake, and the rates of key diet-related diseases. Then we identify local eating habits and work to understand their significance. Finally, we share our data with local health and nutrition authorities to target our strategies and information campaigns more effectively.

Against this backdrop, providing advance education and training for health professionals and consumers is critical to the success of every campaign. Though we launch programs of our own, more often we act as a partner—as, for example, in our “First 1,000 Days” initiative. Launched two years ago and expanded significantly in 2014 (see page 44), this effort has prompted a number of health and nutrition stakeholders to make young mothers more aware of the importance of good nutrition during pregnancy and the first two years of their baby's life. Meanwhile, our Danone Nutricia Africa & Overseas (DNAO) teams helped organize the sixth Rencontres Africaines de Nutrition Infantile, a 2014 symposium in Yaoundé, Cameroon that attracted some of the best African and international experts on the first 1,000 days of life.

Across the Atlantic, our evian brand supports the Drink Up! campaign to help young Americans recognize the importance of healthy hydration. The American Society for Nutrition has deployed a number of similar initiatives, working with the Danone Institute to highlight the value of healthy eating habits and the importance of yogurt in a balanced diet. We're also working at grassroots level to create networks in local communities and get them involved. Examples include programs in Romania and in Kenya (see page 45), where we're working with local partners to train midwives, and in Côte d'Ivoire and Cameroon, where DNAO worked with local partners to teach pediatricians about nutrition and sociology. Ultimately, whether we work under the Danone name or through one of our brands, each of these efforts helps us to increase awareness and build knowledge of what good nutrition can do for health.

TAKING THE MEASURE OF FOOD

To persuade others of the critical connections between diet and health, we need to be able to measure them, and the health impacts of food aren't easy to isolate or quantify. But we're making progress, working closely with partners in academia. Our partnership with AgroTechParis has produced PANDiet, a new diet quality index that can determine whether an individual's nutrient intake is consistent with recommended dietary allowances. And Danone is working with 11 other partners in industry and academia on Europe's Metacardis project, designed to assess the link between lifestyle (including eating habits), gut microbiota and cardiometabolic diseases. The science of nutrition economics is also evolving rapidly, as skyrocketing costs force governments to bring heightened attention and precision to the healthcare equation. In the UK, for example, the cost of elder malnutrition has been estimated at £1,003 per patient, and McKinsey calculates that global obesity costs a huge \$2 trillion annually, reducing world-wide GDP growth by 2.8 points*. At Danone, we're convinced that

We provide foods for people in a broad, diverse range of situations, from conception to adulthood. To convert this profusion of local realities into a solid foundation that our subsidiaries can use to build strategy and spark innovation, Danone has developed three programs.



NutriPlanet gives us a nuanced understanding of the eating habits and nutritional status of the people wherever Danone is present. The goal is to develop solutions that correspond to their nutritional needs and socio-cultural realities, ensuring that our products and product categories are relevant to local consumers.



Every day, consumers choose among different foods with different nutritional benefits. We use the NutriWays program to analyze these food choices and compare the composition of our products to market offerings, gathering information that enables us to develop healthy products and document their superior nutritional value.



This is the tool we use to show that we are fulfilling our mission—bringing health through food to as many people as possible. The NutriImpact program studies the effects of consuming our products, measuring their impact on diet quality and their ties to health.



As urban populations expand, our diets and consumption styles are changing. Danone's mission—bringing health through food to as many people as possible—means that we have a central role in helping consumers navigate this new landscape.

THE FIRST 1,000 DAYS

In the first 1,000 days of life— from conception to age two—a child is transformed from a single cell to a living, thinking, active human being, weighing some 15 kg. It’s a crucial time for physical growth, cognitive development and formation of the immune and digestive systems.

Diet plays an essential role in getting children off to a good start and building good health—now and for the future. Though there’s a growing scientific consensus on the importance of good nutrition during the first 1,000 days, many mothers still don’t have enough information. And if they stop breastfeeding prematurely, or introduce cow’s milk or add the wrong solid foods too soon, their children may suffer iron and vitamin deficiencies that can create serious health problems.

In 2014, Danone worked closely with local experts to launch a series of campaigns, mostly in close collaboration with local experts, designed to make government agencies, health professionals and mothers more aware of the crucial importance of the first 1,000 days of life. These focus on the mother’s nutritional needs during pregnancy and breastfeeding, and the child’s needs during the first two years.

The campaign ran in a variety of countries, with topics tailored to local needs and the most effective channels of communication. Meanwhile, our Danone Nutricia Africa & Overseas (DNAO) teams have adopted the theme “Nourishing Life” to explain why the first 1,000 days can affect the rest of a child’s life, and to encourage mothers to avoid malnutrition and its long-term consequences by adopting healthy eating habits during pregnancy and baby’s first few years. This aligns the DNAO effort with WHO’s goals for Africa: reduce infant mortality, reduce anemia in women of childbearing age, raise birth weights, and increase the number of women who breastfeed exclusively for the first six months. The “Nourishing Life” campaign kicked off in late 2014 with a series of conferences, including *Rencontres Africaines de la Nutrition Infantile* in Cameroon. It will be deployed throughout 2015 in four countries—Algeria, Morocco, Côte d’Ivoire and Cameroon—through workshops, in-person meetings, and information provided via traditional media and on line. Danone employees have also launched several initiatives, connecting with mothers in their neighborhoods and other everyday environments to explain the importance of breastfeeding exclusively for the first six months and then gradually introducing a varied, age-appropriate diet.



KISSMEE

We created Kissmee—the Kenya Innovative Sustainable Solutions for Midwifery Education and Employment program—with support from the Danone Ecosystem Fund and in partnership with NGOs such as GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), AMREF Health Africa, and the Lugina Africa Midwives Research Network. The goal: train unemployed midwives and nurses to provide nutrition and infant health services. In return, they will offer their services to middle-class women—the indirect beneficiaries of the program. Kenya’s Ministry of Health will accredit Kissmee training for some 400 midwives, who should then be able to reach 50,000 Kenyan women. Courses will be taught in traditional in-person classes, but also via e-learning, thanks to the unusually high number of Kenyans who own smartphones—67%⁽¹⁾.

⁽¹⁾Source: Safaricom mobile network operator.

nutrition can play a critical role in reducing and controlling health-care costs. As Hippocrates said, “Let food be thy medicine, and medicine be thy food.”

FROM THEORY TO PRACTICE

But food is more than just nutrition, and people don’t always do what they say. Which is why we look beyond nutrition to grasp the social, cultural and practical aspects of food. A meal isn’t just a collection of nutrients: it’s also a social act—and a source of pleasure.

If you ask a French mother how she wants to feed her child, and she’ll say that she’d like to make his meals herself. In practice, however, she doesn’t always have the time or inclination for it, and she even isn’t entirely sure whether exclusive homemade diet is the best solution for him. A young mother in Côte d’Ivoire will say that she wants to breastfeed exclusively until her child is six months old, but she’ll stop after three months because she thinks of herself as a wife and career woman as well as a mother. And to make food behaviors even more complex, the same individual can have different attitudes from one set of circumstances to another, while the composition of a meal can vary enormously depending on the context. Are you alone or with friends? Are you eating at home, at work, on vacation? Is it summer or winter?

In short, there’s a significant gap between theory and practice. To recognize, understand and decode these situations, we work not just with nutritionists, but with sociologists and anthropologists who specialize in food. When our Bledina brand wanted to penetrate the mysteries of food behaviors, they worked with a sociologist from the French National Center for Scientific Research (CNRS) to interview a group of young parents and gain a better understanding of food’s role in socializing children. No matter where Danone does business—from Europe to Africa to China—we conduct a wide range of studies to understand the complex inner workings of the relationship between people and food. All over

the world, we're constantly refining our methods to decipher the social, cultural and practical factors that drive eating habits.

At Danone, we're fully committed to this highly personal, ultimately pragmatic approach to reconciling the realities of everyday eating with our mission to deliver better health through food. Done right, it leads us to adapt not just our products, but our distribution networks, our services and our advertising to the wide diversity of eating habits around the world.

* *Overcoming obesity: An initial economic analysis*, McKinsey, Nov 2014.

** Source: Center for Disease Control and Prevention.

FOCUS: NUTRIPLANET STUDIES

52

Danone has studied
52 countries under the
NutriPlanet program

25

studies focused on
entire populations

45

NutriPlanet studies
concentrated on
pregnant women,
breastfeeding mothers
and their infants

11

studies focused
specifically on
the elderly



Learn more at
danone.com/en/2014annualreport



A meal isn't just a collection of nutrients: it's also a source of social interactions and pleasures that can vary widely from culture to culture. At Danone, we look beyond nutrition to understand the social, cultural and practical aspects of food.



MEETING DIVERSITY WITH INNOVATION

Without their diverse eating habits and food behaviors, many of the world's cultures and societies would lose their richness and complexity. At Danone, we respect that. In fact, the diversity of our markets plays to one of our greatest strengths: innovation. Not only new products, but new ways of designing and distributing them that keep us close to our consumers.

Dietary diversity is just as vital to the world's social and cultural systems as biodiversity is to the environment: both need protection. And at Danone, caring about diversity goes hand in hand with the conviction that it is essential to our mission—bringing health through food to as many people as possible. No single recipe or diet can achieve that. There are many ways to eat a healthy, balanced diet, and they differ from culture to culture and even from person to person.

REDEFINING DIVERSITY

Demographics, geography and economics are fundamental to understanding dietary diversity, but they can no longer do the job on their own. Under pressure from globalization, urbanization and rising disposable income, lines are blurring. When a Nigerian attorney thinks about food, he has more in common with a lawyer in New York than a farmer in his own country. When the Nigerian farmer

leaves his village for Lagos, he'll be more like Chinese migrants in Chengdu than the cousins he left behind. And a young Frenchman who follows his star to Brazil will never lose his deep roots in French cuisine. Adapting to that kind of diversity is a challenge—ultimately, we're serving a market of 7 billion individuals.

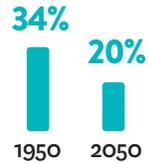
Our strategy for meeting this challenge? Stay close to consumers. Stay close cognitively to recognize, analyze, understand and decipher their eating habits and food-related behaviors. Stay close physically to connect with them, through focus groups on new-product design or through grassroots awareness campaigns. Stay close digitally, to hear what they have to say and deliver the on-line information and services they expect. This is the essential ingredient in adapting our products to meet consumer needs and deliver health and nutritional benefits—all without losing sight of the real world or the bottom line.

CUSTOM FIT

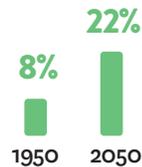
We all need good, healthy food, but not everyone needs the same thing. And because of our commitment to our mission and our four business lines, we keep everyone in mind, including the most vulnerable: infants, expectant and new mothers, the sick and the elderly, who often need extra care.

Profutura—one of Danone's major innovations in 2014—is just one example. This new range of products and services is designed to meet the needs of both mother and child during the first 1,000 days of life. Profutura is tailored to the special nutritional needs of pregnancy, breastfeeding, and baby's first few months of life. But even after a child has turned two, we continue to support growth and build the foundations for good health throughout life. In some cases, our goal is to eliminate the iron, calcium, vitamin and mineral deficiencies that affect many young mothers and children in both mature and developing countries. Our historic Danonino brand is a good example. Since its 1967 launch in France under the Petit Gervais aux Fruits brand, this range of *fromage frais* dairy products has

SHARE OF WORLD POPULATION UNDER 15



SHARE OF WORLD POPULATION OVER 65



Source: World Data Bank.



Profutura, a new range of products and services from our Aptamil brand, was developed to meet the special needs of mother and child during the first 1,000 days of life.

expanded successfully around the world by adapting to consumer needs. In each of the 35 countries where it is sold, we've adjusted its formulation to reflect the recommendations of local health authorities, and in 2014, it was the No. 1 children's dairy product. Similarly, Blédina has tailored its new Blédine Nursie cereals to the needs of children in Morocco, Algeria and Senegal, boosting vitamins and minerals and reducing sugar.

Also in Africa—this time in Côte d'Ivoire, Cameroon and the Democratic Republic of the Congo—our Phosphatine brand has launched a reformulated cereal that can meet 70% of a child's daily

requirement for iron in a single serving. In 2012, Danone Nutricia Research teams conducted a NutriLife study to quantify the exact nutrient intake of 2,050 Russian children aged 6 to 36 months, and found that three-quarters of them were not getting enough iron. So we launched Malyuta growing-up milk, fortified with iron and designed specifically for children in that age group.

Danone also offers products that meet the special needs of the elderly and those in poor health. And because no treatment can succeed if the patient rejects it, our expertise in creating taste appeal is particularly important. Take amino acids: a key component in proteins, they're essential in treating certain metabolic disorders. But they taste terrible. Enter Nutricia's PKU Lophlex LQ. The original range was a flavor breakthrough, and in 2014 it expanded to include fruit-flavored PKU Lophlex LQ Juicy. Similarly, our Anamix Junior range—designed for children with phenylketonuria (PKU), a condition that can compromise brain development—has now diversified into fruit flavors, and Fortini, which reduces symptoms of fatigue in malnourished children, now comes in a Creamy Fruit version that tastes just like yogurt with fruit.



**“INNOVATION DOESN'T
COME FROM TECHNOLOGY
OR IDEAS. IT COMES FROM
CARING PASSIONATELY
ABOUT THE CONSUMER.”**

BRUNO BONNELL
CHAIRMAN OF I-VOLUTION AND MEMBER OF DANONE'S
BOARD OF DIRECTORS

AS YOU LIKE IT

But these specialized products account for only about one-third of our sales. The other two-thirds meet our own very demanding nutritional standards, from dairy and early life nutrition products, to waters and sugar-free beverages, to basic medical nutrition. And we never stop working to improve the nutritional profile of Danone products in response to new public health challenges. In 2014, we reduced the sugar in many of our products, including new Actimel for kids in the UK and our zero-calorie Levité flavored waters in Argentina. In the US, Dannon has joined the Partnership for a Healthier America, pledging to improve the nutrient density of its yogurts by 10% and reduce their sugar and fat content.

Just as needs vary from person to person, so does our approach to consumption. Different people can enjoy the same product in very different ways, depending on their culture. Which is why a yogurt, a *fromage frais*, or a beverage can take many forms, from consistency to composition to packaging.

The consistency of a product can be shaped by both history and geography. Liquid yogurt has always been popular in Hispanic countries, where aficionados drink it like milk from pouches or large flasks. More recently, this style of yogurt has become popular with consumers who want products they can enjoy on the go, like the latest version of our Dan'Up drinking yogurt in Brazil. And because long-life versions don't require refrigeration, liquid yogurt can even adapt to markets with no cold chain. In South Africa, for example, our Mayo range has a 90-day shelf life at room temperature, and Ultramel keeps for up to seven months.

Adjusting product composition can deliver a triple win—cultural, economic and environmental—when products are made with local ingredients. Packaging is equally essential in adapting products to diverse consumption styles. For example, many baby foods now come in soft, stand-up pouches instead of small glass jars. The reasons are simple: convenience and price. Pouches are lighter and can be heated directly in a microwave. In 2014 our Blédina brand responded to this consumer preference by launching a new range of pouches in

13

countries have launched PKU Lophlex LQ Juicy, bringing great taste and enjoyment back to children whose diets are restricted due to allergies or disease



86%

of Danone sales come from good-for-you product categories* that are recommended as part of a healthy, balanced daily diet

66%

of Danone sales come from products that meet rigorous nutritional standards*

* Scorecard 2014, covering 45 subsidiaries and 76% of Danone sales from all four divisions.



CITIES: THE NEW MELTING POT

More than ever, great cities drive economic activity and growth. According to McKinsey*, in 2011 the world's top 600 cities were home to 22% of its population and generated half of its wealth. By 2025, these cities alone will account for 25% of the population and churn out 60% of global GDP. And as the rate of urbanization continues to increase, the center of gravity is shifting south and east. By 2050, the number of city dwellers will increase by two-thirds, and Asia and Africa will account for 90% of that growth.** By 2025, Lagos will be the world's fourth-largest city, after Tokyo, Mumbai and Shanghai.*** For major corporations like Danone, the biggest source of untapped growth is urban areas in emerging countries, where populations are expanding and the middle class is gaining strength. Ordinary consumer goods are now affordable for many of the people in these megacities—and in hundreds of medium-sized cities whose populations number “only” in the millions.

Cities are important not just for their growth potential, but for their density and diversity. As different lifestyles come into contact, eating habits will change dramatically, and Danone must be ready to adapt and respond. Each city is its own world, with its own opinion leaders, communities and consumers—a mosaic of millions of individual stories that we must recognize and understand. The extreme diversity of a city comes not just from widely differing types of income, housing and transport, but from each of its inhabitants—where they came from, what they're striving for, and how they live.

* *Urban World, Mapping the Economic Power of Cities, McKinsey, 2011.*

** *World Urbanization Prospects, United Nations, 2014 Revision.*

*** *McKinsey 2013.*

France, introducing children to an array of vegetables, from well-known to overlooked. And Stonyfield, our US organic dairy subsidiary, has launched its own collection of fruit yogurts in pouches.

Packaging is also critical in winning over consumers who want products that can be slipped into a purse or briefcase for healthy eating on the go. Many Danone brands adopted convenient new formats in 2014, including DanUp in Cup in Brazil, Żywiec Zdrój water, now available to Polish consumers in half-liter bottles, and Click & Drink, a drinking yogurt with a pull-tab and pouring spout made by Alquería in Colombia.

Finally, packaging plays a key role in affordability. In 2014, our Argentine subsidiary Levité launched an aquadrink that comes in a packet, and in West Africa, our new Blédina cereals are sold in 45g packs that deliver the nutritional power of a full meal for children over six months. Bottom line: with the right packaging, Danone consumers can enjoy our products on their own terms.



Packaging is critical to winning over consumers on the go. Danone is meeting this demand with half-liter bottles of Żywiec Zdrój water in Poland, Blédina's new Blédin[®] Fruit pouches in France, Dan'Up in Cup in Brazil, Alquería's Click & Drink yogurt in Colombia, and Stonyfield organic yogurt in pouches in the US.

THE LAST KILOMETER

Shopping preferences are diverse too, and for Danone the final challenge is finding the right channels to reach our consumers. Changing lifestyles can complicate the task, but we continue to innovate, finding new paths and new shortcuts.

Today's city dwellers are short on time and many don't keep a car, so they shop in neighborhood stores instead of hypermarkets. We're responding, adapting product selection, size and packaging to the needs of each neighborhood. In Bangkok, for example, shop owners had relegated boxes of infant formula to a shelf behind the counter, believing that they were too expensive for their customers. But that proved false once shoppers were able to help themselves. Reaching African consumers often demands a non-traditional approach as well. In Senegal, Blédina cereals are now delivered to 6,000 points of sale by Laiterie du Berger dairy trucks—an innovative partnership that may lead to others on a continent where some regions are still hard to penetrate. In 2014, we signed

an agreement with Brookside, an East African dairy company that has built a powerful distribution network serving 200,000 points of sale daily, and in West Africa we've partnered with Fan Milk, a dairy company with a strong neighborhood sales network and a distribution platform of over 31,000 independent vendors, who often use bicycles to reach every nook and cranny of the region's cities.

The Internet is another new channel for connecting with consumers—and an increasingly important one. In China, 2014 brought an explosion in orders for Nutrilon, Cow&Gate and Dumex infant formulas on TMall, the country's biggest on-line retail marketplace, and all four Danone divisions are continuing to grow on Ocado, the UK's on-line supermarket, with 2014 sales up 17.5% over 2013. And in Paris, evian Chez Vous website has partnered with Smart Drop, a connected refrigerator magnet that customers can use to place orders without ever turning on a computer.

Out on the sidewalk, direct-to-consumer sales are also taking off, especially for our beverages. In Mexico, Bonafont has launched a guava beverage designed especially for on-the-go meals eaten on the street, and in Paris, we're still experimenting with street sales of la Goutte d'évian, a 20 cl bottle. More projects may soon be launched with support from the Danone Ecosystem Fund, tapping the potential of direct-to-consumer sales to drive growth and forge strong ties with our customers.

STAYING CLOSE TO AS MANY PEOPLE AS POSSIBLE

From product design to distribution, our relationship with the consumer is the critical link between diversity and innovation, and it goes beyond sales to include services and awareness-raising. For example, when Phosphatine sets up tents in cities in Cameroon or Côte d'Ivoire, the primary goal is to make mothers aware of the importance of iron in their children's diets. Understanding the psychology of food is one way to help people



Our Mizone brand began selling directly to consumers in 2013, and was followed by evian in 2014.



In Africa, reaching consumers often demands non-traditional approaches that include networks of vendors who use bicycles or rickshaws to distribute products in hard-to-reach areas.

1 bn

Innovation and new ideas have enabled us to reach nearly 920 million consumers, and our ultimate goal is 1 billion

1,500

Danone employees work in R&D, striving to improve the nutritional profile of our existing products and develop new ones

talk openly about their nutritional needs. That's what inspired Nutricia to create My Nutilis, a website specifically for patients with swallowing difficulties. The site includes videos of Chef Neal Palliser-Bosomworth preparing recipes with Nutricia products, as well as the My Nutilis on-line community, with even more benefits for caregivers. On a lighter note, we work hard to stay close to consumers on special occasions—from Bachelor's Day in China to Independence Day in the United States to Mother's Day around the world—and every day, whether their routine takes them to a university, a train station or a cinema. Staying close. Staying connected. Both are essential to meeting the diverse needs of 7 billion consumers.



Learn more at
danone.com/en/2014annualreport



2

**PROTECTING
AND SUPPORTING
DANONE'S
ECOSYSTEM FOR
GROWTH AND VALUE**

PROTECTING WATER: FROM AWARENESS TO PRESERVATION

Water. Precious, fragile and unevenly distributed, it's a vital resource for everyone. And it's up to all of us to use it wisely and protect it from increasing economic and demographic pressures. For Danone, conserving water goes well beyond our products and our plants: it's an integral part of a holistic, cooperative approach to responsible management of the entire water cycle.

THE WATER CYCLE

1. EVAPORATION

The water cycle begins with evaporation, primarily from oceans and forests.

2. TRANSPORTATION

The evaporated water circulates through the atmosphere and is precipitated onto land as rain or snow.

3. INFILTRATION

Once the water reaches the ground, most of it evaporates, and the rest runs off or infiltrates the soil. The portion of land infiltrated by the water is called a catchment area.

4. PROTECTION

As the water penetrates deep underground, it is less exposed to pollution from chemicals and microbes.

5. CIRCULATION

The water circulates very slowly underground, travelling through permeable rock formations called aquifers, ultimately reaching a spring.

6. RETURN

The water is used by human beings and returns to a stream.



PROTECTING WATER RESOURCES

At Danone, we believe that a healthy diet begins with a healthy environment, and we've built our Nature 2020 program around this principle, committing to goals in four key areas: climate, water, packaging and farming. Between now and 2020, we will continue to protect water, especially where it is scarce, and use this vital resource in harmony with our business ecosystems and local communities.

Water circles the globe in an endless cycle: rain and snow infiltrate the soil, swell rivers and return to the sea, where they evaporate and begin the process again. Forest and ocean play a critical role in this life-giving cycle, vital for healthy terrestrial ecosystems, sustainable natural water sources, and the crops that feed us. For decades we've worked to operate our springs sustainably and protect the land around them, in close partnership with NGOs and local stakeholders. At Danone, preserving the water cycle isn't just a theoretical concept—far from it. Our awareness has gradually expanded to include using and consuming water in any way, directly or indirectly. And in 2015, after consulting with various expert stakeholders, we published a comprehensive new water policy covering five core areas: advocating water-friendly farming techniques, protecting springs and their ecosystems, optimizing water consumption at

production sites, promoting access to safe drinking water, and adopting a governance structure that will help us meet these challenges.

ADVOCATING WATER-FRIENDLY FARMING TECHNIQUES

We began by taking the measure of the challenge—quantifying our “water footprint.” Quantis, a global environmental assessment specialist, and the French Livestock Institute conducted studies in 2012 and 2013 and gave us a clear answer: indirect consumption from farming, and particularly from dairy farming, accounted for three-quarters of Danone’s footprint. Not only do cows drink 70-100 liters of water a day, they eat 40-60 kg of grass, corn, or oil cake made from soybean or rapeseed—all crops that need water, and in some cases a lot of it. According to the OECD, demand for water will increase 55% by 2050. Bottom line: the big challenge for agriculture, which accounts for 70% of the world’s fresh water consumption, is to adopt practices that are more sustainable and water-friendly.

On the supply side, Danone is working with a number of authorities to encourage feed growers and manufacturers to promote sustainable practices and improve product traceability. One key goal is to develop more efficient irrigation techniques and choose less water-intensive grains whenever possible—opting for sorghum over corn, for example. Expanding farmland to plant more crops can also damage ecosystems that are vital for the water cycle: increased production of protein-rich soy, for example, may cause deforestation in South America. Since 2012, Danone has had a published forest policy, designed to eliminate deforestation from its supply chain, along with a reforestation program running through 2020. In 2014 we followed up with a targeted policy on soy, pledging to seek total transparency throughout the supply chain and cooperate with them to counter environmental risks with practical solutions tailored to each locality.

DANONE’S WATER FOOTPRINT

180

billion liters used to irrigate farmland

43

billion liters used for production processes

26

billion liters used in the composition of finished products, primarily at bottling sites

Source: Quantis and Danone’s 2014 Registration Document.





Danone is also committed to encouraging our milk suppliers to adopt sustainable agriculture practices. In 2013 we introduced RISE, a tool for assessing farm sustainability that covers water-related issues. By 2014 the entire program was in place, giving resource preservation a larger place in our business plans and advancing toward our Nature 2020 targets. As we work to achieve these goals, our most powerful asset is the partnerships we've cultivated with milk producers, which give us a basis for advocating less water-intensive practices, particularly in livestock feed. We've already seen success with a pilot project in the US, where we helped build a concentrated-

milk plant at McCarty Family Farms. The new plant recycles water so efficiently that it meets virtually all of the needs of the Kansas farm and its 8,000 cows.

In addition, we've worked with agriculture authorities for years to preserve water quality, and particularly to optimize use of fertilizer on animal feed crops. To limit pollution from wastewater, we encourage producers to plant bands of grass beside creeks. And in 2014 we helped launch a promising biomethanation pilot on France's Gavot plateau, the catchment area for the spring that produces evian mineral water (see page 68).



“WATER IS TRULY AT THE CORE OF SUSTAINABLE DEVELOPMENT. IT IS INEXTRICABLY LINKED TO CLIMATE CHANGE, AGRICULTURE, FOOD SECURITY, HEALTH, EQUALITY AND EDUCATION.”

MICHEL JARRAUD
CHAIR OF U.N.-WATER AND
SECRETARY-GENERAL OF WMO

PROTECTING SPRINGS AND THEIR ECOSYSTEMS

We've made sustainable management of catchment areas (see page 69) a Danone priority for nearly 20 years. In 1998, we became the first company to sign a partnership with Ramsar, the United Nations convention that protects key wetlands around the world, and

we've also worked with Ramsar to develop SPRING, a water resource management tool that will be deployed at all Waters division sites by the year 2020. In our partnerships with local stakeholders, we protect water resources both by operating our springs sustainably and by preserving catchment areas. At Volvic, for example, we bottle only 15% of the spring's natural output, and we manage our sites in cooperation with local officials, farmers and environmental NGOs. Our goal is to strike a balance between protecting each spring and supporting local development by managing risks from human activity such as pollution, deforestation and urban development. To achieve this goal, we will create a governing body for each spring, modeled on the Lanjarón Foundation in Spain and the many organizations in France—Apieme in Evian, Cepiv in Volvic, La Bulle Verte in Saint-Galmier and PEP'S in Salvetat.

Building on our beginnings in France, we are gradually expanding this cooperative model of governance, protecting springs and restoring threatened and damaged ecosystems. Why? Because protecting water means protecting ecosystems, and vice versa. Deforestation, for example, reduces soil fertility and increases the risk of floods. By 2020, Danone plans to triple the number of ecosystems we're preserving or restoring, with a special focus on China, Indonesia and Latin America. In 2014 we partnered with local communities in Longmen, China, protecting our Jiaquan spring by promoting sustainable production methods and lifestyles (see page 71), and in the central Javanese town of Klaten, we're working with a local NGO to help smallholder farmers master environment-friendly agricultural practices. In Argentina's Chaco region, our Villavicencio mineral water brand has partnered with the NGO Banco de Bosques since 2012, pledging to protect a hectare of the La Fidelidad national park from deforestation. In 2014 their campaign—dubbed *Dejá tu Huella*, or “Leave your mark”—reached its goal: official creation of a nature preserve in Northern Argentina by the country's legislature. La Fidelidad is the first natural park to be created by a brand and its consumers.



SPRINGING FORWARD

Our Spring (Sustainable Protection and Resources Managing) water resource management tool sets the standard for managing the springs that produce our bottled waters and is already in use at all Waters division facilities.

The latest version of Spring has expanded to include the entire water cycle, from resource protection to wastewater quality. More reliable and easier to audit, it also includes plans for year-to-year improvement. We developed Spring in partnership with the Ramsar Wetlands Convention and the International Union for Conservation of Nature (IUCN), incorporating the recommendations of their experts.

SAFE DRINKING WATER FOR EL ALBERTO

MEXICO



Many residents of El Alberto, one of Mexico's driest regions, must walk for hours to reach local springs, which are small and often polluted. Under the EcoAlberto project, we've worked with the Porvenir Foundation and danone.communities to build a treatment plant for the local water, which is then

transported to nearby villages and sold at an affordable price. Some 25,000 people now have access to safe drinking water, and the project has created jobs for the 250 women who distribute it. In 2014 EcoAlberto began turning a profit and will now be duplicated in a second community.



METHANATION FOR EVIAN

FRANCE



In early 2015 Danone helped build a methanation unit near Evian, working closely with farmers and local communities. The project won support from nearly all of the farmers on France's Gavot plateau, home to the catchment area for

the evian spring. The unit will treat organic waste from around 2,200 cows and recycle it into biomethane, used to generate household electricity, or digestate, a natural fertilizer for grassland.





OPTIMIZING WATER CONSUMPTION AT PRODUCTION SITES

Our water-preservation campaign also includes Danone plants, where we've already saved nearly 15 billion liters of water—around a third of total consumption—since 2008. All of our production units evaluate their water use against their needs to find ways of optimizing consumption, and under our Nature 2020 initiative, we've made a company-wide commitment to cut water consumption by 60% between 2000 and 2020. We've also compiled a set of best practices for making fresh dairy products, including use of water in cleaning loops, and deployed them at all of our plants. In Russia, for example, our Kemerovo dairy plant in southern Siberia piloted an optimization program for production processes and cleaning cycles that has since been adopted by virtually all of our Russian production units, cutting water consumption over the past two years.

Treating wastewater from cooling loops, the production process and washing cycles is another key objective under our Nature 2020 program. In 2015 Danone will deploy its first set of in-house standards for wastewater disposal, and several plants launched promising initiatives in 2014. At Brazil's Poços de Caldas fresh dairy plant, one of our biggest, we've succeeded in combining a significant increase in *fromage frais* output with better treatment of wastewater from production. And our evian bottling plant has set up a new, highly innovative effluent treatment station: its plant-based treatment of nitrogen is a first for France, and its mineral-based treatment of phosphorus is the first of its kind in the world.



WHAT IS A CATCHMENT AREA?

A catchment area is a natural drainage basin where rainwater and melted snow infiltrate the soil and flow down to create a spring. Our evian mineral water comes from a 35 sq km catchment area on France's Gavot plateau. Located high in the Alps, this unspoiled region is covered with forests, wetlands and natural grasslands.

PROMOTING ACCESS TO SAFE DRINKING WATER

Responsible management of the water cycle doesn't stop at the factory door. The planet's water supply is finite, but demand is growing constantly, fueled by population growth and rising farm

and industrial activity. With conflicts over water use intensifying, ensuring access to safe drinking water for everyone has become a major challenge. According to the World Health Organization (WHO) and UNICEF, some 750 million of the world's people—or one in nine—do not have access to safe drinking water. In line with our corporate water policy and the efforts of danone.communities, Danone is committed to helping local communities gain access to water. And as part of our dual commitment to business success and social progress, we make sustainability a priority, with innovative projects based on the social business model and managed by local stakeholders. Since their beginnings, our three drinking water projects—Naandi Water in India, 1,001 Fontaines in Cambodia and EcoAlberto in Mexico—have already helped 700,000 people gain access to safe drinking water through an innovative mix of public and private resources. Organizers are now consolidating and expanding these projects, which are inspiring initiatives in other communities.

Whatever the challenge—promoting access to drinking water, protecting natural springs or promoting sustainable agriculture—we believe in a collaborative approach. Creating new partnerships and new models of governance, both globally and locally, is the only way to ensure responsible consumption and preservation of our most fundamental resource: water.

* Joint Monitoring Program, 2014.

WHATEVER THE CHALLENGE—PROMOTING ACCESS TO DRINKING WATER, PROTECTING NATURAL SPRINGS OR PROMOTING SUSTAINABLE AGRICULTURE—WE BELIEVE IN A COLLABORATIVE APPROACH.

-60%

Since 2000, Danone has cut industrial water consumption by 39%, and we have pledged to raise that figure to 60% by 2020. We've also adopted the Danone Clean Water Guidelines, a set of rigorous in-house standards designed to ensure that the wastewater released by our operations is acceptable for users and ecosystems downstream.



RESTORING THE LONGMEN WATERSHED

CHINA



Since 2010 our Yili brand has operated the Jiaquan spring at Longmen in China's Henan province, and Danone is now restoring the local watershed with our partner, the International Union for Conservation of Nature (IUCN), working with local communities to promote sustainable lifestyles and production methods. After years of preparation, we launched the Eco-

Longmen project in 2014, and it is already introducing local farmers to pesticide-free, eco-friendly mandarin orange varieties and crops that can substitute for eucalyptus, a source of significant deforestation. By 2017, there should be a noticeable improvement in water and environmental quality for the area's 2,000 residents—and for the 20 million people downstream.



RELIABLE ACCESS TO QUALITY MILK: A TOP PRIORITY

Rising demand for dairy products in both mature and emerging countries has made a tight market even tighter. Increasingly sought after for its rich nutrient content, milk is coveted around the world by a fast-growing middle class. It's also Danone's most basic raw material, making it essential for us to guarantee reliable access to adequate supplies of quality milk—and protect against price volatility.

MILK: KEY FIGURES

285.6

The Dutch are the world's top yogurt consumers at 285.6 servings per person per year, followed by the French (285 servings per person per year) and the Germans (277 servings per person per year)*

69

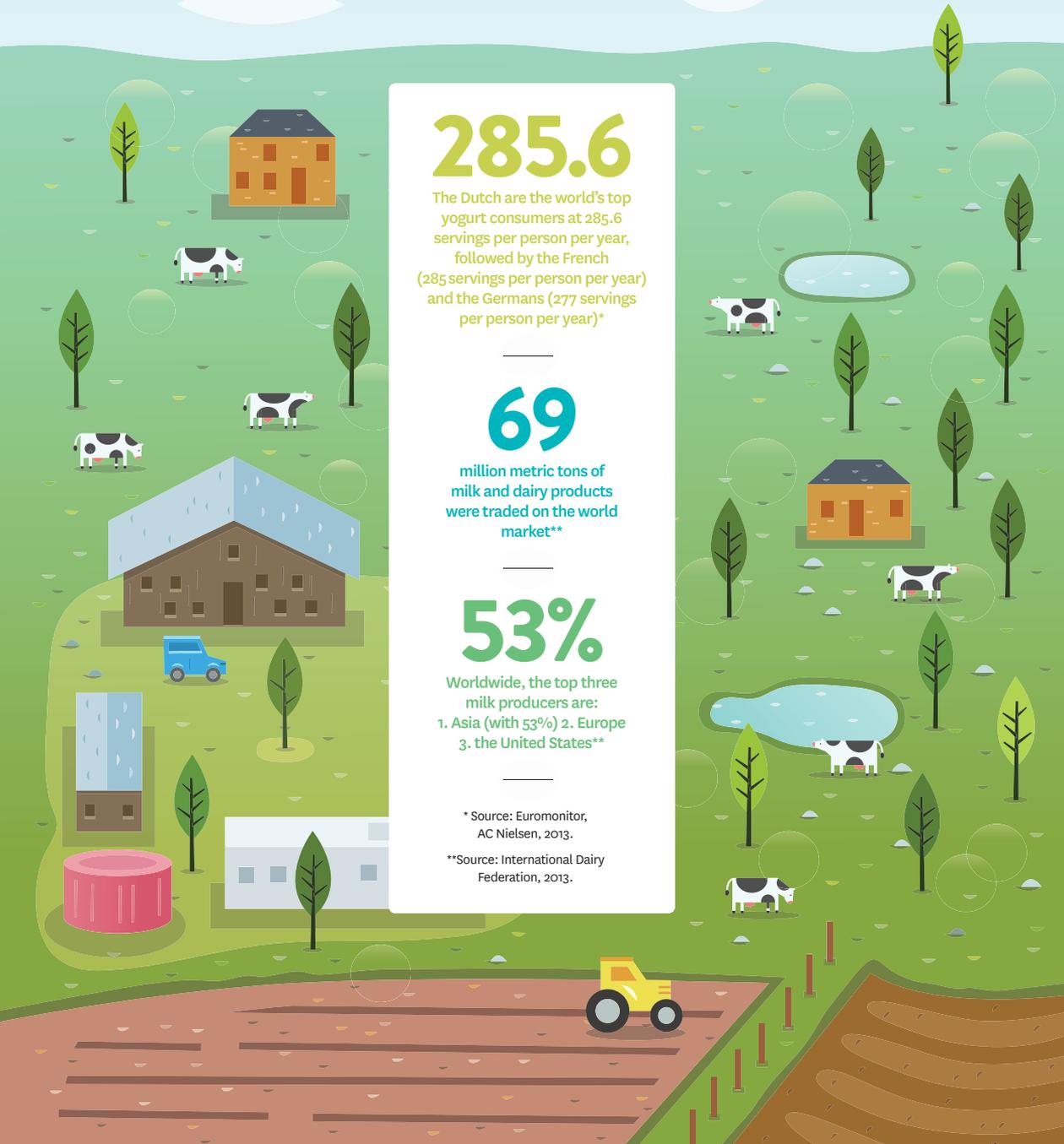
million metric tons of milk and dairy products were traded on the world market**

53%

Worldwide, the top three milk producers are:
1. Asia (with 53%) 2. Europe
3. the United States**

* Source: Euromonitor, AC Nielsen, 2013.

**Source: International Dairy Federation, 2013.





RELIABLE ACCESS TO QUALITY MILK

Worldwide, more than eight in ten people consume dairy products.* Because eating habits and processing techniques are so diverse, dairy products vary widely from place to place, but milk is part of nearly every food culture—hardly surprising when you consider that it contains significant amounts of the vitamins and minerals essential to the human body. Just one glass of milk a day provides a five-year-old with 21% of her daily requirements for protein and 8% of the calories, along with essential trace elements.*

Consumption of milk is still higher in developed countries than in their developing counterparts—Europeans enjoy over 150 kg of milk per person per year versus under 30 kg for Asians—but the gap is shrinking. Rising incomes, population growth, urbanization and changing lifestyles have all increased the world's appetite for milk and milk products, and the trend is particularly strong in Asian countries such as China and Vietnam, where consumption should increase 125% by 2030.* Fresh or converted into dairy products, milk has become a universal ingredient, enjoyed by over 6 billion people worldwide, which means enormous demand from both the food industry and consumers, now and in the future.

MARKET PRESSURE AND VOLATILITY

In one form or another, milk is used in the diets of the great majority of the world's population, making it one of the most important commodities in international trade. But milk is not like other commodities: when fresh, it must be managed at local level, but once it has been processed, its price is set on the global market. Fresh milk is a living ingredient, fragile and perishable, and must be consumed or processed within a relatively short distance of the producer. Convert it into powder, and it can travel the world—primarily from Europe, the US and Oceania, where there is a surplus, to Africa, Latin America, Asia and other regions where there is a shortage. With the OECD estimating that global demand will rise from 740 billion liters in 2013 to 900 billion in 2023, milk will surely remain in short supply—and the price pressure that began in 2010 will continue.

For Danone—a worldwide leader in fresh dairy products—developing supply infrastructures that can deliver adequate supplies of quality milk at stable prices is becoming a major challenge. Milk accounts for more than half of our raw materials costs: when prices rise, our results suffer, and any disruption in supply, no matter how small, affects our operations. Bottom line: working with our suppliers to ensure reliable access to quality milk is a priority.

STABILIZING PRICES AND MARGINS

But the problem of volatile milk prices doesn't stop with Danone: volatility is a constant concern for dairy farmers, who need reliable margins to stay in business. And even though the market is trending up, prices can always plummet. All of this puts stable prices and margins squarely at the center of our relationships with producers—an essential precondition for a sustainable partnership.

46+

Worldwide, over 46 million metric tons of cow's milk were produced between 2008 and 2012, including 21 million metric tons from Asia

62+

Worldwide, over 62 million metric tons of cow's milk were consumed between 2008 and 2012, including 35 million metric tons in Asia

Source: Euromonitor.

THE DANONE ECOSYSTEM FUND: SUPPORTING THE DAIRY SECTOR

Of the 54 projects supported by the Danone Ecosystem Fund, 22 focus on milk supply, and each is the product of cooperation among multiple stakeholders. Initiated and backed by Danone subsidiaries, the projects begin with feasibility studies. They are then launched in partnership with NGOs and other non-profit organizations, with participation from the "beneficiaries" in the local economy—in this case, local milk producers. All projects receive partial funding and support from the Fund.

DANONE ECOSYSTEM FUND

BETTING ON INNOVATION

BALANCING BUSINESS SUCCESS AND SOCIAL PROGRESS

All of the Fund's projects are designed to achieve both financial viability and maximum economic and social benefits. There are three basic types of milk-supply project. The first creates milk collection cooperatives, helping farmers improve the quality and quantity of their output by investing in collection and cooling equipment, providing veterinary services, and disseminating information on better cattle feed. Thirteen projects of this kind are

now underway, from Morocco to Turkey to Ukraine to China. The second category of project, developed in a total of seven countries, sets up model or training farms that help producers learn farming techniques and best practices. Under the third type of project, now underway in countries such as Tunisia and France, agronomists and farm management experts assist producers and help them expand

their farms. In addition to providing better living conditions for our farmers and their families, Danone Ecosystem Fund projects provide as much as 15% of Danone's milk supply in countries including Mexico, Ukraine and Tunisia. All projects are designed to be sustainable: several have now become independent and are continuing to grow without the Fund's financial support.





One solution is to peg milk prices not to the market, but to production costs. This model, adjusted to conditions in each country and the size of each farm, is one way to ensure stable prices and margins for the milk we buy. It's a win-win approach for Danone and for our suppliers, who are all striving to reach the right size—widely different from country to country—to reach the next level of competitiveness.

But putting this theory into practice takes a nuanced approach. Worldwide, we work with 120,000 suppliers whose business models—and thus living and working conditions—vary enormously: 15% of the milk we collect comes from small farms with fewer than 10 cows; 50% comes from family farms with 10-100 cows; and 35% comes from farms with over 100 cows. Bottom line: there is no one-size-fits-all model for partnership.

WIDE RANGE OF PARTNERSHIP

In countries where farms are small and the local supply infrastructure is limited, Danone's primary goal is to ensure that the milk is safe and meets our quality standards. In these cases, partnering with suppliers means creating producer organizations and providing training and tools for analysis and control.

In Mexico, over 300 farmers have joined cooperatives created with support from the Danone Ecosystem Fund (see page 77), increasing both the quantity and quality of their output, and more than doubling their revenue. In Ukraine, we've helped build an entire network of cooperatives, pilot farms and model farmers, giving local production a huge boost, both qualitatively and quantitatively. And in Tunisia, we've concentrated on training farmers, organizing milk collection, creating a cold chain, and offering access to micro-loans.

In dairy sectors with more structure, our partnerships become closer, and the focus shifts to giving advice, providing training, and offering access to technical resources and/or centralized purchasing.

7.5

billion liters of milk are produced every year by:

1,600,000

cows kept by

120,000

milk producers in partnership with Danone



THE MCCARTY FAMILY

MANAGING SUPPLY

A SUSTAINABLE APPROACH

For the four McCarty brothers, a third-generation dairy family, our US subsidiary has proved to be a true ally in helping them meet the top challenges facing their Kansas farm—price volatility and a water shortage. Prices for their milk are now based on their production costs rather than the market, ensuring stable margins. In addition, Dannon helped the

McCarty family build a concentrated milk plant that recycles enough water to meet virtually all of the farm's needs. Result: the brothers have stepped up their sustainability efforts and expanded their operation from 3,500 cows to 8,000.

JOBS

In the process, the McCarty family created some 100 jobs. In 2014, McCarty Family Farms won a US Dairy Sustainability Award and was named a Validus Certified Responsible Producer, a rigorous US certification credential for safety, environmental stewardship and animal welfare. Dannon's newest product range, Dannon Creamy, is made exclusively with McCarty milk.





In Europe, the challenge of keeping farms competitive is more pressing than ever: in 2015, reform of the region's Common Agricultural Policy (CAP) will bring an end to over 50 years of dairy production quotas. Competition will increase significantly, and farmers will have to focus on improving their technical efficiency. In Brazil, our Danleite program has improved production quality and profitability for over 185 milk producers who account for 65% of our local supplies. We provide participants with management training and access to a centralized purchasing unit, and farmers have an added incentive to buy into the process—a bonus when they reach their targets.

In Brazil and beyond, centralized purchasing is another powerful way to boost productivity, especially to reduce the cost of livestock feed, which has doubled in price in just a few years. By buying feed in bulk, Danone can take advantage of lower prices and pass them on to our producers. Livestock purchasing offers another example: in 2014 DanTrade, our centralized purchasing subsidiary, bought 12,000 cows for farmers in North Africa at prices and genetic specifications far better than they could have negotiated on their own.

For large farms, the three-year collaboration between Dannon, our US subsidiary, and Kansas-based McCarty Family Farms (see page 79) is telling. By buying all of their milk at a guaranteed margin, Dannon gives the McCartys the predictability they need to invest and grow. No longer at the mercy of price fluctuations, they can now focus on long-term growth and sustainable agriculture. Today nearly 40% of Danone's US milk supply is built on this model. In Brazil, our Gold program allows producers to set milk prices based on quality, production cost, and a margin based on each farm's performance. Between 2011 and 2014, participants increased their output by 15% a year.

WHERE WE GET OUR MILK

15%

subsistence farms with fewer than 10 cows

50%

family farms with 10-100 cows

35%

farms with over 100 cows

Source: Danone.

BUILDING A SUSTAINABLE DAIRY SECTOR

In the long term, the best way to secure reliable supplies of high-quality milk is to promote sustainable agriculture. To meet the demographic, economic and environmental challenges of the 21st century, we are committed to promoting more sustainable farming practices—a strategy that is not only competitive, but creates economic and social value and preserves natural resources. All farmers need to make a living and provide for their families—and beyond their farms lie the economic and social well-being of a village, a region, a complete ecosystem.

This isn't a new approach for us, but we're making tangible progress every year. In 2013 we launched RISE, a tool for assessing supplier sustainability. We tested the program in seven pilot countries in Europe, the US and Asia. In 2014 we structured

the RISE program and shared it with professional associations, scientific experts, environmental NGOs, animal welfare organizations and other stakeholders, publishing its core principles on the Danone website in a July 2014 White Paper on sustainable agriculture. In 2015, we're publishing our 2020 targets along with the economic, social and environmental indicators we'll use to make our milk supplies more sustainable.

Here again, we can never use exactly the same approach from one partner to the next. With small farms, we focus on milk quality and innovative, sustainable farming practices that are consistent with local conditions and the right environmental footprint—a proven approach backed by results from projects supported by the Danone Ecosystem Fund (see page 77).



“SOON, WHEN YOU CREATE VALUE OR GROW A BUSINESS, YOU WON'T BE THINKING RESOURCES VERSUS THE MARKET. YOU'LL BE THINKING ECOSYSTEM.”

JEAN-FRANÇOIS NOUBEL
COLLECTIVE INTELLIGENCE RESEARCHER
FOUNDER OF THE COLLECTIVE INTELLIGENCE
RESEARCH INSTITUTE (CRI)



But with larger farms, we can gradually integrate other aspects of sustainable agriculture: environmental impact, water footprint, working conditions, biodiversity, animal welfare, and more. In Poland, for example, Danone has brought 360 producers into a sustainability program, auditing each of the farms, which average 50 cows. Based on the results of the audit, we're focusing on animal welfare and business performance. Our early initiatives, geared around training and advice from Danone technical experts and support from veterinary services, the Polish stock farmers' federation and other partners, won Forbes Magazine's 2013 Leader of Sustainable Development award.

It will take time to deepen our partnerships with the 120,000 producers who supply Danone with milk, but our challenges, goals and methods are clearly defined.

* Source: FAO, 2014.



6 bn

Worldwide, over 6 billion people consume milk and dairy products; most of them live in developing countries

Source: FAO.

DANONE FARMS

SUSTAINABLE SUPPLY

SUPPLIES

Worldwide, Danone owns three farms—one in Egypt, one in Russia and one in Morocco. We aren't in the farming business and don't particularly want to be, but in some cases it's the only way to ensure that we get reliable supplies of quality milk. In short, these three farms are the exceptions that prove the rule.

SOCIAL IMPACT

Danone's operations in Egypt were facing a twofold challenge: milk prices were volatile and our dairy production plant was struggling to get reliable, year-round supplies of high-quality fresh milk. Our solution: invest in creating a dairy farm to manage our local supply chain as a closed system. Working with Egypt's Agriculture Ministry, in 2010 Danone Egypt acquired 55 ha of land 150 km from Cairo and began building a dairy farm that could accommodate 3,000 milking cows. The farm received its first cows from Europe in 2011, as soon as construction was complete, and now has 5,000,

including 2,600 milking cows. The farm is run by 115 full-time Danone Egypt employees, all of them trained by veterinary experts to apply the best standards for milking, breeding and caring for their animals. The farm—which produced 23.8 million liters of milk in 2014 and is expected to produce 27.5 million in 2015—now meets 50% of Danone Egypt's demand for fresh milk. The rest is collected from partner farms and communities of small independent farmers, supported by the Danone Ecosystem Fund and the NGO CARE.





3

**LEVERAGING LOCAL
TEAMS. BRINGING
A SHARED MISSION
TO LIFE. CHANGING
AND GROWING
TOGETHER**



100,000 TALENTS 1 DANONE



Every day, 100,000 men and women—speaking nearly every language and working in over 140 countries—live out our mission. In 20 years, Danone has transformed itself from a European company into a global one, with emerging countries now driving 60% of our growth and strategic platforms in Latin America, Asia and Africa fueling our expansion.

We achieved this transformation by integrating local teams and recruiting local talent—people we could count on to help us understand the unique features of each new market. Result: over 60% of our employees now work outside Europe, and as we expand into new regions and new markets, we're facing a new set of human resource challenges.

We can't expand into new markets without meeting local needs, which makes recruiting and leading local teams essential to supporting Danone's growth. At the same time, we must somehow unite 100,000 very different people into one company—a company that depends on all of our employees, present and future, to help it grow, respecting both our corporate culture and our dual commitment to business success and social progress. Sharing these fundamentals—even as we encourage each employee to adapt to the changing economic landscape by becoming his or her best self—is a daily balancing act.

GEN D

A 360° VIEW

68

YOUNG MANAGERS PARTICIPATED
IN THE GEN D PROGRAM IN 2014.



68 YOUNG MANAGERS FROM ALL OVER THE WORLD GATHERED IN EVIAN FOR OUR GEN D PROGRAM

in mid-September 2014. Launched in 2012, Gen D creates a closer connection between senior executives and employees under 30 with less than three years in management. These twenty-somethings—members of what sociologists call Generation Y—may well be at the helm of tomorrow’s Danone, so it’s important for them to play a deeper role in shaping our strategy. Over three days at Evian, Gen D participants spend time with senior executives, deepening their understanding of our goals and challenges and bringing new perspective and a “disruptive” approach to issues ranging from their relationship with Danone to their sense of engagement to making the world a better place. The gathering is also an opportunity to share the fundamentals of Danone culture, including our four values: Humanism, Openness, Proximity and Enthusiasm—HOPE. Ambassadors for Danone in the workplace and in the world, the 263 alumni of our Gen D program are a powerful asset for a company that is determined to take a 360° view. With no blind spots.

263

SO FAR THE PROGRAM HAS
REACHED 263 MANAGERS
UNDER 30.

JAGUAR & PANTHER

FELINE AGILITY

AT DANONE, WE BELIEVE MANAGERS SHOULD HAVE NOT JUST THE POTENTIAL FOR AN INTERNATIONAL CAREER, BUT REAL EXPERIENCE.

Originally launched in South America, our successful Jaguar and Panther job exchange programs are now poised to expand into every region where we operate. Though the programs are slightly different—Jaguars have up to four years' experience and six-month assignments, while Panthers have five to eight years' experience and 18-month assignments—the goal is the same. Managers are temporarily transferred to a different country, where they complete a specific assignment in another Danone division or within their own. Benefits include cross-fertilization of experience, sharing of best practices, exposure to an international environment and increased career mobility. Jaguar, originally launched in 2010 by our Fresh Dairy Products division in South America, has now expanded to all four divisions, and Panther was created in 2013 for managers with more experience. To date the programs have nearly 70 alumni, most of them South Americans, and 80% of them have been promoted or transferred into new positions that benefit them and the company as a whole. The big cats have been so successful that in 2014 they began sending participants into North America. And in 2015 they'll go even further, offering exchanges from North America into South America and spreading to Danone sites in the Asia-Pacific region, Europe, the CIS* and Africa. Eventually they'll go global, with job exchanges between entire continents. Feline agility is hard to beat.

* Commonwealth of Independent States.



80%

OF JAGUAR AND PANTHER
ALUMNI HAVE BEEN PROMOTED
OR TRANSFERRED INTO CAREER-
ENHANCING NEW POSITIONS.

KEEPING PACE WITH FAST-GROWING EMERGING MARKETS

As Danone continues to expand across the whole range of emerging regions, we face particularly challenging recruitment conditions. Every global company wants to grow in these regions, and that means attracting young people with degrees and/or enough experience to have a solid grasp of local realities. By 2020 we will need to fill 10,000 new positions—at every level—to sustain our current rate of growth in emerging countries, particularly Africa and Asia.

Africa has long been a source of growth for Danone. The UN estimates that the continent will be home to a quarter of the world's people by 2050, and in 2035 its working population will overtake China's. In 2014 we responded by making Africa a strategic region with its own seat on Danone's Executive Committee, and named Pierre-André Térissse to fill it.

In China, we've built solid positions in Early Life Nutrition and Waters, and we're continuing to expand by forming strategic partnerships with local leaders that give us even more scope for growth. Include our overall performance in Asia, especially our strong momentum in Indonesia, and it's clear that the region is living up our expectations.

In Latin America, where all four Danone business lines are booming, our employees have kept pace with a decade of continuous growth, and the list of our Top 10 markets includes Mexico, Argentina and Brazil, as well as China and Indonesia.

In all of these regions, recruiting talented employees is a major challenge. First, there's education: fast-growing populations and economies are forcing school systems in Africa and other emerging regions to adapt. According to Danone Board member Lionel Zinsou-Derlin, Chairman of PAI Partners, "It's a real challenge. Africa will have to educate 300 million children in 20 years, and that's never been done anywhere—not even in China."

Then there's the competition. All of the world's top corporations are investing in these emerging economies, seeking to attract,



DAN'CARES AND WISE

WORKPLACE HEALTH AND SAFETY: RAISING THE BAR



70,000

EMPLOYEES IN 25 COUNTRIES
HAVE HEALTH BENEFITS THAT MEET
DAN'CARES STANDARDS.

10

DANONE HAS SIGNED 10
AGREEMENTS—
9 GLOBAL AND 1 EUROPEAN—WITH
IUF*, SETTING GUIDELINES IN
AREAS INCLUDING DIVERSITY, LABOR
RELATIONS, WORKING CONDITIONS, AND
ANTI-DISCRIMINATION POLICY.

* INTERNATIONAL UNION OF FOOD WORKERS

1.9

IN 2014 OUR ANNUAL RATE OF
WORKPLACE ACCIDENTS RESULTING
IN TIME OFF WAS JUST 1.9,
DOWN FROM 2.3 IN 2013.

AT DANONE, WE BELIEVE THAT HAVING A JOB SHOULD MEAN HAVING SOLID BENEFITS AND A SAFE WORKPLACE and this conviction inspired two major programs for all of our employees. The first is Dan'Cares, launched in 2010 to provide high-quality medical benefits to all employees, especially in countries where government programs are incomplete or even non-existent. In 2014 Dan'Cares went global, providing 70,000 employees with basic health care coverage—hospitalization, surgery, maternity, doctor visits and medications—and has reduced absenteeism and increased loyalty among participants. The second program is WISE (Work in a Safe Environment), our workplace safety initiative. In 2014 it celebrated its tenth birthday with very encouraging achievements: accidents are down by 90%, making Danone one of the world's top-performing companies. We've deployed WISE in every Danone division, plant, logistics warehouse and distribution center, creating a culture of safety throughout the company. To make our employees even safer, in 2014 we launched Wise², an expanded program that also prevents health risks and implements safety standards more systematically Danone-wide.

train and retain the best and brightest in each local market—and with already high rates of employment, it's a well-nigh impossible task. Wherever we can, we build relationships with local universities and vocational organizations to stay close to new graduates and connect swiftly as they enter the market. We also rely on the viral power of social networks to attract communities of students and young workers. We host team sports, organize contests between classes, and use testimonials to highlight our strengths and the opportunities we offer—and show that we're willing to hire young, local managers and move them quickly up the chain of responsibility rather than bring in expatriates. Candidates in these booming job markets look beyond pay and benefits packages, drawn to Danone by programs that foster personal and team development and give them opportunities to move rapidly into new positions and acquire new skills.

THE RIGHT TOOL FOR THE JOB

For Danone, successful recruiting is especially crucial. Without roots in the community, good knowledge of local socio-economic conditions, and familiarity with the eating habits of our consumers, we cannot succeed in our mission. Bringing health through food to as many people as possible requires an enormous capacity for adapting to local needs, which makes local recruitment one of our first priorities.

To recruit more effectively and better understand the realities of each market—and particularly the expectations of local job candidates—we reorganized our human resources function, decentralizing it to create regional Human Resource units. In each, we place responsibility for recruitment and employee development with one person, enabling her to see the needs common to all Danone divisions in the region, build medium-term partnerships with universities, vocational institutes and business schools, and benefit from best practices in the region or in Danone as a whole.



One of these best practices is talent scouting, which we'll be testing on a grand scale in 2015. Based on an analysis of recruitment needs in each region, we'll look ahead, anticipating our needs for new local hires and making contact with potential candidates, creating an affinity for Danone by involving them in project analysis or brainstorming before we ever consider recruiting them. As we cultivate these relationships, we'll create our own talent pool, sharply increasing our chances of finding the best candidate and enabling us to move quickly when the job opening actually appears.

Across the Pacific, we're stepping up programs that promote job exchanges from division to division and country to country. These include Jaguar, now five years old, and Panther, which followed

two years ago (see page 89.) Originally created in South America by subsidiaries in our Fresh Dairy Products division, both have now expanded to North America and are open to all Danone subsidiaries, regardless of business line. Built on the principle of cross-fertilization, these programs give employees a wide range of experiences, help them learn new skills in a variety of positions, business areas and cultures, and open the door to international careers. The programs are popular: some 90% of alumni say that their positions have changed as a result of their participation, and Jaguar and Panther will be an international priority as we build the Danone of tomorrow.



“WE DON’T NEED THE OLD TOP-DOWN MANAGEMENT ANYMORE. HOWEVER, WE DO NEED INSPIRING LEADERS.”

JEAN-FRANÇOIS NOUBEL
COLLECTIVE INTELLIGENCE RESEARCHER
FOUNDER OF THE COLLECTIVE INTELLIGENCE
RESEARCH INSTITUTE (CRI)

FINDING AND KEEPING TALENTED, DEDICATED EMPLOYEES

Recruiting talented employees also has a qualitative side. Danone’s appeal for employees depends not just on our reputation, but on our

ability to offer clear potential for advancement, greater responsibility and personal growth over the long term. Like many other similarly-sized companies intent on creating a workplace with true gender equality and a successful mix of cultures and generations, we've launched a variety of initiatives. These include cross-divisional seminars to share best practices, enabling employees of all ages to connect with each other through our Octave program, and putting our managers in direct contact with the members of our Executive Committee (see page 88). We also organize a number of annual gatherings, including our Eve program, designed to help women managers from major corporations break the glass ceiling that still exists near the top of the corporate ladder. Finally, Danone also offers more traditional training programs, both in person and on line.

All of these efforts underscore our ability to adapt our models to shifting markets and changing socio-economic realities. In mature countries, for example, average age is rising, and the French National Institute for Statistics and Economic Studies (INSEE) predicts that Europe's labor force will shrink to just 68% of its overall population. Today it is not unusual for three different generations to share the same workplace, and at Danone, the question is not how to get them work together, but how to make the most of the encounter: how to pass on the knowledge and experience of older employees to help their younger colleagues grow—and how to benefit from the intuitive abilities of Generations Y and Z, digital natives who are perfectly at home with new tools and new ways of working.

One of the most striking examples of our commitment to multiculturalism and cross-fertilization is Campus for ALL, a revolutionary approach to training and sharing ideas through cross-functional, cross-divisional programs that bring people of different ages, genders and nationalities together. In the past, our Campus programs were primarily for managers, but now



DANONE GOALS FOR 2020

30%
of our managers
will be women

30%
of our managers will come
from emerging countries

30%
of our managers will have
worked in multiple
functions or divisions

our goal is to open them to everyone in the company. The first two programs under this new model will be held in 2015 in Mexico and Indonesia.

This is a natural progression, but it's also emblematic of a melting-pot company where mixing people and ideas from widely different backgrounds generates energy, renewal and success. In fact, we've defined proactive goals to promote diversity and shape career paths that create value and set Danone apart. By 2020, 30% of our managers will be women, 30% will come from emerging markets and 30% will have worked in more than one function or division.

More women on our management committees. More senior executives from emerging countries. Increased mobility between functions and business lines. Broader hiring criteria to attract new types of talent—who will attract new talent in their turn. These are the strengths and assets that are shaping the Danone of tomorrow.



Learn more at
danone.com/en/2014annualreport





OXYGÈNE COMMUNICATE, INSPIRE, SHARE



Design efficient structures that can find sources of growth. Recognize the strategic drivers that will advance our mission and ensure lasting success. Identify new frontiers—countries with big populations, low consumption rates, sustained economic growth and major dietary challenges. Craft recruitment profiles to find the men and women who can meet our challenges. Strike the right balance between business success and social progress.

For twenty years, we've discussed, questioned and elaborated on these imperatives at Evian, the iconic Danone site where we hold the meetings that punctuate our corporate life—where we make big decisions and map out our overall strategy.

These often informal, typically “Danone” retreats are part ritual, part long-term planning exercise. As we share ideas at Evian, we create the vital link between the non-negotiable fundamentals of our culture and the constant process of adapting to create the best possible Danone. In 2014 Evian was more important than ever, as we looked resolutely towards the future, studying consumers, markets, and economic, demographic and sociological projections for the next 10, 15 and 20 years.







Why now? In 1996, emerging countries generated only about 10% of Danone sales. A decade later, they accounted for nearly a third, and by 2014 that figure had reached nearly 60%. This radical transformation is at the core of Danone's growth strategy, and we must continue to deploy it under conditions that have become far more complex. There has never been so much change—in our consumer profiles, in their daily lives, in the food-related challenges we confront, in the debate over our limited natural resources, and in the relationship between businesses and their stakeholders in the broadest sense of the word.

So it was perfectly natural for Franck Riboud, Emmanuel Faber and our Executive Committee to gather in Evian and meet with 40 Danone General Managers representing the wide diversity of our people and our operations. With financial data showing that we had reached the strategic goals we set several years ago, the focus for this second Oxygène retreat was on sketching out the Danone of tomorrow.

Since 2013, we've used the new Oxygène format—a small and informal two-day encounter—to spark the brainstorming and creativity we need to keep Danone vibrant. For the CEO, Oxygène is an opportunity to hear unfiltered opinions from experts on the ground, who then become active players and stakeholders in turn, helping to spark the ideas that will drive the Danone of tomorrow. The GMs create a solid foundation for debate as their widely differing philosophies and perspectives come into sharp relief: disparate analyses from four business lines that vary enormously in size from region to region, contrasting views between mature and emerging countries, different rates of growth from market to market, and the wide diversity of our employees from continent to continent.

We held our 2014 Oxygène event March 31-April 1, and the agenda was Danone 2020. A total of 25 preparatory conversations, ten with Executive Committee members and 15 with other participants, had identified three core questions that will be vital in building the new Danone. First, our mission: what challenges must we meet to bring health through food to as many people as possible, given that the planet will be home to over 9 billion people by 2050? Second, natural resources: can the environment and the life cycle of the raw materials we need keep pace with demand from that huge population? Third, Danone itself: are we ready? Do we have the structures, subsidiaries and people we need to meet these new challenges, which require us to reinvent ourselves constantly? Starting from our beliefs—forged by our history as a leading food company, our four business lines and our experiences in over 140 countries—Oxygène participants began sketching out the Danone of tomorrow, enriched by thoughtful debate, ideas from our General Managers and the cross-fertilization that results from different perspectives.

The participants in Oxygène 2014 will continue their work in 2015, partnering with new contributors to build the company over the years and decades ahead. Because at Danone, the suggestion box is always open.





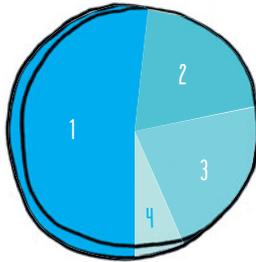
INDICATORS

—

Key financial, environmental
and labor indicators for 2014

KEY INDICATORS FINANCE

SALES
BY BUSINESS LINE
(€ million)



1 - FRESH DAIRY PRODUCTS (up +1.5%*)	11,129
2 - WATERS (up +11.6%*)	4,186
3 - EARLY LIFE NUTRITION (up +6.1%*)	4,397
4 - MEDICAL NUTRITION (up +7.9%*)	1,432

*Like-for-like compared with 2013.

TOP 10 MARKETS (as % of 2014 sales)

10% FRANCE	5% UK
9% RUSSIA	5% SPAIN
9% UNITED STATES	5% MEXICO
7% CHINA	5% BRAZIL
5% INDONESIA	4% ARGENTINA

€21,144 M

IN SALES
(up +4.7%*).

53%

OF ALL DANONE SALES COME
FROM EMERGING COUNTRIES.

€2,662 M

IN TRADING OPERATING INCOME
(up +3.7%*).

€1,401 M

IN FREE CASH-FLOW
(excluding exceptional items).

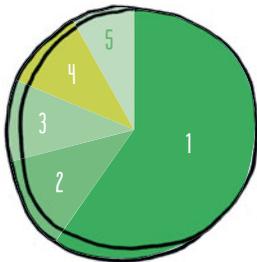
€1.50

DIVIDEND PER SHARE
(up +3.5% over dividend
distributed in respect of
fiscal year 2013).

*All figures like-for-like.

KEY INDICATORS ENVIRONMENT

TOTAL CO₂ EMISSIONS
OVER THE PRODUCT LIFE CYCLE*



1 - RAW MATERIALS	59%
2 - PACKAGING	13%
3 - PRODUCTION	10%
4 - LOGISTICS	10%
5 - END OF PRODUCT LIFE	8%

*Includes agricultural inputs.

-41.6%

REDUCTION IN CARBON

FOOTPRINT for sites under Danone's direct responsibility: plants, logistics, packaging & end of life, excluding agricultural inputs between 2008 and 2014.

84.6%

OF WASTE RECYCLED

excluding sludge from waste water treatment plants to allow like-for-like comparison with 2014.

-39%

REDUCTION IN WATER USE INTENSITY

(per metric ton of product) between 2000 and 2014.

-46%

REDUCTION IN ENERGY USE INTENSITY

(per metric ton of product) between 2000 and 2014.

184

PLANTS IN ALL (89 were ISO 14001-certified in 2014).

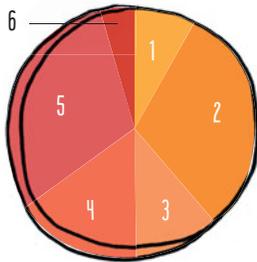
€984 M

CAPITAL EXPENDITURES

in 2014, or 4.7% of consolidated sales.

KEY INDICATORS
SOCIAL

WORKFORCE BY REGION



1 - FRANCE	8%
2 - REST OF EUROPE	28%
3 - CHINA	10%
4 - REST OF ASIA-PACIFIC	18%
5 - AMERICAS	27%
6 - AFRICA & MIDDLE EAST	9%

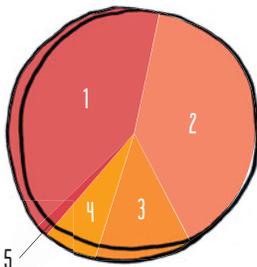
99,927

EMPLOYEES AROUND THE WORLD.

83,366

DANONE EMPLOYEES PARTICIPATED
IN AT LEAST ONE TRAINING COURSE*.

WORKFORCE BY BUSINESS LINE



1 - FRESH DAIRY PRODUCTS	42%
2 - WATERS	38%
3 - EARLY LIFE NUTRITION	12%
4 - MEDICAL NUTRITION	7%
5 - CORPORATE FUNCTIONS	1%

2,329,625

HOURS OF TRAINING WERE PROVIDED*.

70,000

EMPLOYEES IN 25 COUNTRIES HAVE HEALTH
BENEFITS THAT MEET DAN'CARES STANDARDS.

* Does not include subsidiaries that reported total workforce only.



DANONE 14

F O C U S

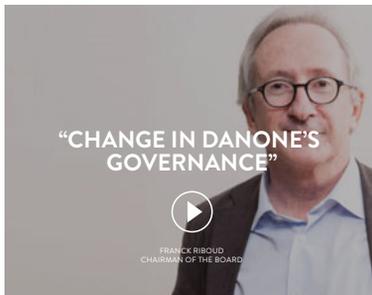
Danone14

**WAIT,
THERE'S MORE!
VISIT US AT**

WWW.DANONE.COM
TO CHECK OUT OUR ANNUAL REPORT
ON LINE.



Interview with Franck Riboud



Key figures for 2014



Interview with Emmanuel Faber



Highlights



Learn more at
danone.com/en/2014annualreport

Danone14



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PhotoAlto/Ale Ventura, Rita Scaglia/Picturetank,
Globe Groupe, Fan Milk, Dumex,
Dudarev Mikhail/Fotolia, Getty Images,
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Design & production:

Angie (réf. RADA014)

English text: Clementi/Durban

Blédina, Danone Eaux France and Danone
Produits Frais France have signed
the Responsible Advertisers' Charter drawn
up by the Sustainable Development Committee
of France's Union des Annonceurs (UDA).

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